SME Policy Index

Western Balkans and Turkey 2022

ASSESSING THE IMPLEMENTATION OF THE SMALL BUSINESS ACT FOR EUROPE



OECD

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BETTER POLICIES FOR BETTER LIVES

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Foreword

The COVID-19 pandemic and the Russian war of aggression against Ukraine have caused a significant economic shock at the global level leading to lower growth and higher inflation. With fewer resources to weather this impact, small and medium-sized enterprises (SMEs) have been particularly vulnerable to the repercussions of this crisis. They have found themselves fighting for their survival, hit by lockdowns, reduced demand and travel restrictions, higher energy prices as well as supply chain disruptions.

SMEs are a vital part of thriving business environments and essential drivers of a sustainable and inclusive economy. In the Western Balkans and Turkey, they make up 99% of all firms, generate around 60% of value added and account for almost three quarters of employment. Given the significant economic role of SMEs, the seven EU pre-accession economies were quick to intervene in the wake of COVID-19, rolling out numerous support measures that were critical in preventing businesses from going bankrupt and avoiding a long-term economic recession. Meanwhile, EU-financed support packages eased SMEs' access to finance, preventing a massive wave of job losses. However, while the recovery from the pandemic remains underway, the region's governments are once again being called on for targeted support, as the negative effects of the war in Ukraine are spilling over to SMEs across the region.

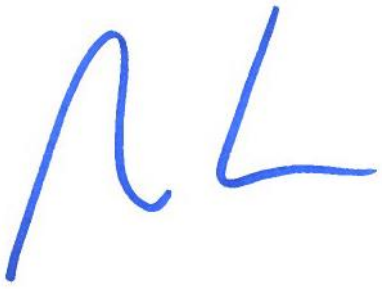
This sixth edition of the *SME Policy Index: Western Balkans and Turkey 2022 – Assessing the Implementation of the Small Business Act for Europe* was prepared in close collaboration with around six hundred of government representatives from the Western Balkans and Turkey as well as local and regional stakeholders, including SMEs, and benefited from the support of the European Commission.

It is an important tool to help policy makers design and implement policies to support SMEs and entrepreneurs in their recovery from the pandemic and to boost their competitiveness based on good practices in OECD and EU member states. It provides a comprehensive overview of the implementation status of the ten Small Business Act for Europe (SBA) principles and monitors progress made since 2019. It identifies the vulnerabilities to which SMEs are exposed in the seven EU pre-accession economies and makes recommendations to address them and reinforce their resilience to future shocks.

Our findings show that the region's governments have significantly ramped up their capacity to provide holistic support to SMEs, allowing them to develop an agile response to the COVID-19 crisis. There were visible efforts to better align policies with SMEs' needs in times of crisis, including the creation of new credit lines and guarantee schemes to improve their liquidity, increasing the availability of digital services such as business registrations and licensing, as well as ensuring the continuity of business support services by moving them online. Many recommendations provided in the 2019 assessment have been implemented, particularly those on addressing financial barriers to SMEs' greening efforts, scaling up support programmes to help SMEs implement standards and boosting innovation activity in the region.

Nevertheless, the need to step up support for SMEs on digitalisation and facilitate their green transition remains. A collaborative approach to designing measures – as well as their related support programmes – should be reinforced, in order to ensure that such measures take SMEs' views into account and address their most pressing needs. Policy makers across the region would also benefit from enhancing their monitoring and evaluation mechanisms to further guide their policy choices.

Given the challenging economic circumstances induced by the pandemic, we commend the strong efforts of the EU pre-accession economies to pursue private sector development through strengthened SME policies. The OECD and the EU will continue to extend their support to the region's governments to ensure tailored policies that promote the recovery of SMEs and entrepreneurs and help them to adapt to the challenges that the pandemic and the war in Ukraine have set in motion.



Mathias Corman

OECD Secretary-General



Olivér Várhelyi

EU Commissioner for Neighbourhood and Enlargement Negotiations

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Table of contents

Foreword 3

Acknowledgements 5

Acronyms and abbreviations 21

Executive summary 28

Economic context and the SME sector in the Western Balkans and Turkey 31
- Recent economic developments 32
- Overview of the SME sector 33
- References 41
- Notes 42

Policy framework and assessment process 43
- Introduction 44
- Overview of the 2022 assessment framework 44
- Methodological approach 46
- The assessment process 47
- Strengths and limitations 49

Overview of key findings 51
- Overview of key findings 52
- Key findings by dimension 52

Part I. Assessment findings by SBA Dimension 63

1 Entrepreneurial learning and women's entrepreneurship (Dimension 1) in the Western Balkans and Turkey 64
- Comparison with the 2019 assessment scores 66
- Introduction 68
- Assessment framework 69
- Analysis 70
- References 86
- Notes 89

2 Bankruptcy and second chance for SMEs (Dimension 2) in the Western Balkans and Turkey 90
Comparison with the 2019 assessment scores 91
Introduction 93
Assessment framework 94
Analysis 95
References 112

3 Institutional and regulatory framework for SME policy making (Dimension 3) in the Western Balkans and Turkey 114
Comparison with the 2019 assessment scores 115
Introduction 117
Assessment framework 117
Analysis 118
References 132
Notes 133

4 Operational environment for SMEs (Dimension 4) in the Western Balkans and Turkey 134
Comparison with the 2019 assessment scores 135
Introduction 138
Assessment framework 138
Analysis 139
References 164
Notes 166

5 Support services for SMEs (Dimension 5a) in the Western Balkans and Turkey 168
Comparison with the 2019 assessment scores 169
Introduction 172
Assessment framework 172
Analysis 173
References 183
Notes 183

6 Public procurement (Dimension 5b) in the Western Balkans and Turkey 184
Comparison with the 2019 assessment scores 186
Introduction 188
Assessment framework 188
Analysis 190
References 207
Note 209

7 Access to finance for SMEs (Dimension 6) in the Western Balkans and Turkey 210
Comparison with the 2019 assessment scores 211
Introduction 214
Assessment framework 215
Analysis 216
References 233
Notes 235

8 Standards and technical regulations (Dimension 7) in the Western Balkans and Turkey 236
Comparison with the 2019 assessment scores 237
Introduction 240
Assessment framework 241
Analysis 243
References 256
Note 258

9 Enterprise skills (Dimension 8a) in the Western Balkans and Turkey 259
Comparison with the 2019 assessment scores 260
Introduction 263
Assessment framework 263
Analysis 264
References 273
Notes 276

10 Innovation policy for SMEs (Dimension 8b) in the Western Balkans and Turkey 278
Comparison with the 2019 assessment scores 280
Introduction 281
Assessment framework 282
Analysis 284
References 299
Notes 300

11 SMEs in a green economy (Dimension 9) in the Western Balkans and Turkey 301
Comparison with the 2019 assessment scores 302
Introduction 305
Assessment framework 305
Analysis 306
References 321
Notes 323

12 Internationalisation of SMEs (Dimension 10) in the Western Balkans and Turkey 324
Comparison with the 2019 assessment scores 326
Introduction 328
Assessment framework 328
Analysis 329
References 345
Notes 347

Part II Small Business Act Assessment: Western Balkans and Turkey Economy Profiles 348

13 Albania: Economy Profile 349
Economic context and role of SMEs 353
Assessment 361
Entrepreneurial learning and women entrepreneurship (Dimension 1) 363
Bankruptcy and second chance for SMEs (Dimension 2) 370

Institutional and regulatory framework for SME policy making (Dimension 3) 376
Operational environment for SMEs (Dimension 4) 382
Support services for SMEs (Dimension 5a) 390
Public procurement (Dimension 5b) 394
Access to finance for SMEs (Dimension 6) 399
Standards and technical regulations (Dimension 7) 404
Enterprise skills (Dimension 8a) 409
Innovation policy for SMEs (Dimension 8b) 413
SMEs in a green economy (Dimension 9) 418
Internationalisation of SMEs (Dimension 10) 423
References 429
Notes 435

14 Bosnia and Herzegovina: Economy Profile 441
Economic context and role of SMEs 445
Assessment 456
Entrepreneurial learning and women entrepreneurship (Dimension 1) 458
Bankruptcy and second chance for SMEs (Dimension 2) 465
Institutional and regulatory framework for SME policy making (Dimension 3) 470
Operational environment for SMEs (Dimension 4) 475
Support services for SMEs (Dimension 5a) 484
Public procurement (Dimension 5b) 490
Access to finance for SMEs (Dimension 6) 496
Standards and technical regulations (Dimension 7) 501
Enterprise skills (Dimension 8a) 507
Innovation policy for SMEs (Dimension 8b) 510
SMEs in a green economy (Dimension 9) 514
Internationalisation of SMEs (Dimension 10) 521
References 528
Notes 536

15 Kosovo: Economy Profile 543
Economic context and role of SMEs 547
Assessment 557
Entrepreneurial learning and women's entrepreneurship (Dimension 1) 558
Bankruptcy and second chance for SMEs (Dimension 2) 564
Institutional and regulatory framework for SME policy making (Dimension 3) 569
Operational environment for SMEs (Dimension 4) 574
Support services for SMEs (Dimension 5a) 582
Public procurement (Dimension 5b) 587
Access to finance for SMEs (Dimension 6) 593
Standards and technical regulations (Dimension 7) 597
Enterprise skills (Dimension 8a) 602
Innovation policy for SMEs (Dimension 8b) 607
SMEs in a green economy (Dimension 9) 611
Internationalisation of SMEs (Dimension 10) 616
References 622
Notes 630

16 Montenegro: Economy Profile 636
Economic context and role of SMEs 640
Assessment 650
Entrepreneurial learning and women's entrepreneurship (Dimension 1) 652
Bankruptcy and second chance for SMEs (Dimension 2) 659
Institutional and regulatory framework for SME policy making (Dimension 3) 665
Operational environment for SMEs (Dimension 4) 670
Support services for SMEs (Dimension 5a) 682
Public procurement (Dimension 5b) 687
Access to finance for SMEs (Dimension 6) 692
Standards and technical regulations (Dimension 7) 697
Enterprise skills (Dimension 8a) 703
Innovation policy for SMEs (Dimension 8b) 707
SMEs in a green economy (Dimension 9) 712
Internationalisation of SMEs (Dimension 10) 719
References 727
Notes 738

17 North Macedonia: Economy Profile 747
Economic context and role of SMEs 751
Assessment 761
Entrepreneurial learning and women's entrepreneurship (Dimension 1) 763
Bankruptcy and second chance for SMEs (Dimension 2) 769
Institutional and regulatory framework for SME policy making (Dimension 3) 775
Operational environment for SMEs (Dimension 4) 782
Support services for SMEs (Dimension 5a) 793
Public procurement (Dimension 5b) 798
Access to finance (Dimension 6) 803
Standards and technical regulations (Dimension 7) 808
Enterprise skills (Dimension 8a) 813
Innovation for SMEs (Dimension 8b) 819
SMEs in a green economy (Dimension 9) 824
Internationalisation of SMEs (Dimension 10) 830
References 836
Notes 844

18 Serbia: Economy Profile 852
Economic context and role of SMEs 856
Assessment 865
Entrepreneurial learning and women's entrepreneurship (Dimension 1) 867
Bankruptcy and second chance for SMEs (Dimension 2) 874
Institutional and regulatory framework for SME policy making (Dimension 3) 879
Operational environment for SMEs (Dimension 4) 886
Support services for SMEs (Dimension 5a) 894
Public procurement (Dimension 5b) 900
Access to finance for SMEs (Dimension 6) 906
Standards and technical regulations (Dimension 7) 911
Enterprise skills (Dimension 8a) 916
Innovation policy for SMEs (Dimension 8b) 921
SMEs in a green economy (Dimension 9) 926

Internationalisation of SMEs (Dimension 10) 931
References 937
Notes 946

19 Turkey: Economy Profile 954
Economic context and role of SMEs 957
Assessment 966
Entrepreneurial learning and women's entrepreneurship (Dimension 1) 968
Bankruptcy and second chance for SMEs (Dimension 2) 976
Institutional and regulatory framework for SME policy making (Dimension 3) 982
Operational environment for SMEs (Dimension 4) 986
Support services for SMEs (Dimension 5a) 993
Public procurement (Dimension 5b) 997
Access to finance for SMEs (Dimension 6) 1002
Standards and technical regulations (Dimension 7) 1007
Enterprise skills (Dimension 8a) 1012
Innovation policy for SMEs (Dimension 8b) 1016
SMEs in a green economy (Dimension 9) 1022
Internationalisation of SMEs (Dimension 10) 1029
References 1036
Notes 1044

Annex A. Methodology for the 2022 Small Business Act assessment 1051

Annex B. The Small Business Act assessment's scoring model for Bosnia and Herzegovina 1055

Annex C. Relevant SME-related indicators per dimension 1058

FIGURES

Figure 1.1. Overall scores for Dimension 1 (2019 and 2022) 66
Figure 1.2. Assessment framework for Dimension 1: Entrepreneurial learning and women's entrepreneurship 69
Figure 2.1. Overall scores for Dimension 2 (2019 and 2022) 92
Figure 2.2. Assessment framework for Dimension 2: Bankruptcy and second chance for SMEs 95
Figure 2.3. Time taken to resolve insolvency (2010-2020) (Years) 96
Figure 2.4. Cost of resolving insolvency (2010-2020) (% of estate) 97
Figure 2.5. Recovery rate for resolving insolvency (2010-2020) (cents on the dollar) 97
Figure 3.1. Overall scores for Dimension 3 (2019 and 2022) 116
Figure 3.2. Assessment framework for Dimension 3: Institutional and regulatory framework for SME policy making 118
Figure 3.3. Worldwide Governance Indicators: Regulatory quality in the Western Balkans and Turkey (2020) 119
Figure 3.4. Global Competitiveness Index : Burden of government regulation in the Western Balkans and Turkey (2019) 120
Figure 4.1. Overall scores for Dimension 4 (2019 and 2022) 136
Figure 4.2. Assessment framework for Dimension 4: Operational environment for small and medium-sized enterprises in the Western Balkans and Turkey 139
Figure 4.3. Business satisfaction with digital government services in the Western Balkans (Western Balkans Six average) 142
Figure 4.4. Business satisfaction with the availability and accessibility of relevant information in the process of obtaining a licence in the Western Balkans and Turkey (2021) 152
Figure 5.1. Overall scores for Dimension 5a (2019 and 2022) 170
Figure 5.2 Assessment framework for Dimension 5a: Support services for SMEs 173

Figure 6.1. Overall scores for Dimension 5b (2019 and 2022) 186
Figure 6.2. Assessment framework for Dimension 5b: Public procurement in the Western Balkans and Turkey 189
Figure 7.1. Overall scores for Dimension 6 (2019 and 2022) 212
Figure 7.2. Assessment framework for Dimension 6: Access to finance for SMEs 216
Figure 8.1. Overall scores for Dimension 7 (2019 and 2022) 238
Figure 8.2. A national quality infrastructure system 240
Figure 8.3. Assessment framework for Dimension 7: Standards and technical regulations 242
Figure 8.4. Share of EU exports in total exports (2010-2020) 244
Figure 8.5. Western Balkans' and Turkey's exports of goods to the European Union (2010-2020) 244
Figure 9.1. Overall scores for Dimension 8a (2019 and 2022) 261
Figure 9.2. Assessment framework for Dimension 8a: Enterprise skills 263
Figure 10.1. Overall scores for Dimension 8b (2019 and 2022) 280
Figure 10.2. Assessment framework for Dimension 8b: Innovation policy for SMEs 283
Figure 10.3. Gross domestic expenditure on R&D as a percentage of GDP (GERD) (2015 and 2019) 285
Figure 10.4. Knowledge intensive service exports, European Innovation Scoreboard (2015 vs 2021) 286
Figure 11.1. Overall scores for Dimension 9 (2019 and 2022) 303
Figure 11.2. Assessment framework for Dimension 9: SMEs in a green economy 306
Figure 11.3. Share of SMEs offering green products or services(2017 and 2021) 307
Figure 11.4. Type of support that would help SMEs launch green products or services (2021) 307
Figure 11.5. Resource efficiency measures undertaken by SMEs(2021) 308
Figure 12.1 Overall scores for Dimension 10 (2019 and 2022) 326
Figure 12.2 Assessment framework for Dimension 10: Internationalisation of SMEs in the Western Balkans and Turkey 329
Figure 12.3 Exports from the Western Balkans and Turkey as a percentage of GDP (2017-2020) 330
Figure 12.4 SMEs' share of exports in the Western Balkans and Turkey (2017-2020) 331
Figure 12.5 State of cluster development in the Western Balkans and Turkey(2017-2019) 339
Figure 13.1. Small Business Act scores for Albania (2019 and 2022) 350
Figure 13.2. Business demography indicators in Albania (2017 and 2020) 360
Figure 13.3. Sectoral distribution of SMEs in Albania by sector (2020) 360
Figure 14.1. Small Business Act scores for Bosnia and Herzegovina (2019 and 2022) 442
Figure 14.2. Business demography indicators in Bosnia and Herzegovina (2017 and 2020) 454
Figure 14.3. Sectoral distribution of SMEs in Bosnia and Herzegovina (2020) 455
Figure 15.1. Small Business Act scores for Kosovo (2019 and 2022) 544
Figure 15.2. Business demography indicators in Kosovo (2020) 555
Figure 15.3. Sectoral distribution of SMEs in Kosovo (2020) 555
Figure 16.1. Small Business Act scores for Montenegro (2019 and 2022) 637
Figure 16.2. Business demography indicators in Montenegro (2017 and 2020) 648
Figure 16.3. Sectoral distribution of SMEs in Montenegro (2020) 649
Figure 17.1. Small Business Act scores for North Macedonia (2019 and 2022) 748
Figure 17.2. Business demography indicators in North Macedonia (2017 and 2020) 759
Figure 17.3. Sectoral distribution of SMEs in North Macedonia (2020) 760
Figure 18.1. Small Business Act scores for Serbia (2019 and 2022) 853
Figure 18.2. Business demography indicators in Serbia (2017-2020) 863
Figure 18.3. Sectoral distribution of SMEs in Serbia (2017-2020) 864
Figure 19.1. Small Business Act scores for Turkey (2019 and 2022) 955
Figure 19.2. Business demography indicators in Turkey (2017-2020) 965
Figure 19.3. Business demography indicators in Turkey (2017-2020) 966

Figure A A.1. Dimension, sub-dimension and indicator level examples 1051
Figure A A.2. Scoring breakdown per sub-dimension 1053

TABLES

Table 1.1. Implementation of the SME Policy Index's 2019 recommendations for Dimension 1 67
Table 1.2. Scores for Sub-dimension 1.1: Entrepreneurial learning 70
Table 1.3. Strategies covering entrepreneurial learning in the Western Balkans and Turkey 72
Table 1.4. Scores for Sub-dimension 2: Women's entrepreneurship 80

Table 1.5. Strategies covering women's entrepreneurship in the Western Balkans and Turkey 81
Table 2.1. Implementation of the SME Policy Index's 2019 recommendations for Dimension 2 92
Table 2.2. Scores for Sub-dimension 2.1: Preventive measures 98
Table 2.3. Scores for Sub-dimension 2: Survival and bankruptcy procedures 103
Table 2.4. An overview of insolvency laws adopted or amended in the Western Balkans and Turkey since 2019 104
Table 2.5. Scores for Sub-dimension 2.3: Promoting second chance 110
Table 2.6. Second-chance policy support for entrepreneurs at risk or who have failed 111
Table 3.1. Implementation of the SME Policy Index's 2019 recommendations for Dimension 3 in the Western Balkans and Turkey 116
Table 3.2. Scores for Sub-dimension 3.1: Institutional framework in the Western Balkans and Turkey 120
Table 3.3. Key SME-specific data collected by the Western Balkans and Turkey 123
Table 3.4. Scores for Sub-dimension 3.2: Legislative simplification and regulatory impact assessment in the Western Balkans and Turkey 124
Table 3.5. Scores for Sub-dimension 3.3: Public-private consultations in the Western Balkans and Turkey 128
Table 4.1. Implementation of the SME Policy Index's 2019 recommendations for Dimension 4 in the Western Balkans and Turkey 136
Table 4.2. Scores for Sub-Dimension 1: Digital government services for small and medium-sized enterprises in the Western Balkans and Turkey 140
Table 4.3. Scores for Sub-dimension 2: Company registration in the Western Balkans and Turkey 149
Table 4.4. Status of online company registration in the Western Balkans and Turkey 150
Table 4.5. Scores for Sub-dimension 3: Business licensing in the Western Balkans and Turkey 152
Table 5.1. Implementation of the SME Policy Index's 2019 recommendations for Dimension 5a 170
Table 5.2. Business support services provided by governments by service category 174
Table 5.3. Scores for Sub-dimension 5a: Business services provided by the government 174
Table 5.4. National strategies governing business support services provision 175
Table 5.5. Sources of information about business support services in the Western Balkans and Turkey 176
Table 5.6. Scores for Sub-dimension 5a.2: Government initiatives to stimulate private business support services 180
Table 6.1. Implementation of the SME Policy Index's 2019 recommendations for Dimension 5b: Public procurement in the Western Balkans and Turkey 187
Table 6.2. Scores for Dimension 5b: Public procurement in the Western Balkans and Turkey 190
Table 7.1. Implementation of the SME Policy Index's 2019 recommendations for Dimension 6 in the Western Balkans and Turkey 213
Table 7.2. Key banking sector indicators in the Western Balkans and Turkey (2012-2020/21) 217
Table 7.3. Scores for Sub-dimension 6.1: Legal and regulatory framework in the Western Balkans and Turkey 218
Table 7.4. Credit information coverage in the Western Balkans and Turkey (2012-19) 220
Table 7.5. Scores for Sub-dimension 6.2: Bank financing in the Western Balkans and Turkey 222
Table 7.6. Scores for Sub-dimension 6.3: Non-bank financing in the Western Balkans and Turkey 225
Table 7.7. Scores for Sub-dimension 6.4: Venture capital ecosystem in the Western Balkans and Turkey 227
Table 7.8. Scores for Sub-dimension 6.5: Financial literacy in the Western Balkans and Turkey 229
Table 8.1. Implementation of the SME Policy Index's 2019 recommendations for Dimension 7 in the Western Balkans and Turkey 239
Table 8.2. Scores for Sub-dimension 7.1: Overall co-ordination and general measures in the Western Balkans and Turkey 245
Table 8.3. Scores for Sub-dimension 7.2: Harmonisation with the EU *acquis* in the Western Balkans and Turkey 247
Table 8.4. Adoption of European standards by the Western Balkans and Turkey 248
Table 8.5. Accreditation fields in which the Multilateral Agreement with European Co-operation for Accreditation was signed with Western Balkans and Turkey economies 249
Table 8.6. Number of accredited conformity assessment bodies in the Western Balkans and Turkey 249
Table 8.7. Scores for Sub-dimension 7.3: SMEs' access to standardisation in the Western Balkans and Turkey 251
Table 9.1. Implementation of the SME Policy Index's 2019 recommendations for Dimension 8a 261
Table 9.2. Scores for Dimension 8a: Enterprise skills in the Western Balkans and Turkey 264
Table 9.3. Current strategiescovering enterprise skills 265
Table 10.1. Implementation of the SME Policy Index's 2019 recommendations for Dimension 8b in the Western Balkans and Turkey 280
Table 10.2. Horizon 2021 portfolio for Western Balkan and Turkey economies 285
Table 10.3. Scores for Sub-dimension 8b.1: Policy framework for innovation in the Western Balkans and Turkey 287

Table 10.4. Scores for Sub-dimension 8b.2: Government institutional support services for innovative SMEs in the Western Balkans and Turkey 290
Table 10.5. Scores for Sub-dimension 8b.3: Government financial support services for innovative SMEs in the Western Balkans and Turkey 293
Table 10.6. Scores for Sub-dimension 8b.4: SME and research institution collaboration and technology transfer in the Western Balkans and Turkey 296
Table 11.1. Implementation of the SME Policy Index's 2019 recommendations for Dimension 9 304
Table 11.2. Scores for Sub-dimension 1: Framework for environmental policies targeting SMEs 309
Table 11.3. Scores for Sub-dimension 2: Incentives and instruments for SME greening 314
Table 12.1 Implementation of the SME Policy Index's 2019 recommendations for Dimension 10 in the Western Balkans and Turkey 327
Table 12.2 Scores for Sub-dimension 10.1: Export promotion 332
Table 12.3 Relevant national strategies governing export promotion in the Western Balkans and Turkey 332
Table 12.4 Scores for Sub-dimension 10.2: Integration of SMEs into global value chains in the Western Balkans and Turkey 337
Table 12.5 Scores for Sub-dimension 3: Promoting the use of e-commerce in the Western Balkans and Turkey 341
Table 13.1. Albania: Main macroeconomic indicators (2016-21) 354
Table 13.2. Definition of micro, small and medium-sized enterprises in Albania 359
Table 13.3. Number of registered companies in Albania by enterprise size and district (2020) 361
Table 13.4. Description of score levels 362
Table 13.5. Albania's scores for Dimension 1: Entrepreneurial learning and women's entrepreneurship 363
Table 13.6. Albania's implementation of the SME Policy Index 2019 recommendations for Dimension 1 364
Table 13.7. Albania's scores for Dimension 2: Bankruptcy and second chance 370
Table 13.8. Albania's implementation of the SME Policy Index 2019 recommendations for Dimension 2 371
Table 13.9. Number of insolvency proceedings in Albania, 2016-20 372
Table 13.10. Albania's scores for Dimension 3: Institutional and regulatory framework for SME policy making 376
Table 13.11. Albania's implementation of the SME Policy Index's 2019 recommendations for Dimension 3 377
Table 13.12. Albania's scores for Dimension 4: Operational environment for SMEs 382
Table 13.13. Albania's implementation of the SME Policy Index's 2019 recommendations for Dimension 4 383
Table 13.14. Albania's scores for Dimension 5a: Support services for SMEs 390
Table 13.15. Albania's implementation of the SME Policy Index 2019 recommendations for Dimension 5a 391
Table 13.16. Albania's scores for Dimension 5b: Public procurement 394
Table 13.17. Albania's implementation of the SME Policy Index's 2019 recommendations for Dimension 5b 395
Table 13.18. Albania's scores for Dimension 6: Access to finance for SMEs 399
Table 13.19. Albania's implementation of the SME Policy Index's 2019 recommendations for Dimension 6 400
Table 13.20. Albania's scores for Dimension 7: Standards and technical regulations 404
Table 13.21. Albania's implementation of the SME Policy Index's 2019 recommendations for Dimension 7 405
Table 13.22. Albania's scores for Dimension 8a: Enterprise skills 409
Table 13.23. Albania's implementation of the SME Policy Index 2019 recommendations for Dimension 8a 410
Table 13.24. Albania's scores for Dimension 8b: Innovation policy for SMEs 413
Table 13.25. Albania's implementation of the SME Policy Index's 2019 recommendations for Dimension 8b 414
Table 13.26. Albania's scores for Dimension 9: SMEs in a green economy 418
Table 13.27. Albania's implementation of the SME Policy Index 2019 recommendations for Dimension 9 419
Table 13.28. Albania's scores for Dimension 10: Internationalisation of SMEs 423
Table 13.29. Albania's implementation of the SME Policy Index 2019 recommendations for Dimension 10 424
Table 14.1. Bosnia and Herzegovina: Main macroeconomic indicators (2016-21) 446
Table 14.2. Definition of micro, small and medium-sized enterprises in the Federation of Bosnia and Herzegovina 452
Table 14.3. Definition of micro, small and medium-sized enterprises in Republika Srpska 452
Table 14.4. Definition of micro, small and medium-sized enterprises in the Brcko District 453
Table 14.5. Number of registered companies in Bosnia and Herzegovina, by enterprise size class and entity and FBiH canton (2021 or the latest available year) 456
Table 14.6. Description of score levels 457
Table 14.7. Bosnia and Herzegovina's scores for Dimension 1: Entrepreneurial learning and women's entrepreneurship 458
Table 14.8. Bosnia and Herzegovina's implementation of the SME Policy Index 2019 recommendations for Dimension 1 459
Table 14.9. Bosnia and Herzegovina's scores for Dimension 2: Bankruptcy and second chance 465
Table 14.10 Bosnia and Herzegovina's implementation of the SME Policy Index 2019 recommendations for Dimension 2 466

Table 14.11. Bosnia and Herzegovina's scores for Dimension 3: Institutional and regulatory framework for SME policy making 470
Table 14.12. Bosnia and Herzegovina's implementation of the SME Policy Index's 2019 recommendations for Dimension 3 471
Table 14.13. Bosnia and Herzegovina's scores for Dimension 4: Operational environment for SMEs 475
Table 14.14. Bosnia and Herzegovina's implementation of the SME Policy Index's 2019 recommendations for Dimension 4 476
Table 14.15. Bosnia and Herzegovina's scores for Dimension 5a: Support services for SMEs 484
Table 14.16. Bosnia and Herzegovina's implementation of the SME Policy Index 2019 recommendations for Dimension 5a 485
Table 14.17. Bosnia and Herzegovina's scores for Dimension 5b: Public procurement 490
Table 14.18. Bosnia and Herzegovina's implementation of the SME Policy Index's 2019 recommendations for Dimension 5b 491
Table 14.19. Bosnia and Herzegovina's scores for Dimension 6: Access to finance for SMEs 496
Table 14.20. Bosnia and Herzegovina's implementation of the SME Policy Index's 2019 recommendations for Dimension 6 497
Table 14.21. Bosnia and Herzegovina's scores for Dimension 7: Standards and technical regulations 501
Table 14.22. Bosnia and Herzegovina's implementation of the SME Policy Index's 2019 recommendations for Dimension 7 502
Table 14.23. Bosnia and Herzegovina's scores for Dimension 8a: Enterprise skills 507
Table 14.24. Bosnia and Herzegovina's implementation of the SME Policy Index 2019 recommendations for Dimension 8a 507
Table 14.25. Bosnia and Herzegovina's scores for Dimension 8b: Innovation for SMEs 510
Table 14.26. Bosnia and Herzegovina's implementation of the SME Policy Index's 2019 recommendations for Dimension 8b 511
Table 14.27. Bosnia and Herzegovina's scores for Dimension 9: SMEs in a green economy 514
Table 14.28. Bosnia and Herzegovina's implementation of the SME Policy Index 2019 recommendations for Dimension 9 515
Table 14.29 Bosnia and Herzegovina's scores for Dimension 10: Internationalisation of SMEs 521
Table 14.30. Bosnia and Herzegovina's implementation of the SME Policy Index 2019 recommendations for Dimension 10 522
Table 15.1. Kosovo's Economic Recovery Package loan and guarantee results (2021) 547
Table 15.2. Kosovo: Main macroeconomic indicators (2016-21) 550
Table 15.3. Definition of micro, small and medium-sized enterprises in Kosovo 554
Table 15.4. Number of registered companies in Kosovo by municipality (2019-21) 556
Table 15.5. Description of score levels 557
Table 15.6. Kosovo's scores for Dimension 1: Entrepreneurial learning and women's entrepreneurship 558
Table 15.7. Kosovo's implementation of the SME Policy Index 2019 recommendations for Dimension 1 559
Table 15.8. Kosovo's scores for Dimension 2: Bankruptcy and second chance 564
Table 15.9. Kosovo's implementation of the SME Policy Index 2019 recommendations for Dimension 2 565
Table 15.10. Kosovo's scores for Dimension 3: Institutional and regulatory framework for SME policy making 569
Table 15.11. Kosovo's implementation of the SME Policy Index's 2019 recommendations for Dimension 3 570
Table 15.12. Kosovo's scores for Dimension 4: Operational environment for SMEs 574
Table 15.13. Kosovo's implementation of the SME Policy Index's 2019 recommendations for Dimension 4 575
Table 15.14. Kosovo's scores for Dimension 5a: Support services for SMEs 582
Table 15.15. Kosovo's implementation of the SME Policy Index 2019 recommendations for Dimension 5a 583
Table 15.16. Kosovo's scores for Dimension 5b: Public procurement 587
Table 15.17. Kosovo's implementation of the SME Policy Index's 2019 recommendations for Dimension 5b 588
Table 15.18. Kosovo's scores for Dimension 6: Access to finance 593
Table 15.19. Kosovo's implementation of the SME Policy Index's 2019 recommendations for Dimension 6 594
Table 15.20. Kosovo's scores for Dimension 7: Standards and technical regulation 597
Table 15.21. Kosovo's implementation of the SME Policy Index's 2019 recommendations for Dimension 7 598
Table 15.22. Kosovo's scores for Dimension 8a: Enterprise skills 602
Table 15.23. Implementation of the SME Policy Index 2019 recommendations for Dimension 8a 603
Table 15.24. Kosovo's scores for Dimension 8b: Innovation for SMEs 607
Table 15.25. Kosovo's implementation of the SME Policy Index's 2019 recommendations for Dimension 8b 608
Table 15.26. Kosovo's scores for Dimension 9: SMEs in a green economy 611
Table 15.27. Kosovo's implementation of the SME Policy Index 2019 recommendations for Dimension 9 612
Table 15.28. Kosovo's scores for Dimension 10: Internationalisation of SMEs 616
Table 15.29. Kosovo's implementation of the SME Policy Index 2019 recommendations for Dimension 10 617

Table 16.1. Montenegro: Main macroeconomic indicators (2016-2021) 641
Table 16.2. Definition of micro, small and medium-sized enterprises in Montenegro 647
Table 16.3. Number of registered companies in Montenegro by municipality and size (2020) 649
Table 16.4. Description of score levels 651
Table 16.5. Montenegro's scores for Dimension 1: Entrepreneurial learning and women's entrepreneurship 652
Table 16.6. Montenegro's implementation of the SME Policy Index 2019 recommendations for Dimension 1 653
Table 16.7. Montenegro's scores for Dimension 2: Bankruptcy and second chance 659
Table 16.8. Montenegro's implementation of the SME Policy Index 2019 recommendations for Dimension 2 660
Table 16.9. Montenegro's scores for Dimension 3: Institutional and regulatory framework for SME policy making 665
Table 16.10. Montenegro's implementation of the SME Policy Index's 2019 recommendations for Dimension 3 666
Table 16.11. Montenegro's scores for Dimension 4: Operational environment for SMEs 670
Table 16.12. Montenegro's implementation of the SME Policy Index's 2019 recommendations for Dimension 4 671
Table 16.13. Montenegro's scores for Dimension 5a: Support services for SMEs 682
Table 16.14. Montenegro's implementation of the SME Policy Index 2019 recommendations for Dimension 5a 683
Table 16.15. Montenegro's scores for Dimension 5b: Public procurement 687
Table 16.16. Montenegro's implementation of the SME Policy Index's 2019 recommendations for Dimension 5b 688
Table 16.17. Montenegro's scores for Dimension 6: Access to finance for SMEs 692
Table 16.18. Montenegro's implementation of the SME Policy Index's 2019 recommendations for Dimension 6 693
Table 16.19. Montenegro's scores for Dimension 7: Standards and technical regulation 697
Table 16.20. Montenegro's implementation of the SME Policy Index's 2019 recommendations for Dimension 7 698
Table 16.21. Montenegro's scores for Dimension 8a: Enterprise skills 703
Table 16.22. Montenegro's implementation of the SME Policy Index 2019 recommendations for Dimension 8a 703
Table 16.23. Montenegro's scores for Dimension 8b: Innovation policy for SMEs 707
Table 16.24. Montenegro's implementation of the SME Policy Index's 2019 recommendations for Dimension 8b 708
Table 16.25. Montenegro's scores for Dimension 9: SMEs in a green economy 712
Table 16.26. Montenegro's implementation of the SME Policy Index 2019 recommendations for Dimension 9 713
Table 16.27. Montenegro's scores for Dimension 10: Internationalisation of SMEs 719
Table 16.28. Montenegro's implementation of the SME Policy Index 2019 recommendations for Dimension 10 720
Table 17.1. North Macedonia: Main macroeconomic indicators (2018-21) 752
Table 17.2. Definition of micro, small and medium-sized enterprises in North Macedonia 758
Table 17.3. Number of registered companies in North Macedonia by enterprise size and district (2020) 760
Table 17.4. Description of score levels 762
Table 17.5. North Macedonia's scores for Dimension 1: Entrepreneurial learning and women's entrepreneurship 763
Table 17.6. North Macedonia's implementation of the SME Policy Index 2019 recommendations for Dimension 1 764
Table 17.7. North Macedonia's scores for Dimension 2: Bankruptcy and second chance 769
Table 17.8. North Macedonia's implementation of the SME Policy Index 2019 recommendations for Dimension 2 770
Table 17.9. Number of concluded bankruptcies and reorganisations in North Macedonia, 2017-21 770
Table 17.10. North Macedonia's scores for Dimension 3: Institutional and regulatory framework for SME policy making 775
Table 17.11. North Macedonia's implementation of the SME Policy Index's 2019 recommendations for Dimension 3 776
Table 17.12. North Macedonia's scores for Dimension 4: Operational environment for SMEs 782
Table 17.13. North Macedonia's implementation of the SME Policy Index's 2019 recommendations for Dimension 4 783
Table 17.14. North Macedonia's scores for Dimension 5a: Support services for SMEs 793
Table 17.15. North Macedonia's implementation of the SME Policy Index 2019 recommendations for Dimension 5a 794
Table 17.16. North Macedonia's scores for Dimension 5b: Public procurement 798
Table 17.17. North Macedonia's implementation of the SME Policy Index's 2019 recommendations for Dimension 5b 799
Table 17.18. North Macedonia's scores for Dimension 6: Access to finance for SMEs 803
Table 17.19. North Macedonia's implementation of the SME Policy Index's 2019 recommendations for Dimension 6 804

Table 17.20. North Macedonia's scores for Dimension 7: Standards and technical regulation 808
Table 17.21. North Macedonia's implementation of the SME Policy Index's 2019 recommendations for Dimension 7 809
Table 17.22. North Macedonia's scores for Dimension 8a: Enterprise skills 813
Table 17.23. North Macedonia's implementation of the SME Policy Index 2019 recommendations for Dimension 8a 814
Table 17.24. North Macedonia's scores for Dimension 8b: Innovation policy for SMEs 819
Table 17.25. North Macedonia's implementation of the SME Policy Index's 2019 recommendations for Dimension 8b 820
Table 17.26. North Macedonia's scores for Dimension 9: SMEs in a green economy 824
Table 17.27. North Macedonia's implementation of the SME Policy Index 2019 recommendations for Dimension 9 825
Table 17.28. North Macedonia's scores for Dimension 10: Internationalisation of SMEs 830
Table 17.29. North Macedonia's implementation of the SME Policy Index 2019 recommendations for Dimension 10 831
Table 18.1. Serbia: Main macroeconomic indicators (2016-21) 858
Table 18.2. Definition of micro, small and medium-sized enterprises in Serbia 863
Table 18.3. Number of registered companies in Serbia by enterprise size and district (2020) 865
Table 18.4. Description of score levels 866
Table 18.5. Serbia's scores for Dimension 1: Entrepreneurial learning and women's entrepreneurship 867
Table 18.6. Serbia's implementation of the SME Policy Index 2019 recommendations for Dimension 1 868
Table 18.7. Serbia's scores for Dimension 2: Bankruptcy and second chance 874
Table 18.8. Serbia's implementation of the SME Policy Index 2019 recommendations for Dimension 2 875
Table 18.9. Serbia's scores for Dimension 3: Institutional and regulatory framework for SME policy making 879
Table 18.10. Serbia's implementation of the SME Policy Index's 2019 recommendations for Dimension 3 880
Table 18.11. Serbia's scores for Dimension 4: Operational environment for SMEs 886
Table 18.12. Serbia's implementation of the SME Policy Index's 2019 recommendations for Dimension 4 887
Table 18.13. Serbia's scores for Dimension 5a: Support services for SMEs 894
Table 18.14. Serbia's implementation of the SME Policy Index 2019 recommendations for Dimension 5a 895
Table 18.15. Serbia's scores for Dimension 5b: Public procurement 900
Table 18.16. Serbia's implementation of the SME Policy Index's 2019 recommendations for Dimension 5b 901
Table 18.17. Serbia's scores for Dimension 6: Access to finance for SMEs 906
Table 18.18. Serbia's implementation of the SME Policy Index's 2019 recommendations for Dimension 6 907
Table 18.19. Serbia's scores for Dimension 7: Standards and technical regulation 911
Table 18.20. Serbia's implementation of the SME Policy Index's 2019 recommendations for Dimension 7 912
Table 18.21. Serbia's scores for Dimension 8a: Enterprise skills 916
Table 18.22. Implementation of the SME Policy Index 2019 recommendations for Dimension 8a 917
Table 18.23. Serbia's scores for Dimension 8b: Innovation policy for SMEs 921
Table 18.24. Serbia's implementation of the SME Policy Index's 2019 recommendations for Dimension 8b 922
Table 18.25. Serbia's scores for Dimension 9: SMEs in a green economy 926
Table 18.26. Serbia's implementation of the SME Policy Index 2019 recommendations for Dimension 9 927
Table 18.27. Serbia's scores for Dimension 10: Internationalisation of SMEs 931
Table 18.28. Serbia's implementation of the SME Policy Index 2019 recommendations for Dimension 10 932
Table 19.1. Turkey: Main macroeconomic indicators (2018-22) 959
Table 19.2. Definition of micro, small and medium-sized enterprises in Turkey 964
Table 19.3 Description of score levels 967
Table 19.4. Turkey's scores for Dimension 1: Entrepreneurial learning and women's entrepreneurship 968
Table 19.5. Turkey's implementation of the SME Policy Index 2019 recommendations for Dimension 1 969
Table 19.6. Turkey's scores for Dimension 2: Bankruptcy and second chance 976
Table 19.7. Turkey's implementation of the SME Policy Index 2019 recommendations for Dimension 2 977
Table 19.8. Number and duration of bankruptcies and reorganisations in Turkey (2017-21) 978
Table 19.9. Turkey's scores for Dimension 3: Institutional and regulatory framework for SME policy making 982
Table 19.10. Turkey's implementation of the SME Policy Index's 2019 recommendations for Dimension 3 983
Table 19.11. Turkey's scores for Dimension 4: Operational environment for SMEs 986
Table 19.12. Turkey's implementation of the SME Policy Index's 2019 recommendations for Dimension 4 987
Table 19.13. Turkey's scores for Dimension 5a: Support services for SMEs 993
Table 19.14. Turkey's implementation of the SME Policy Index 2019 recommendations for Dimension 5a 994
Table 19.15. Turkey's scores for Dimension 5b: Public procurement 997
Table 19.16. Turkey's implementation of the SME Policy Index's 2019 recommendations for Dimension 5b 997
Table 19.17. Turkey's scores for Dimension 6: Access to finance for SMEs 1002

Table 19.18. Turkey's implementation of the SME Policy Index's 2019 recommendations for Dimension 6 1003
Table 19.19. Turkey's scores for Dimension 7: Standards and technical regulation 1007
Table 19.20. Turkey's implementation of the SME Policy Index's 2019 recommendation for Dimension 7 1008
Table 19.21. Turkey's scores for Dimension 8a: Enterprise skills 1012
Table 19.22. Turkey's implementation of the SME Policy Index 2019 recommendations for Dimension 8a 1013
Table 19.23. Turkey's scores for Dimension 8b: Innovation policy for SMEs 1016
Table 19.24. Turkey's implementation of the SME Policy Index's 2019 recommendations for Dimension 8b 1017
Table 19.25. Turkey's scores for Dimension 9: SMEs in a green economy 1022
Table 19.26 Turkey's implementation of the SME Policy Index 2019 recommendations for Dimension 9 1023
Table 19.27. Turkey's scores for Dimension 10: Internationalisation of SMEs 1029
Table 19.28. Turkey's implementation of the SME Policy Index 2019 recommendations for Dimension 10 1030

Table A A.1. Description of score levels 1052
Table A A.2. Data types and sources 1054
Table B.1. Overview of the four scoring models 1055
Table B.2. Application of the scoring models to the SBA dimensions 1056

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Acronyms and abbreviations

ACA	Anti-Corruption Agency
ALL	Albanian lek (currency)
AFD	French Development Agency
AI	Artificial intelligence
AIDA	Albanian Investment and Development Agency
ALLED2	Aligning Education for Employment
APIF	Agency for Intermediary, IT and Financial Services
APPRM	Agency for Promotion of Entrepreneurship of the Republic of North Macedonia
ATCG	Accreditation Body of Montenegro
ATK	Kosovo Tax Administration
ATS	Accreditation Body of Serbia
BAM	Bosnia and Herzegovina convertible Marka (currency)
BATA	Institute for Accreditation of Bosnia and Herzegovina
BCC	Business Consultants Council
BEIS	Business, Energy and Industrial Strategy
BEEPS	Business Environment and Enterprise Performance Survey
GA	Bundesweite gründerinnenagentur
BIDS	Business Investment Development Strategy
BoC	Board of Creditors
BoM	Bureau of Metrology
BiH	Bosnia and Herzegovina
BSA	Bankruptcy Supervision Agency
BSS	Business support services
BUIKAD	Businesswomen and Executives Association of Bursa
CAB	Conformity assessment body
CBB	Cross Border Bankruptcy
CBK	Central Bank of Kosovo
CBRT	Central Bank of the Republic of Turkey

CCIS	Chamber of Commerce and Industry
CCPP	Commission for Protection of Rights in Public Procurement Procedures
CEFTA	Central European Free Trade Agreement
CEN/CENELEC	European Committee for Standardization/European Committee for Electrotechnical Standardization
CERP	Competitiveness and Export Readiness Project
CGF	Credit guarantee fund
CGPM	General Conference on Weights and Measures
CIT	Corporate income tax
CMB	Capital Market Board
COSME	Competitiveness of Enterprises and Small and Medium-Sized Enterprises
CVETA	Council for Education and Vocational Training
DAK	General Directorate for Accreditation
DBNM	Development Bank of North Macedonia
DMDM	Directorate of Measures and Precious Metals
DPA	General Directorate of Accreditation
DPM	General Directorate of Metrology
DPPP	Directorate for Public Procurement Policy
DPS	Directorate of Standardisation
DTB	Danube Transnational Programme
EA	European Co-operation for Accreditation
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECR	Electronic cash register
EDIF	Enterprise Development and Innovation Facility
EDP	Entrepreneurial Discovery Process
EEN	Enterprise Europe Network
EG	Enterprise Georgia
EGP	Economic Growth Plan
EIB	European Investment Bank
EIC	European Innovation Council
eIDAS	Authentication and Trust Services Regulation
EIS	European Innovation Scoreboard
EIF	European Interoperability Framework
EMS	Environmental Management Standards
EMS	Environmental management systems

EPS	E-procurement system
ERP	Economic Reform Programme
EFTA	European Free Trade Association
ESPD	European Single Procurement Document
ESPP	Electronic System for Public Procurement
ETF	European Training Foundation
EU	European Union
EUR	Euro (currency)
EURAMET	European Metrology Association
EWS	Early warning system
FBiH	Federation of Bosnia and Herzegovina
FDI	Foreign direct investment
FIA	Financial Information Agency
FIPA	Foreign Investment Promotion Agency of Bosnia and Herzegovina
FITD	Fund for Innovation and Technology Development
FORS	Foundation for the Development of Northern Montenegro
Montenegro	
FX	Foreign exchange
GCF	Green Climate Fund
GCI	Global Competitiveness Index
GDP	Gross domestic product
GHG	Greenhouse gas
GIZ	Gesellschaft für Internationale Zusammenarbeit GmbH
GMIP	Integrated Policy Management Group
GVC	Global value chain
HEI	Higher education institution
HPMP	Hydrochlorofluorocarbons Phase-out Management Plan
ICT	Information and communication technology
IDF	Investment and Development Fund
IFAD	International Fund for Agricultural Development
ILO	International Labour Organization
IMBiH	Institute of Metrology of Bosnia and Herzegovina
ICT	Information and communications technology
INFE	International Network on Financial Education
IP	Intellectual property
IPA	Instrument for Pre-accession Assistance
IRBRS	Republika Srpska Investment-Development Bank

ISBIH	Institute for Standardisation of Bosnia and Herzegovina
ISCED	International Standard Classification of Education
ISO	International Organisation for Standardisation
ISKUR	Turkish Employment Agency
ISME	Institute for Standardisation of Montenegro
ISS	Institute for Standardisation of Serbia
IT	Information technology
JA	Junior Achievement
JICA	Japan International Cooperation Agency
JRC	Joint Research Centre
KAYSIS	Electronic Public Information Management System
KBRA	Kosovo Business Registration Agency
KCC	Kosovo Chamber of Commerce
KCGF	Kosovo Credit Guarantee Fund
KEPA	Kosovo Environmental Protection Agency
KFOR	Kosovo Forces
KGF	Credit Guarantee Fund
KIESA	Kosovo Investment and Enterprise Support Agency
KKB	Credit Registration Office
KMA	Kosovo Metrology Agency
KODE	Kosovo Digital Economy
KOSGEB	Small and Medium Enterprises Development Organisation of Turkey
KOTRA	Korea Trade-Investment Promotion Agency
KSA	Kosovo Standardisation Agency
LFS	Labour Force Survey
MEP	Manufacturing Extension Partnership
MERSIS	Central Commercial Registration System
MEST	Ministry of Education, Science and Technology
MFA	Macro-Financial Assistance
MIA	Montenegro Investment Agency
MIET	Ministry of Industry, Entrepreneurship and Trade
MJUDDM	Ministry of State Administration, Digital Society and Media
MKD	Macedonian denar (currency)
MLA	Multilateral Agreement
MNE	Multinational enterprise
MoEPP	Ministry of Environment and Physical Planning

MoESTD	Ministry of Education, Science and Technological Development
MoNE	Ministry of National Education
MONSTAT	Statistical Office of Montenegro
MSME	Micro, small and medium-sized enterprise
NACE	Statistical classification of economic activities in the European Community
NAIS	National Agency for Information Society
NARMP	National Authority for Regulating and Monitoring Public Procurement
NASRI	National Agency for Scientific Research and Innovation
NBA	National Bankruptcy Agency
NBC	National Business Centre
NBFI	Non-bank financial instrument
NBS	National Bank of Serbia
NCEI	National Council for Economy and Investment
NEIC	National Economic and Investment Council
NGO	Non-governmental organisation
NPISAA	National Programme for Implementation of the Stabilisation and Association
NPLs	Non-performing loans
NSB	National standards body
NSSD	National Strategy for Sustainable Development
NUS	New Ukrainian School
OECD	Organisation for Economic Co-operation and Development
ODEON	Open Data for European Open Innovation
OGD	Open government data
OGP	Open Government Partnership
OIZ	Organised industrial zone
OIML	Organisation of Legal Metrology
PARS	Public Administration Reform Strategy
PCP	Product contact point
PIT	Personal income tax
PPA	Public Procurement Agency
PPC	Public-private consultation
PPL	Public Procurement Law
PPO	Public Procurement Office

PPP	Purchasing power parity
PPRC	Public Procurement Regulatory Commission
PPS	Public Policy Secretariat
PRB	Procurement Review Body
QI	Quality infrastructure
R&D	Research and development
RAPEX	Rapid Exchange of Information System
RARS	Development Agency of Republika Srpska
RAS	Development Agency of Serbia
RCPRPP	Rights in Public Procurement Procedures
RDAs	Regional Development Agencies
REBUS	REady for BUSiness
RIA	Regulatory impact assessment
RIA	Regulatory impact analysis
RS	Republika Srpska
RSD	Serbian dinar (currency)
S3	Smart Specialisation Strategy
SAA	Stabilisation and Association Agreement
SAP	Single Access Point
SBA	Small Business Act
SBRA	Small Business Reorganisation Act
SBRA	Serbian Business Registers Agency
SBS	Small Business Standards
SEZ	Special economic zone
SIEA	Slovak Innovation and Energy Agency
SME	Small and medium-sized enterprise
SOE	State-owned enterprise
SSC	Social security contributions
STEM	Science, technology, engineering and mathematics
STIP	Science, technology and innovation policy
STP	Science and technology park
SWOT	Strength, weakness, opportunity and threat
TDZ	Technology development zone
TEKMERs	Technology development centres
TIM	Turkish Exporters Assembly
TNA	Training needs analysis
TOBB	Union of Chambers and Commodity Exchanges of Turkey

TOSYOV	Turkish Small and Medium-Sized Enterprises Self-employed Persons and Managers Foundation
TRY	Turkish lira (currency)
TSE	Turkish Standards Institution
TUBITAK	Scientific and Technological Research Council of Turkey
TURKSTAT	Turkish Statistical Institute
UCCIAL	Union of Chambers of Commerce and Industry of Albania
UN	United Nations
UNCITRAL	United Nations Commission on International Trade Law
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
US	United States
UPCO	University of Pristina for Competitiveness/Competencies/Cooperation
USAID	United States Agency for International Development
UYAP	National Judiciary Informatics System
VAT	Value-added tax
VET	Vocational education and training
WB	Western Balkans
WBT	Western Balkans and Turkey
WGDEL	Working Group on Digital and Entrepreneurship Learning
WGI	Worldwide Governance Indicators
WHOA	Law on the Confirmation of Private Restructuring Plans (Netherlands)
WTO	World Trade Organization

Executive summary

Small and medium-sized enterprises (SMEs) contribute to the economic performance and sustainable and inclusive development of societies. SMEs in Albania, Bosnia and Herzegovina, Kosovo, Montenegro, the Republic of North Macedonia, Serbia, and Turkey (the seven pre-EU accession economies) account for almost three quarters of private-sector employment and generate around 60% private-sector value added. The region's SMEs were hit hard by the COVID-19 crisis, which negatively affected their liquidity, and now the recent increases in inflation and energy costs – consequences of Russia's invasion of Ukraine – risk limiting SMEs' recovery.

This report provides a comprehensive overview of implementation of the ten Small Business Act for Europe (SBA) principles in the EU enlargement region and monitors progress made since 2019. Despite the crisis that marked this period, there have been positive SME policy developments, driven mainly by the EU accession process.

Key findings

Hit hard by the pandemic, the SME sector bounced back quickly

About half of enterprises in the Western Balkans had to suspend their business activity temporarily due to COVID-19. Nevertheless, the number of SMEs per 1000 inhabitants rose by 13% over the last couple of years. Governments expanded their range of advisory services and trainings (including on digitalisation), in order to help SMEs weather the crisis. Newly introduced or further strengthened credit guarantee funds eased lending, while tax measures and debt moratoria relieved the debt burden.

SMEs have increasingly adopted digital tools

Successive pandemic lockdowns accelerated firms' adoption of digital technologies, including by SMEs, which increasingly integrated online sales channels. Governments in the region implemented programmes that supported SME digitalisation including e-commerce. During 2020, 13% of SMEs in Montenegro, 10% in Bosnia and Herzegovina and 9% in Serbia started or increased their efforts to sell goods online, in line with the EU average of 11% (Eurostat, 2022). Nevertheless, SMEs in the region lag their EU peers when adopting more advanced digital transformation technologies (e.g. cloud computing services, AI, big data).

Progress was made in SMEs' greening, through new financial incentives

Since 2019, financial incentives for greening available to SMEs have been multiplied, albeit unevenly across the region. During the same period, the average regional share of SMEs offering green products or services increased 5 percentage points, to 25%; approaching the EU average of 32%. Most SMEs took at least one action to become more resource-efficient, often minimising waste or saving energy or water. While the role of green funds in supporting SME greening efforts has grown, through dedicated programmes and credit lines, they remain dependent on external financial support. Environmental aspects

have rarely been included in post-COVID recovery programmes, pointing to a lost opportunity to enhance SME greening.

While SMEs are receiving more support to help grow exports and shift to higher value-added activities, a more systematic approach is needed

With almost 60% of the region's exports directed towards the EU, all Western Balkan and Turkey governments are working to adopt EU standards and harmonise technical regulations, with the adoption rate reaching 94%, up 3 percentage points since 2019. They are prioritising SME efforts to increase export volume and to improve their complexity and sophistication. Governments have set up strategies to increase SMEs' participation in global value chains by incentivising SME linkages with multinational enterprises. However, the provided support often takes form of *ad hoc* educational and training activities, rather than being integrated in a broader systematic approach.

The focus is on enhancing the business environment to offer opportunities for self-employment and start-ups

The region faces high levels of long-term unemployment and youth not in employment or education, and low rates of employment for youth (15-to-24-year-olds), women and low-skilled workers. At 34%, the average youth unemployment rate in the region was double the EU-27 rate (17%) in 2020. Governments have emphasised improving the business environment to boost employment, by supporting entrepreneurial learning, women's entrepreneurship and enterprise skills; reducing administrative burdens; strengthening innovation efforts; and introducing legislation to support ecosystems conducive to venture capital.

Way forward

Ensure a level playing field for SMEs

All enterprises should compete under the same market conditions. In addition to enhancing operational and institutional frameworks for SMEs, governments must improve more fundamental aspects of the business environment: strengthening the rule of law, fostering transparency of business operations, ensuring regulatory stability, combatting corruption and improving the overall quality of public governance.

Expand SME data collection and ensure regular evaluations

To ensure effective, evidence-based policymaking, SME-specific data collection and co-ordination of the collection process should be improved, especially for interdisciplinary areas such as greening, digitalisation or access to finance. Existing gaps in the availability and quality of key SME data should be addressed, control over the data collection process enhanced and regular programmes evaluation conducted.

Boost digital transformation efforts and adopt user-driven approaches to service delivery

Policy makers in the region need to adopt user-friendly services reflecting the end needs of SMEs (easy access, reduced paperwork, etc.). Governments should adopt a wider framework for the digital transformation of society at large, involving a variety of stakeholders.

Reinforce the SME greening momentum for sustainable development

Governments need to step up existing efforts for implementation and cross-sectoral policy co-ordination, while scaling up incentives and instruments for SME greening. Energy-price volatility and uncertainty,

induced by recent external shocks, can generate specific challenges for the growth and survival of SMEs. At the same time, SMEs can be a source of innovative solutions to address these challenges.

Boost entrepreneurial skills to help SMEs grow and contribute to social cohesion

Domestic SMEs are more likely to remain in low-value added sectors and create lower-paid jobs than are large enterprises. Government support for entrepreneurial learning and the development of enterprise skills is vital to help SMEs overcome potential financial and other barriers. With the right policies, SMEs can grow, innovate, raise productivity and create higher-paid employment in the region, including for youth, women and other marginalised groups.

Increase SME competitiveness through regional co-operation

Expanded regional co-operation represents a unique opportunity for Western Balkan economies to scale up and boost growth by making the most of intensified economic integration. Through resource- and knowledge-sharing networks, together with an enhanced regional trade, they are more likely to increase their productivity and competitiveness. Strengthened economic integration will also result in greater resilience to external shocks.

Economic context and the SME sector in the Western Balkans and Turkey

Recent economic developments

Economies were hit hard by the COVID-19 pandemic but rebounded steadily

The COVID-19 crisis significantly impacted the Western Balkans and Turkey (WBT), as the lockdown measures adopted to contain the pandemic severely disrupted economic activity across the region.

In 2020, the **Western Balkans'** gross domestic product (GDP) contracted by 3.3% on the back of falling domestic demand, investment and exports. Higher consumption by the region's public sector and lower imports partially offset the output losses, preventing a larger economic contraction (European Commission, 2021[1]). However, the degree to which each economy has been affected by the COVID-19 crisis has depended on key economic fundamentals, the strength of the fiscal response, as well as the relative strength of the pandemic wave (OECD, 2021[2]). Montenegro was by far the most badly affected economy in the region due to its high dependence on tourism and its limited fiscal scope for stronger support measures in light of its high level of public debt. As a result, Montenegro's annual GDP declined by 15.2% in 2020 (Figure 1). **Turkey**, on the other hand, recorded a GDP growth of 1.8%, primarily driven by a sizeable policy stimulus focused on lending. Annual credit growth accelerated significantly to 35.4% in 2020, from 24% in 2019 (European Commission, 2021[1]). This growth, however, increased inflation, widened the current account deficit and created concerns about fiscal sustainability (OECD, 2021[3]).

Figure 1. GDP growth in the Western Balkans and Turkey (2016-20)

Annual % change



Note: WBT average has been calculated as simple average.
Source: (European Commission, 2021[1])

StatLink https://stat.link/rhbv42

In 2021, following the relaxation of COVID-19 containment measures, the Western Balkans and Turkey had recorded solid economic performance, underpinned by strong external and domestic demand. The **Western Balkans**' GDP expanded by 7.6%, boosting employment growth and narrowing current account deficits. The current account deficit in the Western Balkans stood at 4.8% of GDP in 2021, the lowest level in the last ten years. The average rate of employment growth was 1.2%, compared to a decline of 1.5% in 2020 (European Commission, 2022[4]).

A similar performance was also observed in **Turkey**. The Turkish economy grew by 11% in 2021, boosted by strong exports and high consumer spending. Exports of goods reached a record high in 2021, with

Turkey benefiting from supply-chain disruption in Asia and the lira depreciation. Domestic demand has been continuously supported by strong credit growth and facilitated by expansionary monetary policy despite high inflation. Employment has recovered to pre-pandemic levels, helped by the rebound in economic activity (OECD, 2022[5]).

Recovery from COVID-19 was cut short by another shock caused by the Russian aggression against Ukraine

After a strong recovery in 2021, growth is expected to moderate in the Western Balkans and Turkey as a result of the Russian invasion of Ukraine. Despite the uncertainty concerning the duration of the conflict and evolving political developments, the region is poised to experience negative economic implications from the war and of the sanctions imposed on the Russian Federation (hereafter "Russia"), threatening the momentum of continued economic recovery from the pandemic.

The **Western Balkan** economies are particularly vulnerable to the war's economic impact due to their relatively small size, openness and dependence on imports. The increased commodity prices will squeeze household budgets, lowering consumption. Amid the uncertain global economic outlook, investment and capital flows to the region are expected to reduce in the short term. Trade disruptions will negatively affect business activity, particularly in sectors more closely integrated in the global value chains (GVCs), such as automotive. Moreover, tourism revenues for Albania and Montenegro may dwindle as there will be a drop in Russian and Ukrainian tourists and potentially less global travel. All these factors will put downward pressure on the region's economic growth.

In **Turkey**, increased commodity prices will also lead to high inflation, limiting consumer spending. At the time of writing, with 72%, Turkey had the highest inflation projection for 2022 among OECD countries. Investment will be held back by uncertainty about geopolitical factors and financial conditions. Moreover, Turkey is likely to experience a drop in the number of Russian and Ukrainian tourists, which account for about 15% of its overall tourism revenues (OECD, 2021[3]).

Overview of the SME sector

SMEs remain dominant in the region

In 2020, small and medium-sized enterprises (SMEs) made up 99.7% of all enterprises in the WBT region, with microenterprises accounting for the vast majority (90.1%).

There is a trend of increasing SMEs per inhabitant, with an average increase of 13.1% in the WBT region since 2017 (Table 1). This potentially points to an improved business environment, most notably to simplified procedures for starting a business and measures tackling informality, as well as to a maturing entrepreneurial culture. However, some caution is warranted in interpreting the data, as the scale of permanent business closures due to the COVID-19 crisis may yet to be fully reflected in official statistics. There is, however, some preliminary evidence that government measures across the region may have prevented a massive wave of business closures. However, as support will be phased out, businesses that have hung on may eventually collapse on the back of increasing debt.

Montenegro has the largest number of SMEs per inhabitant, followed by Serbia and Turkey. Montenegro's SME landscape is dominated by a large number of microenterprises in services, commensurate with the large contributions of the tourism sector to the economy.

Table 1. Number of SMEs per 1 000 inhabitants in the Western Balkans and Turkey (2017 and 2020)

SMEs per 1 000 inhabitants	ALB[1]	BiH[1]	KOS	MKD	MNE	SRB	TUR	WBT average
2017	15.4	8.5	20.3	26.5	48.8	50.9	38.3	29.8
2020	17.3	9.7	23.9	27.8	59.9	58.4	39.1	33.7
% change	12.3%	14.1%	17.7%	4.9%	22.8%	14.7%	2.1%	13.1%

1. Data for Albania and Bosnia and Herzegovina are from 2019. For Albania, only SMEs operating in Statistical Classification of Economic Activities in the European Community (NACE) Rev. 2 sectors 05-96 are included, excluding SMEs operating in sectors 64-66, 84 and 94 and entrepreneurs to ensure comparability with results of the last assessment. For Bosnia and Herzegovina, the 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 Republika Srpska. The WBT average is a simple average of the seven economies' number of SMEs per 1 000 inhabitants.
Source: Statistical offices of the six Western Balkan economies and Turkey.

Moreover, there is some evidence indicating increased productivity of the WBT region's SMEs since 2017, as their share of total value added increased, whereas their share in total business employment decreased. They accounted for an average of 71.9% of business employment, a slight decrease of 1.3 percentage points since 2017. However, 65% of the business sector's value added in 2020 was up by 0.6 percentage points over 2017.

Nevertheless, SMEs' contributions to employment and value added vary heavily between economies, with spreads of 18.5 percentage points and 24.2 percentage points respectively. SMEs in Bosnia and Herzegovina contribute the least to overall business employment, at approximately 63.1% of total business employment. This attests to the over-presence of large state-owned enterprises, which employ approximately 80 000 people and account for an estimated 11% of national employment in Bosnia and Herzegovina. By contrast, Albania's SMEs account for 81.6% of the economy's total business employment. On average, an Albanian SME, excluding entrepreneurs, employs 5.5 persons, the highest in the WBT region, which raises concerns about the SMEs' productivity.

Meanwhile, the value added of SMEs in Turkey only accounts for 52.8% of GDP, down from 54.1% in 2017, highlighting the pandemic's disproportionately negative impact on SMEs. Amongst the WBT economies, only SMEs in Turkey had a lower share in value added than the EU average of 53.0% (European Commission, 2021[6]). By contrast, Montenegro's SMEs contribute 77% of value added to GDP, up by 6.5 percentage points in the same period.

SMEs' share of exports in the WBT region experienced a sharp decline of 8.4% during the assessment period, pointing to SMEs' difficulties in exporting goods during the COVID-19 pandemic (see Dimension 10. Internationalisation of SMEs). This is partially expected, as there is an above average representation of SMEs in sectors hit hardest by the COVID-19 crisis (e.g. manufacturing, wholesale and retail trade), while SMEs in the most affected sectors are relatively likelier to export than larger firms (OECD, 2020[7]). In the Western Balkans and Turkey, SMEs' limited adoption of digital technologies may have further hindered their capacity to diversify export markets.

Across the region, the only exception is Albania, where SMEs have increased their export share by 4.5%. The economy's large clothing and footwear exports, mostly by SMEs, have remained relatively resilient during the pandemic, potentially benefitting from supply-chain disruptions in Asia. Moreover, out of all WBT economies, Albanian SMEs enjoyed the highest share of exports, amounting to 64% in 2020.

Table 2 provides detailed data on the characteristics of the SME sector in the WBT region.

Table 2. SME sector statistics for the Western Balkans and Turkey (2020 or latest available year)

	ALB		BiH[1]		KOS		MKD		MNE		SRB		TUR	
	Number	Share	Number	Share	Number	Share	Number	Share	Number	Share	Number	Share	Number	Share
Number of enterprises														
Micro	95 558	93.2%	24 759	77.38%	39 480	91.93%	52 409	90.59%	35 878	96.30%	388 385	96.20%	3 112 048	94.19%
Small	5 674	5.50%	5 660	17.69%	2 914	6.78%	4 528	7.83%	1 110	2.98%	12 187	3.00%	160 976	4.87%
Medium	1 173	1.10%	1 307	4.08%	487	1.13%	771	1.33%	229	0.61%	2 716	0.70%	26 145	0.79%
Large	169	0.20%	272	0.85%	67	0.16%	145	0.25%	38	0.10%	584	0.10%	4 919	0.15%
SMEs	**102 405**	**99.8%**	**31 726**	**99.15%**	**42 881**	**99.84%**	**57 708**	**99.75%**	**37 217**	**99.90%**	**403 288**	**99.90%**	**3 299 169**	**99.85%**
Employment														
Micro	186 400	37.00%	65 963	13.30%	71 640	31.30%	123 332	31.79%	62 032[1]	..	439 762	29.70%	6 031 956	35.78%
Small	111 347	22.10%	115 357	23.25%	58 580	25.60%	87 533	22.56%	41 639[1]	..	246 883	16.60%	3 137 955	19.92%
Medium	114 767	22.80%	131 918	26.59%	42 550	18.59%	75 967	19.58%	37 784[1]	..	278 816	18.80%	2 621 045	16.32%
Large	91 472	18.10%	182 876	36.86%	56 100	24.51%	101 106	26.06%	..	..	518 409	34.90%	4 161 861	27.98%
SMEs	**412 514**	**81.90%**	**313 238**	**63.14%**	**172 770**	**75.49%**	**286 832**	**73.94%**	**141 455[1]**	**..**	**965 461**	**65.10%**	**11 790 956**	**72.02%**
Value added (in thousands EUR)														
Micro	1 011 521	22.20%	657 616	11.39%	..	..	989 555	21.63%	964 261	53.00%	5 851 598	23.00%	13 710 468	13.14%
Small	1 182 938	25.90%	1 294 211	22.41%	..	..	1 106 978	24.20%			4 060 721	16.00%	16 753 545	16.05%
Medium	1 188 713	26.00%	1 569 971	27.18%	..	..	1 009 547	22.07%	436 647	24.00%	5 144 574	20.20%	24 612 602	23.59%
Large	1 181 881	25.90%	2 253 554	39.02%	..	..	1 468 896	32.11%	418 453	23.00%	10 367 359	40.80%	49 276 078	47.22%
SMEs	**3 383 173**	**74.10%**	**3 521 797**	**60.98%**	**..**	**..**	**3 106 080**	**67.89%**	**1 819 361**	**77.00%**	**15 056 892**	**59.20%**	**55 076 615**	**52.78%**
Share of exports														
Large	..	36.00% ..	..		..	..	..	73.99%	..	..	10 223 930	60.50%	106 281 221	63.42%
SMEs	**..**	**64.00%**	**..**		**..**	**..**	**..**	**25.88%**	**..**	**..**	**6 674 253**	**39.50%**	**167 154 059**	**36.60%**

1. 2019 data due to unavailability of 2020 data. For Albania and Serbia, entrepreneurs are included as micro-enterprises. Share of exports refers to total value of exports.
Source: Statistical offices of the six Western Balkan economies and Turkey, Ministry of the Economy of the Republic of Serbia (2020[8]).

The WBT region's enterprises remain oriented towards services, with SMEs' sectoral distribution strongly clustered in wholesale, transportation, accommodation and food, and real estate (Table 3). Manufacturing SMEs make up close to 13% of all enterprises in the entire region, with North Macedonia having the highest share (24.7%).

Table 3. Distribution of SMEs by sector across the Western Balkans and Turkey (2020 or latest available year)

	ALB[1]	BIH[1]	KOS	MKD[1]	MNE	SRB[1]	TUR	WBT average
Agriculture, forestry and fishing	..	1.20%	1.82%	3.83%	1.86%	3.83%		2.51%
Mining and quarrying	0.66%	0.26%	0.32%	0.51%	0.36%	0.35%	0.15%	0.37%
Manufacturing	7.96%	4.46%	12.46%	24.69%	11.48%	16.56%	12.33%	12.85%
Utilities	0.60%	0.73%	0.58%	2.32%	1.01%	1.68%	0.30%	1.03%
Construction	3.76%	1.91%	7.37%	9.18%	18.67%	8.83%	7.42%	8.16%
Distributive trade	40.01%	6.98%	38.68%	29.64%	48.32%	31.86%	36.62%	33.16%
Transportation and storage	4.98%	1.68%	3.59%	8.71%	7.42%	6.58%	14.19%	6.74%
Information and communication	2.59%	0.96%	2.58%	4.63%	6.06%	6.24%	1.30%	3.48%
Other services	39.27%	6.22%	32.59%	20.34%	4.82%	24.07%	19.33%	20.95%

1. 2019 data due to unavailability of 2020 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 Republika Srpska. For Albania and Turkey, data for the agriculture, forestry and fishing sector are not available and thus not reflected in the sectoral distribution. Due to changes in methodology, data are not directly comparable to that of 2017. The sector classification generally follows the NACE Rev. 2 classification of productive economic activities with the following exceptions: "Utilities" represents the sum of "Electricity, gas, steam and air conditioning supply" (D) and "Water supply, sewerage, waste management and remediation activities" (E); "Distributive trade" covers "Wholesale and retail trade; repair of motor vehicles and motorcycles" (F); and Other services here consists of (I) Accommodation and food service activities, (L) Real estate activities, (M) Professional, scientific and technical activities, (N) Administrative and support service activities as well as (S) Other service activities. For more information, consult NACE Rev. 2 Classification.
Source: Statistical offices of the six Western Balkan economies and Turkey.

The COVID-19 pandemic threatened the survival of SMEs while accelerating their digital transformation

In 2020, sudden loss of demand and revenue induced by the COVID-19 containment measures hit enterprises in the WBT region hard. The situation was more severe for SMEs than for larger enterprises, as they traditionally have limited financial resources to withstand a long-lasting crisis. To address SMEs' cash-flow problems and prevent them from going bankrupt, the six Western Balkan economies and Turkey introduced financial instruments to contribute to covering enterprises' operations costs, such as staff salaries and rents, during the pandemic. They also introduced measures to defer various payments, such as income tax or value-added tax, which eased SMEs' liquidity constraints (OECD, 2020[9]).

SMEs across the region also had a lower capacity to shift to teleworking and digital work processes. They were thus more likely to experience shortages in labour and to face difficulties in ensuring operational continuity in the context of movement restrictions. In fact, about half of enterprises in the Western Balkans had to temporarily discontinue their business activity due to COVID-19.[1] The pandemic brought about the need for SMEs to embrace digital technologies, which triggered a digitalisation push in the Western Balkans and Turkey. The region's governments introduced various measures to help SMEs tap into the economic benefits of digital transformation and strengthen their resilience against future shocks (Box 1).

Box 1. SME digitalisation in the WBT economies

The digital transformation carries significant potential to strengthen SME productivity and competitiveness, as the increased adoption of digital tools allows businesses to save time, reach customers more efficiently, drive innovation and adopt increasingly flexible practices (OECD, 2021[10]). Given the importance of SMEs for the EU and WBT economies, ensuring that they capture the benefits of the digital transition is essential to enhancing their overall competitiveness, in line with the European Union's Digital Agenda and its targets (EC, 2020[11]).

The COVID-19 pandemic accelerated businesses' adoption of digital technologies, propelling SMEs in the WBT region to increasingly adopt digital tools. SMEs in the region are starting to close the gap with larger companies. For example, in Serbia in 2012, only 70.3% of small enterprises had a website, compared to 89.3% of large enterprises. In 2021, the share of businesses with a website increased to 81.6% for small enterprises and 96.6% for large enterprises (Republic Statistical Office, 2022[12]).[1] Moreover, in 2020, 14% of SMEs in Turkey, 13% in Montenegro, 10% in Bosnia and Herzegovina and 9% in Serbia started or increased their efforts to sell goods on line, in line with the EU average of 11% (Eurostat, 2022[13]).

However, despite this positive trend, SMEs in the WBT region are lagging behind their counterparts in the European Union when it comes to adopting more advanced digital transformation technologies. The average share of SMEs using cloud computing services in the WBT region was 17% in 2020, below the EU average of 40% (Eurostat, 2022[14]). Similarly, the share of SMEs analysing big data internally was lower in the WBT region in 2020, at 7.8%, compared to the EU average of 12% (Eurostat, 2022[15]). The percentage of SMEs using artificial intelligence in 2021 was also lower in the region (on average 2.4%) than in the European Union (on average 7%) (Eurostat, 2022[16]).

Given the general importance of digitalisation of businesses and the impulse that came with the pandemic, governments in the WBT economies have started to put an increased focus on SME digitalisation:

- **Montenegro**'s Programme for Advancing the Competitiveness of the Economy, implemented by the Ministry of Economic Development, allocates financial support to the digitalisation of SMEs and subsidises SME procurement of information and communication technology (ICT) software and ICT skills trainings. From 2020 to 2022, the budget allocated for digitalisation doubled from EUR 200 000 in 2020 to EUR 400 000 in 2022 (Ministry of Economic Development, 2022[17]).
- Since 2019, **North Macedonia** has been implementing its Programme for Competitiveness, Innovation and Entrepreneurship, implemented by the Ministry of Economy. The programme consists of subsidies, grants, and services that aim to support SMEs in adopting digital tools and practices. Following the COVID-19 pandemic outbreak, the Government of North Macedonia provided additional support to SMEs through grants, including through the procurement of digital tools and the digitalisation of their business practices.
- In 2020, the **Republika Srpska** Chamber of Commerce established a Centre for Digital Transformation. The centre provides support to businesses through trainings on adopting digital processes and developing ICT skills.

Going forward, to fully capitalise on the benefits of the digital transition, the WBT economies would benefit from stepping up partnerships with business associations and chambers of commerce. This co-operation would, among others, help the governments better adapt education curricula and upskilling initiatives to businesses' digital needs. Moreover, comprehensive support for digitalisation would require

additional financial resources. As such, partnerships with international development co-operation partners and financial institutions will be key to ensuring the availability of funding to support firms' digitalisation (OECD, 2021[2]).

1. Montenegro's share increased from 53.1% in 2012 for all enterprise size classes to 84.6% in 2021 (Monstat, 2022[18]). In Turkey, from 2012 to 2019, it increased from 58% to 66.6%, although a large difference is still observable between small, medium and large enterprises (TUIK, 2022[19]).
Sources: (EC, 2020[11]); (OECD, 2021[10]); (Republic Statistical Office, 2022[12]); (Monstat, 2022[18]); (TUIK, 2022[19]); (Eurostat, 2022[14]); (Ministry of Economic Development, 2022[17]); (OECD, 2021[2]); inputs provided by the WBT economies as part of the assessment.

In addition to the massive drop in turnovers and labour shortages, SMEs that were dependent on imported components and raw materials to produce final products also encountered supply-chain disruptions, further aggravating their challenges. This particularly affected SMEs with high levels of exposure within GVCs. Companies in North Macedonia and Serbia, particularly those operating in the automotive and machinery sectors, have the highest level of integration across sectors. Conversely, enterprises in Albania and Bosnia and Herzegovina remain without a strong link to GVCs (World Bank, 2020[20]).

The Russian aggression against Ukraine presents a new set of challenges for SMEs

With the relaxation of COVID-19 containment measures, the demand for products and services rebounded in the WBT economies, supporting SMEs' recovery from the pandemic. However, the Russian invasion of Ukraine and the sanctions imposed on Russia will create new challenges for enterprises.

Most crucially, surging prices of key commodities will increase the operational costs and negatively affect the liquidity of businesses, exacerbating their financial challenges. With their limited scope to rely on self-financing and difficulties in accessing traditional bank finance, SMEs will be particularly hard hit by the war's inflation shock. Securing additional financing to avoid cash-flow problems comes at a difficult time for the region's SMEs. Due to the pandemic, the debt burden of businesses has already been on the rise across the region. In 2020 alone, domestic credit to the private sector, as a percentage of GDP, increased, on average, by close to 5.5 percentage points (OECD, forthcoming).[2]

The war's economic impact on rising oil and gas prices poses a particular risk for businesses in energy-intensive sectors (e.g. automotive, chemicals and metals) and for which transport costs constitute a high share of their total operating costs. With one-third of all SMEs operating in the manufacturing and transportation sectors, surging energy prices will be more challenging for SMEs in North Macedonia and Turkey (Table 3)

Given price increases of energy and other key inputs, increased implementation of resource efficiency and conservation, and more broadly of sustainable operations, will become key to enterprises' competitiveness in the Western Balkans and Turkey. The region's governments' recent initiatives, broadly grouped under their "Green Deal" strategies, are a good step in the right direction to strengthen SMEs' resilience against future external shocks (Box 2).

Box 2. SME greening in the WBT economies

In 2020, the European Commission approved the European Green Deal, introducing a set of policy initiatives with the objective of making the European Union climate neutral in 2050. Based on the same set of principles of the European Green Deal, the European Commission unveiled the Green Agenda for the Western Balkans in 2021, whereas Turkey launched its own Green Deal Action Plan the same year. These strategies and action plans aim to align the Western Balkans and Turkey with the European Green Deal and facilitate the region's transition to sustainable economic models.

In this context, SMEs play a key role in achieving the net-zero goal for greenhouse gas emissions (GHG). Though their individual emissions are generally small, SMEs account for 50% of the world's total GHG emissions (ICT, 2021[21]). Nevertheless, they usually lack the knowledge and necessary financial resources to reduce emissions and adopt green business models. External shocks like the COVID-19 pandemic and the Russian invasion of Ukraine have also shifted the focus away from greening efforts, when SMEs' priority has been to keep their businesses afloat.

Greening operations is not necessarily a cost of doing business; SMEs have much to benefit from participating actively in this transition. New green markets, such as the circular economy, can create new business opportunities for SMEs. Given their agility, they are better placed than large enterprises to be a source of innovation and solutions to develop the technologies needed to address environmental challenges. However, even without moving into new markets, SMEs can potentially improve their business performance by realising efficiency gains and cost reductions by greening their products, services and processes.

Greening efforts have recently gained momentum within the region, particularly for the six Western Balkan economies, as Turkey has been the regional frontrunner in this regard. The share of SMEs offering green products or services has increased in almost all WBT economies, reaching 36% of SMEs in North Macedonia, an even higher proportion than the EU average. The majority of the region's SMEs took at least one action to become more resource-efficient, in particular minimising waste or saving energy or water. Turkey's SMEs performed better than those of the European Union in undertaking resource efficiency measures, in particular by saving materials (74%), minimising waste (73%) and saving water and energy (65% each).

Environmental policies targeting SMEs are increasingly included in WBT economies' strategic documents and are implemented accordingly:

- **Circular economy frameworks are incrementally being developed**, with Montenegro and Serbia having prepared their roadmaps towards circular economy, serving as guiding documents for the development of respective strategic documents. The promotion of circular economy concepts is starting, in particular in Serbia, with its digital platform (https://circulareconomy-serbia.com) and in Turkey, through regular workshops by the economy's SME Development Agency (KOSGEB).
- **Financial incentives for SME greening have multiplied**, most of which target energy efficiency and renewable energy projects. Financial instruments are made available by governments, public financial institutions and international support programmes as well as via Green Funds (Montenegro and North Macedonia have established theirs since 2019, with a EUR 1.6 million budget in 2021 and an expected budget of EUR 36.3 million, respectively), mainly through interest rate loans or grants.
- **Information-based tools for the greening of businesses have been scaled up in the region**. Chambers of commerce and business associations are increasingly involved in providing advice and guidance to SMEs, particularly in Montenegro through its Committee on

Energy Efficiency, and Serbia through its web-based guidance tools and digital platforms. In Turkey, business associations, such as the Business Council for Sustainable Development (SKD Turkey), have their own SME greening policies.

- **Green public procurement is envisaged in laws and strategies in the majority of WBT economies** and can play a significant role in creating demand for green products and services. While this option has been insufficiently used in practice, trainings and awareness-raising activities aimed at public administrations and enterprises to encourage the use of green public procurement have been conducted in Montenegro and Serbia.

Sources: European Commission (2020[22]), (2022[23]); Government of Turkey (2021[24]); inputs provided by the WBT economies as part of the assessment.

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Notes

[1] The data comes from a business survey conducted in the Western Balkans in 2020 by the OECD.

[2] Domestic credit to private sector data was retrieved from data.worldbank.org on 30 May 2022. The data includes the six Western Balkan economies and Turkey.

Policy framework and assessment process

Introduction

The SME Policy Index is a benchmarking tool designed to assess policies that support small and medium-sized enterprises (SMEs) in emerging economies and monitor progress in policy implementation over time. The index was developed in 2006 by the OECD in partnership with the European Commission, the European Bank for Reconstruction and Development (EBRD) and the European Training Foundation (ETF). Since then, it has been applied 10 times, covering 33 economies in 4 regions: the Western Balkans and Turkey (WBT), Eastern partnership countries, North African and Middle East regions, and the Association of Southeast Asian Nations countries. For the WBT region, it is structured around the ten principles of the Small Business Act for Europe (SBA), providing a wide range of pro-enterprise measures to guide the design and implementation of SME policies in the European Union.

While a number of other indices and benchmarking reports have been used to assess the business environment in the WBT region, the SME Policy Index follows a holistic approach that provides policy makers with an analysis of their strengths and weaknesses in SME-related policy settings, allowing comparisons to be made across economies and measuring convergence toward OECD and EU good practice[2]. The report also monitors alignment in enterprise policy with the EU *acquis*, especially with respect to Chapter 20, and provides inputs into the Economic Reform Programmes (ERPs), most notably under the business environment structural dimension.

The SME Policy Index is divided into 12 regional policy chapters and 7 economy-specific profiles, which contain individualised structural reform recommendations tailored to the specific challenges of each WBT economy.

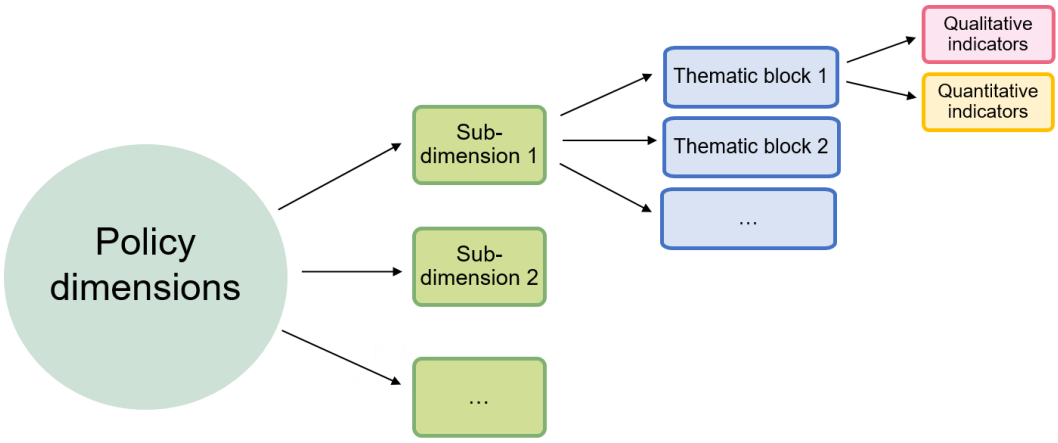
Overview of the 2022 assessment framework

The overall assessment approach

The *SME Policy Index: Western Balkans and Turkey 2022* records each economy's progress across a framework of 12 policy dimensions. Each policy dimension assesses SME and entrepreneurship-enhancing policies through up to five sub-dimensions, further broken down into thematic blocs, employing qualitative and quantitative indicators (Figure 2). The set of indicators used for each of the 12 policy dimensions can be found in the "assessment framework" included at the beginning of each regional chapter. The 2022 report includes 34 sub-dimensions, 88 thematic blocks and more than 700 indicators.

[2] The newly-adopted Recommendation of the Council on SME and Entrepreneurship Policy aims to provide an evidence-based and holistic framework to support OECD member states in developing coherent, effective and efficient SME and entrepreneurship policies can also be used as a reference in SME policy-making in Western Balkans and Turkey. For more information, see https://www.oecd.org/cfe/smes/oecdrecommendationonsmeandentrepreneurshippolicy/

Figure 2. Overall assessment framework of the *SME Policy Index 2022*



The SME Policy Index assessment framework was developed to respond to the priorities identified in the ten principles of the SBA. Table 4 shows how the policy dimensions and sub-dimensions relate to each SBA principle.

Table 4. The SME Policy Index assessment framework and its links to the SBA principles

SBA principle	Related policy dimension	Related sub-dimension
1. Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded	1. Entrepreneurial learning and women's entrepreneurship	1.1. Entrepreneurial learning
		1.2. Women's entrepreneurship
2. Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance	2. Bankruptcy and second chance	2.1. Preventive measures
		2.2. Bankruptcy procedures
		2.3. Promoting second chance
3. Design rules according to the "think small first" principle	3. Institutional and regulatory framework for SME policy making	3.1. Institutional framework
		3.2. Legislative simplification and regulatory impact analysis
		3.3. Public-private consultations
4. Make public administration responsive to SMEs	4. Operational environment for SMEs	4.1. Digital government services for enterprises
		4.2. Company registration
		4.3. Business licensing
		4.4. Tax compliance procedures for SMEs
5. Adapt public policy tools to SME needs	5a. Support services for SMEs	5a.1. Business support services provided by the government
		5a.2. Government initiatives to stimulate private business support services
	5b. Public procurement	5b.1. Public procurement
6. Facilitate SME access to finance and develop a legal framework and business environment supportive of timely payments in commercial transactions	6. Access to finance for SMEs	6.1. Legal and regulatory framework
		6.2. Sources of external finance – bank financing
		6.3. Sources of external finance – non-banking financing
		6.4. Venture capital ecosystem
		6.5. Financial literacy
7. Help SMEs to benefit more from the opportunities offered by the Single Market	7. Standards and technical regulations	7.1. Overall co-ordination and general measures
		7.2. Harmonisation with the EU *acquis*
		7.3. SME access to standardisation

8. Promote the upgrading of skills and all forms of innovation	8a. Enterprise skills	8a.1. Enterprise skills
	8b. Innovation policy for SMEs	8b.1. Policy framework for innovation
		8b.2. Government institutional support services for innovative SMEs
		8b.3. Government financial support services for innovative SMEs
		8b.4. SME and research institution collaboration and technology transfer
9. Enable SMEs to turn environmental challenges into opportunities	9. SMEs in a green economy	9.1. Framework for environmental policies targeting SMEs
		9.2. Incentives and instruments for SME greening
10. Encourage and support SMEs to benefit from growth markets	10. Internationalisation of SMEs	10.1. Export promotion
		10.2. Integration of SMEs into global value chains
		10.3. Promoting the use of e-commerce

Refinements to the 2022 assessment framework

The *SME Policy Index 2022* has been revised since the 2019 assessment to provide more in-depth analysis and better respond to the needs of the economies being assessed. Refinements to the present edition have the following main objectives:

- assess the impact of the COVID-19 pandemic on different policy areas and better inform policy making during and in the aftermath of the pandemic
- provide inputs for national SME development strategy and other national development strategies (e.g. innovation, education, environmental protection) as well as guide the ERPs by shedding light on the most pressing policy challenges hampering the business environment
- increase the assessment's focus on analysing the implementation of the policy recommendations provided in the previous SME Policy Index edition
- shed light on what the WBT governments should do to further their development agendas both in the post-COVID ("build back better") and EU accession contexts (Berlin process, Economic and Investment Plan for the Western Balkans, Green Deal and Green Agenda for the Western Balkans, Digital agenda, etc.), by incorporating the themes that are becoming of increasing importance for the region (e.g. environment, digitalisation)
- review and embed the latest OECD instruments, tools and good practices as well as the dominating policy trends in OECD and EU economies as per their relevance
- introduce, when relevant, new indicators based on these trends while ensuring that comparable data are available across economies
- take into account limitations related to the availability of data and other available data sources, i.e. only indicators that allow for benchmarking are included.

Methodological approach

Qualitative indicators

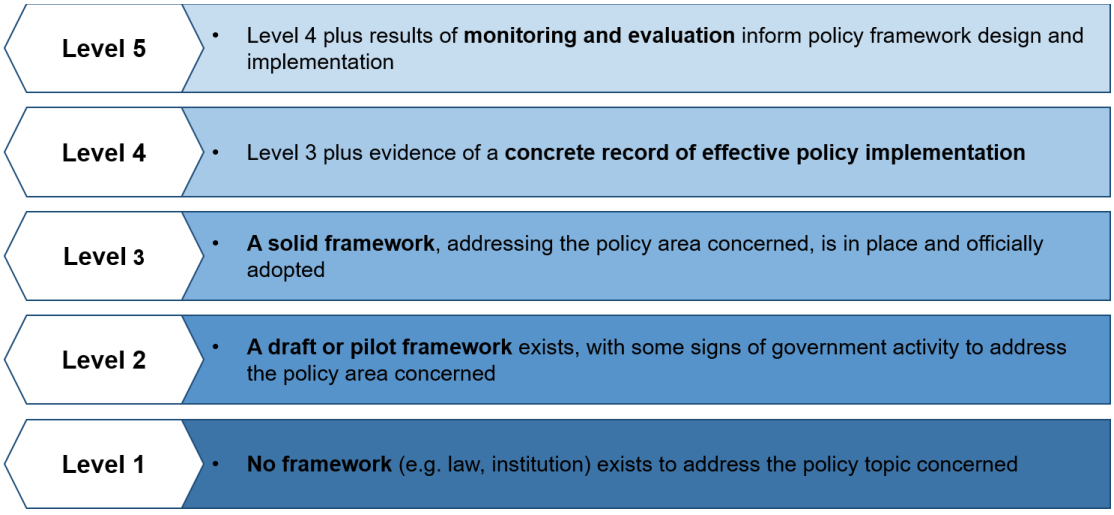
Each qualitative indicator is assigned a numerical score that reflects the level of policy development, implementation and monitoring to facilitate the comparison of performance among the WBT economies. Qualitative indicators are given a score from 1 to 5, with Level 1 being the weakest and Level 5 the strongest (Figure 3). The results are then aggregated with weightings applied at the sub-dimensional and

thematic block levels, taking into consideration the importance of each indicator in policy formulation or implementation. A detailed description of the allocation of scores is presented in Annex A.

Quantitative indicators

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

Figure 3. Description of score levels



The assessment process

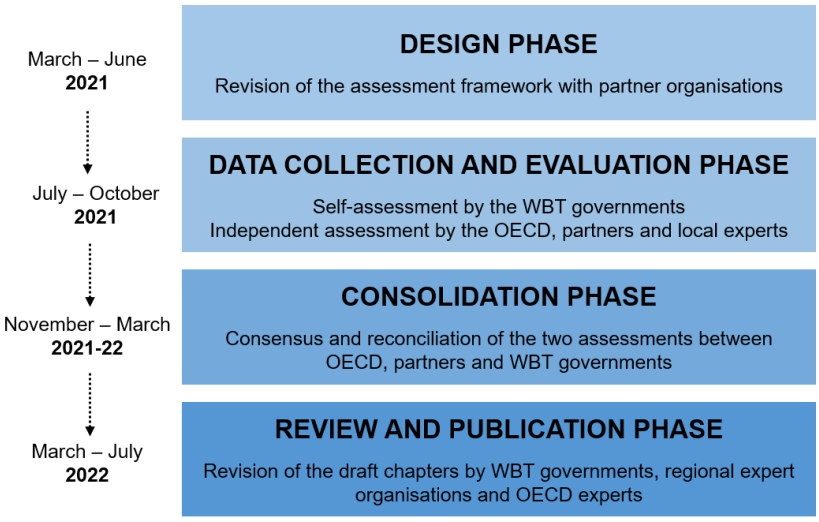
The *SME Policy Index 2022* is based on the results of two parallel assessments: the economies' governments' self-assessment, which involved completing a questionnaire and assigning a score for each policy indicator using the assessment grid; and the OECD and its partner organisations' independent assessment, with inputs from a team of local experts.

The final scores are derived via a highly collaborative and consultative consolidation of these two assessments and enriched by consultations with key stakeholders (e.g. private sector, business associations, academia and civil society) in the participating economies.

Assessment phases and timing of the 2022 assessment

The assessment was carried out between March 2021 and July 2022 in four main phases: 1) design; 2) data collection and evaluation; 3) consolidation; and 4) review and publication (Figure 4).

Figure 4. Overview of the assessment process phases



Specifically speaking, the phases can be described as follows:

- Design phase (March 2021-June 2021). The OECD and the partner institutions revised the assessment framework in consultation with the SBA Co-ordinators, partner organisations and the European Commission, to ensure that the latest international and OECD good practice had been incorporated into the assessment frameworks for each policy dimension.
- Data collection and evaluation phase (July 2021-October 2021). In light of the COVID-19 pandemic (Box 3), a regional launch meeting was held virtually to present the new assessment framework to the seven economies' line ministries and public institutions that were expected to contribute to the information collection process. Explanatory meetings were also organised with SBA Co-ordinators and statistical offices, in which the two documents making up the assessment framework – the questionnaire and statistical data sheet – were explained in depth to the participants, directing particular attention to the newly added questions.
- Following the launch events, the SBA Co-ordinators distributed the questionnaires to the appropriate counterparts in the ministries and government agencies, as well as the statistical sheet to the national statistical offices. The SBA Co-ordinators then compiled the data and documentation and completed the questionnaire. Scores were assigned for each policy dimension, with an accompanying justification. The completed questionnaires and statistical data sheets were sent to the OECD team by October 2021. From mid-September, the OECD and its partner organisations conducted an independent assessment, supported by a team of local experts who collected additional data and information, as necessary.
- Consolidation phase (November 2021-March 2022). Reviews of the inputs by the OECD and the partner institutions revealed the need for additional information on certain elements. Some 30 virtual consultation meetings with over 100 stakeholders were held to fill in the remaining information gaps in November 2021.
- Once the data collection was complete, the OECD organised virtual economy-specific meetings. These meetings aimed to present the preliminary findings and recommendations and close any remaining information gaps in the questionnaire, discussing discrepancies between the two parallel assessments and filling in missing information.
- While these meetings were held in the six Western Balkan and Turkey capitals in previous assessment cycles, COVID-19 restrictions meant that the roundtables were held virtually.
- After the economy-specific meetings, the assessment findings were consolidated. The OECD and partner organisations decided on the final scores under each policy dimension presented in this

report. The regional preliminary findings and scores were subsequently presented to the seven economies in a virtual regional meeting on 3 March 2022.

- Review and publication phase (March 2022-July 2022). The draft SME Policy Index 2022 chapters and the related SBA economy profiles were made available to the WBT governments, the European Commission and the EU delegations for review during February-April 2022. Meanwhile, the draft report was also peer-reviewed internally by the OECD, the EBRD and the ETF. Following the review, final comments were integrated into the report to be launched at the Dubrovnik Forum on 8 July 2022.

Box 3. The impact of COVID-19 on the *SME Policy Index 2022* project

The COVID-19 pandemic triggered travel restrictions worldwide, requiring a novel approach to this SME Policy Index assessment cycle. In light of these extraordinary developments, the OECD team adopted the following measures:

- **Virtual launch of the assessment**: All assessment materials were transformed into a digital format, making them accessible and easy to understand and use for all those involved in the assessment. This made it possible for multiple persons to simultaneously work inside the assessment materials, enabling co-ordinators to fill them out and review inputs simultaneously.
- **Virtual meetings**: In lieu of physical meetings at which the assessment would be explained in depth, and questions answered once and for all, the OECD team instead held individual virtual meetings, as well as follow-up calls with the relevant stakeholders in the WBT economies. The presentations of preliminary key findings on regional and economy-specific levels were also conducted using virtual meeting platforms, which allowed for a higher level of participation.

Despite these measures, the challenges created by the COVID-19 pandemic caused some delays in the input collection process. A number of assessment contributors contracted COVID-19 and needed to be temporarily replaced, which negatively affected the co-ordination across various administrative units and slowed the government self-assessment data-collection process.

Strengths and limitations

The *SME Policy Index: Western Balkans and Turkey 2022* possesses several strengths that make it a uniquely valuable report for policy makers, citizens, researchers and international development co-operation partners. Nevertheless, it also has some limitations that need to be considered (Table 5).

Table 5. Strengths and limitations of the SME Policy Index

Strengths	Limitations
The indicators have been structured to be fully compatible with the EU Small Business Act.	
Independent and rigorous assessment enables it to benchmark the performance of WBT economies against OECD/EU policy standards.	Statistical coverage is limited in the seven economies, and comparing policy performance can be challenging. Problems such as the lack of a uniform SME definition mean data cannot always be directly compared.
Good practice examples and policy recommendations, both at the regional and economy levels, offer concrete and tailored guidance to each economy's specific context and needs.	The sub-dimension weightings are based on expert opinion and therefore involve subjectivity.
The report facilitates discussion on regional remedies for similar problems and the transferability of experience between economies.	As the same set of indicators is applied to all economies in the region, certain economy-specific characteristics may not be fully reflected in the scoring.

Strengths	Limitations
Engagement with a wide range of stakeholders allows for a better understanding of needs on the ground and how effective government policies have been.	The assessment framework does not exhaustively cover all the policy areas affecting SMEs.
The tripartite participatory approach to evaluation and measurement brings together governments, the private sector and the OECD.	The implementation of government policy can be hard to measure, particularly in economies where SME policies are mainly implemented at the sub-national level.
It combines original data collected by the OECD, the European Commission, ETF and EBRD with existing data from sources such as the World Bank.	

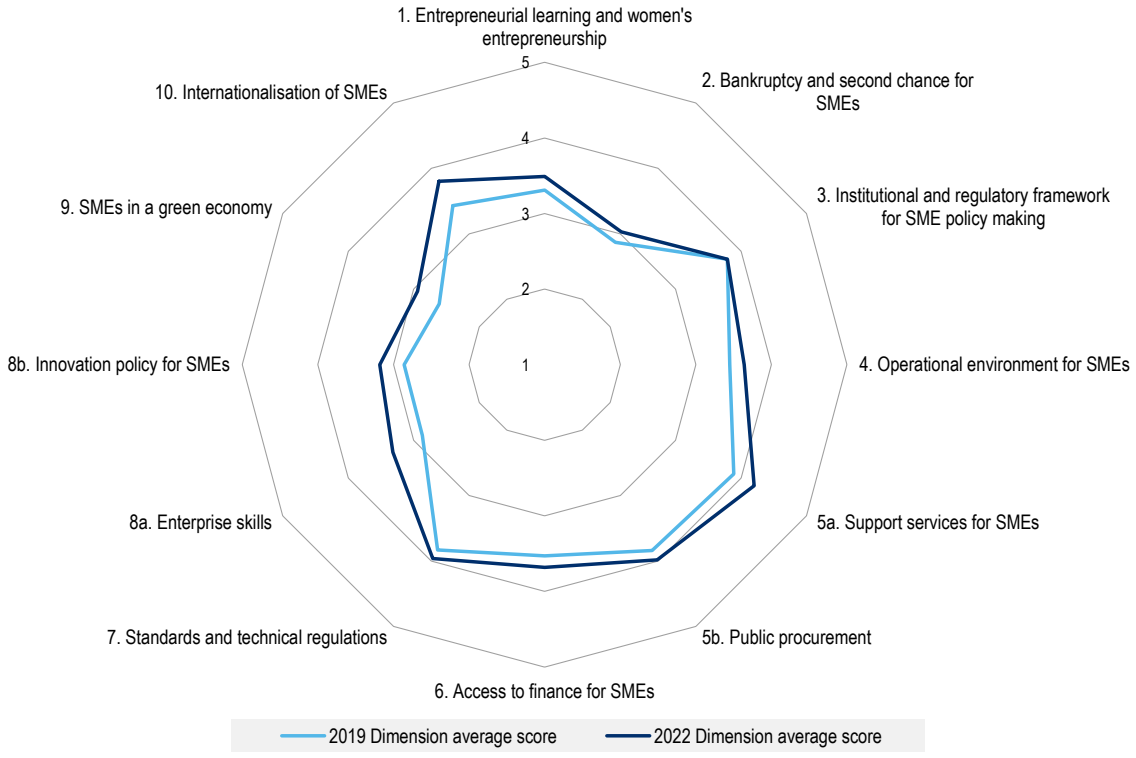
Overview of key findings

Overview of key findings

This chapter provides an overview of the key findings of the 2022 Small Business Act (SBA) assessment for each of the 12 policy dimensions. Full details of the methodology and the background to this assessment are contained in Annex A.

This 2022 assessment reveals that the economies of the Western Balkans and Turkey (WBT) have improved their performance in 11 out of 12 policy areas, signalling their continuous dedication to creating an enabling business environment for small and medium-sized enterprises (SMEs) despite the difficult circumstances they have faced over the last three years (Figure 5). They have performed best in the areas of: institutional and regulatory framework for SME policy making; support services for SMEs; public procurement; access to finance; standards and technical regulations; and internationalisation. By contrast, despite advancements, there are still several policy areas in which the region as a whole has room for improvement. These include: bankruptcy and second-chance policies; enterprise skills; innovation policy for SMEs; and SMEs in a green economy.

Figure 5. Small Business Act average scores for the Western Balkans and Turkey (2019 and 2022



Key findings by dimension

Dimension 1: Entrepreneurial learning and women's entrepreneurship

Dimension 1 assesses the existence and effectiveness of policies to support the development of entrepreneurial culture, as well as to allow women to make a greater contribution to the entrepreneurial economy.

Entrepreneurial learning is featured in national policies across the Western Balkan economies and Turkey and ranges from stand-alone strategies to being a component of wider strategic policy instruments. The use of EntreComp to underpin educational development has become more frequent, and practical entrepreneurial experiences for learners have become more diverse. Women's entrepreneurship has increased in prominence across the region. Both formal and informal policy partnerships can be seen in the region, with fewer formal multi-stakeholder partnerships led by government and more economies reporting informal partnerships led by stakeholder groups. Overall visibility of women's entrepreneurship appears to have increased with good evidence of national and transnational conferences and summits. At the same time, practical economy-level support and training for women entrepreneurs has expanded in most economies during this assessment period.

Going forward, the WBT economies should focus on developing multi-stakeholder partnerships for entrepreneurial learning, bringing together cross-government and relevant non-government stakeholders to strengthen co-ordination and coherence across policy areas. Governments should also look to reduce the implementation gap between policy commitments and practical implementation of the entrepreneurship key competence approach within the learner experience and assess learning outcomes more frequently. Regarding women's entrepreneurship, the collection of gender-disaggregated data, linked to economy-level statistics as well as government-funded monitoring data, should be strengthened across all economies.

Table 6. Progress in Dimension 1: Entrepreneurial learning and women's entrepreneurship

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Sub-dimension 1.1: Entrepreneurial learning								
Planning and design	2.62	3.13	2.75	3.11	4.75	3.46	4.19	3.43
Implementation	2.82	2.90	3.67	2.42	4.62	3.77	4.37	3.51
Monitoring and evaluation	1.22	2.17	2.34	1.00	4.34	4.01	4.06	2.73
Weighted average	**2.44**	**2.82**	**3.13**	**2.34**	**4.61**	**3.72**	**4.25**	**3.33**
Sub-dimension 1.2: Women's entrepreneurship								
Planning and design	3.80	4.20	3.40	2.60	5.00	4.60	4.20	3.97
Performance	4.02	3.49	3.49	2.96	4.11	3.76	5.00	3.83
Monitoring and evaluation	3.00	4.25	3.00	1.00	3.50	3.00	4.00	3.11
Weighted average	**3.75**	**3.85**	**3.36**	**2.46**	**4.26**	**3.86**	**4.56**	**3.73**
Dimension score 2022	**2.96**	**3.23**	**3.22**	**2.39**	**4.47**	**3.78**	**4.37**	**3.49**
Dimension score 2019	2.81	3.24	2.53	2.48	3.83	3.96	4.32	3.31

Dimension 2: Bankruptcy and second chance for SMEs

Dimension 2 assesses the efficiency of bankruptcy procedures for SMEs in the WBT economies, as well as the existence of tools for insolvency prevention and policies to support failed entrepreneurs who wish to make a fresh start.

All economies from the WBT region have formal bankruptcy reorganisation and liquidation procedures in place, with most economies having introduced hybrid restructuring procedures and some additional reorganisation procedures for SMEs. Several economies in the region recently introduced electronic bidding options for assets sold in bankruptcy liquidation proceedings.

The WBT economies should focus on establishing tools to prevent insolvency, such as early warning systems, and strengthening institutional support for insolvency prevention. Monitoring and evaluation systems for insolvency should be strengthened to ensure transparency and legal certainty of business

activities. Governments should also look to develop policies to promote second chance for failed entrepreneurs, as the cultural stigma related to business failure prevails.

Table 7. Progress in Dimension 2: Bankruptcy and second chance for SMEs

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Sub-dimension 2.1: Preventive measures	3.10	2.80	2.20	2.80	2.50	2.80	3.00	2.74
Sub-dimension 2.2: Survival and bankruptcy procedures								
Design and implementation	3.80	4.00	2.70	3.30	3.00	3.50	3.62	3.42
Performance, monitoring and evaluation	2.40	3.50	2.30	3.40	3.70	3.80	3.82	3.27
Weighted average	**3.24**	**3.80**	**2.54**	**3.36**	**3.28**	**3.62**	**3.74**	**3.37**
Sub-dimension 2.3: Promoting second chance	2.00	2.20	1.50	2.00	2.00	2.00	2.00	1.96
Dimension score 2022	**2.98**	**3.38**	**2.30**	**3.03**	**3.02**	**3.21**	**3.32**	**3.03**
Dimension score 2019	2.83	2.55	2.71	2.49	3.44	2.84	3.23	2.87

Dimension 3: Institutional and regulatory framework for SME policy making

Dimension 3 assesses the implementation of the SBA's core principle – "think small first", meaning that governments should design economic policies with the needs of SMEs in mind.

The WBT economies have continued to develop and implement their already well-developed SME policy frameworks, with some economies making increased efforts to ensure inter-institutional co-ordination and monitoring and evaluation. The implementation of SME policies advanced well in the region, despite the COVID-19 pandemic prompting governments to reallocate resources to more immediate support to businesses. Efforts to improve the business environment have continued, and the use of regulatory impact assessments to measure the impact of policies on SMEs has improved in some economies.

It will be important for the WBT economies to strengthen the collection of SME-specific data, which is often missing and key to evidence-based policy making. They should also look to plan, monitor and evaluate regulatory reform efforts more systematically and further strengthen the use of regulatory impact assessment, specifically by further empowering oversight institutions for quality control and by strengthening the administrative and human capacities for conducting effective analysis. Governments could also look to improve monitoring and evaluation mechanisms for public-private consultations to better measure the participation and engagement of SMEs.

Table 8. Progress in Dimension 3: Institutional and regulatory framework for SME policy making

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Sub-dimension 3.1: Institutional framework								
Planning and design	4.30	3.50	3.80	4.70	4.44	4.60	4.60	4.28
Implementation	4.20	3.10	3.60	3.80	4.20	4.10	4.75	3.96
Monitoring and evaluation	4.10	3.00	2.80	3.28	4.84	4.00	4.65	3.81
Weighted average	**4.21**	**3.20**	**3.50**	**3.97**	**4.40**	**4.23**	**4.69**	**4.03**
Sub-dimension 3.2: Legislative simplification and regulatory impact assessment								
Planning and design	3.60	2.80	3.80	4.10	3.88	4.32	4.40	3.84
Performance	3.40	2.30	3.60	3.00	4.28	4.10	3.60	3.47
Monitoring and evaluation	2.55	2.00	2.80	2.70	3.24	4.10	3.25	2.95
Weighted average	**3.29**	**2.39**	**3.50**	**3.27**	**3.95**	**4.17**	**3.77**	**3.48**
Sub-dimension 3.3: Public-private consultations								

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Frequency and transparency of PPCs	3.90	3.00	4.30	4.56	4.76	4.24	3.24	4.00
Private sector involvement in PPCs	4.20	2.10	4.20	4.32	4.04	4.30	4.25	3.92
Monitoring and evaluation	4.15	1.90	3.70	2.60	2.60	3.50	3.24	3.10
Weighted average	**4.07**	**2.42**	**4.14**	**4.07**	**4.04**	**4.12**	**3.64**	**3.79**
Dimension score 2022	**3.89**	**2.72**	**3.69**	**3.79**	**4.16**	**4.18**	**4.10**	**3.79**
Dimension score 2019	3.55	2.62	3.92	3.86	4.24	4.24	4.12	3.79

Dimension 4: Operational environment for SMEs

Dimension 4 assesses the availability, quality and responsiveness of key government services for SMEs, focusing on digital government services, company registration, business licensing and tax compliance procedures.

The WBT economies have continued developing and implementing their policy frameworks for digital government services for businesses. Several economies have made efforts to increase inter-institutional co-ordination for these processes, which should allow them to accelerate and streamline the rollout of digital government services and improve standards for service delivery. All economies have continued the development of their online portals for digital government services, increasing their accessibility. Reforms to simplify and digitalise company registration processes and increase interoperability in this regard have been undertaken to reduce the number of days and procedures required to start a business. While business licencing has been centralised in all WBT economies, deregulation and digitalisation reforms are ongoing to reduce administrative barriers for businesses. Furthermore, comprehensive sets of tax measures to reduce liquidity constraints for SMEs have been introduced to mitigate the impact of the COVID-19 crisis. Simplified bookkeeping rules for SMEs are common throughout the region, and digital services are widely used for business taxation.

The WBT economies should ensure that digital government services are tailored to the needs of businesses, and increasingly integrate user feedback into the service design process, as digitalisation presents a unique window of opportunity to optimise and streamline services. There is also significant opportunity to be found in adopting proactive policies to encourage the use of open government data by businesses to create new products and services and drive innovation. Improving monitoring and evaluation systems for digital government services, company registration and business licensing will be key to measuring their success and identifying areas for improvement. Moreover, economies across the region should evaluate and simplify their tax regimes so they take the average profitability of business sectors into account, do not create hurdles to growing into the standard tax regime and do not take the number of employees as an eligibility criterion.

Table 9. Progress in Dimension 4: Operational environment for SMEs

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Sub-dimension 4.1: Digital government services for SMEs								
Planning and design	4.70	2.80	3.78	4.40	4.80	4.70	4.75	4.28
Implementation	3.91	1.73	3.27	3.27	3.27	3.64	4.20	3.33
Monitoring and evaluation	3.80	1.48	2.60	1.73	1.73	3.00	3.00	2.48
Weighted average	**4.12**	**1.99**	**3.26**	**3.22**	**3.34**	**3.80**	**4.07**	**3.40**
Sub-dimension 4.2: Company registration								
Design and implementation	4.90	3.50	4.60	4.85	4.70	4.80	3.60	4.42
Performance	4.50	2.80	4.80	3.80	3.73	4.30	3.60	3.93
Monitoring and evaluation	4.80	2.50	5.00	4.80	2.55	4.75	4.00	4.06

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Weighted average	**4.78**	**2.96**	**4.80**	**4.62**	**3.65**	**4.68**	**3.76**	**4.18**
Sub-dimension 4.3: Business licensing								
Licence procedures	4.55	3.75	3.75	3.65	4.00	3.80	3.66	3.88
Monitoring and streamlining of licence system	4.37	3.35	3.90	3.85	3.50	3.90	3.23	3.73
Weighted average	**4.46**	**3.55**	**3.83**	**3.75**	**3.75**	**3.85**	**3.45**	**3.80**
Sub-dimension 4.4: Tax compliance procedures for SMEs								
SME tax compliance and simplification procedures					n/a			
Monitoring and evaluation of SME-specific tax measures					n/a			
Dimension score 2022	**4.32**	**2.49**	**3.68**	**3.49**	**3.61**	**3.98**	**3.88**	**3.64**
Dimension score 2019	3.99	2.34	3.75	3.52	3.29	3.73	3.56	3.45

Dimension 5a: Support services for SMEs

Dimension 5a evaluates the prevalence of services to support SMEs in their operations and development by examining public policies both to provide business support services (BSSs) and to encourage provision of BSSs by the private sector.

New strategies prioritising government-provided BSSs to SMEs have been adopted across the WBT region. Governments expanded the range of provided BSSs, which have enjoyed a relatively high uptake in most economies. While efforts have been undertaken to assess the demand for BSSs among SMEs, as well as their training needs, more work is needed in this regard. Support for private BSSs has intensified since the last assessment cycle, with more economies prioritising a fair and competitive private sector of BSSs for SMEs. While co-financing the services of private-sector business consultants is the most prevalent form of support in the region, many economies have boosted their support for business incubators and accelerators with a dedicated focus on newly established SMEs and start-ups.

Going forward, WBT economies should further develop systematic training needs analysis to better match the supply of BSSs with the needs of SMEs. They should also look to strengthen monitoring and evaluation of BSSs' impact and effectiveness and the subsequent improvement in the performance of SMEs. Introducing quality assurance certifications for BSSs provided by the private sector could also help guarantee their effectiveness.

Table 10. Progress in Dimension 5a: Support services for SMEs

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Sub-dimension 5a.1: Business support services provided by the government								
Planning and design	4.43	3.17	3.86	3.57	4.71	4.43	5.00	4.17
Implementation	3.43	3.86	4.28	4.14	4.57	4.57	4.86	4.24
Monitoring and evaluation	4.11	3.06	3.56	3.89	3.89	4.33	4.33	3.88
Weighted average	**3.86**	**3.49**	**4.01**	**3.92**	**4.48**	**4.48**	**4.80**	**4.15**
Sub-dimension 5a.2: Government initiatives to stimulate private BSS development								
Planning and design	5.00	4.80	4.00	4.00	5.00	4.60	5.00	4.63
Performance	3.80	3.75	4.30	4.50	4.70	3.70	4.70	4.21
Monitoring and evaluation	4.20	2.50	3.80	3.40	4.20	4.20	4.60	3.84
Weighted average	**4.24**	**3.82**	**4.11**	**4.13**	**4.69**	**4.07**	**4.77**	**4.26**
Dimension score 2022	**4.05**	**3.65**	**4.06**	**4.03**	**4.58**	**4.28**	**4.78**	**4.20**
Dimension score 2019	3.61	3.41	3.64	3.96	4.03	4.12	4.42	3.89

Dimension 5b: Public procurement

Dimension 5b assesses the degree to which SMEs can participate in the public procurement market as equal players when compared to large companies. Public procurement markets often provide attractive business opportunities for SMEs that frequently face additional barriers compared to bigger enterprises.

Most WBT economies have significantly improved their public procurement legislation, in particular by adopting rules that are beneficial for SMEs. Public procurement procedures have been further simplified through the reduction of evidence requirements and other formal requirements, therefore diminishing the administrative burden on SMEs. The digitalisation of public procurement procedures has advanced, namely for submitting tenders and appeals electronically, therefore increasing efficiency and legal protection for economic operators.

Unlike in the previous assessment cycle, in most WBT economies, more emphasis has been put on selecting the most economically advantageous tenders instead of simply the lowest price. Applying the price-only criterion ceased to be a recommended option. However, in practice, the award of contracts is still mostly based on price alone, which governments should address by supporting non-price criteria. More should be done to provide advice, support and training to enhance SMEs' access to public contracts, particularly in economies where a recent overhaul of procurement rules took place.

Table 11. Progress in Dimension 5b: Public procurement

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and regulatory framework	4.56	3.76	3.94	4.44	4.13	4.69	3.63	4.16
Implementation	4.72	3.36	4.00	3.92	4.80	4.32	3.92	4.15
Monitoring and evaluation	3.32	3.40	3.40	3.40	2.60	3.40	3.40	3.27
Dimension score 2022	**4.39**	**3.49**	**3.86**	**3.97**	**4.16**	**4.25**	**3.73**	**3.98**
Dimension score 2019	3.69	3.57	4.09	4.49	3.87	3.52	3.66	3.84

Dimension 6: Access to finance for SMEs

Dimension 6 assesses the legal and policy frameworks for ensuring SMEs have adequate access to finance through bank and non-bank sources and venture capital. Efforts to support financial literacy among businesses and the general population, as a key skill necessary for entrepreneurship, are also assessed.

Financial intermediation has remained resilient across the region, partially owing to solid macro-prudential measures across most WBT economies in the years preceding the COVID-19 crisis but also large-scale liquidity measures, coupled with subsidised credit lines and scaled-up state-backed credit guarantee schemes in response to the pandemic. As a result, SME lending has eased across the region, though the long-term effect of these temporary crisis response measures remains to be seen. All economies have a sound legal and regulatory framework to support lending, though some bottlenecks in enforcing creditors' rights continue to impact lending, particularly for SMEs. Even though conventional bank lending continues to be the main source of private-sector funding, market penetration for some non-bank financial instruments, such as microfinance, has increased. Venture capital remains at an early stage across the Western Balkan region. However, some economies have taken concrete steps to introduce dedicated legislation in support of developing ecosystems conducive to venture capital.

Further efforts are needed to ensure the enforcement of the well-defined legal frameworks for protecting creditors' rights. Building on the initial lessons learnt and the preliminary framework that helped establish temporary COVID-19 credit guarantee funds or expand public credit guarantee schemes across the region, more sustainable support mechanisms should be established in line with international best practices. There

is also room for improvement in raising awareness on alternative finance sources to ensure their increased uptake by SMEs. Frameworks to develop financial literacy should be designed or updated in close consultation with public and private stakeholders.

Table 12. Progress in Dimension 6: Access to finance

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Sub-dimension 6.1: Legal and regulatory framework								
Creditor rights	4.00	3.90	4.00	4.80	5.00	4.20	4.00	4.27
Register	4.60	4.50	4.80	4.60	4.90	4.40	4.60	4.63
Credit information bureau	4.00	4.50	3.30	5.00	4.00	5.00	4.80	4.37
Banking regulations	4.00	3.20	3.60	4.40	3.60	4.80	5.00	4.09
Stock market	2.00	3.00	2.00	3.80	4.00	3.80	4.00	3.23
Weighted average	**3.86**	**3.94**	**3.68**	**4.60**	**4.40**	**4.47**	**4.48**	**4.20**
Sub-dimension 6.2: Bank financing								
Banking lending practices and conditions	3.00	2.80	3.20	3.60	2.60	3.50	3.90	3.23
Credit guarantee schemes	2.80	2.40	3.10	2.40	1.40	2.60	3.60	2.61
Weighted average	**2.92**	**2.64**	**3.12**	**3.14**	**2.12**	**3.15**	**3.79**	**2.98**
Sub-dimension 6.3: Non-bank financing								
Microfinance institutions	4.90	4.40	4.00	2.00	4.00	2.00	2.30	3.37
Leasing	2.40	3.00	3.00	3.40	3.20	3.70	4.00	3.24
Factoring	2.90	1.60	2.00	2.00	3.00	3.50	4.00	2.71
Weighted average	**3.38**	**2.99**	**2.98**	**2.45**	**3.38**	**3.04**	**3.42**	**3.09**
Sub-dimension 6.4: Venture capital ecosystem								
Legal framework	2.00	2.00	2.10	2.30	2.00	3.70	5.00	2.73
Design and implementation of government activities	1.80	1.40	2.30	2.90	1.70	3.00	4.90	2.57
Monitoring and evaluation	1.00	1.00	1.00	1.00	1.00	1.00	4.30	1.47
Weighted average	**1.71**	**1.53**	**1.97**	**2.31**	**1.65**	**2.83**	**4.81**	**2.40**
Sub-dimension 6.5: Financial literacy								
Planning, design and implementation	2.40	1.40	3.00	3.60	3.20	3.00	3.20	2.83
Monitoring and evaluation	1.00	1.00	1.00	1.00	1.00	1.00	2.30	1.19
Weighted average	**2.12**	**1.32**	**2.61**	**3.08**	**2.75**	**2.60**	**3.02**	**2.50**
Dimension score 2022	**3.43**	**3.34**	**3.37**	**3.90**	**3.63**	**3.89**	**4.18**	**3.68**
Dimension score 2019	3.32	3.26	3.33	3.63	3.49	3.72	3.99	3.53

Dimension 7: Standards and technical regulations

Dimension 7 assesses the quality infrastructure systems and procedures required in the WBT region to facilitate SMEs' access to the EU Single Market.

Overall, quality infrastructure (QI) activities are centrally co-ordinated in most WBT economies. Regional co-operation happens at various levels (bilaterally and multilaterally) and has continued during the COVID-19 pandemic. Most economies have by now adopted national laws that are either fully or at least partially aligned with the EU *acquis* in the key areas of standardisation, accreditation, metrology and market surveillance. Governments have also continued to expand the recognition of their QI institutions by the relevant European and international institutions, which is important to improve their economies' access to the European or other foreign markets. Finally, financial support for SMEs that seek certification according

to European or international standards was expanded, and there exists at least one SME support programme related to standards in each WBT economy.

As QI requires various institutions to co-ordinate their activities, governments should develop a joint strategy or pillar-specific strategies and action plans to better monitor and evaluate the institutional performance of QI institutions. To ensure efficient implementation, the frequency of evaluation and comparison of national law with EU regulations should be increased. Going forward, SMEs should be further incentivised to participate in technical standards committees through specific measures, such as travel support, online participation or representation by associations.

Table 13. Progress in Dimension 7: Standards and technical regulations

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Sub-dimension 7.1: Overall co-ordination and general measures								
Weighted average	**3.89**	**3.77**	**4.00**	**3.00**	**3.33**	**4.33**	**5.00**	**3.90**
Sub-dimension 7.2: Harmonisation with the EU *acquis*								
Technical regulations	4.64	3.91	4.27	3.91	3.91	5.00	5.00	4.38
Standardisation	3.40	2.38	3.53	3.27	4.07	5.00	4.73	3.77
Accreditation	4.33	2.67	2.78	3.89	4.22	4.33	5.00	3.89
Metrology	4.24	2.86	4.71	4.43	3.86	4.71	4.71	4.22
Conformity assessment	5.00	3.97	3.62	3.31	4.85	4.38	3.77	4.13
Market surveillance	3.40	3.44	3.67	3.27	4.47	4.47	5.00	3.96
Weighted average	**4.17**	**3.20**	**3.76**	**3.68**	**4.23**	**4.71**	**4.70**	**4.06**
Sub-dimension 7.3: SMEs' access to standardisation								
Awareness-raising and information	4.07	3.53	3.80	3.80	2.87	4.47	4.60	3.88
SMEs' participation in developing standards	3.00	2.50	3.50	3.00	2.50	3.50	4.50	3.21
Financial support to SMEs	3.40	2.20	3.40	4.40	4.20	2.80	4.60	3.57
Weighted average	**3.49**	**2.74**	**3.57**	**3.73**	**3.19**	**3.59**	**4.57**	**3.55**
Dimension score 2022	**4.02**	**3.22**	**3.77**	**3.58**	**3.94**	**4.44**	**4.73**	**3.96**
Dimension score 2019	3.64	2.78	3.60	3.50	3.99	5.44	4.78	3.83

Dimension 8a: Enterprise skills

Dimension 8a assesses policies in the WBT economies to promote the skills SMEs need, from start-up and throughout their growth phases.

Skills intelligence has incrementally improved during this assessment period with some emerging examples of inspiring practice. The breadth of the support and training open to SMEs has increased across all WBT economies during this assessment period, with a significant shift towards online learning since the beginning of the pandemic, as all economies have recognised the importance of the digital economy. An additional focus was placed on social entrepreneurship since the last assessment through increasing policy support for development of the social economy sector.

There is nevertheless significant scope to further address gaps and support evidence-based policy and implementation. Governments should focus on establishing comprehensive monitoring and evaluation mechanisms, including a strong gender focus and fully gender-disaggregated data. Furthermore, governments should mainstream SME skills, including the gender perspective, into smart specialisation strategy development and implementation and prioritise training for SMEs that will support the green and circular transition.

Table 14. Progress in Dimension 8a: Enterprise skills

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	2.17	2.04	3.58	1.17	3.17	3.75	4.17	2.86
Implementation	4.21	3.42	3.53	3.16	4.00	3.88	4.74	3.85
Monitoring and evaluation	3.67	2.00	3.00	1.67	1.67	3.00	3.67	2.67
Dimension score 2022	**3.49**	**2.72**	**3.44**	**2.26**	**3.28**	**3.66**	**4.35**	**3.32**
Dimension score 2019	3.40	2.70	2.78	1.40	2.35	3.95	3.54	2.87

Dimension 8b: Innovation policy for SMEs

Dimension 8b assesses the strategic framework, available infrastructure and measures taken to stimulate SME innovation to build a knowledge economy in the Western Balkans and Turkey.

Most WBT economies have a comprehensive framework for innovation policy, and smart specialisation is progressing across the region. Those economies with well-established, clearly mandated institutions to support innovation development have increased the scale and outreach of their support programmes. In contrast, the implementation of innovation policy has progressed slower in the remaining economies. Efforts to build an innovation ecosystem are progressing, with multiple incubators operating throughout the region, often supported by public funds or are self-sufficient. Acceleration programmes have also been established, but overall support for more mature enterprises continues to be limited, even in the more advanced economies, although it is increasing. Financial support has expanded, thanks to increased state budgets for innovation agencies and dedicated COVID-19 programmes introduced to mitigate the impact of the pandemic. While below potential, indirect financial support in the form of fiscal support or demand-side incentives is increasingly available.

Going forward, governments should increase regional linkages in the context of smart specialisation, as regional discrepancies are becoming increasingly apparent for the development of innovation policy. The innovation ecosystem should be built beyond start-up and include more targeted services to truly support innovative ideas and technology absorption capacity. As business-academia collaboration remains nascent across the region, governments should identify existing bottlenecks in this regard and emphasise the link between scientific research and academia in designing the institutional infrastructure for innovation and research and development.

Table 15. Progress in Dimension 8b: Innovation policy for SMEs

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Sub-dimension 8b.1: Policy framework for innovation								
Strategic approach	3.72	2.40	3.20	4.08	4.04	4.62	4.60	3.81
Co-ordination of innovation policy	2.60	1.92	2.52	4.32	3.00	4.40	4.44	3.31
Implementation of innovation policy	2.60	1.52	2.52	3.80	3.52	4.12	5.00	3.30
Weighted average	**2.94**	**1.98**	**2.72**	**4.14**	**3.42**	**4.41**	**4.60**	**3.46**
Sub-dimension 8b.2: Government institutional support services for innovative SMEs								
Incubators and accelerators	2.04	2.40	2.71	3.86	3.24	3.96	4.71	3.27
Technology extension services for established SMEs	2.33	1.00	1.40	3.00	1.04	2.55	3.67	2.14
Weighted average	**2.16**	**1.84**	**2.19**	**3.51**	**2.36**	**3.40**	**4.30**	**2.82**
Sub-dimension 8b.3: Government financial support services for innovative SMEs								
Direct financial support	3.09	2.60	3.26	4.60	3.56	4.68	4.88	3.81
Indirect financial support	1.80	1.60	1.20	2.70	2.32	2.60	3.60	2.26

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Weighted average	**2.57**	**2.20**	**2.44**	**3.84**	**3.06**	**3.85**	**4.37**	**3.19**
Sub-dimension 8b.4: SME and research institution collaboration and technology transfer								
Innovation voucher schemes and co-operative grants	2.00	1.72	2.00	3.50	2.52	4.00	4.20	2.85
Institutional infrastructure for industry-academia co-operation	2.36	1.68	2.48	3.04	2.92	3.88	4.60	2.99
Intellectual property rights	2.72	2.48	2.52	3.00	2.52	3.80	4.33	3.05
Weighted average	**2.29**	**1.86**	**2.30**	**3.22**	**2.68**	**3.91**	**4.39**	**2.95**
Dimension score 2022	**2.58**	**1.97**	**2.47**	**3.77**	**2.99**	**4.00**	**4.45**	**3.18**
Dimension score 2019	2.48	1.86	2.40	3.35	2.53	3.33	4.08	2.86

Dimension 9: SMEs in a green economy

Dimension 9 assesses the provision of policies that promote green behaviour among SMEs, as part of national SME, sectoral, energy and innovation frameworks and through incentives and instruments in place.

SME greening policies have continued to gain momentum in the region since the last assessment. They have been integrated into several strategic documents, with energy efficiency and eco-innovation at the forefront. These strategies have clearer targets and dedicated budgets and include awareness-raising and technical and financial support. Significant progress was achieved in introducing financial incentives for SME greening, most of which target energy efficiency and renewable energy projects. Information-based tools for the greening of businesses have also been scaled up in the region, with chambers of commerce and business associations continuously involved in providing green advice and guidance to SMEs.

Further efforts are required to ensure effective implementation of SME greening measures, particularly through cross-sectoral co-ordination and strengthened monitoring and evaluation tools. To ensure appropriate evaluation of measures, WBT economies should improve SME-specific greening data collection, which is lacking across the region. Policy makers could also consider introducing regulatory instruments, such as performance standards or special regimes for low environmental risk installations, to encourage SMEs' green transition. Green public procurement measures could also significantly create demand for green products and services and boost the market where private consumer demand for them is insufficient.

Table 16. Progress in Dimension 9: SMEs in a green economy

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Sub-dimension 9.1: Framework for environmental policies targeting SMEs								
Planning and design	3.82	3.55	2.70	3.70	4.32	4.11	4.87	3.87
Implementation	2.00	2.60	2.55	2.62	3.40	2.35	4.15	2.81
Monitoring and evaluation	1.75	2.25	1.58	1.89	3.86	1.95	4.00	2.47
Weighted average	**2.50**	**2.82**	**2.40**	**2.80**	**3.77**	**2.80**	**4.34**	**3.06**
Sub-dimension 9.2: Incentives and instruments for SME greening								
Planning and design	1.90	3.10	1.90	4.40	3.44	2.85	3.80	3.06
Performance	1.90	3.44	2.00	3.23	3.67	2.13	4.75	3.02
Monitoring and evaluation	1.00	1.80	1.00	2.60	3.40	1.91	3.10	2.12
Weighted average	**1.72**	**3.01**	**1.77**	**3.46**	**3.55**	**2.30**	**4.14**	**2.85**

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Dimension score 2022	**2.07**	**2.92**	**2.05**	**3.16**	**3.65**	**2.53**	**4.23**	**2.94**
Dimension score 2019	1.98	2.40	1.92	2.72	2.95	2.21	4.12	2.61

Dimension 10: Internationalisation of SMEs

Dimension 10 provides a thorough assessment of SME internationalisation policies, looking at economies' export environments, efforts to integrate SMEs into global value chains (GVCs) and the promotion of e-commerce.

All WBT economies have highlighted export promotion in their strategic documents and have included broad support for increasing the volume of exports while also emphasising their improved complexity and sophistication. All economies aim to increase SME participation in GVCs by incentivising SME linkages with multinational enterprises (MNEs) and integrating local SMEs into supplier networks of domestically operating MNEs. Some economies have introduced new supplier development programmes, while others emphasise cluster formation and development.

As many economies struggle with raising awareness and communicating available schemes through online channels, governments should establish dedicated centralised export promotion portals containing data on all export promotion support. With priorities set on export promotion and GVC integration, few economies have a developed regulatory environment for the adoption and promotion of e-commerce. Further reinforcing the legislative framework for the promotion of e-commerce to increase the uptake of digital practices among SMEs would improve the economy's competitiveness, attract more investment and generate more inclusive international trade linkages.

Table 17. Progress in Dimension 10: Internationalisation of SMEs

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Sub-dimension 10.1: Export promotion								
Planning and design	4.86	4.13	3.95	5.00	4.65	4.65	5.00	4.61
Implementation	3.81	4.20	3.95	4.58	3.88	4.37	4.93	4.24
Monitoring and evaluation	3.67	3.07	3.67	3.67	3.22	3.67	4.56	3.65
Weighted average	**4.09**	**3.96**	**3.89**	**4.52**	**3.98**	**4.31**	**4.88**	**4.23**
Sub-dimension 10.2: Integration of SMEs into global value chains								
Planning and design	3.72	2.52	3.89	4.67	4.28	4.00	4.11	3.88
Implementation	3.87	1.55	3.97	3.26	3.26	4.28	4.79	3.57
Monitoring and evaluation	3.00	1.89	3.00	1.67	3.33	3.00	3.00	2.70
Weighted average	**3.65**	**1.91**	**3.75**	**3.36**	**3.58**	**3.94**	**4.23**	**3.49**
Sub-dimension 10.3: Promoting the use of e-commerce								
Planning and design	3.67	2.48	3.67	3.67	3.22	3.67	5.00	3.62
Implementation	3.00	1.33	4.00	3.00	3.00	3.00	4.75	3.15
Monitoring and evaluation	3.67	1.00	4.33	3.67	2.33	3.00	5.00	3.29
Weighted average	**3.33**	**1.61**	**3.97**	**3.33**	**2.93**	**3.20**	**4.88**	**3.32**
Dimension score 2022	**3.80**	**2.79**	**3.85**	**3.88**	**3.66**	**4.00**	**4.62**	**3.80**
Dimension score 2019	2.68	2.57	3.74	3.54	3.08	4.02	4.40	3.43

Part I. Assessment findings by SBA Dimension

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

This chapter assesses the state of play in education and training in developing entrepreneurial culture and learning in the Western Balkans and Turkey. It also assesses the policies needed to allow women to make a more proportionate contribution to the entrepreneurial economy. It starts by outlining the assessment framework, then presents the analysis of Dimension 1's two sub-dimensions: 1) entrepreneurial learning, paying particular attention to developing the entrepreneurship key competence underpinned by EntreComp, including curriculum, assessment and teacher training requirements; and 2) women's entrepreneurship, considering cross-sector policy linkages, national partnerships, and effective monitoring and evaluation (including gender-disaggregated data), which are critical in ensuring a comprehensive picture of the support for, and impact of, women's entrepreneurship. Each sub-dimension makes specific recommendations for the Western Balkans and Turkey.

Key findings

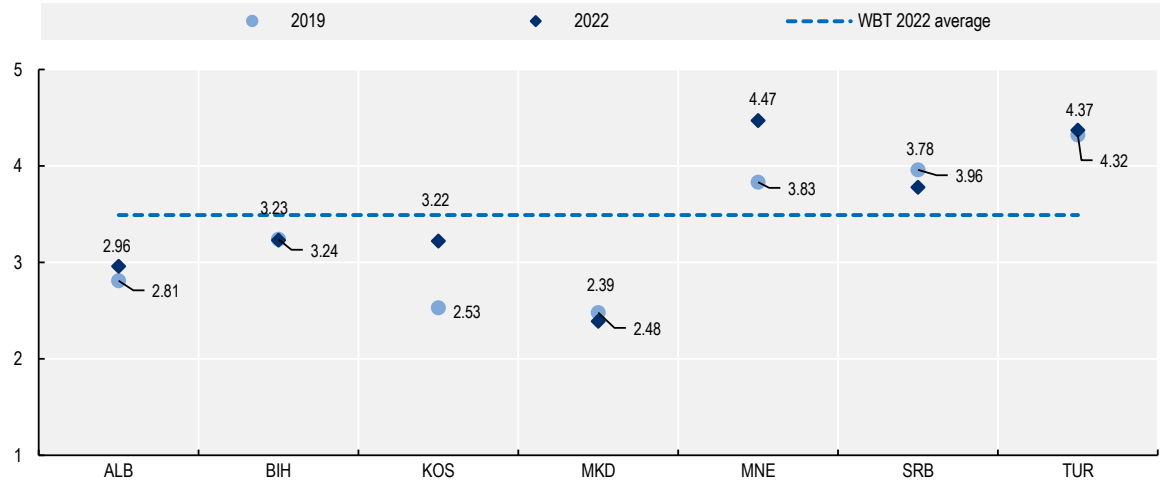
- **Entrepreneurial learning features in policy across all Western Balkans and Turkey (WBT) economies.** There is evidence that fewer economies have a stand-alone strategy, though inclusion of entrepreneurial learning can be seen across a diverse range of policy documents, relating to education, youth, employment and economic development, including smart specialisation.
- **Multi-stakeholder partnerships to drive forward entrepreneurial learning are not yet evident in all WBT economies**, with a need for stronger leadership and commitment of representatives, including government and stakeholders from education, employment and economic development.
- **There is an implementation gap between the designation of entrepreneurship, as a cross-curricular key competence, and its visibility within the learner experience**, for example, through teacher guidance, curriculum and associated learning outcomes, across a range of subjects. Implementation remains weaker at the higher education level, while more focus on the key competence is needed in vocational education and training (VET), where the focus may be limited to business creation.
- **Assessment of learning outcomes is not yet evident in all WBT economies**, with only Montenegro implementing this at all levels of education and training.
- **The use of EntreComp has increased during this assessment period.** Some economies have used it to guide, or underpin, educational development, while others are using it to raise awareness and have yet to develop comprehensive approaches. In Bosnia and Herzegovina, consideration is being given to how EntreComp can support green and digital competence development.
- **Pre-service teacher training addresses active learning pedagogies but does not yet explicitly train teachers on how to develop the entrepreneurship key competence** with their learners, with evidence only available from one university teaching faculty in North Macedonia.
- **In-service teacher training is available across all WBT economies** but is not yet accessible to all teachers as a training option.
- **Practical entrepreneurial experiences are more diverse** in delivery mechanisms, and innovative in terms of content and theme, such as digital, social and green topics. However, most economies do not offer this as a compulsory component of education and training to all learners.
- **Sharing practices remains an area in which not all economies are active.** Opportunity exists to promote this at national and international levels, including through awards schemes.
- **Monitoring and evaluation are underdeveloped across both sub-dimensions**, with potential to improve across the region.
- **Women's entrepreneurship is more prominent in the policy landscape of all WBT economies**, with most progress being made in designing and implementing policies. Less attention is being paid to evaluating their effectiveness and efficiency.
- **Formal and informal partnerships support the development of women's entrepreneurship** by bringing together stakeholders from public, private and non-governmental organisation (NGO) sectors to guide and oversee development, such as practical implementation, monitoring and evaluation.

- **There is a significant lack of gender-disaggregated data across all WBT economies,** creating a knowledge gap regarding the progress of women's entrepreneurship and the impact of investment, because what is effective is not known. Key gender-disaggregated statistical indicators are not collected or tracked at the system level.

Comparison with the 2019 assessment scores

This assessment finds that Montenegro, Serbia and Turkey are leading the region, while Kosovo* and Montenegro demonstrate the most overall progress during this assessment period (Figure 1.1). Almost all the economies have improved their score in women's entrepreneurship. In contrast, scores for entrepreneurial learning have dipped slightly, reflecting the additional focus on implementation now included in the assessment process for this sub-dimension. Montenegro and Kosovo show most progress in entrepreneurial learning, while Kosovo and Albania show the most progress in women's entrepreneurship.

Figure 1.1. Overall scores for Dimension 1 (2019 and 2022)



Notes: WBT: Western Balkans and Turkey. Despite the introduction of questions and expanded questions to better gauge the actual state of play and monitor new trends in respective policy areas, scores for 2022 remain largely comparable to 2019. To have a detailed overview of policy changes and compare performance over time, the reader should focus on the narrative parts of the report. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

* 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.

Implementation of the SME Policy Index's 2019 recommendations

Table 1.1 summarises progress on the key recommendations for entrepreneurial learning and women's entrepreneurship since the previous assessment.

Table 1.1. Implementation of the SME Policy Index's 2019 recommendations for Dimension 1

Regional 2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Regional progress status
Raise awareness of the entrepreneurship key competence	Increased awareness of EntreComp can be seen across most economies. Montenegro and Turkey stand out with their approaches. Montenegro has embedded EntreComp into the education system while Turkey is part of the EntreCompEurope project. The EntreCompEurope project led by the Union of Chambers and Commodity Exchanges of Turkey (TOBB) and the government Erasmus+ National Agency has hosted workshops and webinars on EntreComp for women's entrepreneurship, vocational educaton and training (VET) educators, and youth workers. A Turkish EntreComp network is also part of The EntreComp Community – a global practice community linked to EntreCompEurope. In Kosovo, the ALLED2 project has translated the framework into local languages. Other economies are implementing EntreComp to different degrees, for example North Macedonia has used it to support design of new VET curriculum while Albania has promoted awareness of EntreComp through higher education workshops.	Moderate
Build entrepreneurial experience into vocational education programmes	More economies have now embedded business-focused entrepreneurship courses as compulsory components of their VET curricula. Aligned with this, there are mini company-based actions that are active in the region. Kosovo, Montenegro and Serbia offer practice firms activities within vocational education (dependent on institutional engagement), linked to Practice Enterprise Network (PEN) Worldwide.[1] In addition, Junior Achievement (JA) Europe[2] delivers practice enterprise programmes to vocational students in Albania, Serbia and Turkey (dependent on institutional engagement).	Moderate
Share good practice in entrepreneurship promotion in higher education	There is progress in sharing entrepreneurial learning practices at the higher education level with evidence of national and international sharing, but this has not yet resulted in formal recognition channels for good practices in this sector. The opportunity to build on this work is significant across all economies, such as for all economies to launch a national Entrepreneurial University award or to ensure access to a specific online space to share good practices more widely (available in Montenegro).	Limited
Focus on strengthening formal and informal women's entrepreneurship policy partnerships	There has been good progress with formal partnerships now seen in Kosovo and Montenegro, while all economies have strong informal partnerships. In the Western Balkans, there is now significant co-operation between women's entrepreneurship partnerships, including involvement from the Regional Cooperation Council.	Strong
Focus on policy evaluation	This area remains underdeveloped; significant work is still needed to build depth and quality of approaches.	Limited
Continue building a gender-sensitive policy implementation environment	Cross-government co-operation has developed during this assessment period. Expert bodies are now dedicated to supporting cross-government gender equality in Bosnia and Herzegovina, Kosovo, Montenegro, and Serbia. There is less development of a support pathway specific to women entrepreneurs, but an increase in the provision of training, particularly for women, led by national women entrepreneurship networks and partnerships.	Moderate

1. For more information on practice enterprises delivered by PEN Worldwide, see https://www.penworldwide.org/locations/europe.
2. For more insight into the range of JA Europe programmes, see: www.jaeurope.org.

Introduction

People are the driving force of any economy. In the face of the current social and economic crises resulting from the COVID-19 pandemic, and the more recent outbreak of conflict in Europe, this focus on supporting people to contribute their potential to society and the economy has never been more important. Societies and economies have been forced to pivot repeatedly during this assessment period, testing their adaptability and resilience, as well as their entrepreneurial mindsets, to find better solutions to the new challenges presented. Entrepreneurial learning offers a channel to empower learners with the knowledge, skills and confidence to think and act entrepreneurially, as citizens; as employees; or as social, co-operative or business entrepreneurs. Supporting women's entrepreneurship brings both social and economic development and harnessing women's potential and talents drives sustainable development, generating social and financial capital for women through increased productivity, as they contribute to social and economic growth.

It is important to note that this assessment period has been an extraordinary time in history, with ongoing challenges caused by the pandemic, revealing gaps in the preparedness of both policy makers and learning providers. In education, while significant strides were made in every economy to take learning on line, the impact of such a multifaceted crisis can be seen in all spheres of this dimension (Van der Graaf et al., 2021[1]). The education and training sector has seen a steep development curve towards digital and online learning, opening complex challenges of engagement, equality and inclusion, as well as a lack of practical experiences, as these pedagogical approaches were put on hold. For women's entrepreneurship, this period has been impacted by the reality of learning and working from home. It has been predominantly women who have seen their responsibilities increase within the family and home, as childcare and education provision was shut down in the face of the pandemic. Compounding this, those industries that employ more women have been the hardest hit across all economies, such as tourism and the service sector.

Policy has been racing to catch up. Two key documents on entrepreneurial learning were published pre-pandemic, including the New Skills Agenda (European Commission, 2020[2]) and the Digital Education Action Plan (European Commission, 2020[3]). These documents focus on the importance of developing entrepreneurial mindsets, supporting a more resilient workforce and recognising entrepreneurial competences as necessary to enable digital transformation. In the face of rising youth unemployment and the need to rebuild, entrepreneurial learning comes into sharper policy focus. For women's entrepreneurship, policy has been partially shaped with pandemic responses in mind, through the SME Strategy (European Commission, 2020[4]) launched pre-pandemic and the European Pillar of Social Rights Action Plan (European Commission, 2021[5]), launched during the pandemic. They both prioritise supporting women entrepreneurs as part of wider support for entrepreneurship and self-employment, with self-employment emphasising challenges faced by small and medium-sized enterprises (SMEs), particularly women, during the pandemic.

The pace of change in the workplace is increasing, accelerated by digital and green transition, influencing the evolution of both sub-dimensions in this chapter. These transitions – also influenced by smart specialisation – need to shape how entrepreneurial learning and career guidance evolve. Digitalisation is shifting the workplace by reducing physically demanding jobs and increasing office-based roles more traditionally undertaken by women. Educators need to be aware of the world learners will enter after they leave the safe space of school or university, as societal crises, and the need for innovation, impact the skills needed to drive social and economic development.

EntreComp (Bacigalupo et al., 2016[6]) is both an entrepreneurial competences lens through which to support entrepreneurial learning across diverse contexts as well as a tool to inspire innovative action, to respond to Europe's most urgent social and economic challenges. It defines 15 competences, including those which are also called soft skills, career skills or simply life skills, such as vision, creativity, self-efficacy, perseverance, planning, taking initiative, working with others, dealing with uncertainty and learning from experience. Many of these are those most valued by employers as part of the mindset

needed to adapt and be resilient in the changing world of work. These skills also support individuals in pursuing social, co-operative or business entrepreneurship as a career pathway. The lens of EntreComp underpins the strong links between entrepreneurial learning and the competences needed for the digital and green transition. This emphasises the importance for education and training systems to recognise and make visible connections with wider European competence frameworks including DigComp (Vuorikari, Kluzer and Punie, 2022[7]); LifeComp, the European Framework for Personal, Social and Learning to Learn Key Competence (Sala et al., 2020[8]); and the most recent GreenComp, the European sustainability competence framework (Bianchi, Psiotis and Cabrera Giraldez, 2022[9]).

This assessment focuses on considering the extent to which entrepreneurial learning, and women's entrepreneurship, are being positively developed through policy planning, practical implementation, and monitoring and evaluation, taking into account cross-policy commitments and stakeholder partnerships across both sub-dimensions. These aspects are critical to understanding the priority given to, and forward development of, these sub-dimensions in light of the challenges faced over the past period, and the added emphasis these crises should bring to these human-centred dimensions.

This chapter reviews developments in both areas across the seven WBT economies.

Assessment framework

Structure

The assessment framework for this dimension has two sub-dimensions: entrepreneurial learning and women's entrepreneurship (Figure 1.2). The first sub-dimension for entrepreneurial learning is weighted to account for 60% of the total score for this dimension, while the second sub-dimension for women's entrepreneurship is weighted at 40%. Both sub-dimensions divided the assessment into three thematic blocks: planning and design (30% of the total score), implementation (50% of the total score), and monitoring and evaluation (20% of the total score). See the Policy Framework and Assessment Process chapter and Annex A for more information on the methodology.

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

Entrepreneurial learning and women's entrepreneurship					
Sub-dimension 1.1: Entrepreneurial learning			**Sub-dimension 1.2:** Women's entrepreneurship		
Thematic block 1: Planning and design	**Thematic block 2:** Implementation	**Thematic block 3:** Monitoring and evaluation	**Thematic block 1:** Planning and design	**Thematic block 2:** Implementation	**Thematic block 3:** Monitoring and evaluation

Key methodological changes to the assessment framework

The assessment framework is largely unchanged from the 2019 assessment. However, in each sub-dimension, some policy and implementation aspects have been expanded to better gauge the actual state of play in those areas.

The assessment framework for Sub-dimension 1.1 has been expanded since 2019 to better capture more information on key aspects relating to policy priorities and practical implementation. The first thematic block

(planning and design) sees a new question on pre-service teacher training, and a general question on teacher training has now been broken down to focus on the accessibility of training to all in-service teachers at different levels of education and training. The second thematic block (implementation) puts more emphasis on supporting the practical implementation of relevant actions plans, alongside a few expanded questions which aim to draw out more insights on the practical implementation of the entrepreneurship key competence through learning outcomes, practical entrepreneurial experiences at all levels and the assessment of learning outcomes linked to the entrepreneurship key competence. In the final thematic block (monitoring and evaluation), a general question on recognition and rewards for teachers is broken down into recognition for teachers at each level of education and training.

The content of the analysis has been largely unchanged for Sub-dimension 1.2 on women's entrepreneurship. In the second thematic block (implementation), the first question, relating to government actions plans, is now broken down to ask for additional information on targets, timeframe and impact, while for the first time, two new questions recognise the importance of specific actions supporting women entrepreneurs through digital and green transformation. This assessment also evaluated policy co-ordination more thoroughly, with a specific question related to cross-government co-ordination and partnership.

Analysis

Entrepreneurial learning (Sub-dimension 1.1)

This assessment period has been marked by seismic shifts in how education and training systems have functioned and delivered learning, transitioning between online and onsite education, with the changing situation of the COVID-19 pandemic. The focus of governments and educators at all levels has been to adapt and be resilient in the face of uncertain situations, while learners have experienced significant impact across all areas of their lives. Growth rates across economies have fallen, while youth unemployment is again on the rise in a region where it was already a significant challenge, resulting in an increasing exodus of young people seeking to secure their economic future outside the region. Entrepreneurial learning becomes a more pressing priority during these times when economies need entrepreneurial minds to innovate new solutions to the challenges faced, drive up skilled job creation and encourage more social, co-operative and business entrepreneurs.

This section reviews the progress made across the WBT region in making entrepreneurship a lifelong learning reality. In this assessment, the entrepreneurship key competence is in sharper focus within policy, teaching, learning and assessment. Education and training are an investment in the future, and young people emerging from schools and universities need to benefit from understanding, practising and recognising their own entrepreneurial competences, and how they can use them. EntreComp (Bacigalupo et al., 2016[6]) underpins this approach, working towards better understanding and implementing entrepreneurship as a cross-curricular key competence.

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

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

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	2.62	3.13	2.75	3.11	4.75	3.46	4.19	**3.43**
Implementation	2.82	2.90	3.67	2.42	4.62	3.77	4.37	**3.51**
Monitoring and evaluation	1.22	2.17	2.34	1.00	4.34	4.01	4.06	**2.73**
Weighted average	**2.44**	**2.82**	**3.13**	**2.34**	**4.61**	**3.72**	**4.25**	**3.33**

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

Entrepreneurial learning is highlighted across multiple policy areas, but is not always coherent across different policies

Developing and encouraging entrepreneurial learning as a priority for lifelong learning, particularly in education and training, has been recognised across all WBT economies. However, there is diversity in terms of the level of commitment, priority and range of associated actions. There are specific strategies for entrepreneurial learning at the national level in Montenegro and the state level in Bosnia and Herzegovina, while a previous strategy in North Macedonia has not been renewed. Dedicated strategies support a clear vision and commitment to this policy area; the strategies in both Bosnia and Herzegovina and Montenegro include commitments across areas key to the development of entrepreneurial learning, such as curriculum, learning outcomes and practical entrepreneurial experiences, including education-business co-operation and teacher education (European Commission/EACEA/Eurydice, 2016[10]).

In other economies, entrepreneurial learning is evidenced across wider strategies, primarily those related to education, youth, employment and business. Table 1.3 shows each economy's strategies that highlight entrepreneurial learning. The integration of entrepreneurial learning into wider policy and strategy can also offer a more cross-government approach and bring this topic into the heart of primary strategies. However, there is a risk that the range of actions is more limited with less visibility and priority overall. Of these different types of strategies, inclusion in education and youth policies indicates that action will impact the learning experience of all students. Featuring in employment and business strategies links to the economic imperative for this work. It creates important routes to building education-business co-operation and entrepreneurial career pathways, ensuring government and stakeholder engagement linked to economic development, as a vital element of the entrepreneurial ecosystem. Linked to economic development, Montenegro and Serbia highlight the importance of entrepreneurial skills as an area of action, supporting national smart specialisation strategies. This demonstrates emerging influence and focus on sector priorities, with the potential to align entrepreneurship career guidance and curriculum to the industry sectors that have been identified as priorities through the smart specialisation strategy.

In the WBT region, while Bosnia and Herzegovina and Montenegro continue their strong focus on entrepreneurial learning through dedicated strategies, there is an overall sense that the focus on entrepreneurial learning within education strategies has remained constant, but has not developed significantly during this assessment period. Possible reasons for this may be pressures on the education ecosystem caused by the COVID-19 pandemic, during which most economies across Europe found themselves ill-prepared to adapt to multiple challenges (Van der Graaf et al., 2021[1]). There may also be the sense that education systems have now included key competences into curriculum law at most levels and mention entrepreneurship as one of these key competences, and that wide-ranging actions may not remain necessary despite evidence of continuing gaps in practical implementation of the entrepreneurship key competence. Albania and Serbia have launched education strategies during this period, with Serbia including a stronger focus on entrepreneurial learning through actions with an attached budget and timeline on teacher training, curriculum and higher education modules, and an innovative action on school co-operatives. Albania includes two important actions related to entrepreneurial learning for pre-service training and higher education science, technology, engineering and mathematics (STEM) curriculum. However, there is no budget attached within the action plan. In Turkey, the Eleventh Development Plan places importance on developing an entrepreneurial culture, and these national priorities can be seen integrating into the Education Vision 2023 and the Youth Employment Strategy, by a range of commitments linked to the curriculum, higher education, internships and career pathways, with a special focus on learning through social entrepreneurship actions. In Kosovo[1] and North Macedonia, where new education strategies are now under development, it will be important to emphasise developing entrepreneurial learning with appropriate actions and budget attached.

Table 1.3. Strategies covering entrepreneurial learning in the Western Balkans and Turkey

Economy	Relevant strategy
Albania	National Education Strategy 2021-2026 Business Investment and Development Strategy 2021-2027
Bosnia and Herzegovina	**State-level**: Priorities for the integration of entrepreneurial learning and entrepreneurship key competence into education systems in Bosnia and Herzegovina 2021-2030 **Federation of Bosnia and Herzegovina**: Action Plan for the Implementation of the SBA Principles 2020-2021 **Republika Srpska**: Education Development Strategy 2016-2021 – Strategy for the Development of Preschool, Primary and Secondary Education 2022-2030 – Government Work Programme 2021
Kosovo	Education Strategic Plan 2017-2021 Government Programme 2021-2025 Strategy for Youth 2019-2023 National Strategy for Innovation and Entrepreneurship 2019-2023
Montenegro	National Strategy for Lifelong Entrepreneurial Learning 2021-2024 Smart Specialisation Strategy of Montenegro 2019-2024
North Macedonia	Education Strategy 2018-2025
Serbia	Strategy for the Development of Education 2030 4S Smart Specialisation Strategy Serbia 2021-2027 Industrial Policy Strategy 2021-2030
Turkey	Eleventh Development Plan 2019-2023 Education Vision 2023 National Youth Employment Strategy 2021-2023

Notes: The strategies highlight entrepreneurial learning as a priority. Please note, they may not include specific actions or targets. For more insight, please see the more detailed narrative for each economy.

National policy partnerships with lead responsibility for entrepreneurial learning are not yet identified in all economies

While strategies may offer a coherent vision and commitment, focus should be maintained throughout the lifetime of a strategy to ensure and sustain practical implementation. Multi-stakeholder partnership working,[2] with cross-government representation and support, offer the broad-based commitment needed to influence and drive concrete implementation. This is not easy to achieve, and there are few examples of multi-stakeholder national partnerships that include a specific focus on entrepreneurial learning. A success story can be seen in Montenegro, where the National Partnership for Entrepreneurial Learning has now been recognised as an official working group of the Council for Competitiveness. This is led by the Minister for Economic Development and is evidence of the importance placed on addressing the clear links between skills and economic development priorities. Partnership working has been strengthened in Bosnia and Herzegovina during this assessment period, with a working group created through the development of the entrepreneurial learning strategy. While this is not formally recognised across the economy, the partnership approach is being continued through the working groups on entrepreneurial learning established through the Education4 Employment programme.[3] In North Macedonia, there was a strong vision within a dedicated entrepreneurial learning strategy, but implementation ceased following a change of government and the subsequent end of government commitment to running the national partnership. Some economies have broader partnership approaches, which may be less explicit in how they engage and support entrepreneurial learning, although these can offer opportunities to bring entrepreneurial learning closer to an influential forum. In Turkey, entrepreneurial learning could be made a specific theme to be addressed by the National Education Council. In Kosovo, it could come under the responsibility of the National Council for Economy and Investment.

A multi-stakeholder approach is an opportunity to bring together government representatives from different policy areas or ministries alongside relevant stakeholders ensuring that a coherent approach to this work can be supported by building collaboration, reducing duplication of effort, sharing successful practices, and overseeing monitoring and evaluation. The inclusion of gender-based organisations or women's organisations is important within multi-stakeholder partnerships to ensure the gender perspective is firmly in focus across implementation, monitoring and evaluation. Sustained commitment by ministries of education and economic development is crucial to any partnership, to bring together policy decision makers who have influence over critical policy implementation relating to formal education, supporting the alignment of skills, labour market and needs for economic competitiveness.

All economies recognise the importance of entrepreneurship as a cross-curricular key competence, but this is not yet a reality across teaching and learning

The entrepreneurship key competence is incorporated into the curriculum laws in all economies, often as a cross-curricular key competence that is clearly defined among a set of economy-specific key competences. This has improved since the 2019 assessment, with more economies now evidencing a cross-curricular approach from primary to VET levels. Improvements can be seen in Bosnia and Herzegovina, Serbia and, as a result of VET reforms, Albania. Montenegro stands out with a curriculum from primary to VET level that clearly develops the entrepreneurship key competences reflected in associated learning outcomes across curriculum areas. There is less implementation across higher education, where most economies evidence stand-alone programmes or *ad hoc* initiatives, not accessible to all students. Montenegro has introduced compulsory internship placements for all students in higher education, which is a positive step, offering the opportunity to orient these internships towards explicit development of entrepreneurial competences.

However, there appears to be a clear implementation gap in most economies between the policy-level commitment to the key competence and how this is actualised in curriculum and learning outcomes. Teacher guidance and teaching resources on how to implement the key competence approach are not up-to-date in Albania, Kosovo and North Macedonia. Albania has not yet used EntreComp to inform the development of entrepreneurial learning in schools and VET, while in higher education it has been included in workshops on entrepreneurship. Where learning outcomes are evidenced, they are often limited to a few curriculum areas, such as life and work in Kosovo, or appear to only be focused on business learning, and thus not in line with the broader key competence approach.

There is a good focus on business-oriented entrepreneurship in VET but more emphasis should be placed on the entrepreneurship key competence

In the VET sector, there is a compulsory entrepreneurship course, linked to developing an understanding of business as an important element for VET-level students. However, fewer economies include entrepreneurial learning outcomes at the VET level, and there is less assessment of entrepreneurial learning outcomes evident in VET. This indicates a need to increase inclusion of the entrepreneurship key competence through teacher guidance, curriculum design and the associated learning outcomes. Work-based learning and dual education, emphasising practical learning through industry, are increasing across the region. Some economies seek to identify these as practical entrepreneurial experiences without explicit learning outcomes related to entrepreneurship key competence. Moving forward, it will be important to ensure that both aspects are addressed across curricula in both school and work-based learning contexts.

The use of EntreComp is increasing

Since EntreComp was launched in 2016 to develop a common understanding of entrepreneurship as a key competence, implementation has steadily increased, both in Europe and beyond. In the WBT region, most economies demonstrate some use of the framework to raise awareness or guide the development of

the entrepreneurship key competence, with Bosnia and Herzegovina, Montenegro, and Turkey standing out in their level of engagement with EntreComp. Bosnia and Herzegovina uses EntreComp to underpin and guide the working groups involved in actions linked to the entrepreneurial learning strategy, while Montenegro has embedded EntreComp across teacher guidance and curriculum in the education system. In Turkey, the EntreCompEurope project, funded by Europe's Competitiveness of Enterprises and Small and Medium-Sized Enterprises (COSME) programme and led by TOBB and the government Erasmus+ National Agency, has hosted workshops and webinars on EntreComp for women's entrepreneurship, VET educators and youth workers. The Turkish EntreComp network is also part of the EntreComp Community – a global practice community linked to EntreCompEurope. In Kosovo, the ALLED2 project has translated the framework into local languages, while in North Macedonia it has underpinned the design of new VET curriculum. In Albania, it has been promoted in workshops with higher education educators.

Embracing the common understanding offered by EntreComp can be valuable to raising awareness of what is meant by the entrepreneurship key competence and improving understanding of how this can be implemented across different curriculum areas to help close the gap between policy and practical implementation. Moving forward, more focus can be placed on how the European competence frameworks, such as GreenComp, DigComp and LifeComp, can complement each other and work together. Links between EntreComp and DigComp are already being explored in Bosnia and Herzegovina, while further opportunities to link to these wider frameworks are evident from the increasing diversity of practical entrepreneurial experiences linked to social, green and digital themes.

Assessment of entrepreneurial learning outcomes is still developing

Assessment of entrepreneurial learning outcomes remains a challenge, with only Montenegro conducting assessments at all levels. Bosnia and Herzegovina and Turkey have been conducting assessments of learning outcomes at secondary and VET levels. More work is needed to share practice across the region on this challenge, as well as more widely in Europe, where it also continues to be an area where many education systems are not yet fully operational. A Eurydice study found that no European education system had a system-level assessment for entrepreneurial learning (European Commission/EACEA/Eurydice, 2016[10]), Despite an increased focus on entrepreneurship as a cross-curricular key competence, this remains largely true.

Practical entrepreneurial experiences are becoming more diverse, engaging more young people, and are linked to new themes, such as coding and environmental issues

There are few economies across the WBT region with practical entrepreneurial experiences accessible to all learners (Albania, Montenegro, Turkey), and no economy fully monitors this level of universal implementation. Practical entrepreneurial experiences are intended to be student-centred, allowing learners to explore and apply their knowledge, skills and mindset to an entrepreneurial discovery process, creating a safe learning space for them to test out their abilities to think and act entrepreneurially by deciding on a good idea and putting it into action. It is intended to be based on student-led pedagogy and explicitly include EntreComp-based learning outcomes to ensure they build self-efficacy, work with uncertainty and understand why we must value the experience of failure as a tool for reflective learning. This approach is about allowing learners to build skills by exploring solutions fuelled by their curiosity rather than simply seeking a right answer.

The diversity of the practical entrepreneurial experiences has significantly developed during this assessment period, supported by both government and resources from international partners. They are either curricular or extra-curricular. The most common forms seen are mini-companies (with large-scale initiatives led by JA), enterprise challenges, citizenship actions, digital and coding-related experiences, or community-based projects, such as those related to social or environmental issues. In Montenegro, the experiences are developed as part of the whole-school approach to entrepreneurial education in primary,

secondary and VET. Both Montenegro and Turkey include access to digital and coding-based experiences, such as the Denayap project, developing entrepreneurial skills through coding challenges. Turkey has a strong education policy commitment to expanding social entrepreneurship experiences to more learners to build community and entrepreneurial culture. Significant government resources in Serbia support the expansion of a national school co-operatives programme, offering solidarity economy-based, practical entrepreneurial experiences in an increasing number of schools. In North Macedonia, innovation challenge funding has seen the development of new practice learning channels including FabLabs.[4] This range of activity shows the diverse lens, particularly green and digital, through which entrepreneurial learning is applied. It also illustrates the potential to ensure that entrepreneurial learning supports the development of green and digital competences as outlined in DigComp and GreenComp.

Opportunities to share practices are developing but are not linked to system reform and are not evidenced in all economies

It is important to create channels to share practices, particularly for developing areas, such as practical entrepreneurial experiences. Interesting and engaging examples are being implemented, offering valuable learning both inside and between economies in the region. Some economies share practices through workshops or conferences, but this is not yet widespread. It would be beneficial if initiatives were taken from both government and stakeholders, as there are no visible mechanisms in most economies to share practices and encourage learning. Montenegro stands out with its platform for teachers led by the Bureau for Education. Opportunities should also be sought to share and learn from policy and practice experiences at the level of the WBT region and across Europe. At the international level, opportunities exist though language may be a barrier: the European Training Foundation (ETF) hosts ETF Open Space, while at the EU level, the eTwinning network can be a powerful tool for learning and sharing between educators. The EntreComp Community is a new EU-funded portal offering networks, resources and learning.[5]

The focus should now shift to pre-service teacher training while ensuring that an offer of in-service teacher training is accessible to all educators

There is continued evidence of a broad offer of in-service teacher training being implemented across the region, led by both government and non-governmental actors. A particular feature of this assessment was whether this in-service training offer is accessible to all educators at each level in the economy. From the responses, Montenegro and Turkey have a comprehensive offer open to all teachers from primary education to VET. In contrast, other economies offer this to certain levels or have initiatives funded by international development co-operation partners that may be more fragmented or available to specific localities in the economy (thus not accessible via an economy-level, in-service training catalogue). Investing in existing teachers can enhance the quality and effectiveness of education and training, so teachers should have access to high-quality continuing professional development to learn and develop new practices. The learning programme should be designed by teachers, taking into account the needs of their school, national development and emerging curriculum innovations.

Similarly, a majority of economies have current pre-service teacher training that includes a focus on active learning methods to support entrepreneurial learning, as evidenced in Albania, Montenegro, North Macedonia, Serbia and Turkey. However, in this assessment, there was a more probing question that asked for pre-service training provision that includes a focus on developing pedagogical knowledge and understanding of the entrepreneurship key competence. In response, only North Macedonia gave an example of primary teacher training at the University St.Kliment Ohridski.[6] At the system level, Bosnia and Herzegovina is actively developing actions through a state-level working group on this topic, linked to the implementation of the national strategy. Albania has made an explicit policy commitment to match pre-service training to the needs of its national curriculum, including addressing the entrepreneurship key competence.

While developments can be seen, the current state of play shows limited progress since the previous assessment period. This highlights the need to share practice research into how economies can more effectively map, review and shape the content of pre-service training to ensure harmonisation with the requirements of the national curriculum. New teachers need to be equipped for their careers with the most relevant and current pedagogical knowledge and practice experience, as well as have the experience of developing and using the EntreComp competences themselves, including for the digital and green transition. Entrepreneurial learning is becoming ever more important to support learners in navigating and adapting to a fast-changing and uncertain world.

The use of entrepreneurial role models is more evidenced, and has the potential to increase awareness and relevance of entrepreneurship among educators and learners

To close the implementation gap between policy and curriculum implementation, the use of role models to illustrate the relevance of entrepreneurial learning across the curriculum can be a powerful tool. Some economies have piloted this approach, such as Turkey through the Entrepreneurs in High School programme. Role models can be sourced from all areas of society and walks of life, balanced across genders and local to where learners are from, with links to specific industries or subjects to add resonance. The use of storytelling by role models to share experiences can be a powerful means of emphasising the ability of any person to use their entrepreneurial capacity to create ideas and make them happen. In Wales (United Kingdom), the Big Ideas Wales Role Model Programme recruits entrepreneurial citizens who can share their stories and how they have used their entrepreneurial competences to create change in their life, through a business, for social impact or as an active citizen in the community. This approach can provide educators and learners with real awareness of the importance of developing and strengthening entrepreneurial competences across a curriculum (Box 1.3).

There is a need to build capacity for monitoring and evaluation

Monitoring entrepreneurial learning continues to be an area for development, confined to general reporting by ministries and agencies on education within annual or school-based reports. Unless a dedicated strategy exists, there is a significant lack of primary data on key indicators, such as teachers trained or implementation of practical entrepreneurial experiences. Where strategies are not monitored or evaluated, there is a lack of clarity on what actions have been implemented, the benefit of the financial and resource investments made, and the change created as a result of the actions. Graduate tracking mechanisms are underdeveloped in most economies, which will become more important as economies seek to harmonise with EU-level actions being taken in the European Education Area linked to EU graduate surveys and linked administrative data.

The way forward for entrepreneurial learning

- **Build stronger partnership approaches for entrepreneurial learning to support implementation, monitoring and evaluation** involving relevant government ministries, private actors and NGOs responsible for leading efforts to implement, monitor and evaluate entrepreneurial learning across all levels of education and training. The partnership could be implemented as a stand-alone body, a sub-group of an existing partnership or at minimum should be the explicit responsibility of an existing partnership. Regular meetings and publicly available reports of recommendations and actions will be needed to ensure transparency and make national-level co-ordination of this priority more visible (Box 1.1).

Box 1.1. Building a national policy partnership in Montenegro

Montenegro has successfully brought together and sustained a multi-stakeholder policy partnership driving forward co-ordination and development of entrepreneurial lifelong learning, gradually increasing the focus on this policy area and resulting in progress on practical implementation of entrepreneurial learning at all levels of lifelong learning.

The consistent partnership between government ministries and key national stakeholders was linked to the design and implementation of national strategies. The relevance and importance of participation was clear to each partner organisation and closely aligned to their organisational objectives, with a named representative from each partner including an organisation focused on women to ensure this added and necessary perspective. The partnership was initially informal, and organisations worked together to place the focus on increasing the profile of entrepreneurial lifelong learning at policy level and gaining recognition for their partnership approach. This finally resulted in formal recognition by the government in 2021, as a working group of the National Council for Competitiveness led by the Ministry of Economy.

This example demonstrates the value of bringing multi-stakeholder actors together to drive forward a specific policy area, and how formal recognition can strengthen and make this work more visible. It also demonstrates that a partnership approach can be integrated into a wider government structure, offering a space to bring together relevant stakeholders, but still bring the key challenges, opportunities and recommendations to the attention of the high-level forum dealing with multiple also relevant policy areas such as smart specialisation.

Sources: Government of Montenegro (2020[11]); McCallum et al. (2018[12]).

- **Implement actions to ensure entrepreneurship as a cross-curricular key competence is explicitly included within the learning experience for learners throughout education and training.** Significant progress has been made to support this, but a systematic approach is now needed to embed this into teaching, learning and assessment. This should include comprehensive innovative guidance for teachers on how to develop and recognise learner progress and achievement through entrepreneurial learning outcomes. Bosnia and Herzegovina and Montenegro can offer insights into approaches, complemented by insights from international practices, such as the example from Ukraine (Box 1.2), the new Curriculum for Wales and new actions being developed on entrepreneurial schools in the Walloon Region of Belgium.
- **Future-proof the teaching profession by ensuring the provision of pre-service teacher training is in line with the policy priority placed on the entrepreneurship key competence.** Pre-service teacher training should build expertise in cross-curricular entrepreneurship key competence development based on EntreComp. It should build students' knowledge, pedagogical skills and professional confidence to deliver EntreComp competences through their future teaching, as well as allow them to reflect on their own entrepreneurial competences and how they can embed them in their work as teachers and link these competences to wider themes such as green and digital learning.

Box 1.2. Weaving cross-curricular competence into a practical curriculum through education reforms in Ukraine

The "New Ukrainian School" (NUS) initiative[1] was announced in 2016 as a radical reform of an education system that did not prepare children to achieve their potential, placing value on only the

knowledge acquired through the learning process. While entrepreneurship has been considered a cross-curricular key competence since the early 2000s, there was little practical implementation in the classroom. The NUS reforms used the lens of citizens from across the economy to shape the new vision through three years of national dialogue and debate, with a primary focus on aligning their education systems with European approaches to key competence development, while modernising their curricula and teaching practice to support students' learning outcomes. The consultation process exposed many challenges, but also worked to create a common vision and commitment, with a practical action plan toward making competence-based education a reality. Across all levels of primary and secondary education and vocational education and training (VET), the DigComp and EntreComp frameworks are being co-worked within the curriculum. Ukrainian education experts used EntreComp and DigComp to design a progression model for the overall education standards, and this has been adapted into a Competence Potential document tailored to Ukraine. The Competence Potential offers teachers and schools the map needed to see how each key competence can be developed and applied through the teaching and learning process within each specific subject area at each level of general secondary education. It shows how the learning outcomes in each area link to both EntreComp and DigComp and provides the basis for curriculum developers and teachers to see how these can be transformed into learner experiences.

This case used EntreComp as a model for building understanding across different stakeholder groups, integrating entrepreneurial outcomes and reflecting how they progress across the different levels of learning. It shows that EntreComp can be a guide for curriculum design and learning outcomes, as a source of inspiration that does not need to be copied in its entirety. In Ukraine, the EntreComp learning outcomes were found to be too complex, so they were simplified to fit different levels and subject contexts. Moving into large-scale revision inevitably requires engaging large groups of experts in a multiannual work plan involving step-by-step integration of new approaches into the standards and curricula. Consulting teachers from the start has been key to the success of these reforms and the relevance of their work, shown through initial testing and early phases of implementation. It also emphasised that teacher training is key to all reforms, and there is a recognised need for changes in teacher qualifications and career promotion systems.

The challenge highlighted in this assessment is to transform the cross-curricular key competence into a reality for teaching, learning and assessment. Ukraine offers one example of how this challenge can be tackled through mapping learning outcomes and creating a simplified model that co-works digital and entrepreneurial competence and fits the Ukrainian context. Economies in the region, such as Montenegro and North Macedonia (for VET), have already used EntreComp as a tool to ensure that entrepreneurial learning outcomes are explicit within new curriculum reforms. Bosnia and Herzegovina is now developing this work through working groups of educators. It is important to recognise that this approach cannot take place without supporting teacher training reforms and investment.

1. For more information, see: https://nus.org.ua.
Sources: Bekh et al. (2021[13]); (European Wergeland Centre, 2020[14])

- **Implement compulsory practical entrepreneurial experiences in all schools and universities**, giving learners the opportunity of this experience at more than one stage in their educational journey. Diverse formats can be introduced, addressing societal and real-world contexts and not only in the form of business-related actions. Through regional practice sharing, exchange of learning can take place on key themes such as school co-operatives in Serbia and coding experiences in Montenegro and Turkey.
- **Encourage best-practice sharing between organisations and policy makers involved in entrepreneurial learning.** This should be done at the national and international level, opening up various case examples for policy and practice. Different routes can be followed to achieve this,

such as awards schemes, conferences, or networking through national or international communities of practice, such as the ETF Network of Vocational Excellence or eTwinning.

- **Expand the use of role models to showcase the relevance of entrepreneurial learning to career and life pathways through powerful storytelling from local, diverse and relatable entrepreneurial role models** who can share their experience of thinking and acting entrepreneurially in life, work or developing new ventures. See the example from Wales (Box 1.3). Many economies have trialled this, particularly Turkey; scaling this up can offer compelling stories about the value and potential of entrepreneurial learning.

Box 1.3. Entrepreneur role models through Big Ideas Wales

In Wales (United Kingdom), the Big Ideas Wales role model programme was established through Wales's first Youth Entrepreneurship Strategy in 2004. It now delivers entrepreneurial inspiration sessions to 60 000 students per year from lower and upper secondary, vocational colleges, and programmes targeting those not in education, employment or training.

The programme engages entrepreneurs from diverse backgrounds and business types (including co-operatives and social enterprises) from across Wales. Each entrepreneur is given training to provide an engaging and interactive activity with learners, with an emphasis on their story and the entrepreneurial competences that have been important to their development. The pool of role models is gender-balanced, and workshops can be linked to subject areas or be generic. There is now a network of 300+ role models who inspire the next generation of entrepreneurs and help them on their entrepreneurial journey, working directly in their local community to share stories that feel relevant to learners. The aim is to open young people's minds to new ideas and opportunities, consider their entrepreneurial competences, and help them think positively about their futures.

An impact study found that 66% of pre-16 respondents and 73% of post-16 respondents reported that the programme "helped me realise what I can achieve", while 55% of pre-16 respondents and 61% of post-16 respondents reported that the programme "inspired me". There is a direct route to entrepreneurship careers, with the Big Ideas Wales programme actively signposting start-up support pathways and career guidance for young people. According to the impact study, 40% of pre-16 beneficiaries and 46% of post-16 beneficiaries believed the session "made me think about starting my own business".

Emphasising the relevance of the entrepreneurship key competence can be enhanced through storytelling by entrepreneurial citizens from all walks of life about how they use their entrepreneurial competences to be entrepreneurial across their own lives, their work or their community. The learning from this experience could be scaled up, in line with the model used in Wales, with an additional emphasis on developing the entrepreneurship key competence and opening up start-up pathways for young people.

Sources: Big Ideas Wales Role Model Programme: https://businesswales.gov.wales/bigideas/rolemodelhome.

- **Further develop monitoring and evaluation across all economies, advancing the understanding of the change created due to actions related to entrepreneurial learning.** If capacity is not yet sufficient, consideration should be given to engaging research bodies outside government to design and support the monitoring and evaluation of systemic entrepreneurial learning developments. For more information on data that WBT governments could consider collecting in this area, please see Annex C.

Women's entrepreneurship (Sub-dimension 1.2)

It is widely acknowledged that women's entrepreneurship is a largely untapped source of potential economic growth in the WBT economies. In the Western Balkans, it is estimated that 5% of gross domestic product (GDP) is lost due to gaps in the participation of women entrepreneurs.[7] This rises to a potential increase of 20% of GDP if women were involved in the labour market at the same level as men (World Bank, 2018[15]). The existing contribution of women to entrepreneurship is not yet fully valued nor visible. Data may not be gender-sensitive, meaning there is no true picture of the rate, growth or level of innovation found in women-led entrepreneurial activity. Without visible understanding of the true value of supporting women's entrepreneurship, there is a weaker evidence base to argue for increased actions. Compounding this are multiple social and economic barriers to entering the labour market as a woman entrepreneur. Women's land and property ownership lags significantly behind that of men across the region (European Parliament, 2019[16]), requiring legal reforms to give women equal rights and access to economic resources such as land, property and inheritance (FAO, 2020[17]). Globally, women spend more time on unpaid care work, which increased exponentially during the COVID-19 pandemic, making this an invisible barrier to equal access to the labour market and entrepreneurship. Such societal barriers can result in increased involvement of women in the informal economy and need to be tackled by challenging entrenched social norms and stereotypes as well as providing the support women need to access information and support to explore their potential as a woman entrepreneur (OECD, 2014[18]).

This section considers the gender gap in entrepreneurship and how this is being addressed through policy and practical implementation of actions to promote and support women's entrepreneurship. There has been an overall improvement across all thematic blocks of this sub-dimension, with a trend toward improvement across WBT economies, demonstrating that women's entrepreneurship is increasingly on the policy radar of policy makers and support agencies in the region. This is being clearly linked with support actions toward the digital transition, which has accelerated during the pandemic. The progress seen in this sub-dimension raises the bar for all economies, placing the focus on increasing the quality and depth of implementation and monitoring and evaluation. Turkey and Montenegro are regional leaders, but they are closely followed by most other economies (Table 1.4).

Table 1.4. Scores for Sub-dimension 2: Women's entrepreneurship

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	3.80	4.20	3.40	2.60	5.00	4.60	4.20	**3.97**
Implementation	4.02	3.49	3.49	2.96	4.11	3.76	5.00	**3.83**
Monitoring and evaluation	3.00	4.25	3.00	1.00	3.50	3.00	4.00	**3.11**
Weighted average	**3.75**	**3.85**	**3.36**	**2.46**	**4.26**	**3.86**	**4.56**	**3.73**

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

Women's entrepreneurship is becoming more prominent on the policy agenda

The WBT region continues to progress in the depth of policy support for women's entrepreneurship seen in each economy. It is increasingly highlighted across multiple economy-level policies. All economies have also highlighted the priority on women's entrepreneurship in their economic reform programmes for 2021-23.

There is no single model for women's entrepreneurship policy. Policy actions are mainly driven by strategies for women's entrepreneurship and gender equality (Table 1.5), only Albania and Turkey lack strategies linked to these themes. Specifically:

- Montenegro and Serbia stand out for the strength and coherence of policy approach. In Montenegro, the dedicated strategy provides a comprehensive set of actions that build on previous

work and commits to addressing gaps such as monitoring and evaluation, including gender-disaggregated data.

- The primary policy in Serbia is the National Strategy on Gender Equality, with additional actions in the Employment Strategy. It is expected that Serbia's SME Strategy will be renewed, which was previously a significant driver for this work.
- The strong focus in Montenegro and Serbia does not filter through, however, to their smart specialisation strategies, which do not mention gender equality or women entrepreneurs in the narrative and do not feature gender-disaggregated data.
- Turkey shows strong evidence of the priority placed on women's entrepreneurship through a broader policy approach through the Women's Empowerment Strategy and the Small and Medium-sized Enterprises Development Organisation's (KOSGEB) Strategic Plan designed to implement the commitments made in the Eleventh Development Plan.
- Albania includes actions for this area within the Business Investment and Development Strategy 2021-2027, but has not yet renewed the Women's Entrepreneurship Action Plan that accompanied the Business and Investment Development Strategy 2014-2020.
- In Kosovo and North Macedonia, the primary strategy is linked to gender equality.
- The primary strategy is also linked to gender equality at the state level in Bosnia and Herzegovina, while dedicated strategies on women's entrepreneurship have been developed at the entity level.

Table 1.5. Strategies covering women's entrepreneurship in the Western Balkans and Turkey

Economy	Relevant national strategy
Albania	Business Development and Investment Strategy 2021-2027
Bosnia and Herzegovina	**State level**: Gender Action Plan of Bosnia and Herzegovina 2018-2022 – Priorities for the integration of entrepreneurial learning and entrepreneurship key competence into education systems in Bosnia and Herzegovina 2021-2030 **Republika Srpska**: Strategy for Development of Women Entrepreneurship 2019-2023 – Development Strategy of Small and Medium Enterprises 2021-2027 **Federation of Bosnia and Herzegovina**: Development Strategy 2021-2027 – Action Plan for the Implementation of SBA Principles 2020-2021
Kosovo	Kosovo Programme for Gender Equality 2020-2024 National Strategy for Innovation and Entrepreneurship
Montenegro	Strategy for Development of Women's Entrepreneurship 2021-2024 National Strategy for Gender Equality 2021-2025 Strategy for Life-Long Entrepreneurial Learning 2020-2024
North Macedonia	Strategy for Women Entrepreneurship Development 2019-2023 National Strategy for Gender Equality 2021-2025
Serbia	National Strategy on Gender Equality 2021-2030
Turkey	Women's Empowerment Strategy and Action Plan 2018-2023 Eleventh Development Plan KOSGEB Strategic Plan National Employment Strategy 2014-2023

Notes: The strategies highlight women's entrepreneurship as a priority. Please note, they may not include specific actions or targets. For more insight, please see the more detailed narrative for each economy.

There are indications that economies are moving beyond gender equality and SME development toward making policy links supporting women's entrepreneurship with wider actions. These address the social and economic barriers women face accessing the labour market as entrepreneurs, such as unpaid care work, access to quality childcare, property ownership, maternity leave and tax policy. These barriers may even be less equal for self-employed women than those with an employment contract, such as access to social

protection and maternity leave.[8] More work is needed in this area, as women experience the ongoing impact of the COVID-19 pandemic, which is reinforcing existing inequalities evident across society.

Government co-ordination structures have expanded

Moving forward, the widening of the policy lens for women's entrepreneurship requires stronger cross-government co-ordination. This assessment is the first time this has been explored, and the evidence shows that all economies consider that women's entrepreneurship is part of a cross-government co-ordination group. In Albania, women's entrepreneurship is a specific topic within an inter-ministerial working group; at the entity level in the Federation of Bosnia and Herzegovina and in Serbia it is linked to the government's gender equality body. However, gender focal points in government remain less widespread, with little detail from most economies on which ministries host gender focal points and their role. They are highlighted across different ministries in Montenegro, North Macedonia and Turkey, while in Bosnia and Herzegovina the role is centralised in gender centres at entity level. There are more gender centres in the region since the last assessment, now existing in Bosnia and Herzegovina at both state and entity levels, Kosovo, and Serbia, while Montenegro has a Directorate for Gender Equality in the Ministry of Justice of Human and Minority Rights. These new government structures dedicated to gender equality are indicative of the integration of gender equality as the basis for increasing accountability and a centre of expertise to support gender focal points in wider government departments ensuring ministries consider gender throughout their work.

National partnerships for women's entrepreneurship are usually informal and led by non-governmental organisations

Maximising the contribution of women in the labour market, economic growth and competitiveness takes an effective partnership between government and a variety of stakeholders active in this area because this complex policy area spans multiple areas of government policy. Policy partnership offers a forum to explore and shape the best path forward to support women's entrepreneurship, bringing in perspectives from public and private stakeholders alike. The continuity of policy partnership encourages more effective monitoring and evaluation through the increased oversight of policy implementation and results.

Both formal and informal policy partnerships are found in the WBT region. However, formal partnerships are only active in Kosovo and Montenegro through multi-stakeholder forums led by cross-government representation and involving private and NGO stakeholders as regular and equal members. In both these economies, these permanent formal partnerships are linked to government structures within the ministry related to economic development.

Montenegro's formal partnership takes the form of a working group of the national Council for Competitiveness. It is responsible for driving forward the new Strategy for Development of Women's Entrepreneurship launched in 2021. Being limited to the duration of a specific strategy may impact sustainability, however; in Turkey, the end of the national Entrepreneurship Strategy led to an activity stop for the National Entrepreneurial Council, which had offered inclusion of women's entrepreneurship in a high-profile multi-stakeholder policy platform.

Informal partnerships are more common, with all economies evidencing strong women's entrepreneurship networks led by groups of gender-based organisations and involving public, private and non-governmental actors. All governments now provide state financing to strengthen the work of the NGOs leading these partnerships as part of the budget allocation supporting women's entrepreneurship. Their informal nature may offer more flexibility, but the direct link to policy makers can be difficult to maintain.

In North Macedonia, the National Platform for Women's Entrepreneurship was launched in 2021 as a result of co-operation between multiple actors during the design of the new Strategy for Women Entrepreneurship Development. It has since agreed a memorandum of understanding with the government, recognising it

as the main social partner for the Strategy for Women Entrepreneurship Development. However, practical government engagement has proved weak with no consultation since the onset of the COVID-19 pandemic, and no progress results on the strategy have been shared since its launch in 2019.

It is the informal partnerships that are driving the visibility and promotion of women's entrepreneurship at national and regional levels. There are multiple examples of annual conferences, workshops and regional summits bringing together women entrepreneurs and those running support programmes to share practice nationally and across the regional economies. Every partnership is plugged into the European network, WeGate, which offers EU-wide networking and practice-sharing opportunities. Across the Western Balkan economies, co-operation and practice sharing are led by regional bodies such as the Regional Cooperation Council through its Women Who Launch initiative[9] with annual awards or the Balkan Women Coalition.[10]

Support, training and information for women entrepreneurs have increased

The increase in variety and reach of support actions for women entrepreneurs is evident over this assessment period, despite the challenges of the pandemic taking provision on line or stopping completely. All economies shared a range of actions addressing digital entrepreneurship and digitalisation for SMEs and women entrepreneurs. There was also support for sustainable and green transformation in Albania, Kosovo, Montenegro and Turkey. New support was put in place to help entrepreneurs during the pandemic as well; this accounts for the significant increase in training and support for digitalisation and digital entrepreneurship in all economies. These programmes were supported by government grants or financing from external partners' agencies (see the examples included in the narratives for each economy).

Women require more access to information to support them in and through their entrepreneurial journeys (World Bank, 2018[15]). Awareness-raising actions to promote women's entrepreneurship are more visible across action plans; however, a need remains to ensure the provision of online information through dedicated web portals or specific zones within wider entrepreneurship portals. The level and depth of activity supporting women's entrepreneurship in the WBT region could be enhanced with an online portal in each economy to bring together awareness raising, information, networks and resources active at both national and regional levels.

There is a significant lack of gender-disaggregated data collected across the region

Data provide the means to track the ongoing impact of actions on the position of women in the economy and labour market. Through this assessment process, economies were asked to provide data on indicators relating to: the share of companies with women chief executive officers; the share of women business owners; the share of women engaged in self-employment; the growth rate of women-owned enterprises; the share of intellectual properties (IPs) registered by women; and the share of women participating in state-financed SME training.

Only Albania and Serbia were able to provide either full or partial statistical data covering the past five years for the majority of these indicators. Data for the growth rate of women-owned enterprises were only available for the past one to two years from Bosnia and Herzegovina and Serbia, while only Albania supplied statistical data on the share of women registering IPs and the share of women participating in state-financed training. These results demonstrate the depth of the challenge faced in the region to understand the impact of actions taken so far and to map the progress made over time.

Using statistical data to measure the rate, form and growth of women's entrepreneurial activity is crucial to achieving a more complete understanding of how women entrepreneurs contribute to an economy and society, and to supporting evidence-based public policy. As found by this assessment, gender-disaggregated data are significantly lacking. This fact should raise awareness as an urgent area of action for all areas of government policy. Gender-sensitive policy making should mean automatic inclusion of data disaggregation for any source of data.

Monitoring and evaluation are not yet well developed

A gender-sensitive approach is needed at every stage of policy design and implementation to produce gender-balanced results supported by gender-disaggregated data. Such an approach supports education, employment, entrepreneurship and smart specialisation policy by providing an evidence base for policy as well as guiding monitoring and evaluation efforts toward more complete and gender-based skills-intelligence and gender impact insights.

World Bank research shows that little is known about what is – and is not – working because, while 80% of projects report having monitoring and evaluation, less than 50% of these monitor outcomes, and there is no comprehensive picture of the interventions and their results or effectiveness (World Bank, 2018[15]). Improved monitoring and evaluation are critical to more robust and publicly available monitoring and evaluation. Efforts are now needed to develop system-level data collection from key actions, and at a minimum, for those funded by the government. Instead of measuring the number of people trained, for example, monitoring should measure the skills developed. In addition, follow-up surveys should query the impact on women's entrepreneurship activities, such as tackling barriers women entrepreneurs experience (such as accessing finance) or business turnover growth.

The way forward for women's entrepreneurship

- **Include representatives from women's entrepreneurship organisations in high-level government decision-making bodies to integrate the voice of gender-based organisations.** At the government level, it is critical to include representation from women's entrepreneurship organisations in multi-stakeholder forums where economic development and competitiveness are being discussed. Across the WBT region, there are high-profile economic development and employment committees and councils where social partners are permanent members. These decision-making fora should include, as a matter of course, gender-based organisations to ensure that the voice of women is mainstreamed into influential government structures. An existing example is Montenegro, where the partnership is now recognised as a working group of the national Council for Competitiveness and brings key topics to the main council as necessary. Further opportunities exist, such as the national Economic and Social Council in North Macedonia, which addresses a range of economic, labour and social policy topics relevant to the multiple barriers women entrepreneurs face entering the labour market. The council includes representatives from government, trade unions and employers, but none from gender-based organisations.
- **Build stronger national partnership approaches supporting women's entrepreneurship.** An effective partnership should include representation from relevant government ministries, such as labour, social welfare and economic development, and relevant government agencies such as national gender centres, alongside private and NGO stakeholders active in this work. Regular meetings should consider the design, implementation, monitoring and evaluation of actions related to women's entrepreneurship, including those linked to the social and economic barriers women experience to becoming an entrepreneur. Sharing examples of inspiring practice at both national and regional levels should also be a key action of a strong partnership.
- **Develop rigorous monitoring and evaluation across all economies, moving toward an outcomes-based understanding of the change created due to actions related to women's entrepreneurship.** Render the progress and support of actions for women's entrepreneurship more transparent and visible through annual progress and impact reports, providing quantitative data and results alongside qualitative analysis of the progress of actions supporting women's entrepreneurship and their impact on women entrepreneurs and their businesses. Efforts are now needed on system-level indicator frameworks to drive data collection from key actions, and at a minimum, for those funded by the government.

- **Act now in all economies to establish an indicator framework for women's entrepreneurship and use this as the basis to initiate the provision of comprehensive gender-disaggregated data**, adapted to the needs of the economy and harmonised with Eurostat and United Nations gender indicators, as part of a government-wide drive to achieve gender-disaggregated data as a default across all policy areas. This will achieve a more complete understanding of women entrepreneurs' participation in and contribution to the economy and society, supporting evidence-based public policy (Meunier, Krylova and Ramalho, 2017[19]). For more information on data that WBT governments could consider collecting in this area, please see Annex C.

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Notes

[1] In Kosovo, the Government Work Programme 2021-2025 states that the government will develop internships and explore the possibility of including entrepreneurship programmes in lower secondary education. In North Macedonia, there is limited commitment to entrepreneurial learning within existing policy, but there is an intention to include a section on entrepreneurial learning in the new education strategy.

[2] The term multi-stakeholder partnership working refers to the involvement of cross-government stakeholders alongside non-government stakeholders from the public and private sectors.

[3] For more information, see the economy-specific narrative for Bosnia and Herzegovina and: https://education4employment.eu/the-e4e-project-appointed-seven-working-groups-that-start-working-in-july.

[4] For more information, see: https://fitr.mk/en/challenge-for-establishing-production-laboratories-fab-labs-young-people-create and https://www.slobodenpecat.mk/en/video-tehnoloshkiot-fakultet-ja-promovirashe-novata-fab-laboratorija-nameneta-za-mladi-nad-15-godini.

[5] For more information see:

- ETF Open Space: https://openspace.etf.europa.eu/pages/creating-new-learning-cnl
- eTwinning: https://www.etwinning.net
- EntreComp Community: https://entrecomp.com
- International Entrepreneurship Educators Conference (VET/HE): https://ieec.co.uk

[6] In North Macedonia, the Pedagogical Faculty at the University St.Kliment Ohridski in Bitola includes one obligatory course on innovation and entrepreneurship for trainee teachers who teach first to fifth grades of primary education. For more information see: https://pfbt.uklo.edu.mk/wp-content/uploads/sites/5/2021/12/Nastavnik-I-ciklus.pdf.

[7] See: https://pubdocs.worldbank.org/en/862651521147002998/PPT-Gender-TF-final.pdf.

[8] In Serbia, a recent campaign asked for amendment to the Law on Financial Support to Families with Children (2018), which gave entrepreneurs less access to support than those with an employment contract. See: https://www.rts.rs/page/stories/sr/story/125/drustvo/4636356/preduzetnice-porodiljsko-mame-su-zakon.html.

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[10] For more information see: https://balkancoalition.com.

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

This chapter assesses policies in the Western Balkans and Turkey that support efficient bankruptcy legislation for small and medium-sized enterprises (SMEs) and promote a second chance for failed entrepreneurs. It first provides an overview of the assessment framework and progress since the last assessment in 2019. It then analyses the three sub-dimensions of Dimension 2: 1) preventive measures, which assesses tools and policies to help SMEs avoid bankruptcy; 2) survival and bankruptcy procedures, which investigates the economies' insolvency regimes for SMEs; and 3) promoting second chance, which examines policies to help failed entrepreneurs make a fresh start in business. Each sub-dimension makes specific recommendations for increasing the capacity and efficiency of bankruptcy and second chance in the Western Balkans and Turkey.

Key findings

- **Mechanisms to prevent bankruptcy remain underdeveloped in the region.** The Western Balkans and Turkey (WBT) economies introduced interim measures to support an increased number of enterprises facing financial distress caused by the COVID-19 pandemic. However, insolvency prevention mechanisms that help businesses avoid bankruptcy were largely not included, undermining the economies' overall capacities to handle an increased number of insolvencies during the pandemic.
- **Insolvency laws that govern formal bankruptcy liquidation and restructuring procedures are in place in all WBT economies.** All governments have introduced varying forms of hybrid pre-insolvency prevention procedures, each of which provides for restructuring plans for settlement with creditors [1] created by the debtor,[2] after which they are formally confirmed by the courts and become binding for all parties.
- **Most WBT economies have a formal bankruptcy discharge procedure** included in their legal frameworks. None of the governments has set a legal time limit for entrepreneurs to obtain a discharge, however.
- **Monitoring and evaluation of insolvency policies in the region remain weak.** Most WBT economies still lack proper monitoring and evaluation systems that cover data on case duration, cost of proceedings, and share of claims recovered by creditors in bankruptcy or restructuring procedures. This is evidenced by a plateau in the measured indicators from 2019 to 2020, coupled with ineffective public insolvency registers.
- **Further digitalising procedures across WBT economies could optimise liquidation processes.** Several economies have introduced electronic bidding options for assets sold in bankruptcy liquidation proceedings. However, administratively burdensome and financially inefficient procedural rules remain, except for North Macedonia, where the entire liquidation procedure has been fully digitalised since 2017.
- **Second-chance policies for failed entrepreneurs[3] are still largely absent in the region.** Public institutions in the region are remiss in their efforts to reduce the cultural stigma attached to business failure.

1. A creditor is a company or person that gives another entity permission to borrow money to be repaid in the future or provides supplies or services and does not demand immediate payment.
2. A debtor is a company or individual who owes money. Legally, someone who files a voluntary petition to declare bankruptcy is also considered a debtor.
3. Due to divergent approaches across different economies and for better comparability across this chapter, "entrepreneurs" is not limited to sole proprietors, the self-employed, one person companies, or micro and small enterprises. All forms of business organisations are referred to as entrepreneurs in this chapter.

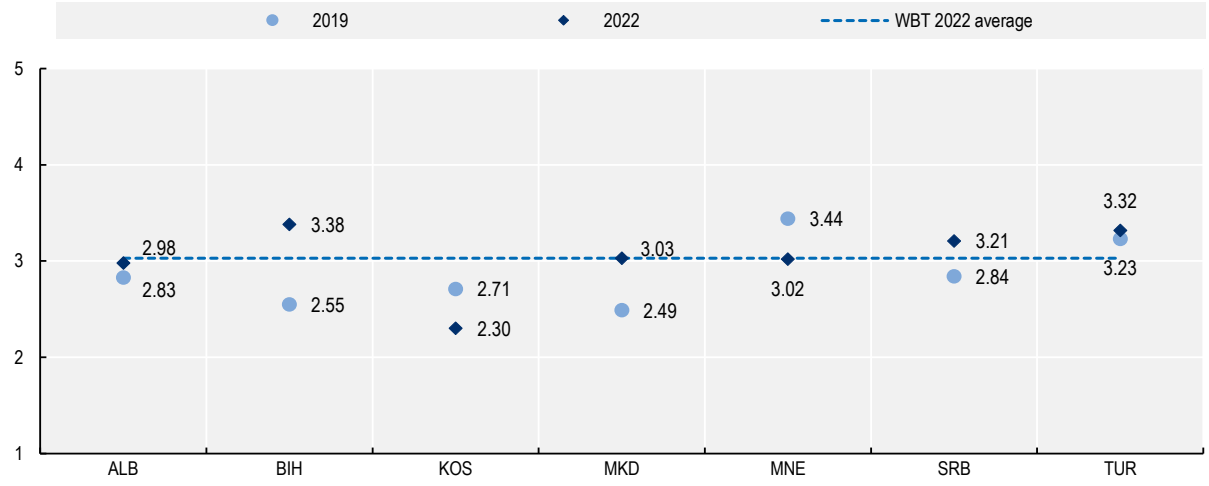
Comparison with the 2019 assessment scores

The performance of the WBT region in bankruptcy and second-chance policies has slightly improved since the last assessment. The region's average score increased from 2.87 in 2019 to 3.02 in 2022, in part due to mitigation measures taken during the COVID-19 pandemic (Figure 2.1).

Further, the progress achieved by some of the economies is more pronounced than the regional average suggests. Compared with the previous assessment, Bosnia and Herzegovina has made the most significant improvement, with the harmonisation of its bankruptcy policies throughout the territory and its

newly introduced hybrid pre-insolvency restructuring and settlement mechanism. Moreover, Turkey has further enhanced its preventive concordat, while Albania has introduced a new pre-insolvency, preventive, out-of-court restructuring settlement.

Figure 2.1. Overall scores for Dimension 2 (2019 and 2022)



Notes: WBT: Western Balkans and Turkey. Despite the introduction of questions and expanded questions to better gauge the actual state of play and monitor new trends in respective policy areas, scores for 2022 remain largely comparable to 2019. To have a detailed overview of policy changes and compare performance over time, the reader should focus on the narrative parts of the report. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Implementation of the SME Policy Index's 2019 recommendations

Implementation of the SME Policy Index's 2019 recommendations on bankruptcy and second-chance policies has remained limited across the Western Balkans and Turkey. Most progress has been seen in the economies' legal frameworks. However, as in the previous assessment, improvement has been limited. No concrete steps have been taken to establish bankruptcy prevention mechanisms, such as early warning systems, and little has been done to promote second-chance mechanisms for entrepreneurs (Table 2.1).

Table 2.1. Implementation of the SME Policy Index's 2019 recommendations for Dimension 2

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Develop a fully fledged early warning system	None of the economies has implemented a fully fledged early warning system, and there continues to be a lack of strategic policy thinking when it comes to insolvency prevention mechanisms.	No progress
Introduce SME and entrepreneur fast-track bankruptcy proceedings into the law	Some simplification measures, such as fast-track procedures and reorganisation processes, have been implemented. None, however, are tailored to small and medium-sized enterprises' (SMEs) needs.	Limited
Allow the automatic discharge of entrepreneurs after liquidation	No improvement in debt discharge mechanisms has been observed since the previous assessment.	No progress
Create a monitoring and evaluation process for bankruptcy mechanisms	No progress in establishing a monitoring and evaluation process for bankruptcy mechanisms has been recorded since the previous assessment.	No progress
Enhance and adapt the administrative capacities of the bodies implementing the insolvency legislation	Some economies have introduced higher standards regarding qualifications, examinations and licensing for bankruptcy administrators. However, no special capacity-building events or trainings were organised to enhance institutional capacity.	Limited

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Further reduce the average cost and duration of bankruptcy proceedings by simplifying parts of the bankruptcy legislation	Bankruptcy procedures remain administratively burdensome and costly across the region.	No progress
Conduct awareness campaigns among entrepreneurs to promote out-of-court settlements as a less expensive alternative to filing for bankruptcy	Under normal circumstances, promotional campaigns for using out-of-court settlement as a less expensive and less administratively burdensome proceeding would positively impact the prevention of insolvency. However, due to the COVID-19 pandemic, this recommendation was not prioritised, as economic recovery became the priority.	Not applicable
Introduce policy measures granting a second chance for honest entrepreneurs	No progress has been recorded on granting access to SMEs and honest[1] entrepreneurs a second chance.	No progress
Improve the legal framework and develop initiatives to reduce the cultural stigma attached to entrepreneurial failure	No progress has been recorded in reducing the cultural stigma attached to entrepreneurial failure. The insolvency laws provide clear rules for treating cases where debtors file a petition with intent to deceive, defraud or subvert the creditors. However, there is no information allowing future partners and creditors to distinguish honest from fraudulent, failed entrepreneurs.	No progress

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

Introduction

An efficient business environment depends on the stability of the businesses that comprise it. Enterprises that continuously generate debt and encounter financial distress can obviously impact a business environment's health and prosperity. Thus, policies that ensure a seamless and timely market exit of enterprises whose further operation may negatively affect a business environment are crucial to ensuring any economy's long-term sustainable economic growth.

Prior to the European Commission's recommendations on the New Approach to Business Failure and Insolvency in 2014, bankruptcy liquidation procedures were typically initiated by interested creditors and managers and owners of debtor companies (European Commission, 2014[1]). In a minority of cases, insolvent companies were saved through recovery and restructuring plans agreed upon by a required majority vote of creditors during insolvency procedures and later confirmed by courts, resulting in a binding judicial decision. However, many cases ended in liquidation due to late interventions to turn such businesses around. There were also inadequate legal provisions in bankruptcy laws that required companies to be over-indebted, or have a debt greater than total assets, before courts could officially open bankruptcy proceedings.

According to the World Bank's Resolving Insolvency indicator in its *Doing Business Report*, 70.2% of debt was recovered by creditors in OECD member countries in 2019, but only 38.2% on average in the WBT economies, implying an approximate 60% loss of value (World Bank, 2019[2]).

Following the 2008 financial crisis and a major wave of insolvencies, there were calls to establish a universal bankruptcy regime suitable for all affected parties. As a result, the European Commission adopted a Recommendation on the New Approach to Business Failure and Insolvency in 2014 (European Commission, 2014[1]), the European Insolvency Regulation Recast in 2015 (European Union, 2015[3]), and the Preventive Restructuring Directive in 2019 (European Union, 2019[4]).

The wave of new legislation aimed to refocus Europe's policies on preventive restructuring and out-of-court insolvency prevention settlements between the debtor and its creditors; updating the rules on cross-border insolvency; and introducing new policies on early warning systems and second chance for failed entrepreneurs. The prevention of insolvency was recognised as a major factor in maintaining a financially

healthy business environment. Meanwhile, the adoption of restructuring plans of financially distressed businesses by creditors became possible should the plan propose higher recovery for creditors than bankruptcy liquidation, thus allowing policies supporting restructuring plans to increase savings and recovery values for creditors and debtors, respectively.

The COVID-19 pandemic and the resulting restriction of economic activity in many sectors, which caused unexpected financial crises, coincided with the introduction of preliminary insolvency prevention recommendations by the WBT economies. The region focused its mitigation efforts on reallocating insolvency prevention efforts from company-specific cases to economy-wide prevention instruments to overcome widespread, systematic financial distress. Business support measures to help enterprises avoid current and future bankruptcy varied from temporary bans on filing insolvency of debtors and offsetting payments of debt to the rescheduling of debt payments, quasi loan subsidies, and direct financial aid and subsidies to businesses and citizens.

However, the financial measures adopted by the WBT governments only provided temporary relief to companies, after which increased insolvencies are expected. According to Allianz, a leading insurance company, the risk of debtor non-payment is expected to increase, and 7-15% of European SMEs are at risk of insolvency in the next several years (Kuhanathan and Boata, 2021[5]). Dutch Experian, another major EU insurance company, predicts that 1 in 16 (6.25%) small businesses will default by the third quarter of 2022 (Dutch Experian, 2021[6]).

It remains crucial for WBT economies to introduce appropriate measures and legal provisions that promote the prevention of insolvency. They will also need to create positive attitudes around giving entrepreneurs a fresh start and ensure that those starting again have the same market opportunities they had the first time. Likewise, adequate attention should be given to the criteria for granting second-chance procedures to honest entrepreneurs, focusing on those who can propose viable plans. In this context, effective bankruptcy regulations will be essential to ensure a positive impact on companies' market exits and reduce the opportunity cost of entrepreneurship by creating more welcoming conditions for the establishment of new businesses.

Assessment framework

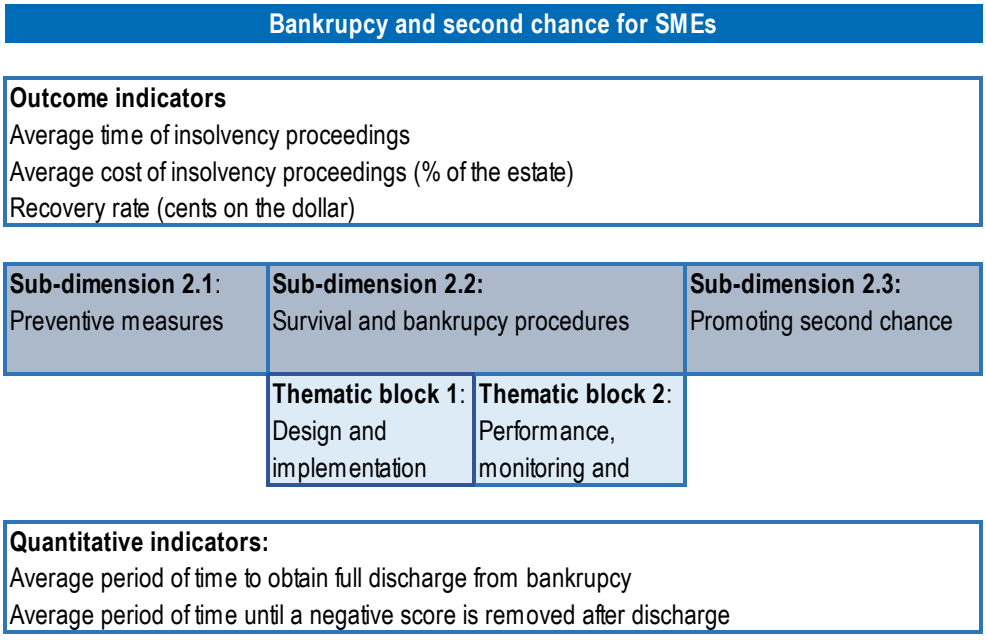
Structure

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

- **Sub-dimension 2.1: Preventive measures** looks at the existence of alternatives to in-court bankruptcy processes, such as the establishment of early warning systems and out-of-court settlement mechanisms that the economies use to help SMEs avoid bankruptcy.
- **Sub-dimension 2.2: Survival and bankruptcy procedures** focuses on legislation and practice and their alignment with international standards. It looks at whether survival procedures, such as reorganisation procedures, exist and how they operate. It assesses policy performance, first in design and implementation then in performance, monitoring and evaluation.
- **Sub-dimension 2.3: Promoting second chance** examines how the economies facilitate a second chance for failed entrepreneurs, assessing attitudes towards giving honest entrepreneurs a fresh start. It specifically looks at the existence of training, information and second-chance campaigns.

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

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



Notes: The outcome indicators serve to demonstrate the extent to which the policies implemented by the government bring about the intended results, and they have not been taken into consideration in the scoring. By contrast, quantitative indicators, as a proxy for the implementation of the policies, affect the overall scores. As for the outcome indicators, they refer to those derived from the World Bank Doing Business Report, which was discontinued in 2020. Therefore, the latest data refer to 2019, with the last published report being the 2020 edition.

Compared to the 2019 assessment, minor adjustments have been made to the framework to enhance the importance of the bankruptcy and second chance for SMEs, translated by a more in-depth analysis of Sub-dimension 2.2. The assessment also considers COVID-19 response measures, although no evaluation has been made in this regard. Moreover, the indicator on out-of-court settlements, previously considered under Sub-dimension 2.2, was split into: 1) out-of-court settlements without court involvement, as a preventive measure under Sub-dimension 2.1; and 2) out-of-court settlements with the involvement of the court, considered under Sub-dimension 2.2. However, it should be noted that in practice, there is no clear division, as the process is intertwined.

Analysis

Performance in bankruptcy and second chance

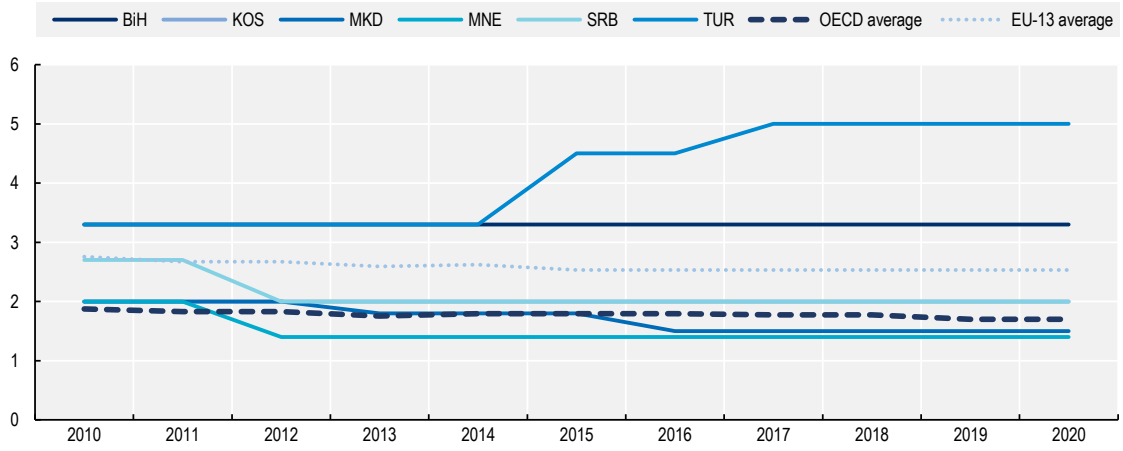
Outcome indicators play a key role in examining the effects of policies. They provide crucial information for policy makers to judge the effectiveness of existing policies and the need for new ones. Put differently, they help policy makers track whether policies are achieving the desired outcome. The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

The region's performance has, on average, remained close to the same levels as in the previous assessment. No progress has been recorded in terms of the time required to resolve insolvency. Turkey remains the lengthiest economy to resolve an insolvency case, while Montenegro remains the fastest (Figure 2.3) (World Bank, 2019[2]).

The cost of resolving insolvency has remained at the same levels as the previous assessment. Bosnia and Herzegovina and Montenegro are the only economies that outperform the OECD average, while Kosovo[§] and Serbia have the highest costs for resolving insolvency (Figure 2.4) (World Bank, 2019[2]).

Since 2018, the recovery rate has increased for all economies in the Western Balkans. In 2020, it averaged 42.8 cents on the dollar, while in Turkey the rate continued to decrease and dropped to 10.5 cents on the dollar (Figure 2.5). All WBT economies are still performing below the OECD average (World Bank, 2019[2]).

Figure 2.3. Time taken to resolve insolvency (2010-2020) (Years)

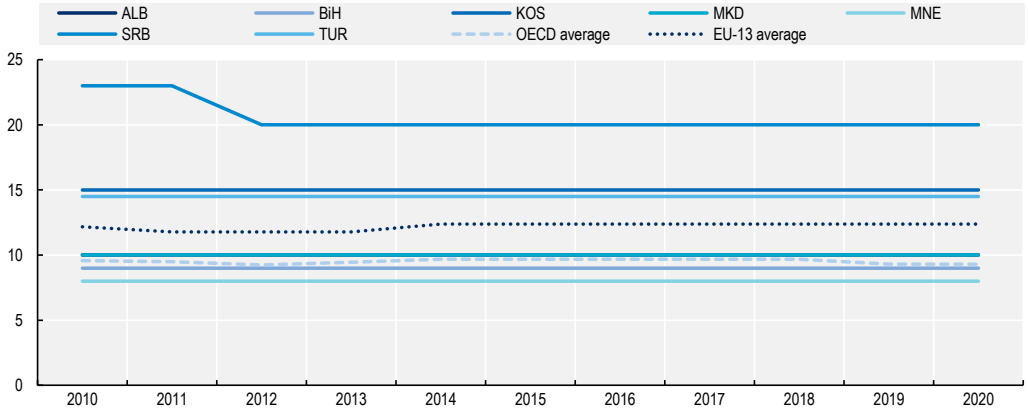


Notes: Data for Japan, Mexico and the United States are missing for 2010-12 when calculating the OECD average; data for Malta are missing for 2010 when calculating the EU-13 average.
EU-13 member states: Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic and Slovenia.
Source: Based on data from World Bank (World Bank, 2020[7])

StatLink https://stat.link/a3rmke

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

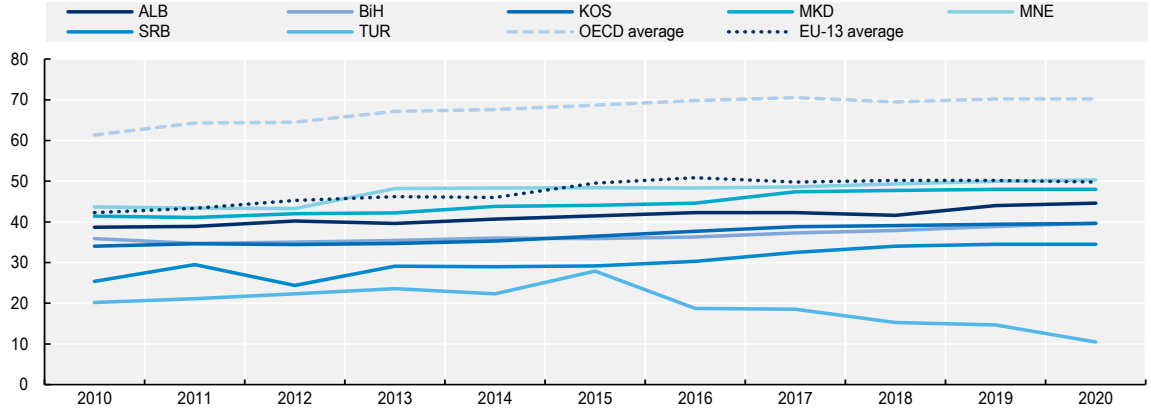
Figure 2.4. Cost of resolving insolvency (2010-2020) (% of estate)



Notes: Data for Japan, Mexico and the United States are missing for 2010-12 when calculating the OECD average; data for Malta are missing for 2010 when calculating the EU-13 average.
EU-13 member states: Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic and Slovenia.
Source: Based on data from World Bank (World Bank, 2020[7])

StatLink https://stat.link/qzok5s

Figure 2.5. Recovery rate for resolving insolvency (2010-2020) (cents on the dollar)



Notes: Data for Japan, Mexico and the United States are missing for 2010-12 when calculating the OECD average; data for Malta are missing for 2010 when calculating the EU-13 average.
EU-13 member states: Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic and Slovenia.
Source: Based on data from World Bank (World Bank, 2020[7])

StatLink https://stat.link/534g12

Preventive measures (Sub-dimension 2.1)

Swift government intervention in providing assistance to SMEs and entrepreneurs who foresee financial difficulties or failures is crucial. It hinges on timely detection of financial vulnerabilities that can impact an enterprise's chances of survival. Therefore, initiatives such as diagnostic tools and information services form the backbone of a successful government strategy to prevent bankruptcy.

Overall, prevention mechanisms include: 1) early warning tools and systems designed to provide timely warning signals regarding financial distress, based on self-tests or other preferred methods; 2) business advisory and mentoring support services to companies in financial distress; 3) voluntary out-of-court settlements between a debtor and its creditors; and 4) hybrid or pre-insolvency prevention procedures negotiated out of court between a debtor and its creditors. The first three mechanisms are considered entirely preventive, while the fourth is a hybrid between an out-of-court settlement and a formal court rehabilitation procedure.

There continues to be a lack of strategic policy making in WBT economies when it comes to insolvency prevention mechanisms. Insolvency is only considered to the extent of formal bankruptcy legislation, limiting the scope of insolvency prevention mechanisms.

Overall, no major progress has been recorded since the previous assessment; preventive measures remain limited in the region (Table 2.2). While Albania and Turkey are the top performers when it comes to preventive measures for bankruptcy and insolvency, Bosnia and Herzegovina recorded the highest increase since the 2019 assessment.

Table 2.2. Scores for Sub-dimension 2.1: Preventive measures

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Weighted average	3.10	2.80	2.20	2.80	2.50	2.80	3.00	2.74

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

Fully fledged early warning systems for distressed SMEs are still lacking

Early warning systems can help prevent bankruptcy and liquidation by promptly detecting signs of financial distress so that businesses can obtain assistance to successfully restructure before irreparable damage is done. As SMEs can often underestimate their degree of financial difficulties and delay taking appropriate measures to lessen their financial burdens, governments can implement early warning systems that urge SMEs to initiate restructuring procedures quickly, helping lower the risks of bankruptcy by acting quickly.

WBT economies generally lack early warning mechanisms and have a limited notion of how to develop them or the type of best practice models most suitable to adapt and use. In all economies, except the Federation of Bosnia and Herzegovina enity, public institutions have established initiatives that act as early-stage warning systems, detecting indications of distress through financial tools, such as tax declarations or bank loans. However, these tools can miss signs of financial trouble, particularly when it comes to SMEs. For example, not all debtors apply for bank loans, as they often do not fulfil the conditions for institutional financing, such as collateral or credit requirements. Likewise, in cases where annual financial statements are submitted to the tax authorities, it may already be too late to resolve problems using only advisory services.

Nevertheless, some initial editions of early warning systems exist in the region. In Kosovo, for example, the tax administration monitors the performance of companies and implements basic insolvency preventive measures. It notably runs “basic” early warning tools based on companies’ annual financial statements. However, as this mechanism bases its warnings on yearly financial statements, which can lead to belated signals of distress, rendering it ineffective in preventing some bankruptcy cases, it is not considered a fully fledged early warning system.

Some banks and private credit registries have also developed their own mechanisms to assess customers’ credit performance by drawing on information from multiple sources such as tax declarations, social security declarations and balance sheets. These mechanisms have been designed to reduce the number of non-performing loans rather than avoid liquidation. In some cases, banks or private credit registries

assign a risk classification. For instance, Montenegro's Central Bank is obliged by law to collect data from different banks on entrepreneurs whose accounts are blocked and publish them on their website. While this system allows financially distressed companies to be identified before they file for bankruptcy, it still does not provide enough time, nor a solution, to reorganise the firm and the debt to prevent bankruptcy.

Out-of-court settlements and restructuring procedures remain largely underdeveloped

An out-of-court settlement is a practical tool used in situations where business advisory or mentoring services alone cannot resolve issues of financial distress for companies. It provides a softer solution to companies in pre-insolvency situations, where debt is rescheduled or refinanced based on the willingness of creditors. The debtor initiates this voluntary procedure, and the agreement is binding only to the creditors who voted for the restructuring of the debt in the presence of a public notary. The COVID-19 pandemic has accelerated the adoption of various effective out-of-court mechanisms, particularly in OECD member countries. The WBT economies could use these mechanisms as guidance for updating their own frameworks on alternative methods of insolvency resolution (Box 2.1).

Box 2.1. Out-of-court settlement in selected OECD member countries as a response to EU Directive 2019/1023

After adopting EU Directive 2019/2023 on preventive restructuring frameworks,[1] EU member countries introduced widespread reforms to restructure their legal frameworks regarding enterprises in financial distress, focusing on precautionary rather than retroactive measures.

Much like the 2008 financial crisis, the COVID-19 pandemic made it necessary to once again reshape how insolvency and bankruptcy procedures are carried out, putting a large emphasis on moving insolvency restructuring to out-of-court legal solutions.

For instance, in 2021, the **Netherlands** introduced a new Law on the Confirmation of Private Restructuring Plans (WHOA) under the Dutch Bankruptcy Act, which makes predominantly out-of-court restructuring procedures available to companies in financial distress. Much like the legal solutions set out in the US Chapter 11 procedure and EU Directive 2019/2023, the WHOA allows the debtor, creditors and shareholders[2] to jointly propose a viable restructuring plan to meet the debtor's financial obligations, which is then voted on by creditors and shareholders, requiring a two-thirds majority in both groups to be approved. Once private consensus is achieved, the new plan is subject to court confirmation, after which it becomes binding on all affected creditors and shareholders if confirmed. Under the WHOA, in special cases, the court can impose a binding cross-class cram-down,[3] whereby a restructuring plan is enforced against reluctant shareholders or any class of dissenting creditors.

In 2020, the **United Kingdom** introduced the Corporate Insolvency and Governance Act 2020 (CIGA 2020), a new procedure under which restructuring plan options are made available to all enterprises encountering financial distress that may affect their ability to continue operating. Under the act, the debtor must propose an arrangement to its creditors and shareholders to eliminate, reduce, prevent or mitigate the effects of financial distress undergone by the enterprise. Although CIGA 2020 was introduced with a number of temporary provisions to mitigate the strain of the pandemic on companies, the majority of the reforms included will be permanent.

Similarly, **Germany** adopted a new framework in 2021 that allows debtors to restructure their financial commitments outside of formal insolvency proceedings before filing for official insolvency. The procedure permits debtors to submit restructuring plans for any form of debt, as well as modifications of equity and collateral rights, including guarantees provided by associated companies, to creditors for approval. Like the WHOA, the new German procedure also allows for cross-class cram-downs that bind dissenting shareholders and creditors to restructuring plans. Additionally, the updated law allows

debtors to access new options for early financial restructurings in lieu of the long-established German insolvency procedure, giving debtors control of their businesses during restructuring procedures for the first time by allowing them the chance to restructure their debts outside of official procedures that would require a majority vote.

1. The Directive (EU) 2019/1023 of the European Parliament and of the Council on preventive restructuring frameworks, on discharge of debt and disqualifications, and on measures to increase the efficiency of procedures concerning restructuring, insolvency and discharge of debt, and amending Directive (EU) 2017/1132 (Directive on restructuring and insolvency) can be accessed at: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019L1023&from=EN.
2. A shareholder is a company or person who owns shares in a company and therefore gets part of the company's profits and the right to vote on the company's management.
3. The term "cross-class cram-down" refers to a situation where a restructuring plan can be imposed on an entire class of dissenting creditors or members.

Sources: Allen & Overy (2020[7]); UK Government (2020[8]); CMS Germany (2021[9]).

In the current context, out-of-court settlement procedures in the region are scarce and generally underdeveloped in cases where they do exist. In Serbia, the Law on Consensual Financial Restructuring allows the debtor to initiate an out-of-court settlement, albeit only under the condition that it is supported by at least one financial institution, usually a bank, with the aim of resolving problematic non-performing loans. While Turkey has also introduced a similar procedure for financial restructuring, as a COVID-19 recovery measure, with the active support of the Association of Turkish Banks, the new scheme is temporary and expires in 2023. Nevertheless, approximately TRY 5 billion (around EUR 285 million) of debts have been successfully resolved through this procedure since its implementation. In February 2021, Albania introduced a new insolvency prevention regulation on accelerated extrajudicial reorganisation agreements, which is expected to enhance bankruptcy prevention, although certain deficiencies have been noted. Meanwhile, Montenegro has revoked a similar law since the last assessment and currently does not have a law regulating out-of-court settlements. The remaining economies in the WBT region do not have particular legal solutions on out-of-court settlements for financially distressed companies.

Hybrid or pre-insolvency restructuring procedures are in place in most WBT economies

Hybrid insolvency procedures combine both out-of-court and formal court elements and can be an effective solution for minimising the cost and delay associated with formal restructuring procedures. This type of process can also help circumvent long-term disagreements between debtors and creditors by overruling dissenting opinions among creditors (IMF, 1999[10]). These procedures are initiated as out-of-court settlements and are then finalised during an in-court process, binding the agreed-upon restructuring schemes for all creditors.

The insolvency frameworks of all WBT economies, with the exception of Albania and Montenegro, comprise either pre-insolvency restructuring plans, pre-packaged reorganisation plans or preventive concordat hybrid procedures. Similar to good practices implemented in OECD member countries, a debtor's pre-insolvency plans that are not accepted by creditors and/or not confirmed by the court can be subject to superseding the court's authority in overruling the initiation of liquidation processes. Consequently, the debtor remains in possession of its assets and manages its operations under the supervision of a bankruptcy administrator, making the process faster and cheaper than in-court reorganisation procedures.

The length of pre-insolvency proceedings varies in the region. In 2021, proceedings in Bosnia and Herzegovina and North Macedonia took, on average, eight months to close a case. In Serbia, pre-packaged, fast-track insolvency reorganisations were generally completed within three months, while

preventive concordats in Turkey took approximately one year. However, there is no comparable data for the remaining economies, making it difficult to draw region-wide conclusions.

The way forward for preventive measures

- **Develop insolvency prevention policy measures, including a fully fledged early warning system**, as SMEs tend to underestimate the importance of maintaining a sound financial status and avoiding riskier decisions. If appropriate corrective actions are not taken promptly, companies are likelier to face financial distress and later insolvency, especially in the aftermath of the COVID-19 pandemic. One option could be to widen the scope of the existing advisory support services, including the creation of anonymous self-check tests to identify possibilities to resolve early financial distress. The selection of the right system is subject to the size of the economy, the number of registered entities, digitalisation of financial reporting and public awareness of existing preventive measures. Experience and good practices implemented in EU member states could serve as a good example for WBT economies in selecting an appropriate model of early warning systems (Box 2.2).

Box 2.2. Early warning systems in the European Union

Early warning tools may include different instruments: alert mechanisms when the debtor has not made certain types of payments; advisory services provided by public or private organisations; and incentives under national law for third parties with relevant information about the debtor, such as accountants and tax and social security authorities, to flag to the debtor a negative development.

In the European Union, there are two competing models for early warning systems:

1. **Self-assessment tool:** Creating tools for small and medium-sized enterprises (SMEs) and entrepreneurs to anonymously assess their economic situation. The self-test tool can be a simple software application on a public website. SMEs and entrepreneurs have only to enter basic financial data about their business. The application will produce a preliminary diagnostic with recommendations for remediation actions, like searching for a specific business advisory or mentoring support service. The application conducts a financial ratios diagnostic analysis. The quality of the diagnostic analysis depends on the quantity and quality of the data intake by the entrepreneur.

   This model is useful as a quick financial health check and should be complemented with a business advisory support service by a public institution or access to a commercial or professional association.

2. **Intervention mechanism:** This includes a series of steps to remedy the distress situation under external supervision. The mechanism is based on an early warning signal triggered for the SME, identification of problematic areas causing financial distress and reporting to company management with recommendations to take remedial measures. The process to remedy the identified issues then follows through a series of interventions by different actors, aiming to avoid company insolvency. The process can include:

- A company bookkeeper or external auditor spots an observation that may lead to financial distress. The early warning mechanism can be built on an obligation of the bookkeeper or auditor to inform the company's management of the issue.
- If management does not take action to remedy the situation, there may be subsequent communications with the board or even at the shareholders' meeting.

- If there is no adequate reaction of the enterprise organs, the mechanism can prompt the intervention of outside bodies, such as special mediation, or even trigger a special preventive measure court procedure.
- Finally, if there is no intervention, the system may provide for creditors' actions related to the use of alternative dispute resolution.

Public creditors can play a significant role in an early warning system as they can identify a delay in tax and social security payments, a warning that enterprises are experiencing financial difficulties. Information on late payments should be carefully used together with diagnostic analysis, as companies tend to pay only public debt to avoid early warning detection mechanisms.

Source: IMF (2021[11]).

- **Provide permanent advisory and mentoring services to financially distressed companies.** The provision of business advisory services for companies in financial distress should be converted to permanent services in cases where such services are temporary, as a sort of a so-called "pre-insolvency clinic" instead of a time-bound project. Consistent new market entries are accompanied by a higher proportion of companies that may potentially find themselves in financial distress and thus need support to avoid negative externalities that could spread to other operating entities in the business ecosystem. Adding early restructuring services to existing ones, such as export promotion services, partner networking, business planning or financial management, would help strengthen preventive measures.

Survival and bankruptcy procedures (Sub-dimension 2.2)

Insolvency frameworks protect a debtor's and creditors' rights in cases of imminent insolvency or over-indebted insolvent companies. Such legislation offers legal protection to viable parts of businesses, allowing debtors to negotiate restructuring agreements with their creditors (OECD et al., 2019[12]). As also highlighted by the European Commission's recommendation from March 2014, transparent and well-defined legislation translates into efficient bankruptcy proceedings, creating less of a burden on the judiciary system and leading to a higher number of reorganisations instead of filed bankruptcies (European Commission, 2014[1]).

The WBT economies have well-established legal frameworks for survival and bankruptcy procedure regulations (Table 2.3). Future progress will depend on the streamlining of reorganisation and liquidation procedures. Overall, each economy's performance is comparable in this assessment, with few disparities across the region.

Table 2.3. Scores for Sub-dimension 2: Survival and bankruptcy procedures

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Design and implementation	3.80	4.00	2.70	3.30	3.00	3.50	3.62	**3.42**
Performance and monitoring and evaluation	2.40	3.50	2.30	3.40	3.70	3.80	3.82	**3.27**
Weighted average	**3.24**	**3.80**	**2.54**	**3.36**	**3.28**	**3.62**	**3.74**	**3.37**

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

While insolvency regimes are slowly improving, training to familiarise officials with legal reforms remains scarce

An efficiently designed insolvency regime is vital for facilitating the orderly exit of failing firms from the business environment. Ideally, an insolvency regime would prevent hasty and inefficient practices by creditors rushing to collect on individual claims that could result in lower recovered assets. Optimal insolvency policies, which equally rely on enforcement quality and judicial efficiency, should encourage debtors to address financial difficulties early on. Aspects of well-organised insolvency agreements include clear triggers to initiate insolvency proceedings, fair and strategic liquidation options that prioritise rehabilitation options for viable firms, and the inclusion of personal insolvency regimes in cases of merged personal and corporate assets (McGowan and Andrews, 2018[13]) (Box 2.3).

Box 2.3. OECD good practices on insolvency regime design

Just as a well-designed insolvency regime can positively impact the overall business environment, it can equally have adverse effects on productivity growth if poorly constructed due to high personal costs, length of discharging, low exemptions for small and medium-sized enterprises, and absence of preventative mechanisms. Although there is no consensus on the optimal design of insolvency regimes due to differing institutional settings between countries, policies should be designed to encourage early action to mitigate financial difficulties by debtors and increase the likelihood of restructuring over bankruptcy. Core features of a well-designed insolvency regime may include:

- A clear trigger to initiate insolvency proceedings at the early stages of financial distress by either the debtor or creditors, thus enhancing the chances of restructuring instead of bankruptcy.
- Both the option of efficient liquidation procedures and fair opportunities for rehabilitation of viable enterprises to strategically assess whether firm value is maximised by liquidation or restructuring. The option to restructure viable firms should be accompanied by mechanisms that can override dissenting parties in reorganisation proceedings that prevent progress when time is of the essence. Liquidation proceedings should facilitate a flexible and speedy exit of non-viable firms to maximise value for all parties and preserve the overall business ecosystem.
- A design that discourages malicious behaviour by creditors and debtors whereby parties can threaten to force an inefficient result in negotiations, force strategic defaults to obtain debt relief or transfer assets prior to insolvency to distinguish honest from fraudulent entrepreneurs.
- In cases where personal and corporate insolvency are tied, efficient personal insolvency regimes take both the debtors' prospects and incentives to benefit from post-insolvency second-chance regimes into account.

Source: McGowan and Andrews (2018[13]).

All WBT economies have formal bankruptcy reorganisation and liquidation procedures in place, with some economies having introduced additional reorganisation procedures for SMEs since the previous

assessment. Overall, bankruptcy reorganisation plans in the WBT region can be proposed by the debtor, some creditors or bankruptcy administrators, allowing for the submission of multiple, competing reorganisation plans. However, none of the economies has clear rules for selecting the most beneficial plan for all creditors in the case of multiple options.

The prevalence of hybrid insolvency regimes in the region, which combines judicial control in formal proceedings with out-of-court procedures, has also increased in recent years. Several economies, such as Bosnia and Herzegovina and North Macedonia, have introduced hybrid pre-insolvency restructuring procedures. Both Serbia and Turkey have implemented hybrid schemes, with Serbia using a pre-packaged hybrid bankruptcy reorganisation procedure and Turkey introducing a hybrid preventive concordat restructuring agreement.

Since the previous assessment, all WBT economies, except Kosovo, have made a number of amendments to their insolvency legal frameworks. The most significant amendment was made in Bosnia and Herzegovina, whereby the Brcko District abolished its Bankruptcy Law in 2019 and introduced a new insolvency regime that is fully harmonised with Republika Srpska. The Federation of Bosnia and Herzegovina synchronised its legislation with the Brcko District and Republika Srpska by introducing a new pre-insolvency restructuring and an electronic insolvency register. Meanwhile, North Macedonia prepared a new draft Bankruptcy Law in September 2021; however, it had not yet been submitted for parliamentary vote at the time of writing.

Table 2.4 summarises the amendments made in the region's insolvency frameworks since 2019 and the foreseen additions, which were not yet implemented at the time of writing. However, it should be noted that following the changes in their regulatory frameworks, none of the economies provided formal training to ensure greater professional standards and high-quality services to the implementation bodies, such as the bankruptcy administrators, bankruptcy judges, appraisers and creditors' associations.

Table 2.4. An overview of insolvency laws adopted or amended in the Western Balkans and Turkey since 2019

Economy	Date	Main changes	Future foreseen addition
Albania	2021	Introduced new sub-law regulation (DCM65) on accelerated extrajudicial reorganisation agreements.	Improved extrajudicial reorganisation agreements.
Bosnia and Herzegovina	2019 (Brčko)	Introduced a new Bankruptcy Law, featuring regular reorganisation and liquidation and pre-insolvency reorganisation.	
	2021 (FBiH)	Introduced a new section in the Bankruptcy Law on pre-insolvency reorganisation and amendments to harmonise its regulation with Republika Srpska and Brčko.	
	2021 (RS)	Introduced a promotion programme of second chance for failed entrepreneurs and small and medium-sized enterprises.	
Montenegro	2019	The out-of-court Law on Consensual Financial Restructuring of Debts was revoked.	
	2020	The new Law on Alternative Dispute Resolution (or Mediation Law) was introduced to support bankruptcy disputes.	
	2021	Multiple amendments of the Bankruptcy Law were introduced, including the appointment of bankruptcy administrators, changes in the structure of the Board of Creditors, changes in insolvency test criteria, the registration of a bankruptcy estate as a legal entity, etc.	
North Macedonia	2022		The proposal for the new Bankruptcy Law planned to be sent to the parliament for ratification includes new pre-insolvency proceedings, the introduction of an early warning system and many improvements to the current law.
Serbia	2022		Proposals for amendments to the Law on the

Economy	Date	Main changes	Future foreseen addition
			Bankruptcy Supervision Agency, which define and establish qualifications for licensing of general and special administrators and criteria for delicensing, introduces a new electronic portal and the possibility for sale of assets through e-auctions. The amendments to the Law on Bankruptcy include expedited submission of claims in 60 days instead of the current 120-day period, release of secured property to secured creditors if they are not the subject of reorganisation and other improvements. Both laws are under parliamentary discussion.
Turkey	2019	Introduction of the extrajudicial financial restructurings under Provisional Act 32 and the Banking Law.	
	2020	Multiple amendments to the Bankruptcy Law on foreclosure liens, precautionary attachment decisions, etc.	
	2021	Multiple amendments to the Bankruptcy Law concerning the sale of assets, the release of property not subject to concordat for sale, the continuation of contracts, property important for the continuation of the business, failure of the concordat and conversion to ordinary liquidation, etc.	

Note: FBiH: Federation of Bosnia and Herzegovina; RS: Republika Srpska.

Streamlining liquidation processes are nascent in the WBT region

Digitalising the liquidation process can enhance transparency; save time and lower the costs of lengthy liquidation; anticipate potential conflicts between the creditors' committee; and protect creditors' rights as claims are recovered from the best market price reached at a competitive bidding procedure (OECD et al., 2019[12]). The digitalisation of liquidation processes in the region is generally underdeveloped, with a relatively low number of electronic services for liquidation processes compared to OECD member countries. However, North Macedonia stands out as a top performer in this regard, having substantially simplified its liquidation process by digitalising the sale of assets through e-auctions and automated distributions if there are no appeals from creditors (Box 2.4).

Box 2.4. The digitalisation of bankruptcy liquidation procedures in North Macedonia

The 2015 amendment of the Insolvency Act in North Macedonia introduced the option of e-auction sales of assets from bankruptcy estates. Following seven years of implementation of e-auction sales, evidence shows that the amount of time taken by bankruptcy liquidation procedures have decreased, reducing the procedure costs and creditors' claims recovery at best market rates. The main sale principles are defined in Articles 98-100 and Articles 189-196 as follows:

- The sale of the assets from the bankruptcy is done through e-auctions with public bidding.
- Parties interested in participating in e-auctions are required to pay a 10% bond/deposit of the book value of the asset. They then receive a participant ID with which to bid. The ID is anonymous.
- The e-auction starts at a previously announced time and finishes 30 minutes later. All participants are automatically and electronically informed of the results of the auction.
- Two additional e-auction rounds can take place for any unsold assets. The process must be completed within 90 days of the decision on the sale of assets from the bankruptcy estate.

- The parties in the e-auctions have the right of appeal, which is resolved by a bankruptcy judge within three days of filing the appeal in court and is final.
- The shares of publicly traded companies from the estate are sold on the stock exchange.
- The initial price of an asset for bidding is not announced, and the auction starts from a price of zero.
- A proposal for the partial distribution of proceeds from the sale of assets may be submitted within eight days, upon completion of the e-sale, to the Board of Creditors to approve the costs of the procedure and distribution to creditors.
- There is an option for appeal on advance partial e-auctions and on final distribution to a bankruptcy judge, which is resolved by the judge within three days of filing the appeal in court and is final.
- Distribution of proceeds takes place within eight days upon announcement of the final distribution plan.
- Unsold assets are distributed in-kind to creditors.

Source: SCBL Project (2017[14]).

In 2021, Turkey introduced its e-auction system for liquidation proceedings via the National Judiciary Informatics System. Through this structure, both debtors and creditors can initiate the process of selling assets. However, some shortcomings, such as the lack of obligation to seek debtors' consent to grant sales authorisations, have yet to be addressed. In addition, the appraisal costs of individual sales requests could potentially increase the length and the cost of bankruptcy and insolvency proceedings.

Simplified bankruptcy reorganisation and liquidation procedures have yet to be introduced

Simplified bankruptcy reorganisation and liquidation procedures aim to assist micro and small companies that may not have substantial assets, as the standard debt restructuring or liquidation procedure may be too costly to be practical. Ideally, a pre-packaged arrangement should be agreed upon between the debtor and creditors that requires fewer administrative steps and a lower approval threshold, unlike a traditional scheme, where the debtor should call the creditors board to negotiate and reach an agreement with the majority.

The bankruptcy and liquidation procedures in the WBT region are generally complex and difficult for small enterprises to navigate. With the exception of Kosovo and North Macedonia, WBT economies' current legal frameworks are designed for medium-sized and large enterprises, which have more administrative capacities than small firms.

For Kosovo and North Macedonia, expedited proceedings for micro and small enterprises are permissible under their current legislative frameworks. North Macedonia offers an accelerated out-of-court settlement procedure for "small value" enterprises with bankruptcy assets amounts up to MKD 1 million (approximately EUR 16 200) and fewer than ten employees. However, this scheme only removes a small portion of the overall process in which the Board of Creditors' authorisation is required for liquidation, limiting the general impact of this accelerated track. Meanwhile, the Insolvency Law of Kosovo extends the option for expedited reorganisation to SMEs with an annual turnover of up to EUR 1 million or fewer than 25 employees on a voluntary basis. Under Kosovo's framework, the court holds an accelerated hearing to determine if the debtor's pre-filing solicitation of votes discloses all the required information and whether voting conditions were met, common impediments that typically prolong the process.

Monitoring and evaluation of bankruptcy proceedings could be improved in the region

Monitoring and evaluation of insolvency regimes is crucial for assessing the overall health of economy-specific and regional business environments. Well-developed and reliable indicators to monitor insolvency proceedings, such as the treatment of failed entrepreneurs, prevention and streamlining techniques, restructuring tools, and quantitative markers, can help support informed policy making that helps streamline access to swift and effective insolvency proceedings for small enterprises.

Monitoring and evaluation systems of bankruptcy proceedings in the WBT region are primarily based on the performance of the judiciary system. The overall level of data collection varies widely among the economies. In Montenegro, North Macedonia and Serbia, data are collected on the number of opened and closed cases by the regional court of jurisdiction. In contrast, data in Turkey are only collected at the national level.

However, in most cases, the monitoring and evaluation of collected data remains very weak, as most WBT economies do not collect information, such as the cost of the bankruptcy proceeding as a percentage of the bankruptcy estate, the number of backlog court cases related to bankruptcy or creditors' recovery. Moreover, none of the economies tracks the final status of the reorganisation plans, eliminating the possibility of assessing the efficiency of implemented legal frameworks.

Nevertheless, some efforts have been made to collect a handful of data indicators related to insolvency procedures in a few economies. Serbia and Turkey monitor the size of court case backlogs annually, while Albania and Turkey also measure the length of bankruptcy procedures.

The way forward for survival and bankruptcy procedures

- **Streamline liquidation processes by introducing digital tools.** Digitalising the liquidation process would enhance transparency, save time and cost of the currently lengthy liquidation procedures, anticipate potential conflicts within the creditors' committee, and protect creditors' rights as claims are recovered from the best market price reached through a competitive bidding procedure. This could be achieved by introducing e-auctions and automatic e-distributions mechanisms. Moreover, information about insolvency procedures should be publicly available and contain information such as rules on data protection and privacy.
- **Introduce simplified bankruptcy proceedings for SMEs.** As SMEs have smaller scales of business and simpler operations, short-tracking proceedings, for example, for SMEs with a maximum debt set at a given threshold, determined based on the average size of an economy's micro and small-sized firms, at the time of filing for bankruptcy would ease the cumbersome and expensive administrative burdens for small companies. Additionally, only debtors should be able to file for bankruptcy reorganisations, and restructuring plans should be simplified to reflect the fewer resources of small businesses, e.g. there is no need for creditors' committees (see Box 2.5for a good practice example). Simplified and fast-track procedures are particularly relevant in the aftermath of the COVID-19 pandemic. They allow for quicker reintegration of businesses into the economy and avoid potential increases in unemployment.
- **Improve monitoring and evaluation mechanisms.** Policy making is effective when it is well-informed and evidence-based, which requires appropriate monitoring and evaluation mechanisms. As highlighted above, WBT economies collect very little bankruptcy-related data, which does not allow for the effective and regular monitoring of the implementation of insolvency measures. Therefore, all economies should predefine a set of key performance indicators to enable monitoring and evaluation of the progress made to better determine required changes to the introduced measures and legal frameworks. For more information on data that WBT governments could consider collecting in this area, please see Annex C. Improved co-ordination between different public institutions is also recommended. It may lead to an increase in the number of

relevant indicators collected and ensure an improved evaluation of the impact of insolvency policies.

- **Maintain the administrative capacities of the bodies implementing the insolvency framework to harmonise legislative changes among the WBT economies.** Despite changes to their insolvency regimes, none of the economies provided training to bankruptcy administrators, bankruptcy judges, appraisers or creditors' associations. Providing training would ensure that implementation bodies offer high-quality services and would help to improve administrative capacity.

Box 2.5. US Bankruptcy Code Subchapter V: Small Business Reorganisation

In 2019, the United States adopted a new subchapter of its Bankruptcy Law, which regulates the Small Business Reorganisation Act (SBRA), where "small-business debtor" is broadly defined as a "person engaged in commercial or business activities that has aggregated non-contingent liquidated secured and unsecured debts as of the date of the filing of the petition in an amount not more than USD 2 725 620; exclusion from this rule is available for businesses with aggregated debt of up to USD 7.5 million due to COVID-19 Interim measures."

The new legislation comes at the time of COVID-19 to strike a balance between formal Bankruptcy Liquidation (Chapter 7) and Bankruptcy Reorganisation (Chapter 11) proceedings for small business debtors. The act lowers costs and streamlines the plan confirmation process to better enable small businesses to survive bankruptcy and retain control of their operations. The US SBRA significantly simplifies the court proceeding and places a maximum of three or five years of disposable income to be paid under the confirmed plan throughout the life of the plan's implementation. Initial statistics show that two-thirds of all filed Chapter 11 formal court reorganisations were transferred to SBRA filings. Initial data confirm that 80% of all filed plans are confirmed in 120 days.

Main principles

- No one but the debtor engaged in a non-publicly traded business activity (except if it complies with the aggregated debt level threshold defined in the law) can file a petition for small business reorganisation.
- No US trustee quarterly fees are paid.
- No exclusions in the proceeding: The debtor must file a plan within 90 days.
- No creditor committees: Creditor committees will not be appointed in Subchapter V cases unless ordered by the Bankruptcy Court for cause.
- No competing plans: The debtor has the exclusive right to file a plan, which must be filed within 90 days from the date of the bankruptcy petition unless extended for cause.
- No absolute priority: The debtor need not comply with the "absolute priority rule", which generally prohibits the owners from retaining equity unless all creditors are paid in full. A plan may be confirmed over the objection of one or more impaired classes of creditors. To obtain confirmation through a "cram-down",* a debtor need only demonstrate that the plan is fair and equitable, does not unfairly discriminate, and provides for the debtor's contribution of all of its projected disposable income.
- No disclosure statements: Disclosure statements are not required, although the plan must include information typically found in a disclosure statement, including a summary of historical operations, liquidation analysis and projections demonstrating an ability to make payments under the plan.
- No enforcement is allowed against the implementation of a cram-down or a non-consensual confirmed plan, until the court case file is closed (between three and five years from the plan

confirmation).

- The debtor is in possession of its business, and the bankruptcy administrator only assists in assessing the viability of the business and facilitates the development of a consensual plan to reorganise the business.
- The appointed bankruptcy administrators have strong business qualifications and include lawyers, restructuring consultants and financial advisors with diverse backgrounds in such areas as business, law, accounting, turnaround management and mediation.
- Deferral of administrative expense payments: Administrative expenses that typically must be paid upon the effective date of the plan may be deferred over the life of the plan for up to five years.
- Discharge provisions: If the plan is confirmed with the consent of all affected creditors, the debtor will receive a discharge of its debts upon plan confirmation. For plans confirmed through "cram-down", the discharge will take effect when all of the payments called for under the plan are made.
- Residential mortgage modification: The SBRA authorises a small business debtor to modify a residential real estate mortgage to the extent that proceeds from the loan were used to fund the business, a form of relief previously unavailable under the Bankruptcy Code.

* A cram-down is the imposition of a bankruptcy reorganisation plan by a court despite any objections by certain classes of creditors. A cram-down involves the debtor changing the terms of a contract with a creditor with the help of the court. This provision reduces the amount owed to the creditor to reflect the fair market value of the collateral that was used to secure the original debt.
Source: Bonapfel (2021[15]).

Promoting second chance (Sub-dimension 2.3)

Economies are increasingly recognising the importance of giving a second chance to entrepreneurs who have experienced bankruptcy. This is vital for stimulating economic growth, creating jobs and improving the business environment, especially in the aftermath of the COVID-19 pandemic. However, due to the stigma associated with failure and the difficulty distinguishing honest entrepreneurs from fraudulent ones, giving businesses a second chance is not always easy.

A second-chance policy allows failed honest entrepreneurs to start up fresh businesses again. Promoting second chance through public awareness campaigns for previously bankrupt entrepreneurs allows for both their quick reintegration into society and the change of cultural stigmatisation of failure into new opportunity. Studies show that entrepreneurs at risk or who have failed and are willing to make a fresh start based on lessons learnt can bring more benefits to an economy than start-ups. Such benefits can include additional new job openings and growth (Startup Genome, 2021[16]).

In this context, the discharge of debt and personal responsibility and liability is extremely important for failed entrepreneurs as it allows them to reintegrate into the economy. As discharge duration can be lengthy and imposed sanctions for failed entrepreneurs are relatively strict, bankruptcy can effectively prevent these companies from making a new start. Even when this is not the case, tailor-made support to restart a business is often limited.

As in the previous assessment, second-chance promotion remains underdeveloped in the region (Table 2.5). Although second-chance policies form part of the SME-related strategic documents in almost all WBT economies, no concrete support measures in this context have been envisaged. However, Bosnia and Herzegovina is slightly ahead of its regional peers, thanks to its project-based support for second chance, provided through business advisory services in Republika Srpska.

Table 2.5. Scores for Sub-dimension 2.3: Promoting second chance

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Promoting second chance	2.00	2.20	1.50	2.00	2.00	2.00	2.00	**1.96**

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

Debt discharge procedures as the key to granting second chance are part of the insolvency frameworks in the region

Debt discharge procedures relieve debtors from remaining debt in bankruptcy procedures, including personal liabilities. In reorganisation procedures, debt discharge is granted by court decision following confirmation of the restructuring plan, which explicitly states that only the debt foreseen in the proposal approved by creditors has to be paid. In bankruptcy liquidation, on the other hand, the debt discharge depends on whether the liquidation is caused by the negligence of the debtor's management or an ordinary or fraudulent bankruptcy.

All WBT economies have automatic debt discharge subject to confirmation of the restructuring plan under the bankruptcy reorganisation procedures. Albania, Bosnia and Herzegovina, Kosovo, Montenegro, and Turkey have formal discharge procedures for entrepreneurs. In Serbia, the law only regulates discharge for legal entities and does not provide any reinstatement of rights for natural persons upon liquidation. Similarly, in North Macedonia, there is no discharge from debt except for natural persons registered as a legal person or an incorporated (one-person) company. However, this procedure should be initiated separately upon the closing of bankruptcy liquidation procedures by the court.

Second-chance programmes are largely non-existent in WBT economies

The negative effects of failure on honest entrepreneurs, such as sanctions or the loss of civic rights, should be limited in order to provide them with the opportunity for a second chance at building a business. Thus, legal frameworks should be formulated in a way that avoids barriers to the regeneration of businesses and endows second-time entrepreneurs with services to avoid repeating mistakes that previously resulted in failure. Governments should also be active in supporting unsuccessful entrepreneurs through second-chance schemes as the cultural stigma of business failure may have negative impacts, for example when failed entrepreneurs apply for bank loans.

Like in the previous assessment, second-chance promotion is underdeveloped in the region. However, on a positive note, WBT economies do not envisage sanctions or civic consequences for failed honest entrepreneurs following bankruptcy, which lifts barriers to entry for entrepreneurs returning to the economy.

None of the WBT economies promotes second-chance programmes among entrepreneurs at risk of failing or those who have already failed. Public awareness campaigns and action plans on second-chance opportunities for failed businesses are also lacking. On a positive note, Republika Srpska has been supporting second-chance opportunities through business advisory services as part of the DanubeChance2.0 EU Interreg project. In particular, it established an annual budget line for its second-chance programme of BAM 100 000 (around EUR 50 000). While almost all of the remaining economies in the region highlight the importance of second-chance policies in their SME strategies, none of them provide details on concrete plans/measures to be implemented.

The way forward for promoting second chance

- **Promote second chance to honest entrepreneurs.** All WBT economies should promote second chance as an option to honest entrepreneurs to have a fresh start and to reduce the cultural stigma

related to business failure. Table 2.6 provides an overview of potential policy options that economies could implement at different stages of their bankruptcy processes.

- **Introduce amendments to legislation to support second chance.** The WBT economies should adjust their legislation to provide second-chance support for entrepreneurs at risk of failing or who have already failed. Potential options include: 1) free business advisory services; and 2) interest-free financial support in the form of short-term loans to finance ongoing operations.

Table 2.6. Second-chance policy support for entrepreneurs at risk or who have failed

Insolvency phase	Second-chance programme	Legal intervention
1. Early warning	Permanent business advisory and mentoring support services for entrepreneurs at risk of financial distress	Amendment of bankruptcy law providing for access of enterprises to early warning systems and regulation on the provision of early warning systems. Allocation of funds for financing services.
2. Out-of-court restructuring	Permanent business advisory, turnaround restructuring and financing services for entrepreneurs at risk of financial distress	Law on out-of-court restructuring arrangement regulating automatic stay and voting of creditors. Allocation of funds for financing restructurings based on recycling financial means or credit guarantee schemes.
3. Hybrid pre-insolvency restructuring or formal bankruptcy reorganisation	Insolvency restructuring, permanent business advisory and financing services for entrepreneurs at risk of imminent insolvency	Allocation of funds for financing restructurings based on recycling financial means or credit guarantee schemes.
4. Bankruptcy liquidation	Debt discharge, reinstatement of rights, legal services	Amendments of bankruptcy law allowing for debt discharge and reinstatement of rights.

Source: Commission of the European Communities (2007[17]).

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

This chapter assesses the quality of frameworks for planning and implementing SME policies in the Western Balkans and Turkey (WBT). It starts with an overview of the assessment framework, then analyses the three sub-dimensions of Dimension 3: 1) institutional framework, which looks at the quality of the institutional framework as a basis for planning and implementing SME policies; 2) legislative simplification and regulatory impact assessment, which examines to what degree regulatory review mechanisms are in place to assess the impact of regulations on SMEs; and 3) public-private consultations, which evaluates the degree to which SMEs are involved and engaged in policy making as stakeholders. Each sub-dimension concludes with key recommendations for helping WBT economies build institutional and regulatory frameworks that are more responsive to the needs of SMEs.

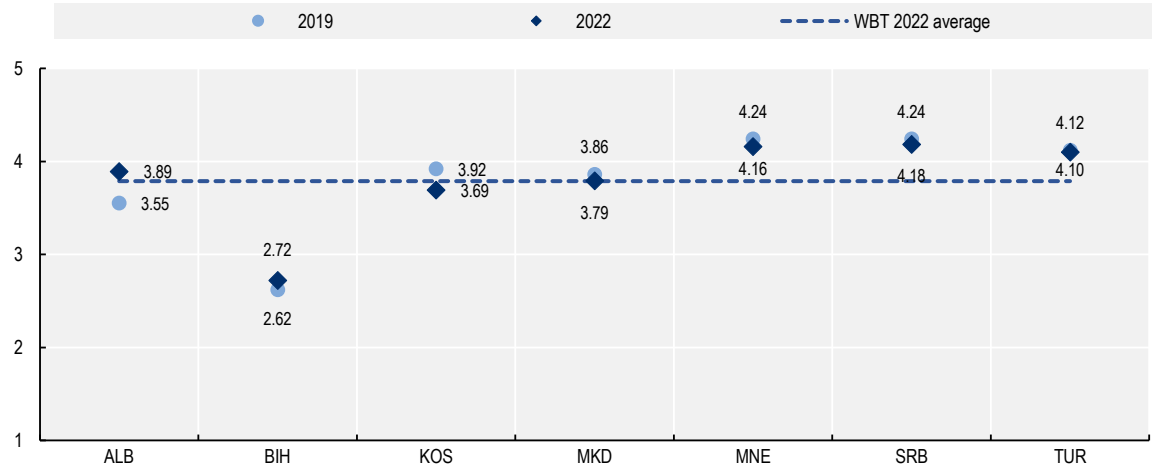
Key findings

- **Economies in the Western Balkans and Turkey (WBT) have continued to implement and develop their frameworks for SME policies,** with some economies experiencing minor delays due to the COVID-19 pandemic. Some economies have also made efforts to improve inter-institutional co-ordination and monitoring and evaluation.
- **Informality remains a key challenge for the WBT region**, with all economies experiencing high levels. Some progress has been noted in a few economies in terms of raising the level of voluntary compliance and inspection capacities, which should help to lower the level of informal activity.
- **Data collection related to key aspects of SME policies remains a challenge for most WBT economies**, and to a lesser extent, co-ordination of the collection process – most notably when it comes to greening, digitalisation, access to finance and public procurement – despite progress made in some economies regarding certain indicators.
- **Some WBT economies have continued to implement regulatory reforms** to improve the business environment through comprehensive legislative simplification programmes. Others have focused their efforts on rationalising charges for small and medium-sized enterprises (SMEs).
- **Some WBT economies improved their frameworks for conducting effective regulatory impact assessments**, but quality control through effective oversight bodies as well as comprehensive monitoring and evaluation remain a challenge to ensure that the assessments are conducted at a satisfactory level of quality and adequately consider the needs of SMEs.
- **Most WBT economies have made increased use of their online portals for public-private consultations** and some have strengthened their regulatory frameworks to ensure they are consistently used by institutions.
- **Monitoring and evaluation of public-private consultations (PPCs) is still a challenge for most WBT economies.** While most economies report on the outcome of individual consultations, only a few monitor and evaluate the use of PPCs using a systemic approach.

Comparison with the 2019 assessment scores

Some WBT economies saw their performance in creating and ensuring a strong institutional framework for SME policy making decrease slightly or remain constant since the last assessment, in particular as they were already at a high starting point and due to the lack of addressing the key issues, most frequently related to regulatory impact assessments (RIAs) and PPCs (Figure 3.1). Albania made the most progress.

Figure 3.1. Overall scores for Dimension 3 (2019 and 2022)



Notes: WBT: Western Balkans and Turkey. Despite the introduction of questions and expanded questions to better gauge the actual state of play and monitor new trends in respective policy areas, scores for 2022 remain largely comparable to 2019. To have a detailed overview of policy changes and compare performance over time, the reader should focus on the narrative parts of the report. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Implementation of the SME Policy Index's 2019 recommendations

Table 3.1 summarises the progress made in implementing the key recommendations for this dimension made in the previous assessment.

Table 3.1. Implementation of the SME Policy Index's 2019 recommendations for Dimension 3 in the Western Balkans and Turkey

Regional 2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Regional progress status
Widen SME data collection and address existing gaps in the availability and quality of SME statistical data	Progress on improving data collection in the Western Balkans and Turkey (WBT) economies has been slow and uneven, with most economies still having significant gaps in their available SME-specific data, specifically on key policy issues such as SME access to finance, greening, innovation, digitalisation and public procurement.	Limited
Take a bottom-up approach to undertaking changes to SME definitions	No actions have been taken in this regard by most WBT economies. Several WBT economies have made changes to their SME definitions since the last assessment, often with little or no stakeholder consultation, with the exception of Serbia, which changed its SME definition in 2020 following consultation with a wide array of stakeholders.	Limited
Establish mechanisms to closely examine the effects of policies on the SME community	Albania and both entities in Bosnia and Herzegovina have strengthened their regulatory frameworks for regulatory impact assessments (RIAs) and the entities in Bosnia and Herzegovina have, for the first time, made it mandatory to take into account impacts on SMEs in their RIA guidelines. Serbia has introduced an SME Test as a separate procedure in its RIA methodology, and Kosovo** and North Macedonia plan to introduce it.	Moderate
Ensure that RIA findings have binding consequences	Ensuring that oversight bodies for RIA have effective quality control and the right to return RIA to ministries with binding feedback remains a challenge in the region, despite some economies having made slight progress in strengthening their oversight frameworks.	Limited
Systematically conduct, in co-operation with the business sector, a	Some economies, namely Kosovo, Bosnia and Herzegovina (Republika Srpska) and Serbia, have made efforts to improve the business environment through the simplification	Moderate

** This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

Regional 2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Regional progress status
regulatory review and simplification process and monitor it regularly	of legislation. The consultative dimension of these initiatives is, however, limited.	
Improve the implementation of public-private consultations and ensure that SMEs' voices are also heard in this process	Some economies have made efforts to improve the regularity of public-private consultations (PPCs) and the use of their online portals for PPCs. Monitoring and evaluation of the PPC process could be improved in most economies.	Moderate

Introduction

This dimension reflects the overarching principle of the Small Business Act – "think small first" – encompassing the degree to which governments take into account the needs of SMEs when designing economic policies.

SMEs often face the same legal and regulatory requirements as larger companies, yet have fewer resources, meaning they are often at risk of being disproportionately affected by regulations. Given the fact that they have fewer resources, they are also often more at risk of being negatively affected by changes to regulations and legislation and legal uncertainty (European Commission, 2008[1]).

Having a comprehensive and coherent SME policy framework is essential for ensuring SME growth and development, namely by focusing government policies on improving SMEs' productivity, innovation, skills and general competitiveness (OECD, 2021[2]). All these areas are key for realising broader economic development objectives and driving economic growth.

SMEs make up the vast majority of businesses in the WBT region and represent a large share of value added in the regional economies, often even more so than in EU member states. It is therefore crucial for policy makers in the region to ensure that SME aspects are broadly considered in policy making and that the institutional framework for policy making is responsive to their needs. Tools such as RIA, with proper consideration of SME aspects, and PPCs, with adequate representation and engagement for SMEs, should help ensure that this is the case.

Having institutional and regulatory frameworks that enable SME growth will be key to ensuring economic recovery in WBT economies in the wake of the COVID-19 pandemic. Moreover, ensuring that these frameworks are forward looking, and understand the importance of promoting and facilitating key transformative processes such as SME greening and digitalisation, will be essential for ensuring that the WBT economies become increasingly sustainable and competitive.

Assessment framework

Structure

The assessment framework for this dimension has three sub-dimensions (Figure 3.2):

- **Sub-dimension 3.1: Institutional framework** examines the comprehensiveness and relevance of the framework for SME policy making, including the resources of bodies implementing SME policies and mechanisms for inter-institutional co-ordination.
- **Sub-dimension 3.2: Legislative simplification and regulatory impact assessment** evaluates the WBT economies' efforts to simplify legislation to improve the business environment. It also

looks at the use of RIA as a key tool for ensuring that the impacts of policies on SMEs are taken into account.

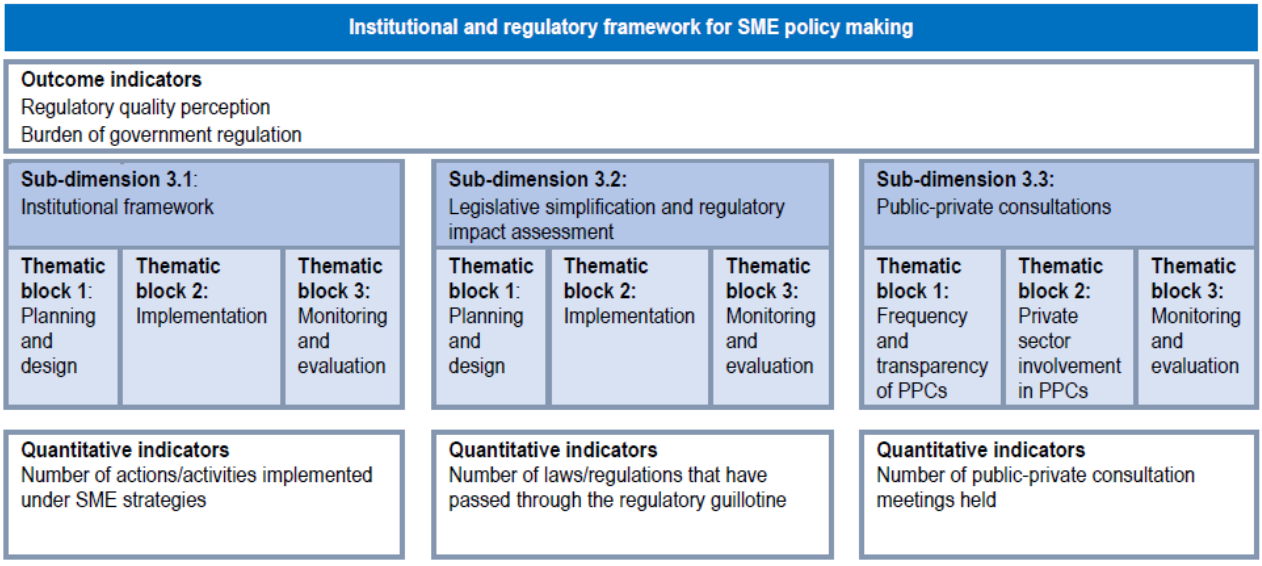
- **Sub-dimension 3.3: Public-private consultations** assesses the degree to which SMEs are involved in the policy-making process as key stakeholders. More specifically, it looks at whether frameworks for conducting PPCs are in place and consistently implemented, and whether the WBT economies ensure that PPCs are accessible to SMEs.

The sub-dimensions are each divided into three thematic blocks; the first two are divided into planning and design (30% of the total score), implementation (50% of the total score), and monitoring and evaluation (20% of the total score). The third sub-dimension is divided into frequency and transparency of PPCs (40% of the total score), private sector involvement in PPCs (40% of the total score), and monitoring and evaluation (20% of the total score).

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

Small adjustments have been made to the framework since the 2019 assessment that gauge the inclusion of the green and digital aspects of policies and measures into the economies' policy frameworks. The assessment also takes into consideration COVID-19 response measures, although no evaluation has been made in this regard.

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



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

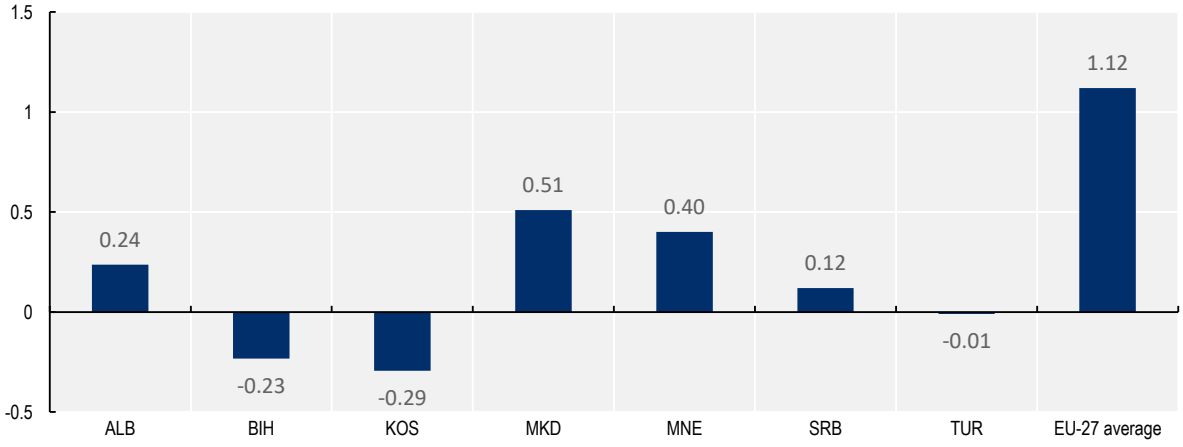
Analysis

Outcome indicators allow governments to measure whether their policies are producing the desired results. For this dimension, the chosen outcome indicators (see Figure 3.2) measure the extent to which WBT economies have institutional and regulatory frameworks that meet the needs of SMEs.

The Worldwide Governance Indicators (WGI), supported by the World Bank, are an aggregation of data from surveys of businesses, citizens and experts, conducted by survey institutes, non-governmental organisations, think tanks and international organisations and aggregated by the WGI. Regulatory quality is one of the six dimensions of governance covered by the WGI and measures the aggregated views of the above-mentioned stakeholders on the quality of regulation in the assessed economies and territories.

As in the previous assessment, stakeholders' perception of regulatory quality in the WBT economies continues to be below the EU average, with the greatest progress since 2016 being observed in Montenegro (its aggregate estimate increased from 0.22 to 0.40), and the biggest decrease being observed in Turkey (whose aggregate estimate decreased from 0.20 in 2016 to -0.01 in 2020) (Figure 3.3).

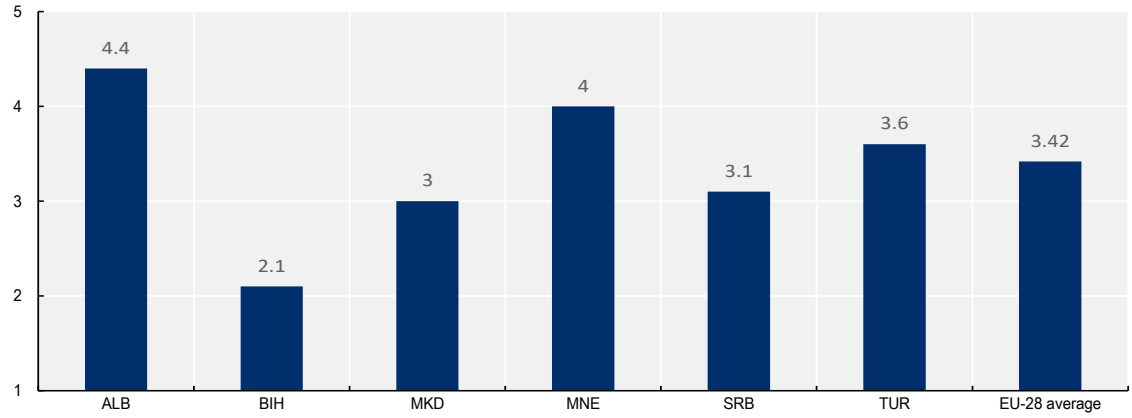
Figure 3.3. Worldwide Governance Indicators: Regulatory quality in the Western Balkans and Turkey (2020)



Note: Data ranged from approximately -2.5 (weak) to +2.5 (strong) governance performance. The latest available data are from 2020. The EU-27 average does not include the United Kingdom, as the data were collected after the United Kingdom left the European Union.
Source: World Governance Indicators (n.d.[3]), http://info.worldbank.org/governance/wgi

When it comes to businesses' perception of regulatory burdens, certain WBT economies (Albania, Montenegro and Turkey) outperform the EU average (Figure 3.4). However, as the data are not exclusive to SMEs, and contain responses from large enterprises, they should be interpreted with caution for the purposes of this assessment.

Figure 3.4. Global Competitiveness Index : Burden of government regulation in the Western Balkans and Turkey (2019)



Note: Indicator based on businesses' responses to the question: "In your country, how burdensome is it for companies to comply with the public administration's requirements (e.g. permits, regulations, reporting)?" [1 = extremely burdensome; 7 = not burdensome at all]. The latest available data are from 2019. Data for Kosovo are not available.
Source: World Economic Forum, Global Competitiveness Report (2019[4]), https://www.weforum.org/reports/global-competitiveness-report-2019

Institutional framework (Sub-dimension 3.1)

Having a well-defined policy framework is the basis for effectively implementing measures to support SMEs and encourage their growth, competitiveness, innovation, internationalisation and general development, along with the wider social and economic benefits this development brings. When designing SME policy frameworks, economies can choose from a variety of arrangements in terms of policy objectives and levers, institutional responsibilities, measures for ensuring inter-institutional co-ordination and effective monitoring and evaluation (OECD, 2021[2]). Measures for ensuring inter-institutional co-ordination and effective monitoring and evaluation are the keys to success in ensuring that responsibilities between different institutions do not overlap and that policies are frequently reviewed to assess whether their implementation is going according to plan and whether they are producing the desired effects.

The WBT economies continue to perform well in this sub-dimension, as they have generally well-designed SME policy frameworks and have, in some cases, made efforts to increase their frameworks for co-ordination and monitoring and evaluation (Table 3.2). The most visible progress in this sub-dimension was in Bosnia and Herzegovina, which has developed (but not yet adopted) a state-level SME policy framework, aiming to align state-level policies in those areas where the state level has competence (public procurement, standards and technical regulations, and internationalisation) with the entities' frameworks and the Small Business Act.

Table 3.2. Scores for Sub-dimension 3.1: Institutional framework in the Western Balkans and Turkey

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	4.30	3.50	3.80	4.70	4.44	4.60	4.60	**4.28**
Implementation	4.20	3.10	3.60	3.80	4.20	4.10	4.75	**3.95**
Monitoring and evaluation	4.10	3.00	2.80	3.28	4.84	4.00	4.65	**3.81**
Weighted average	**4.21**	**3.20**	**3.50**	**3.97**	**4.40**	**4.23**	**4.69**	**4.03**

Note: WBT: Western Balkans and Turkey.

Implementation of SME policies has continued in the WBT region, despite minor delays in some economies due to the COVID-19 pandemic

WBT economies have adopted differing approaches to designing and implementing their SME policy frameworks. Bosnia and Herzegovina (the entity of Republika Srpska), Montenegro, North Macedonia and Serbia have dedicated SME strategies or policy frameworks, while other economies have included SME policies as part of larger strategic frameworks for economic or general development. Examples include Albania's Business and Investment Development Strategy and the Federation of Bosnia and Herzegovina entity's and Kosovo's respective development strategies. Some WBT economies have further developed and updated their policy frameworks. For instance, North Macedonia adopted a forward-looking Growth Acceleration Plan (2022-2026), which has a strong SME focus and includes measures to support SME innovation and greening. Bosnia and Herzegovina made progress in developing state-level Strategic Guidelines for the Harmonisation of Support to SMEs, although these have not yet been formally adopted.

Most WBT economies have established effective monitoring mechanisms, with the most relevant progress since the last assessment being made in Albania, with Kosovo making plans to improve the monitoring and evaluation of its Private Sector Development Strategy in the future. Implementation of the defined SME policies is overall advancing well in the region, despite some economies, such as Montenegro and North Macedonia, experiencing slight delays due to the reallocation of resources to more immediate support due to the COVID-19 pandemic. Regarding the evaluation of the impact of SME policies on the ground, economies with stand-alone SME strategies often include overviews of progress made based on key performance indicators, allowing challenges to be identified and objectives defined. So far, Serbia is the only economy that conducts separate *ex post* evaluations of its SME strategies, with a greater level of detail and allowing more time for the discussion and definition of the next strategy's objectives.

Some economies have made efforts to strengthen inter-institutional co-ordination and increase the resources of the institutions implementing SME policies

Institutional frameworks for policy co-ordination between different ministries and institutions often involve a range of actors and stakeholders, meaning that strong platforms for co-ordination are a key success factor for the effective implementation of SME policies. Some WBT economies have made efforts to strengthen their co-ordination frameworks for implementing their SME policies. Most notably, Montenegro and North Macedonia have established working groups (within the Council for Competitiveness, a forum for dialogue with the private sector for Montenegro and within the government for North Macedonia), to ensure horizontal co-ordination of SME policies.

Albania, Kosovo, Republika Srpska, Serbia and Turkey have dedicated agencies for implementing SME policies and support programmes. These agencies are often the leading institutions for the implementation of SME policies and their success greatly depends on the degree to which they are adequately financed and staffed. Albania has made efforts to increase the staffing of and to restructure its Investment Development Agency since the last assessment, while Kosovo's Investment and Entrepreneurship Support Agency remains understaffed and overly reliant on funding from international development co-operation partners. The Development Agency of Serbia and Turkey's Small and Medium-sized Enterprises Development Organisation (KOSGEB) are the best performing implementing institutions for SME policies in the region, being adequately funded and staffed, allowing them to provide consistent and effective support to SMEs. Since the previous assessment, North Macedonia has increased the total amount of funding allocated to SME support programmes by its Agency for the Promotion of Entrepreneurship, which should allow it to provide more consistent support to the development of the SME sector.

Measures to address the informal economy are still not aligned with SME policies in most WBT economies

The informal economy is a key challenge for all WBT economies, with SMEs in Albania and Serbia, for example, facing difficulties in dealing with competitive pressure from the informal sector. In Montenegro and North Macedonia, the problem mainly relates to informal labour and underreporting turnover, which directly concerns SMEs and has negative economic and social impacts.

WBT economies have continued to implement their frameworks for countering the informal economy, yet in the majority of cases, these are still not aligned with SME strategies, and mainly consist of measures to improve voluntary compliance on the one hand and increase the administrative capacities of inspectorates on the other. Some economies, such as Bosnia and Herzegovina's entities, Montenegro, and North Macedonia have also enacted measures to raise the level of voluntary compliance by improving the business environment and removing obstacles to business formalisation. While these measures are often closely related to SME issues, their relevance could be further improved by ensuring they are holistically aligned with SME policies, including by holding consultations with SME representatives. For now, North Macedonia is the only economy that has included countering informality directly in its SME strategy, with measures focusing on increasing incentives for businesses to operate formally, such as streamlining the registration and tax declaration processes and rationalising charges. The implementation of these measures has, however, experienced delays.

In terms of results, some economies have seen some success in increasing voluntary compliance, while others have successfully increased the inspection capacities of their administrations. Serbia, for example, has digitalised its inspectorates and made them more efficient through the creation of the eInspektor system, a unified platform for the various inspectorates which improves the co-ordination of inspection activities and makes reporting easier for citizens. In Albania, the government enacted a fiscalisation reform, which made electronic invoicing mandatory, with the goal of improving the accuracy and reliability of the data the tax administration has access to.

SME definitions are fully aligned with the EU definition, despite changes to better reflect the new circumstances

After a series of discussions to evaluate and, if necessary, revise the EU definition, in September 2021, the European Commission presented the results of this evaluation at the EU level and related consultations with stakeholders. The evaluation concluded that the EU-level SME definition remains fit for purpose, fulfils its objectives and does not need to be updated (European Commission, 2021[5]).

As in the previous cycle, all of the economies have consistent SME definitions that are fully aligned with the EU definition, with turnover and total assets criteria being adapted to each economy's context. Since 2019, however, some economies have made changes to their SME definition. In January 2020, Serbia updated its SME definition to have a lower turnover (from EUR 8.8 million in RSD equivalent to EUR 8 million) and a balance sheet threshold[1] (from EUR 4.4 million in RSD equivalent to EUR 4 million) than the EU definition for small enterprises. Meanwhile, it raised the turnover and balance sheet requirements for medium-sized enterprises (from EUR 35 million in RSD equivalent to EUR 40 million for turnover and from EUR 17.5 million in RSD equivalent to EUR 20 million for balance sheet). Similarly, the Republika Srpska entity in Bosnia and Herzegovina and Turkey also raised their financial requirements. In October 2019, Republika Srpska amended its Law on SME Development by substantially increasing the turnover and balance sheet thresholds in its SME definition. The thresholds increased from a maximum of BAM 1 million (around EUR 510 000) turnover and BAM 2 million (around EUR 1.02 million) balance sheet total for small enterprises to a common threshold of BAM 19.55 million (around EUR 9.95 million). For medium-sized enterprises, the threshold was raised from a maximum of BAM 4 million (around EUR 2.04 million) to BAM 97.79 million (around EUR 49.73 million) for turnover and from BAM 8 million (around EUR 4.08 million) to BAM 84 million (around EUR 42.71 million) for balance sheet total. In March 2022, four

years after its previous revision, Turkey made additional modifications to its SME definition, further raising the turnover and balance sheet requirements (from TRY 125 million, or around EUR 7 million, to TRY 250 million, or around EUR 14 million), making over 2 000 new companies eligible to be considered as an SME and therefore benefit from SME support programmes, such as those enterprises with higher technology levels and export capacity. Raising the threshold of SME definitions poses a risk of favouring larger companies (which can qualify as medium-sized enterprises thanks to more relaxed financial requirements) when it comes to applying for SME support programmes. Therefore, careful attention must be given to ensure that micro and small enterprises are not disadvantaged by such changes.

SME data collection remains a challenge for all economies in the region

Comprehensive data collection forms the basis of evidence-based policy making and allows governments to measure progress and policy achievement, assess needs, and set objectives for future policies.

Some WBT economies have slightly improved their SME-specific data collection on business demographics since the previous assessment, but significant gaps remain (Table 3.3), limiting the comprehensiveness of data collection and policy makers' ability to paint an accurate picture of the statistical landscape. Moreover, further progress could be made to collect SME statistics related to key policy areas such as greening, digitalisation, innovation, access to finance and public procurement, which are often lacking in the region. Most economies would benefit from ensuring co-ordination to improve the quality and consistency of data.

Table 3.3. Key SME-specific data collected by the Western Balkans and Turkey

	ALB	BIH	KOS	MKD	MNE	SRB	TUR
Number of enterprises by size class and sector	x	x	x	x	x	x	x
Employment by size class of enterprise and sector	x	x	x	x	x (only by size class)	x	x
Employment share of 0-3 year-old enterprises by size class						x	
Value added by size class of enterprise and sector	x	x		x		x	x (only by size class)
Number of women-owned enterprises by size class and sector					x		
Exports by enterprise size class		x (RS only)		x		x	
Enterprise birth and death rate by size class					x	x	
Share of less than 1-year-old enterprises by size class						x	
Share of 1-, 2-, 3-, 4- and 5-year-old enterprises by size class					x	x	
Share of enterprises older than 5 years and younger than 10 years by size class					x	x	

Sources: Statistical sheets provided by governments for this assessment, as well as websites of regional statistical offices.

The way forward for the institutional framework

- **Expand SME data collection.** All WBT economies would benefit from stepping up capacity-building efforts to improve the comprehensiveness, quality and consistency of data collected on SME greening, access to finance, innovation and public procurement. Strengthening inter-institutional co-ordination with statistical offices, by appointing co-ordinators for the collection of SME data for example, will be key to ensuring the consistency and comprehensiveness of the data collected. For more information on data that WBT governments could consider collecting in this area, please see Annex C.

- **Improve the evaluation of the impacts of SME policies on the ground.** The economies without stand-alone SME strategies, whose SME policy objectives are linked to broader documents, should make it a priority to carefully evaluate the impact of their policies before defining the objectives of new policy documents. The economies which have SME strategies can take inspiration from Serbia, which conducts detailed *ex post* evaluations of its SME strategies as part of the policy cycle for the iteration of the next strategy.

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

Efforts to review business-related legislation and ensure that it is in line with the needs of SMEs are key to improving the business environment and reducing the administrative burden. These efforts can take the form of legislative simplification initiatives, which review existing legislation and align it with business and SME needs where relevant. They can also be conducted *ex ante*, through the effective use of RIAs, containing relevant questions for measuring the impact of policies on SMEs and ensuring that new legislation is always aligned with SMEs' needs.

The WBT economies' performance on this sub-dimension has remained consistent since the previous assessment (Table 3.4), with some economies greatly improving their use of RIA (for instance, Albania), and others (such as Serbia) planning and implementing ambitious legislative simplification plans. However, most economies continue to struggle with ensuring the effective and consistent use of RIAs, and some have less ambitious legislative simplification plans than in the previous assessment, leading to a drop in performance in certain areas.

Table 3.4. Scores for Sub-dimension 3.2: Legislative simplification and regulatory impact assessment in the Western Balkans and Turkey

	ALB	BiH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	3.60	2.80	3.80	4.10	3.88	4.32	4.40	**3.87**
Implementation	3.40	2.30	3.60	3.00	4.28	4.10	3.60	**3.47**
Monitoring and evaluation	2.55	2.00	2.80	2.70	3.24	4.10	3.25	**2.95**
Weighted average	**3.29**	**2.39**	**3.50**	**3.27**	**3.95**	**4.17**	**3.77**	**3.48**

Note: WBT: Western Balkans and Turkey.

Plans and initiatives to simplify legislation to improve the business environment have continued, using different approaches

Regulatory reform is key to improving the business environment, by reviewing legislation that has an impact on businesses and adapting or repealing it where necessary and possible. Some of the WBT economies have been implementing or planning comprehensive programmes for reviewing business legislation. For instance, Kosovo's Better Regulation Strategy 2.0 (2017-2021) has produced an Administrative Burden Reduction Programme (2020-2027) whereby the government has so far identified 11 laws, 26 bylaws and 2 ministerial decisions to be repealed or amended. Republika Srpska has designed a Project for the Optimisation of Administrative Procedures and Formalities that aims to identify administrative procedures which need to be simplified. Serbia's e-Papir programme can be considered the most ambitious programme of this type in the region and presents a unique example as it efficiently combines efforts to review legislation with the digitalisation of administrative procedures (Box 3.1).

Box 3.1. Serbia's e-Papir programme

In July 2019, the government of Serbia adopted the Programme for the Simplification of Administrative Procedures and Regulations (2019-2021), also known as e-Papir. The programme is a result of the goals defined in the Strategy for Regulatory Reform and the Improvement of the Public Policy Management System (2016-2020), the SME Strategy (2015-2020), the National Programme for the Suppression of the Grey Economy, and other top-level policy documents.

Managed and co-ordinated by the Public Policy Secretariat, e-Papir's objectives relate to identifying and simplifying administrative procedures for businesses. As a result of the programme, a Register of Administrative Procedures for Businesses was created, linked to the government's e-Uprava portal for digital government services (https://rap.euprava.gov.rs/privreda/home). The overall benefit expected once the programme is fully implemented is estimated to be around EUR 4.5 million. By the end of 2021, 269 procedures had been simplified and 52 digitalised, while the simplification of 501 procedures was ongoing.

Other economies in the region could take inspiration from e-Papir, in the sense that it combines the process of simplifying administrative procedures with their digitalisation, processes which are often looked at and tackled separately. This parallel digitalisation and simplification can be seen as a first step toward designing digital services with the end user's experience and needs in mind (see Dimension 4). This goal is strongly featureed in Serbia's Public Administration Reform Strategy's (2021-2030) component on service delivery, whose goal is to encourage the development of services tailored to users' needs and ensure their continued review and adaptation to fit these needs.

Source: Information provided by the Serbian government for this assessment. For more information, see: https://epapir.rsjp.gov.rs.

Other economies, such as Montenegro and North Macedonia, which had already implemented their own regulatory reform frameworks, have focused their efforts on mapping the various fiscal and parafiscal charges paid by SMEs. These exercises aim to increase transparency and access to information for SMEs on the various fees they must pay in different domains of activity, but also serve as a basis for the rationalisation of these fees, by lowering or removing them where possible, which is planned in the future. Other WBT economies, such as Albania and Serbia, which have high levels of parafiscal charges, could benefit from designing similar measures.

The use of regulatory impact assessments has improved in the region, but there is still room for progress to ensure it is effectively used

RIAs are a key policy tool that allows governments to measure the impacts of their policies *ex ante*. When used correctly, and early enough in the policy-making process, RIAs can support the evidence-based nature of policies and improve transparency by sharing the assessment of expected impacts with stakeholders (OECD, 2021[6]). If done well, RIAs may be a very useful policy instrument for assessing the potential impacts of policies on SMEs, as they ensure that the government has considered these aspects in light of a well-defined problem, a set of alternatives, and quantified the costs and benefits of the policy in question.

WBT economies are making increasing use of RIAs in their administrations. Since the last assessment, Albania and both entities of Bosnia and Herzegovina have strengthened their regulatory frameworks for RIAs and the entities of Bosnia and Herzegovina have for the first time introduced the mandatory

consideration of SME aspects in their RIA guidelines. Serbia has introduced the SME Test[2] as a separate procedure in its RIA methodology, and Kosovo and North Macedonia plan to introduce it.

However, the region still has a long way to go to make RIAs a common and effective practice. To ensure effective use of RIA in line with regulatory requirements, institutional arrangements for quality control are key. Oversight bodies, which are often located close to centre-of-government institutions and independent from line ministries developing impact assessments, should perform quality checks to ensure that the government criteria for conducting RIAs are respected and that the analysis is of good quality (OECD, 2020[7]). Most WBT economies have mandated oversight bodies, often within centre-of-government institutions or key ministries (most often the Ministry of Finance or equivalent) to check the quality of RIA produced by line ministries. However, this feedback is often provided informally and is not binding on the institutions producing the initial RIA, meaning that they cannot effectively exercise their quality control functions fully. Another issue that limits the usefulness of RIAs in WBT economies is that it is often conducted late in the policy-making process, once the draft legislation has already been prepared (OECD, 2021[6]). This makes RIAs a largely "box-ticking exercise" and limits its relevance as a useful policy-making tool.

There is room to improve monitoring and evaluation of RIAs across the WBT region

Building on the quality control function of RIAs, it is also important to ensure that the use and quality of RIAs are regularly monitored and evaluated. Monitoring and evaluation of RIAs provide key feedback to the government, helping it to identify areas where civil servants' capacities for conducting effective RIAs may be lacking (OECD, 2020[7]). Often, the same leading government institutions (such as the Prime Minister's Office or General Secretariat) charged with ensuring quality checks on RIAs can be charged with monitoring and evaluation of the RIA process.

Most WBT economies do not conduct regular monitoring and evaluation of the RIA process and RIA quality. While Kosovo and North Macedonia conduct such assessments, they are not publicly available, as they are reserved for internal government use. In the case of both economies, the reports are not analytical, as they do not assess the overall quality of RIA conducted, but instead summarise whether various line ministries have fulfilled the formal requirements for conducting RIA. Serbia has conducted an evaluation of progress made in improving the quality of RIA as part of its preliminary analysis for the Programme and Action Plan for Improving Public Policy Management and Regulatory Reform (2021-2025), creating a strong foundation for measuring progress. However, reporting could be more regular. The reports prepared by the government of Montenegro provide an example of good practice in monitoring and evaluation (Box 3.2). Analysis of samples of RIAs show that administrations in the WBT region most often struggle with properly calculating the costs and benefits of new policies, as well as with identifying alternative options to the proposed policies (OECD, 2021[8]).

Box 3.2. Montenegro's reports on the quality application of regulatory impact assessment

Making full use of its quality control function, the Ministry of Finance and Social Welfare of Montenegro publishes regular reports on the state of the regulatory impact assessment (RIA) process in Montenegro and progress made in improving its quality.

As in some other economies in the Western Balkans and Turkey (WBT) region, these reports contain a statistical aggregation of all RIAs conducted as a share of all primary and secondary legislation adopted and the degree to which they meet the requirements for conducting RIA by line ministries. However, what makes Montenegro's reports stand out is that the RIAs conducted are then divided into categories, showing what share of RIAs was satisfactory in terms of quality in the areas of problem definition, goal definition, options definition, impact assessment, fiscal impact assessment, consultation with

stakeholders, and monitoring and evaluation. This kind of analysis allows the Ministry of Finance to measure the progress made in these different areas compared to previous years.

In its latest report, the ministry identified that 68% of RIAs conducted in 2020 were "done with quality", versus 61% in 2019, showing a slight improvement in overall quality. More specifically, the areas with the greatest room for improvement were options definition, impact assessment, fiscal impact assessment, consultations with stakeholders, and monitoring and evaluation. This allows the government to focus its efforts on building capacity for conducting useful and effective RIA in these areas.

The other WBT economies would benefit from making their reports on the use of RIA more analytical, as the key to effective use of RIA as a policy-making tool lies beyond respect for formal requirements, requiring regular measurement of policy makers' ability to conduct detailed, evidence-based analysis in several areas.

Source: Montenegrin Ministry of Finance (2021[9]).

The way forward for legislative simplification and regulatory impact assessment

- **Initiate regulatory impact assessment earlier in the policy process.** Policy makers only fully benefit from RIA if it is performed early in the policy-making process, as recommended by the OECD Best Practice Principles for RIA (OECD, 2020[7]). As such, WBT economies would benefit from shifting the application of RIA to the initial conceptualisation phase of new legislation, rather than when submitting drafts to the government for approval, as is currently the case.
- **Reinforce quality control of regulatory impact assessment.** To effectively conduct their quality control function, oversight bodies' feedback could be binding for originating ministries, or at least mandatory for consideration, with the right to return RIAs considered to be incomplete or of insufficient quality to the originating ministries with advice for improving them. Setting up bodies that are independent from ministries and the leading government institutions is an alternative option, as it would ensure that scrutiny of RIAs is carried out by impartial and qualified professionals. Good practice for both approaches can be borrowed from OECD countries (Box 3.3).

Box 3.3. Quality Control and Oversight of RIA in Estonia and the United Kingdom

Like the WBT economies, OECD countries take different approaches when it comes to ensuring effective oversight of RIA.

In Estonia, the Legislative Quality Division of the Ministry of Justice is charged with scrutinising RIA proposals and has the authority of sending RIA back to the originating ministry for revision if the quality standards are not met. Such a function could be relevant for Montenegro and Serbia, for example, whose oversight institutions, the Ministry of Finance and Social Welfare and the Public Policy Secretariat respectively, scrutinise draft RIA but do not have the right to return them to line ministries and ensure that their feedback is considered. Such a mandate would help strengthen their oversight functions.

In the United Kingdom, the Regulatory Policy Committee (RPC) scrutinises RIA for policy proposals which are expected to have significant impacts on businesses. The RPC is an advisory body and is not dependent on any government department, meaning that its feedback represents external and independent auditing of RIA proposals. Such a setup could be relevant for economies that are struggling

with ensuring the effectiveness of quality control by leading institutions, such as Albania, Bosnia and Herzegovina, Kosovo, and Turkey.

Source: OECD, (2021[10])

- **Improve monitoring and evaluation of regulatory impact assessment.** Monitoring and evaluation of the overall progress in the quality of RIA is key to identifying priority areas for improvement and focusing efforts to build capacity for civil servants. Reporting should be comprehensive, analytical and, ideally, publicly available. Good practice can be replicated from Montenegro (see Box 3.2).For more information on data that WBT governments could consider collecting in this area, please see Annex C.

Public-private consultations (Sub-dimension 3.3)

Public-private consultations allow stakeholders to voice their opinions on government policies and make their voices heard. SMEs have fewer resources and less visibility than larger companies, and therefore often less access to PPCs, since they are not always adequately represented by privileged interlocutors such as chambers of commerce. As such, governments should ensure that SMEs are adequately represented and engaged in PPCs and that they have the opportunity to make their voices heard regarding legislation that concerns them and that can have an impact on their business.

Although some economies have made progress in engaging stakeholders through the use of new platforms outside the regulatory framework for PPCs and have made efforts to improve the consistency of their use of PPCs, the overall regional average has remained constant in this sub-dimension (Table 3.5). Systemic monitoring and evaluation of PPCs continues to be a challenge for most economies.

Table 3.5. Scores for Sub-dimension 3.3: Public-private consultations in the Western Balkans and Turkey

	ALB	BiH	KOS	MKD	MNE	SRB	TUR	WBT average
Frequency and transparency of public-private consultations	3.90	3.00	4.30	4.56	4.76	4.24	3.24	**4.00**
Private sector involvement in public-private consultations	4.20	2.10	4.20	4.32	4.04	4.30	4.25	**3.92**
Monitoring and evaluation	4.15	1.90	3.70	2.60	2.60	3.50	3.24	**3.10**
Weighted average	**4.07**	**2.42**	**4.14**	**4.07**	**4.04**	**4.12**	**3.64**	**3.79**

Note: WBT: Western Balkans and Turkey.

Initiatives to involve the private sector have increased in some economies

Outside of the primary institutional frameworks for conducting PPCs, several WBT economies have launched initiatives to strengthen public-private dialogue. Such initiatives allow SMEs to voice their opinions on policies and express their needs proactively. These platforms for engaging the business community have proven to be particularly relevant and useful in informing the government of the needs and concerns of businesses when designing response measures to the COVID-19 pandemic.

Kosovo and Montenegro have reorganised existing councils, namely the National Economic and Investment Council and the Council for Competitiveness respectively, and have strengthened their administrative and analytical capacities by creating permanent secretariats. Montenegro's council was particularly active at the onset of the pandemic, consulting the private sector when developing response measures, and continues to be the leading platform for public-private dialogue on key policy issues.

As part of its platform for public-private dialogue, a co-ordination mechanism between the government and four chambers of commerce, North Macedonia created Biznisregulativa.mk (https://biznisregulativa.mk), an online portal for public-private dialogue, allowing businesses and chambers of commerce to put forward topics for discussion, by submitting position papers to the government (Box 3.4).

Most economies have improved the use of their online portals for PPCs and made efforts to strengthen the regularity of PPCs

Strong frameworks for PPCs ensure that governments involve SMEs as stakeholders in the policy-making process and that SMEs can make their voices and concerns heard. Effective oversight mechanisms for PPCs ensure that line ministries respect the requirements for conducting PPCs and that they adequately involve and address the feedback received from stakeholders. Online portals help centralise access to PPCs by making the PPCs conducted by all institutions available in one location.

PPCs are mandatory for all business-related legislation in the WBT region, except in Turkey, where they are encouraged but, in reality, conducted on an *ad hoc* basis. With the exception of Turkey, all WBT economies have established online portals for PPCs for involving stakeholders in the policy design phase of legislation. The frequency of use of these portals by all relevant institutions has improved in most economies; it could, however, be improved in some others, namely North Macedonia and the Federation of Bosnia and Herzegovina, which the portal of the latter is not yet fully operational (OECD, 2021[8]).

Some economies have made efforts to strengthen their frameworks for PPC oversight to ensure more frequent use of online portals by institutions and their respect of obligations to conduct PPCs. In January 2021, Albania strengthened its regulatory framework for conducting PPCs through the adoption of new guidelines to strengthen the requirements for PPC consistency, informing stakeholders and reporting on PPCs. In December 2021, Serbia launched a new online portal for PPCs integrated into the e-Uprava portal and aims to improve inter-institutional co-ordination for more regular posting of PPCs on the portal.

Box 3.4. North Macedonia's Biznisregulativa.mk portal for public-private dialogue

With the aim of better engaging the private sector in the policy-making process, the government of North Macedonia, through a memorandum of understanding between itself and four chambers of commerce, established a platform for public-private dialogue as a forum for reviewing legislative proposals and discussing topics raised by the private sector. As part of this platform, the government and the chambers of commerce established an online portal (https://biznisregulativa.mk) to allow businesses and their representatives to submit policy proposals and opinions to the government.

The portal allows private sector stakeholders to submit position papers for consideration by the government. The platform for public-private dialogue also hosts formal meetings and events to further engage the private sector in the public dialogue. Since its creation, the Biznisregulativa portal has been quite active, with over 80 position papers submitted between 2018 and 2020 and more than 50 events organised, hosting over 1 000 participants, the majority of which were small and medium-sized enterprises.

Some examples of position papers submitted include requests for wage subsidies and tax exemptions related to the COVID-19 pandemic and suggestions for amendments to the draft Law on Waste Treatment. The platform for public-private dialogue and Biznisregulativa can serve as an example for other economies in the region of a platform that allows businesses to engage governments proactively, instead of the other way around, which is the usual approach (through mandatory public-private consultations), allowing the business community to propose policies directly and make their needs heard.

Source: Information provided by the government of North Macedonia. For more information, see: https://biznisregulativa.mk.

Monitoring and evaluation of public-private consultations remains a challenge for most economies

Monitoring and evaluation of the PPC process as a whole is key to measuring its quality, i.e. to what degree key stakeholders such as SMEs have access to and are involved in the process, across different consultations organised by different institutions.

This aspect of monitoring and evaluation of PPCs remains a challenge for most WBT economies. While most economies report on the results of individual consultations to inform the government of stakeholders' views on a particular policy or draft legislation, very few report on the evolution of the PPC system as a whole, namely Albania, the state level in Bosnia and Herzegovina, and Kosovo. Since 2021, Albania, with its updated guidelines on conducting PPCs, publishes regular reports on the evolution of the PPC process, which can serve as an example of good practice to the other economies in the region (Box 3.5).

Although some economies have monitoring mechanisms for measuring the quality of PPCs and the engagement of stakeholders, none of them monitor the engagement of different types of stakeholders. It is therefore difficult to identify whether SMEs are adequately engaged in PPCs compared to larger companies, and whether certain sectors of activity are adequately engaged.

Box 3.5. Albania's monitoring reports for public-private consultations

As part of its new regulatory framework for conducting public-private consultations (PPCs), introduced in January 2021, Albania strengthened the guidelines for reporting and monitoring and evaluation of PPCs conducted by all line ministries, as well as the overall PPC process, which is monitored by the Council of Ministers.

Since this reform, each ministry publishes reports on the consultations it has held on a six-month or yearly basis. The reports are accessible on the central online consultation portal (https://konsultimipublik.gov.al/Raporte2021), greatly increasing their accessibility to interested stakeholders.

The Council of Ministers also produces an aggregate report of the public consultation process, looking at consultations conducted by all ministries on a six-month basis. Going beyond simply reporting on the implementation of the regulatory framework for consultations by ministries, this reporting contains analytical indicators, such as participation in consultations, institutions' response rate to public comments and the duration of consultations.

This allows the government to not only monitor the fulfilment of ministries' obligations to host consultations, but also the quality of the consultation process as a whole. Introducing such comprehensive monitoring could be useful for Western Balkans and Turkey economies that do not yet do so and introducing indicators for measuring the quality of the PPC process would be beneficial for the economies which limit their reporting to the fulfilment of formal requirements.

Source: Albanian Council of Ministers (2021[11]). For more information, see: https://konsultimipublik.gov.al/Raporte2021.

The way forward for public-private consultations

- **Strengthen inter-institutional co-ordination for effective use of public-private consultations.** Most economies that have not yet made efforts to strengthen inter-institutional co-ordination for ensuring that PPCs are conducted more regularly or that ministries use their respective online portals could take inspiration from the economies that have done so. Some possible approaches include mandating an institution to ensure the effective use of the online portal by all ministries and

relevant institutions, or appointing co-ordinators in every ministry or institution charged with the same task.

- **Improve monitoring and evaluation of the public-private consultation process.** The economies which have not yet established systemic monitoring of the PPC process can take inspiration from Albania, the state level in Bosnia and Herzegovina, and Kosovo, where reports are regularly produced on the respect of the regulatory requirements for PPCs by different institutions. These reports are the most analytical in Albania, and measure participants' engagement through various indicators. All economies would benefit from introducing differentiated indicators to measure the engagement of different categories and sub-categories of stakeholders (i.e. SMEs versus larger companies, different sectors of activity, etc.), especially for business-related consultations. Introducing such comprehensive monitoring and evaluation should help governments measure the extent to which SMEs from different sectors are included in PPCs for legislation that concerns them and identify areas where further outreach or capacity building is needed. For more information on data that WBT governments could consider collecting in this area, please see Annex C.

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Notes

[1] At the EU level, SMEs are defined by Commission Recommendation of 6 May 2003 on the definition of micro, small and medium-sized enterprises. A micro enterprise is defined as having a total staff headcount of less than ten and total balance sheet and turnover of less than EUR 2 million. A small enterprise is defined as having a headcount of less than 50 and total balance sheet and turnover of less than EUR 10 million. Medium-sized enterprises must have less than 250 staff, a turnover inferior to EUR 50 million and a balance sheet inferior to EUR 43 million.

[2] The SME Test is a policy tool promoted by the European Commission as a means to fully examine and respond to the potential impacts of a regulation on SMEs. Examination of SME aspects in RIA is the starting point of the SME Test methodology and acts as a filter for policies which could have an important impact on SMEs. If the regulation is considered to have a high enough impact on SMEs, the process moves towards extensive consultation with stakeholders, assessment of impacts and preparation of mitigation measures. For more information, see: https://ec.europa.eu/info/sites/default/files/br_toolbox-nov_2021_en_0.pdf.

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

This chapter assesses the availability, quality and responsiveness of the public services for small and medium-sized enterprises (SMEs) in the Western Balkans and Turkey. It begins with an overview of the assessment framework, then focuses on the four sub-dimensions of Dimension 4: 1) digital government services for enterprises, which measures the extent to which SMEs can interact with public institutions through the use of digital technologies; 2) company registration, which focuses on the procedures necessary to register a company; 3) business licensing, which considers the complexities of the process of obtaining a licence; and 4) tax compliance procedures for SMEs, which examines whether tax systems are adapted to SMEs' unique needs. Each sub-dimension concludes with key recommendations for increasing the capacity and efficiency of the operational environment for SMEs in the region.

Key findings

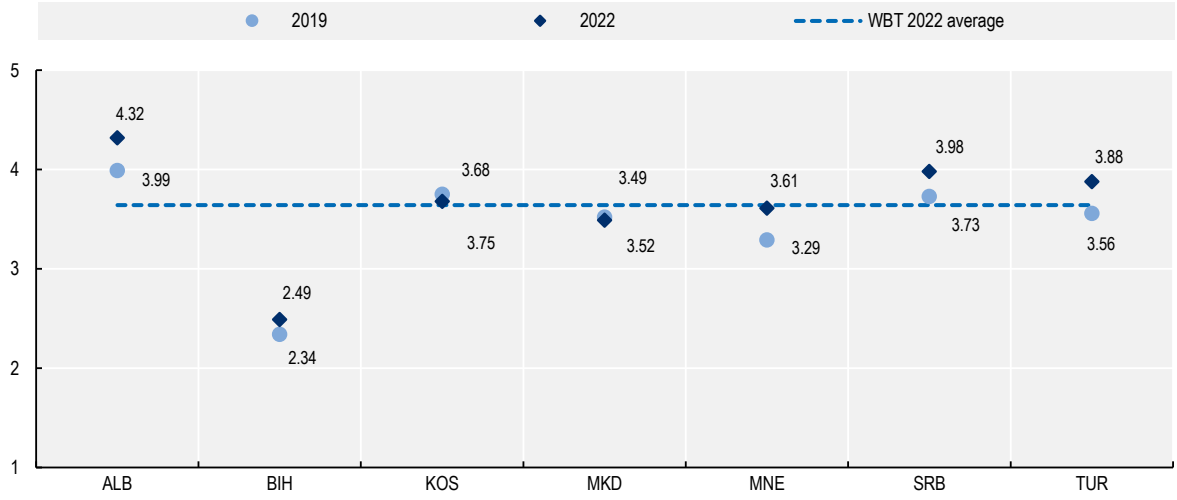
- **The Western Balkans and Turkey economies have made progress in rolling out digital government services for businesses.** However, progress is uneven across the seven economies and businesses still cannot complete all the key processes on line.
- **Monitoring and evaluation of digital government services** remains a key challenge in the region, and is very limited in nearly all Western Balkans and Turkey (WBT) economies.
- **One-stop shops for company registration have been established across the region and online registration has been further optimised.** Reforms to simplify company registration processes and increase interoperability in this regard have been undertaken in the majority of WBT economies to reduce the number of days and procedures required to start a business.
- **Business licencing has been centralised in all economies in the Western Balkans and Turkey** and deregulation reforms are ongoing to reduce administrative barriers for businesses. The digitalisation of licensing application processes has begun in some economies.
- **Labour income taxes across the region are high and discourage entrepreneurship** and tax compliance but are, to some extent, offset through the use of simplified tax regimes targeted at SMEs, which tend to decrease tax burdens and tax compliance costs.
- **Simplified bookkeeping rules for SMEs are common** throughout the region and **digital services are widely used** for business taxation.

Comparison with the 2019 assessment scores

Most WBT economies have progressed in Dimension 4 since the last assessment, with a regional average of 3.63 in 2022, slightly above its performance of 3.44 in 2019. Albania continues to be the best performer of the seven assessed economies, followed by Serbia and Turkey, which have made the most progress since the previous assessment cycle (Figure 4.1).

As in the previous assessment, WBT economies performed the best and have all increased their scores in company registration and business licensing. Most WBT economies have made improvements in digital government services, with some seeing a slight decrease.

Figure 4.1. Overall scores for Dimension 4 (2019 and 2022)



Note: Despite the introduction of questions and expanded questions to better gauge the actual state of play and monitor new trends in respective policy areas, scores for 2022 remain largely comparable to 2019. To have a detailed overview of policy changes and compare performance over time, the reader should focus on the narrative parts of the report. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology

Implementation of the SME Policy Index's 2019 recommendations

The speed of implementing the recommendations made in the 2019 SME Policy Index varies across the region. Table 4.1 summarises the progress on implementing the key recommendations made for Dimension 4 in the previous assessment.

Table 4.1. Implementation of the SME Policy Index's 2019 recommendations for Dimension 4 in the Western Balkans and Turkey

Regional 2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Regional progress status
Allow SMEs to complete all processes on line	All of the economies in the Western Balkans and Turkey (WBT) have established online portals to serve as digital one-stop shops, allowing for easy access to key government services for businesses. However, the rollout of digital government services for businesses was uneven across the region, and these portals have varying levels of sophistication. Businesses in Albania, Serbia and Turkey can complete the most key procedures fully on line through these online portals.	Moderate
Improve and promote the use of open government data	With the exception of Bosnia and Herzegovina and Turkey, all WBT economies have developed open data portals and have gradually increased the amount of open data available and relevant for SMEs. However, the WBT economies lack a strong data-driven culture in the public administration, which would allow for more effective publishing of open data and increased transparency. Only Montenegro and Serbia have outlined concrete goals to promote the use of open government data by small and medium-sized enterprises (SMEs).	Moderate
Expand the interoperability system to improve connections between various public administration databases	With the exception of Bosnia and Herzegovina, all WBT economies have made gradual progress in increasing the interoperability of government data through the interconnection of government registers and establishment of interoperability platforms. However, progress is uneven across the region and there is still room for improvement in most economies to	Moderate

	implement the once-only principle.	
Increase the monitoring and evaluation of digital services targeting SMEs	Monitoring and evaluation of digital government services remains a persistent challenge for the WBT economies. Kosovo, Montenegro, North Macedonia and Serbia have started to collect data on the use of digital services, thanks to the establishment and development of their online portals, but these data are limited to usage in absolute terms and binary satisfaction rates, which do not paint an accurate picture of a service's performance. Albania and Turkey collect a broader range of data and conduct user surveys, but no economy in the region monitors service use by type or sub-type of users (for instance citizens vs. businesses and more importantly SMEs vs. larger companies).	Limited
Adopt the rule of one identification number for each company	No changes were reported in the assessment cycle. A single identification number for dealing with the public administration has been established in Albania, Kosovo and Montenegro.	Limited
Fully implement the "silence-is-consent" principle	The "silence-is-consent" principle is legislated in all WBT economies except Bosnia and Herzegovina, North Macedonia, and Turkey. According to data provided by the governments, the principle is fully implemented by registration agencies. The Law on Crafts and Related Activities adopted in the Federation of Bosnia and Herzegovina in 2021 prescribes the silent-is-consent principle for business registration, and should be implemented when its one-stop shop becomes operational.	Moderate
Create a central co-ordination body responsible for business licences to have a systematic overview of licensing	Except for Albania and Kosovo, all economies lack a co-ordination body that oversees the granting of permits and licences by competent authorities. While substantial progress has been achieved in centralising business licensing processes and enhancing interoperability across the region, co-ordination bodies have not been established.	Limited
Introduce electronic distribution and nomination of licensing officers	As in the previous assessment, Albania is the only WBT economy that has introduced electronic distribution and nomination of licensing officers.	No progress
Regularly monitor and evaluate tax simplification measures	Overall, economies in the region tend to have ample scope to improve both the design and the evaluation of their simplified tax regimes and, in particular, to analyse whether the design of the simplified tax regime takes the profitability of business sectors properly into account, and whether this creates hurdles to grow in the standard tax regime or incentives to work in the informal sector.	Limited
Strengthen the way the administration provides tax-related information to SMEs	Efforts have been made to increase tax literacy in the region. In most economies, businesses can find information on the general website of the tax administration, although this information is not necessarily targeted at SMEs. Nevertheless, there is scope to provide more detailed tax information to SMEs. SMEs might find it challenging to obtain detailed information about their tax rights and obligations; they must be made aware of their options to reduce compliance costs and make paying tax as simple as possible.	Moderate

Introduction

From registering a company and obtaining a business licence to filing and paying taxes, SMEs interact with public institutions, physically or digitally, at all stages of their development. The operational environment in which SMEs must navigate is determined by the ease of using digital services, the number of procedures and the costs associated with their interactions with the government.

Poor delivery of government services, poorly designed regulations and complex regulatory requirements imposed on businesses can result in potential businesses not being created, and put unnecessary strains on those that do exist. SMEs are particularly affected, as they often operate on thin profit margins and the resulting increased costs may force some to cease operating. One frequent complaint from businesses is the difficulty of accessing relevant information on administrative procedures. Separate government agencies need to work together to ensure that administrative procedures are established in a way that best serves users, which may not necessarily be how governments operate internally (OECD, 2020[1]).

When the COVID-19 pandemic broke out, much of the world moved on line, accelerating a digital transformation that has been underway for decades. While the pandemic has demonstrated the tremendous potential of the digital transformation, including for administrative services, it has also accentuated the gaps that remain (OECD, 2020[2]). For WBT economies heavily impacted by the COVID-19 pandemic, increasing the availability of digital services for SMEs, including business registration and licensing, as well as improving the efficiency of administrative procedures, including tax compliance procedures, will be key to improving the operational environment by saving time and resources.

Assessment framework

Structure

The assessment framework for this dimension is divided into four sub-dimensions (Figure 4.2):

- **Sub-dimension 4.1: Digital government services for enterprises** captures the extent to which interactions between entrepreneurs and public institutions are carried out through electronic or digital means, e.g. electronic filing for taxes, electronic reporting of enterprise statistics or adopting the “once-only” principle for information provided by enterprises.
- **Sub-dimension 4.2: Company registration** focuses on the procedures necessary to register a company.
- **Sub-dimension 4.3: Business licensing** evaluates the process of obtaining a licence or permit.
    - Sub-dimensions 4.2 and 4.3 both analyse the complexity and length of the procedures involved, and assess whether systems have been simplified through various policy tools and instruments, such as one-stop shops, information portals, digital platforms, written guides or centralised co-ordination bodies.
- **Sub-dimension 4.4: Tax compliance procedures for SMEs** assesses whether governments have introduced policies to make it easy for SMEs to comply with taxes, and gauges whether tax systems are adapted to SMEs’ vulnerabilities and capacities.

Slight adjustments have been made to the framework since the last assessment to enhance the assessment of the range and nature of digital government services provided to SMEs (such as applying for government support programmes). The assessment also takes into consideration COVID-19 response measures, although no evaluation has been made in this regard.

Figure 4.2. Assessment framework for Dimension 4: Operational environment for small and medium-sized enterprises in the Western Balkans and Turkey

Operational environment for SMEs					
Sub-dimension 4.1: Digital government services for enterprises			**Sub-dimension 4.2:** Company registration		
Thematic block 1: Planning and design	**Thematic block 2:** Implementation	**Thematic block 3:** Monitoring and evaluation	**Thematic block 1:** Design and implementation	**Thematic block 2:** Performance	**Thematic block 3:** Monitoring and evaluation
Sub-dimension 4.3: Business licencing			**Sub-dimension 4.4:** Tax compliance procedures for SMEs		
Thematic block 1: Licence procedures	**Thematic block 2:** Monitoring and streamlining of licence system		**Thematic block 1:** SME tax compliance and simplification procedures	**Thematic block 2:** Monitoring and evaluation of SME specific tax measures	
Quantitative indicators Number of days for obtaining company registration certificate Number of days for completing the overall company registration process. including compulsory licences for standard business activities Number of administrative steps for obtaining a company registration certificate Official cost of obtaining a company registration certificate Costs connected with registration Minimum capital requirement for business registration					

Analysis

Digital government services for SMEs (Sub-dimension 4.1)

The development of digital government services can significantly improve the operational environment for SMEs by allowing them to complete an increasing number of administrative procedures and public services fully on line. This allows them to save time and resources, therefore improving the competitiveness of the overall economy. While enabling SMEs to complete key administrative procedures on line is a key step to improving their operational environment, it cannot be properly implemented without a clear, consistent and comprehensive approach on how to integrate digital technologies into the government's modernisation policies (OECD, 2014[3]).

This section assesses the extent to which SMEs can interact with public institutions through the use of digital tools and channels. It does so by: 1) analysing whether or not governments have adopted a policy framework to advance the availability and development of digital services; 2) exploring the extent to which digital government services, open government measures and data exchange platforms have been introduced; 3) assessing the extent to which monitoring and evaluation of digital services allows the performance of these services to be measured to inform policy making.

Nearly all WBT economies have improved their overall performance in delivering digital government services for SMEs since the last assessment (Table 4.2). With the exception of Kosovo, all WBT economies have seen progress in planning and designing policies and institutional frameworks for the provision of

digital services. However, Bosnia and Herzegovina, Kosovo, Montenegro, and North Macedonia have encountered difficulties in implementing these frameworks, and monitoring and evaluation remains a persistent challenge for most economies in the region, despite improvements in all economies since the last assessment.

Table 4.2. Scores for Sub-Dimension 1: Digital government services for small and medium-sized enterprises in the Western Balkans and Turkey

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	4.70	2.80	3.78	4.40	4.80	4.70	4.75	**4.28**
Implementation	3.91	1.73	3.27	3.27	3.27	3.64	4.20	**3.33**
Monitoring and evaluation	3.80	1.48	2.60	1.73	1.73	3.00	3.00	**2.48**
Weighted average	**4.12**	**1.99**	**3.26**	**3.22**	**3.34**	**3.80**	**4.07**	**3.40**

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

WBT economies have continued to develop their policy frameworks for delivering digital government services, using different approaches

Having a policy for the development of digital government services is the basis for ensuring the rollout of digital government services. However, such policies benefit greatly from being aligned with broader policy and institutional frameworks seeking to develop digital government as a whole.

WBT economies have continued to develop their respective policy frameworks for delivering digital government services, under differing approaches. Most have been implementing frameworks for the development of digital government that focus on providing digital services as part of a larger strategy (such as overall development programmes in the case of Turkey, or public administration reform strategies in the case of Kosovo and North Macedonia) or dedicated documents related to digitalising practices in the public administration (in the case of Serbia). Albania and Montenegro are the only two WBT economies that have developed frameworks that tackle the provision of digital services as part of a larger framework aiming to drive the digital transformation of society at large, through a governance approach, involving a variety of stakeholders, rather than an approach centred on public administration and government.[1] These frameworks, Albania's Digital Agenda (2015-2020) and Montenegro's Digital Transformation Strategy (2022-2026), have objectives related to strengthening the population's digital skills, and developing the ICT industry and ICT infrastructure in synergy with developing digital government. As digital government reforms often require more horizontal co-ordination and the involvement of a varied array of stakeholders, this is an advantage, as it allows governments to focus on the delivery of digital services against a broader backdrop.

Inter-institutional co-ordination frameworks for digital government reforms have been strengthened in most WBT economies

Digital government reforms are multifaceted processes involving a range of public actors and institutions with many different institutional cultures, priorities and responsibilities. As such, having a framework that allows for effective co-ordination of these diverse actors at a high-level and co-operation at a technical and operational level towards achieving a coherent, holistic vision is key to ensuring the effective development of digital government, including the rollout of digital government services for businesses (OECD, 2021[4]).

Some of the WBT economies have taken steps to reinforce the institutional co-ordination of their digital government reforms. Albania and Turkey stand out in this regard, as they have appointed bodies that serve as leaders of the digital transformation and have a comprehensive approach to institutional co-ordination

and co-operation. In Albania, since 2017, the National Agency for Information Society serves as both the policy leader for digital transformation and supports and manages the ICT staff of line ministries to ensure a common approach to managing decentralised ICT infrastructure. Turkey has adopted a more vertical approach, with the Digital Transformation Office of the Presidency taking the leading role in determining priorities related to digitalisation for various institutions since 2019. Montenegro, North Macedonia and Serbia have established councils or working groups to ensure high-level inter-institutional co-ordination of digital service delivery and digital government reforms more broadly. While these bodies do not have the same overall effectiveness as having a specifically mandated leading institution for the digital government agenda, they nevertheless provide a basis for ensuring inter-institutional co-ordination. Kosovo has charged the Agency for Information Society within the Ministry of the Interior with co-ordinating the delivery of digital government services and Bosnia and Herzegovina's Public Administration Reform Co-ordinator's Office oversaw the development of a common Strategic Framework for Public Administration Reform (2018-2022) developed jointly by the state level and the entities. However, for different reasons, both institutions lack the legitimacy and ability to effectively steer the digital transformation of their economies.

The establishment of co-ordination through dedicated bodies has helped some economies (Albania, and to a lesser extent Turkey) establish standards for the delivery of digital services to ensure a consistent level of quality of services among different institutions. This is not, however, the case for the rest of the WBT economies, leading to a divergence in the quality of services in those economies that have not yet established common standards.

The rollout of digital government services has progressed unevenly across the region

The creation and development of one-stop shops allow economies to provide public services more efficiently, ideally reducing the administrative burden on both businesses and the public sector through the provision of more efficient and easily accessible services (OECD, 2020[1]). One-stop shops usually provide a selection of services grouped around a specific set of needs, building on the original organisational delivery channel (OECD, 2020[2]). Ensuring that digital services are easily accessible by businesses through online portals which serve as digital one-stop shops and that they can be completed digitally from end to end is key for facilitating the operational environment for SMEs.

All WBT economies have established online portals which aim to serve as one-stop shops, although the development of these portals, and the degree to which key business services are accessible and can be completed fully on line, varies greatly between the economies. Albania, Serbia and Turkey have the most developed portals, with the greatest number of services that can be accessed and completed fully on line by businesses. Kosovo's, Montenegro's and North Macedonia's portals are at earlier stages of development, with services for businesses being gradually integrated. Bosnia and Herzegovina presents a unique case, as there is no central portal for digital services at the level of the economy, instead, portals for digital services are present at the level of the entities. A major requirement for having fully transactional digital services is having a system which allows for the online payment of administrative taxes and fees. So far, Albania, Serbia and Turkey have developed such systems.

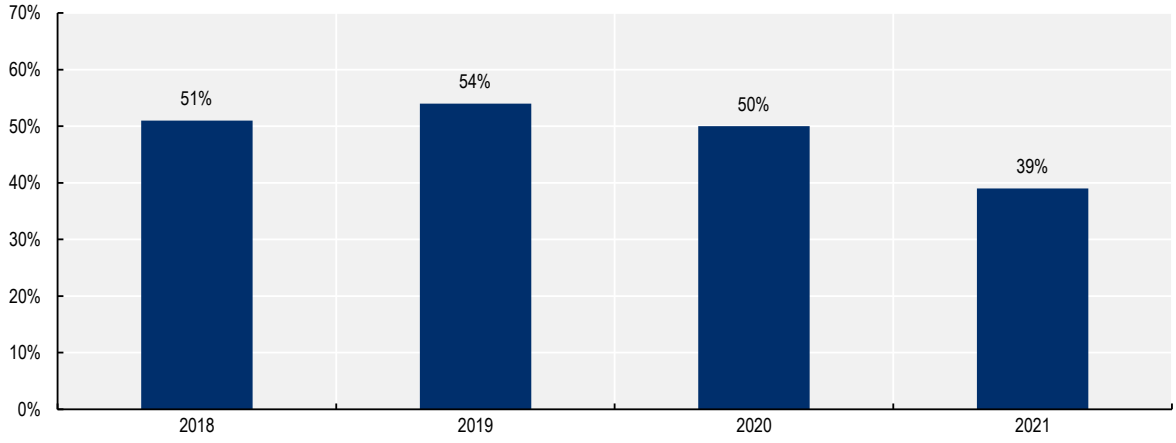
The rollout of digital government services through digital one-stop shop portals has slowed down in some WBT economies since the previous assessment, despite the inclination of governments to realise the benefits and importance of digitalisation, underlined by the COVID-19 pandemic. Specifically, Kosovo and Montenegro reported that the rollout of digital government services was slowed due to the reallocation of resources and shifting of priorities towards more immediate support to businesses in the wake of the pandemic.

Businesses' satisfaction in most Western Balkan economies with available digital government services has declined since 2019 (from a regional average satisfaction rate of 54% to 39%[2] in 2021) (Figure 4.3), with this decline possibly being exacerbated by the increased need for digital services brought on by the

COVID-19 pandemic. The only exception to this trend is Serbia, where the rollout of digital services saw more progress during the assessment period, and was accelerated by the pandemic.

Figure 4.3. Business satisfaction with digital government services in the Western Balkans (Western Balkans Six average)

Share of businesses strongly satisfied or tending to be satisfied with available digital government services



Note: The WB6 includes Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia. Data for Turkey are not available, since Turkey is not included in the Balkan Business Barometer Survey.
Source: Regional Cooperation Council (2021[5]), Balkan Barometer: Business Opinion, Database, https://www.rcc.int/balkanbarometer/results/1/business

This declining satisfaction possibly shows that while governments in the region are making progress on digitalising services, there is room for improvement in ensuring service design which is consistent with and designed around the needs of users. The tendency of most WBT governments to plan and implement digital government reforms primarily from a public administration perspective risks alienating businesses and other key stakeholders. Moreover, by adopting a "digital by default" approach, instead of ensuring an omni-channel approach[3] which combines digital services with existing channels, governments risk alienating users that rely on traditional services and therefore increasing the digital divide (OECD, 2014[3]).

Progress has been made in strengthening the key enablers for digital services, namely government data interoperability, e-signature and open data

Several key enablers can support and accelerate the delivery of digital services for SMEs, one of which is ensuring the interoperability of data collected by the government. Data interoperability is essential to support the exchange of information among different government bodies in an economy, thus avoiding the need for SMEs to share information more than once as they access different services, in line with the once-only principle.[4]

With the exception of Bosnia and Herzegovina, all WBT economies have advanced the interconnection of their various government registries, and have thus moved closer to the implementation of the once-only principle and full interoperability of government data. Albania is the regional leader in this regard, with over two-thirds of all data provided to the public administration shared across different bodies, thus saving

considerable time for businesses. The other WBT economies have been gradually increasing the number of interconnected public registers since the last assessment and have made efforts to promote the exchange of data between different administrations as a common practice, to varying levels of success. In October 2021, the Western Balkan Six economies signed a Memorandum of Understanding on Interoperable Western Balkans and Free Flow of Data in the Western Balkans region, aiming to intensify co-operation to ensure interoperable cross-border services (such as toll systems and digital identity).

The possibility to use electronic signatures, with equivalent legal value as traditional signatures, is another key enabler for completing more services on line, particularly those requiring a more secure connection. The European framework for e-signature, centred on the eIDAS Regulation,[5] ensures the security of e-signatures and the cross-border reusability within the European Single Market.

Nearly all WBT economies have aligned their legislative frameworks with the eIDAS Regulation, with Kosovo being the most recent economy to have done so, with the adoption of its Law on Electronic Identification and Trust Services in Electronic Transactions in December 2021. During the assessment period, North Macedonia also aligned its framework with the eIDAS Regulation. Bosnia and Herzegovina stands out, as it has not yet developed a common approach to aligning its legal framework on e-signature between the state level and the entities, complicating the usability of e-signatures throughout the economy and its integration with the EU framework. With the exception of Turkey,[6] all of the WBT economies have opted to implement e-signatures through the use of qualified electronic certificates, which allow for the secure signing of documents electronically, but present a cost barrier and a technical barrier for an important proportion of SMEs in the region.[7] To circumvent the cost barrier, many economies have started issuing electronic ID cards, which contain qualified electronic certificates, and Serbia has implemented a cloud-based e-signature system which is usable through mobile devices, thereby circumventing the technical barrier.

A data-driven public sector ensures that the government cultivates the availability, accessibility and reuse of data to increase transparency, build trust and create public value (OECD, 2020[6]). While not directly linked to the provision of services, the availability of open data and policies to encourage its reuse constitute a key part of the operational environment for SMEs, as reusable open data have the potential to promote innovation and provide SMEs with a valuable resource to create and develop new products and services.

Most of the WBT economies have established open data portals and have increased the number of datasets available through these portals since the previous assessment. Albania, Montenegro, North Macedonia and Serbia have established standards and criteria for the organisation, annotation, formatting and publishing of open data to encourage its reusability. With the exception of Montenegro and Serbia, the WBT economies are lagging behind in elaborating proactive policies to promote the reuse of open data by SMEs to create value through innovative products and services. Montenegro, through objectives included in its Digital Transformation Strategy (2021-2026), and Serbia, through its National Strategy for the Development of Artificial Intelligence (2020-2025), are currently the regional leaders in this regard, and have organised activities such as innovation challenges and hackathons to stimulate and promote the use of open data.

Monitoring and evaluation of digital services remains a challenge for most WBT economies

Monitoring and evaluation of the performance of digital services allows governments to measure the success of digital one-stop shops and the extent to which they achieve their goals of simplifying the operational environment for SMEs. Effective monitoring and evaluation systems allow relevant data on the use of digital services to be collected, to allow governments to identify where improvements are needed. Some examples of performance indicators that can be collected are use of services, user satisfaction, costs per transaction, usage patterns or service completion rates (OECD, 2020[1]).

Setting up comprehensive and meaningful monitoring and evaluation systems for digital government services is a challenge for the WBT economies. Most economies that have some form of performance monitoring, for instance Kosovo, Montenegro, North Macedonia and Serbia, limit the collection of data to data on the use of services or user satisfaction in absolute numbers or binary satisfaction measurement, with a heavy focus on use by citizens in most cases. No economy differentiates data collection by type or sub-type of users (for instance citizens vs. businesses and more importantly SMEs vs. larger companies). Albania and Turkey have shown a more proactive approach to measuring satisfaction and use of digital services, through user surveys. However, the usefulness of such surveys is limited to measuring user satisfaction at a given point in time, something which could be improved upon by creating dynamic and responsive performance monitoring.

The way forward for digital government services for SMEs

- **Adopt user-driven approaches to service delivery.** While ensuring the rollout of digital government services, WBT economies would benefit from ensuring that services are designed around the needs of the user, and specifically SMEs. This contrasts with simply digitalising existing administrative procedures, as this would be a missed opportunity to simplify and improve procedures, which can be carried out in parallel to ensuring their digital availability. Governments could benefit from engaging and interacting with end users, including SMEs, in a way they can indicate and communicate their own needs to drive the design of services (OECD, 2020[2]). Economies that have designated institutions to serve as digital transformation leaders and co-ordinators have an advantage in this regard, as the promotion and institutional enforcement of this approach are easier to implement in practice. All WBT economies should include this principle in their policy frameworks and overall institutional approaches to providing digital services. Box 4.1 provides guidance on how governments can ensure that services are designed around the needs of users. Identifying users' needs is the first key step towards providing relevant benchmarks and performance indicators for meaningful monitoring and evaluation.
- **Promote and facilitate the use of electronic signatures.** Those WBT economies which have established legal frameworks for e-signature use should focus on implementation, specifically on reducing the cost and technical barriers that many SMEs face when confronted with adopting e-signatures. Several options exist to achieve this goal, for instance developing mobile solutions as Serbia has, advancing the rollout of electronic identity cards or even building a federated identity model[8] as Turkey is doing. When building and developing their digital identity systems, WBT economies should develop strategies to ensure that solutions developed for citizens are also usable for citizens in their capacity as business representatives, so that these solutions benefit businesses as well.
- **Promote and facilitate the reuse of open data by SMEs.** Most WBT economies would benefit from developing more proactive policies in promoting and facilitating the reuse of open data by SMEs for the creation of innovative products and services. A large, easily accessible and reusable (thanks to regulations to ensure proper formatting, annotation and classification) repository of open data, combined with proactive policies[9] (such as communication about the potential benefits of data reuse or promoting collaboration within the data ecosystem), can be a driver of SMEs' innovation and growth. Ireland's Open Data Engagement Fund can inspire economies in the region in terms of funding schemes to stimulate open data reuse and innovation (Box 4.2). Box 4.3 showcases an example of how governments can promote open data reuse through events such as innovation challenges or hackathons.

Box 4.1. Keys to successful user-oriented service delivery

Successfully designing public services, which are tailored to and responsive to users' needs is a process which depends on several key factors, based on the OECD's Conceptual Framework for Analysing the Design and Delivery of Services:

- First, **governments must consider contextual factors**, such as the political and administrative culture of an economy, the technological context (availability of and widespread use of tools such as the Internet and ICT or e-signatures in businesses), and socio-economic and cultural factors. Embracing a digital-by-default approach risks excluding users who may be unable to complete services on line and need in-person support. Therefore, governments should understand how existing service delivery channels (websites, call centres, networks of service provision) can work together to provide inclusive access to services for all. Information shared though different channels (on line, in-person, telephone) should be integrated to allow users to complete services end-to-end even if they change channels in the middle of the process.
- Second, **public sector service design should be guided by a philosophy that is based on the inclusiveness of stakeholders, agile design and iteration**. In the case of digital services for businesses, this means that businesses, including small and medium-sized ones, should be consulted proactively when designing services or adapting them to digital models. User feedback can also be collected *ex post* through monitoring and evaluation. An agile design philosophy allows governments to iterate on services and integrate user feedback throughout the service design and delivery process, as opposed to collecting feedback as a separate process.
- Last, **governments should enable the delivery of services based on a user-centric approach by taking a "government as a platform" approach, giving civil servants the resources and tools necessary to drive this transformation**. Concretely, this refers to establishing common standards for service delivery; empowering administrations with the ability and resources to explore, test and propose new services; developing reusable technical components (such as payments or identity); and establishing appropriate guidelines for public procurement to ensure the reflection of these principles when outsourcing.

Sources: OECD (2014[3]; 2020[2]).

Box 4.2. Ireland's Open Data Engagement Fund

Consistent and targeted funding can be a key support mechanism for governments that want to encourage the reuse of open data by the private sector and civil society. Competitive project selection processes can help ensure that the government funds the most innovative and relevant projects, in line with its policy objectives.

Since 2016, the Irish government has been awarding annual grants for selected projects focused on open data reuse and promotion, based on a competitive application process. The Open Data Engagement Fund is aligned with Ireland's major policy documents in the field of open data, such as the Open Data Strategy (2017-2022) and the Public Service Data Strategy (2019-2023). The total grant allowance for the fund in 2021-22 was EUR 30 000, with a maximum of EUR 5 000 per project. The latest grant cycle focused on projects that showed innovative use of open data for creating public value (through hackathons or initiatives by public bodies) or general engagement and promotion of open data (for example, by analysing the economic benefits of the availability and reuse of open data). Some examples of winning projects include hackathons for optimal installation of electric vehicle infrastructure based on available open data related to transport, or the mapping of accessibility of healthcare services based on available health-related open data.

This funding approach has a double positive impact. On the one hand, it encourages the reuse of open data by stakeholders outside the government as a common practice that can help these stakeholders, including businesses, develop innovative projects, products and services. On the other hand, it allows governments to select projects which present interesting solutions to key challenges, related to sustainability, digital inclusion and other areas. Ireland's example showcases the benefits of a targeted approach to supporting open data reuse and innovative projects based on open data. For economies in the Western Balkans and Turkey, and especially in the Western Balkans where financial resources are often cited as an obstacle, such a scheme could allow governments to target their limited resources based on projects assessed to provide the most value and relevance for a given year, in line with the government's policy objectives, as well as with the available open data.

Note: For more information, see: https://data.gov.ie/pages/open-data-engagment-fund.
Source: OECD (2020[6]).

Box 4.3. Sweden's "Hack for Sweden" hackathon

Organising collaborative or competitive events such as hackathons or innovation challenges can be an effective way to stimulate and promote the reuse of open government data among the private sector. Such events allow participants to gain experience in using open government data to provide innovative products or solutions to public issues.

In Sweden, the Agency for Digital Government co-ordinates "Hack for Sweden", an all year-round platform for engaging citizens, businesses and other stakeholders in reusing open government data. Competitive projects are awarded with grants as well as promotional assistance and notoriety, which allows them to connect with investors, businesses and other potential partners, and to grow beyond the prototypes created as part of the hackathon.

The benefits of this approach come from the fact that rather than being organised as a single event or series of events, "Hack for Sweden" operates as a platform, allowing developers to showcase their projects year-round. This approach still allows the government, in its co-ordinating role, to conserve some flexibility in the orientation of projects. For example, in 2021, the focus was placed on solutions to issues related to COVID-19 and digital inclusion, with public institutions guiding the process by expressing their needs for innovative solutions.

While some economies (Montenegro, Serbia and Turkey for example) have organised hackathons to drive innovation and deepen collaboration between stakeholders in different sectors, a more consistent orientation towards reusing open data would be welcome. Sweden's approach allows for the creation of a platform for encouraging, promoting and rewarding open data reuse in line with objectives determined by the government (such as responding to the COVID-19 pandemic or addressing climate change for example).

Economies with developed open data portals could further develop these portals into platforms for open data reuse, and reward the most innovative and competitive projects. A special focus could also be given to businesses, to allow them to connect with developers who show promise through the creation of innovative solutions to the needs of customers or society.

Note: For more information, see: https://www.digg.se/utveckling-av-digital-forvaltning/hack-for-sweden.
Source: OECD, (2020[6]).

- **Improve monitoring and evaluation systems for digital services.** WBT economies should focus on developing monitoring and evaluation systems that allow the performance of digital services to be continuously measured according to key performance indicators. Metrics such as user satisfaction, service completion rates or usage patterns should allow governments to measure the success of digital services in meeting businesses' needs. It would be very important to allow for differentiated monitoring of use by different categories of users, specifically businesses vs. citizens and more specifically SMEs vs. larger companies, to identify where further outreach efforts are needed. Norway's digital one-stop shop, Altinn, can serve as an example of how an integrated online portal can be used for effective monitoring and evaluation of the performance of digital services (Box 4.4). For more information on data that WBT governments could consider collecting in this area, please see Annex C.

Box 4.4 Norway's Altinn portal

Altinn (altinn.no) is Norway's digital one-stop shop for businesses and citizens. Launched in 2003, the portal has undergone several iterations and has developed into a one-stop shop for digital services, providing over 1 000 digital services and forms, as well as a platform for government design and iteration of public services. The Brønnøysund Register Centre, as the institution responsible for managing Norway's digitalised registers, is in charge of managing and developing the platform, in co-ordination with line ministries and in consultation with end users.

Altinn is connected to Norway's National Population Register and Register of Legal Entities, allowing it to monitor the use of the platform, as well as individual services, by both businesses and citizens dynamically. This allows the Norwegian government to identify potential gaps in service use as well as where additional outreach efforts might be necessary (among which business categories, in which geographic area for example).

Altinn's success has led to it being used by 100% of businesses for filing tax returns and annual accounts, and some 99% of businesses use it for declaring and paying value-added tax.

Altinn is an example of how the interoperability of government data can strengthen monitoring and evaluation. The platform has automatic access to key information about its users, as such information is collected automatically.

While this requires a high level of interoperability and data security, something which the Western Balkans and Turkey are working towards, it provides an example of how a platform for digital services can monitor the use of the services directly. Some economies in the Western Balkans and Turkey already collect data on the use of services through their portals automatically, and would benefit from expanding the range of indicators collected (in the case of businesses: size class, sector of activity, etc.), without necessarily making this data collection automatic (users could enter the information themselves initially).

Source: OECD (OECD, 2020[1])

Company registration (Sub-dimension 4.2)

Company registration is key for a business environment conducive to private sector activity and the poor delivery of services can result in potential businesses not being created. Several practices can facilitate business registration procedures, such as the establishment of one-stop shops, standard registration forms, unique company identification numbers and online services. Straightforward and clear registration procedures are even more important for SMEs, to narrow the administrative information gap they might face.

This sub-dimension analyses and compares registration procedures across the WBT economies to understand what challenges SMEs face when registering their companies (Table 4.3). The average regional score for this sub-dimension (4.18), which has slightly increased since the last assessment (when it was 3.97), shows that WBT economies perform particularly well in designing, implementing, monitoring and evaluating company registration. While all economies have made positive developments to reform their company registration processes, the most progress was achieved in Bosnia and Herzegovina, Montenegro, and Serbia.

Table 4.3. Scores for Sub-dimension 2: Company registration in the Western Balkans and Turkey

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Design and implementation	4.90	3.50	4.60	4.85	4.70	4.80	3.60	**4.42**
Performance	4.50	2.80	4.80	3.80	3.73	4.30	3.60	**3.93**
Monitoring and evaluation	4.80	2.50	5.00	4.80	2.55	4.75	4.00	**4.06**
Weighted average	**4.78**	**2.96**	**4.80**	**4.62**	**3.65**	**4.68**	**3.76**	**4.18**

Notes: WBT: Western Balkans and Turkey. For more information on the methodology see the Policy Framework and Assessment Process chapter and Annex A.

One-stop shops for company registration are available throughout the region to facilitate the processes required to start a business

The establishment of one-stop shops for company registration allows for enhanced co-ordination across and within levels of government and enables the delivery of integrated multi-policy and user-orientated services (OECD, 2020[1]). One-stop shops for business start-up not only save time and money, but also can make procedural requirements more transparent and accessible (World Bank, 2020[7]). Some one-stop shops are virtual – single or a combination and integration of various platforms; others are physical, with one or more windows. More often than not, existing user journeys are fragmented between online and offline interactions, and hard to trace across different parts of government. Investing in the design process, conceptualising user journeys from end-to-end, and providing support for all steps is crucial for good digital services, including company registration one-stop shops (OECD, 2022[8]).

All WBT economies have established one-stop shops and their number has increased throughout the region. While the only functioning one-stop shops in Bosnia and Herzegovina are in Republika Srpska (RS), in 2021 the Federation of Bosnia and Herzegovina (FBiH) adopted the long-awaited adjustments to its administrative laws as legal bases for making its one-stop shop operational, which should ease the number of procedures required to register a company.

One-stop shops operate in different ways across the region. On the one hand, Albania and Kosovo, the top performers in this sub-dimension, have single-window one-stop shops. When registering at the Albanian National Business Centre (NBC) or the Kosovo Business Registration Agency, entrepreneurs receive a single tax identification number and are simultaneously registered with the tax authorities and social insurance. On the other hand, the process is more cumbersome for entrepreneurs in Turkey, which must complete the procedures to start a business at different windows of the Trade Registry Directorates. In addition to registering their company, entrepreneurs have to complete the company's tax registration at the tax office and register employees with social security at the social security institution, receiving a specific identification number for each procedure.

Reforms to optimise the functioning of one-stop shops and ease the process of starting a business have been undertaken in some WBT economies. Increased interoperability has been achieved in Serbia since the last assessment. In addition to delivering the two required identification numbers to new businesses (tax identification number and company registration code), since 2020, the Serbian Business Registers Agency has also been in charge of submitting the relevant applications for mandatory social insurance on behalf of companies. In Montenegro, the 16 different forms required to register a company in one-stop shops were replaced in 2020 with a single registration application. Moreover, the RS government started a project for the "Optimisation of Administrative Procedures and Formalities" in 2021, which should further reduce the number of procedures required to register a business.

Along with the establishment and optimisation of their one-stop shops, all WBT economies have removed the minimum paid-in capital requirement to start a business, with the exception of the Federation of Bosnia and Herzegovina, where no progress has been achieved in eliminating the EUR 500 paid-in minimum capital requirement (10.2% of gross national income per capita (World Bank, 2020[9])).

The rollout of electronic registration services has progressed, but at an uneven pace across the region

Electronic registration services are available in more than 90% of high-income economies, in contrast to only about 40% of low-income ones (World Bank, 2020[7]). The primary motivation is to reduce the time and cost of registering a business as well as to improve access for smaller firms operating at a distance from the registrar's offices. Moreover, information technology has great potential to narrow the information gap and increase transparency for SMEs.

Electronic registration is available in all WBT economies expect for the Federation of Bosnia and Herzegovina, although different levels of functionality are enabled across the region (Table 4.4).

Table 4.4. Status of online company registration in the Western Balkans and Turkey

	ALB	BIH		KOS	MKD	MNE	SRB	TUR
		FBIH	RS					
Electronic storage of registration records	X		X	X	X	X	X	X
Online registration portal available	X		X	X	X	X	X	
Electronic payment available	X				X	X	X	
E-signature mechanism in place	X				X	X	X	
Qualified electronic signature required					X	X	X	
Registration available to all types of companies	X			X	X			

Note: WBT: Western Balkans and Turkey.
Source: Information provided by the respective governments in the SME Policy Index 2022 questionnaire.

In the previous assessment, only Albania, Kosovo and North Macedonia had a functioning online company registration portal. Other WBT economies have made great progress in establishing and optimising online registration. In Montenegro, the secondary legislation on the electronic payment of administrative fees has been adopted, allowing the legislative prerequisites to introduce full electronic registration of enterprises in 2020. While the process was meant to be fully available for all types of companies, only limited liability companies could register on line at the moment of writing. Online registration in Serbia was also made fully available to multi-member limited liability companies in June 2019 (in addition to sole proprietors and single-member limited liability companies). In Albania and Serbia, full digitalisation of some services related to company registration is ongoing.[10]

In 2019, Republika Srpska adopted the amendment Law on Registration of Business Entities, setting the stage for online registration. A single portal was established in 2021, but is not yet fully operational due to delays in the commissioning of the electronic signature mechanism. Similarly, entrepreneurs in Kosovo still need to submit a hard copy of signed documents as the e-signature mechanism is not yet in place, although implementation of the 2021 Law on Electronic Identification and Trust Services in Electronic Transaction, planned for 2023, should make online registration fully operational. As in the previous cycle, company registration has not yet been fully digitalised in Turkey, but registration records are stored electronically on the Central Commercial Registration System, which is a first step towards improving transparency, security and information sharing. Online company registration is not available in the Federation of Bosnia and Herzegovina and is not planned as part of ongoing reforms.

While positive developments are ongoing to digitalise company registration throughout the region, most SMEs face the barrier of costs and technological requirements associated with obtaining the qualified electronic signature which is necessary for online registration. This causes most companies to register in person or to use the services of authorised registration agents to prepare their company application, adding to the length and cost of registration.

Monitoring and evaluation mechanisms for company registration are satisfactory throughout the region

The performance of (online) company registration should be monitored and evaluated to ensure that it continues to meet both users' and the government's needs and expectations (OECD, 2020[1]).

Contrary to most digital services, monitoring and evaluation mechanisms are in place for company registration in almost all WBT economies, albeit at different levels, under the responsibility of registration agencies. Reports and statistics are produced regularly in Albania, Bosnia and Herzegovina (in Republika Srpska), Kosovo, North Macedonia, Serbia, and Turkey, mainly on the number of businesses registered in terms of location, company size, sector of activity or foreign ownership. Further analysis of these statistics is also conducted in some economies. Satisfaction with registration procedures and feedback are also taken into account; for instance, through the Presidency's Communication Centre CIMER in Turkey or via regular online surveys in Albania.

While monitoring and evaluation of company registration processes remains insufficient in Montenegro and in the Federation of Bosnia and Herzegovina, progress is planned as part of ongoing reforms. While the recently established Council for e-Government in Montenegro will not directly be in charge of improving individual services such as business registration, it should enable better monitoring, compliance and co-ordination between company registration and other digital services. Such mechanisms are also planned in the Federation of Bosnia and Herzegovina along with the establishment of its one-stop shop.

The way forward for company registration

- **Continue to digitalise company registration processes.** Western Balkan economies should continue to further digitalise their registration processes and Turkey should consider enabling fully operational electronic registration, feasibly as part of its e-Turkiye portal. Kosovo and Republika Srpska in Bosnia and Herzegovina should ensure the commissioning of the electronic signature mechanism on their respective portals. Montenegro and Serbia need to enable the online registration process for all types of companies (currently only available to sole proprietors and limited liability companies). Albania, Montenegro and North Macedonia should work on improving accessibility and lowering the costs of obtaining e-signatures.

Business licensing (Sub-dimension 4.3)

Almost all SMEs are required to have some type of business licence, permit or registration to operate legally, in full compliance with government regulations. Procedures for obtaining a business license can be lengthy and costly, adding to the administrative burden of starting a business. Clear and centralised business licence procedures complying with the principles of cost-recovery are important to ensure prompt operationalisation of SMEs in the market.

This section analyses the complexity of licence procedures in the Western Balkans and Turkey and economies' efforts to review and streamline legislation pertaining to business licensing (Table 4.5). Solid frameworks for business licensing have been introduced in WBT economies, which translates into a high average score of 3.80. Albania remains the regional leader in this regard, with only slight discrepancies in performance across the other economies.

Table 4.5. Scores for Sub-dimension 3: Business licensing in the Western Balkans and Turkey

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Licence procedures	4.55	3.75	3.75	3.65	4.00	3.80	3.66	**3.88**
Monitoring and streamlining of licence system	4.37	3.35	3.90	3.85	3.50	3.90	3.23	**3.73**
Weighted average	**4.46**	**3.55**	**3.83**	3.75	**3.75**	**3.85**	**3.45**	**3.80**

Notes: WBT: Western Balkans and Turkey. For more information on the methodology see the Policy Framework and Assessment Process chapter and Annex A.

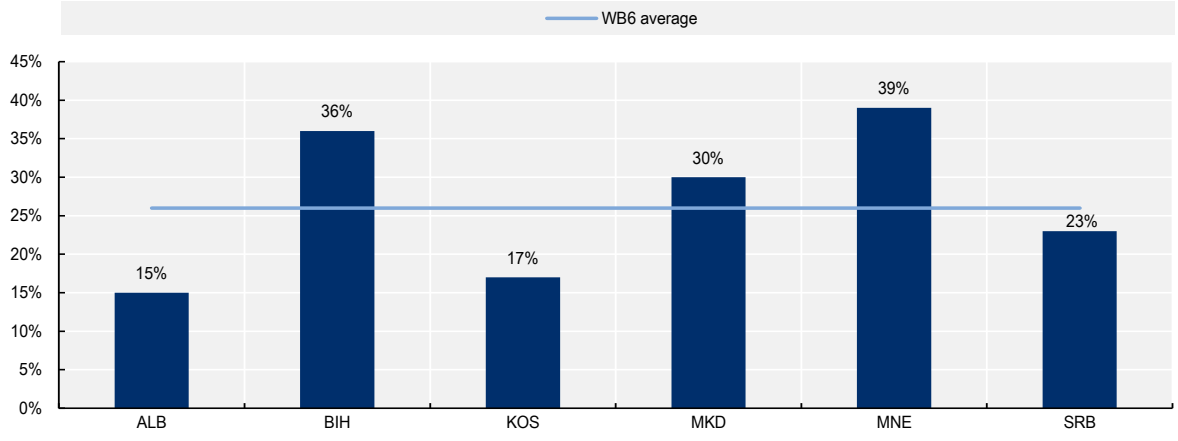
Progress has been made in centralising business licensing across the region, although co-ordination between competent institutions remains limited

Access to clear and efficient permit and licence regulations is necessary for SMEs to be able to enter markets. Informational one-stop shops regrouping all the available licences and their specific requirements are key to lowering administrative burdens on SMEs.

While positive developments are ongoing, the lack of availability and accessibility of relevant licensing information represents a big or very big obstacle for 26% of businesses in the Western Balkans on average, with Bosnia and Herzegovina, Montenegro, and North Macedonia having larger shares of dissatisfied businesses (Figure 4.4) (Regional Cooperation Council, 2021[5]).

Figure 4.4. Business satisfaction with the availability and accessibility of relevant information in the process of obtaining a licence in the Western Balkans and Turkey (2021)

Share of businesses considering the lack of availability and accessibility of relevant information as a "big" or "very big" obstacle



Note: The WB6 includes Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia. Data for Turkey are not available.
Source: Regional Cooperation Council, (2021[5])

Nevertheless, there have been important developments in all WBT economies to enhance the accessibility of licences for businesses. All permits and licences have been centralised on line in the Western Balkans, and to a lesser extent in Turkey.

Both entities in Bosnia and Herzegovina, Kosovo, and Montenegro offer information on the licensing process on a centralised e-licence portal with guidelines that specify the fees to be paid and the necessary procedures to be followed. Albania is the only WBT economy that has streamlined company registration and licensing under its one-stop shop (the NBC), which speeds up the process, increases transparency, and lowers administrative burdens and costs for SMEs.

Since the last assessment, North Macedonia and Serbia have also centralised all business licences on line on their e-government portals. These central registers are a first step towards increasing the efficiency of the licensing process, which should enable more comprehensive data exchange and interoperability in the future. Moreover, Kosovo was in the process of regrouping all licences and permits on its e-government platform with other digital services to increase the accessibility of licensing information. While Turkey lacks a centralised approach when it comes to business licensing, retail licensing has been greatly simplified with the establishment of the *perakende bilgi sistemi* (PERBIS) platform, which became fully operational in 2019.

Although licensing processes have been centralised, they remain largely fragmented in most economies, with licences being granted by different administrative bodies according to their competences. With the exception of the NBC in Albania and Kosovo's Central Registry of Permits and Licences, all economies lack a co-ordination body that oversees the granting of permits and licences by competent authorities.

Deregulation of business licensing reforms is ongoing to reduce administrative barriers for SMEs

An important approach to administrative simplification for businesses is to reduce the number of licences or permits required to undertake various activities. Delays in obtaining a licence can be costly to entrepreneurs, as they add uncertainty and additional costs to much-needed business transactions. The number of days required to obtain certain licences varies significantly across the region, but remains particularly high for construction permits in Bosnia and Herzegovina, Montenegro, and North Macedonia (103, 91 and 111 respectively) compared to the WBT average (72 days). The number of days required for import and operating licences is considerably lower (11 and 24 on average in WBT economies) and have been on a downward trend since 2009 (World Bank, 2019[10]).

Several reforms are underway in the majority of WBT economies to optimise licensing processes. Turkey was in the process of establishing an information system at the time of writing as part of the Eleventh Development Plan (2019-2023) to ensure fast, user-friendly and cost-effective processes for business licensing related to investments. In Albania, Kosovo, North Macedonia and in Republika Srpska in Bosnia and Herzegovina, business licences (their number and associated procedures) are being reviewed and streamlined to simplify processes for businesses. At the time of writing, 12 licences had already been removed in Albania.

Digitalisation of applications for business licensing has started in some economies, but at a slow pace

Digitalisation of applications for business licences is a step forward in enabling transactional one-stop shops for businesses. With digitalised application processes, when businesses apply to licences on line, their request is immediately routed to the respective officers for a decision. The lack of a fully digitalised process for applying for and approving licences remains a big or very big obstacle for 23% of businesses in the Western Balkans, a small increase since 2019 (when it was 18%) (Regional Cooperation Council, 2021[5]).

Albania is the frontrunner in this regard: applications for all business licences are available on the NBC's portal. The NBC receives business licences and submits them to the relevant authorities as needed. Albania is also the only WBT economy that has introduced electronic distribution and nomination of licensing officers (Box 4.5).

Box 4.5. Business licensing granting process in Albania

Categories of licences

There are three categories of permits and licences for businesses in Albania:

- The first uses the applicant's self-declaration alone to evaluate whether the criteria are fulfilled.
- In the second category, the decision to grant a licence is based on self-declaration and documentary proof provided by the applicant.
- The third category of licences, in addition to the requirements of the second category, evaluates the fulfilment of the criteria using either an inspection, test, contest, interview, hearing or any other evaluation method.

The National Business Centre (NBC) is responsible for granting licences in Categories 1 and 2, and relevant ministries along with the NBC grant licences falling under Category 3.

Electronic distribution and nomination of licensing officers

For all permit and licence requests (in person before 2020 and on line), the electronic system checks the documents and assigns the request randomly to an officer. Using their case number, businesses can trace the status of their application on the NBC's website.

Overall, a digital system that randomly selects officials responsible for granting licences to businesses enhances the transparency of the business licencing procedure. It helps to monitor and evaluate officials' compliance with their mandate, as well as distribute the workload equally among licence officers, allowing the administration to respond faster to requests.

Source: AIDA (n.d.[11]).

Digitalisation of business licences has started in other WBT economies, although at a slower pace. While it is planned to fully digitalise applications for all licences on North Macedonia's digital service web portal, it is already possible to electronically apply to a small number of licences in Montenegro (20) and Serbia (2 for construction permits and electricity licences). Further digitalisation is ongoing, which should reduce the burdensome number of procedures, requirements, paperwork and costs related to obtaining a licence.

The way forward for business licensing

- **Streamline the process of electronic licensing and strengthen co-ordination between institutions in charge of issuing business licences.** While WBT economies have made great progress in centralising business licences on line, digitalising of licensing applications has been undertaken at a slow pace across the region. To enable transactional licensing services, e-government authorities should be in charge of curating and maintaining standards, systems such as open data, interoperability platforms or trust services, while institutions involved in issuing licences should ensure proper liaison and co-ordination to reduce overly bureaucratic processes for businesses. In line with the OECD recommendation to streamline industrial and manufacturing licences procedures, the WBT governments could establish a specific co-ordinating body to overview and manage the whole licensing journey, on behalf of the public administration, to

significantly facilitate the application for business licensing. This body would then serve as the main interface for entrepreneurs and relieve them of having to deal with the various institutions by referring applications to relevant authorities for their review (OECD, 2022[12]).

Tax compliance procedures for SMEs (Sub-dimension 4.4)

Tax compliance costs refer to the costs that businesses incur in terms of the time and resources that need to be spent – in addition to the tax liabilities that need to be paid – to comply with the tax code (OECD, 2021[13]). Compliance costs tend to increase with the number of taxes that a business is subject to, the complexity of the tax rules, the frequency of filing a tax return and the payments that need to be made, and the number of levels of government and government organisations involved in levying and collecting tax (OECD, 2015[14]). Compliance cost considerations may impact business decisions, such as whether to start a business and whether or not to operate in the formal economy.

While tax compliance costs tend to be higher for larger businesses in absolute amounts, they are significantly higher for SMEs in relative terms (OECD, 2015[14]). The tax system might therefore create a tax-induced disadvantage for SMEs. To level the playing field and stimulate entrepreneurship, economies around the world have introduced measures to reduce tax compliance costs for SMEs, by introducing tax preferences and tax simplification measures.

Tax policy and tax administration approaches to reduce compliance costs for SMEs should vary depending on the type of business and should avoid becoming a hurdle to economic growth. SMEs are a diverse group, spanning all business sectors of an economy; they differ in terms of employment, economic activity, level of innovation, growth and profitability (OECD, 2015[14]). As a result, tax simplification measures that are targeted at some types of SMEs might be overly generous for others. While measures that reduce tax compliance costs for SMEs should not become overly complex themselves, they could vary across key dimensions such as SME profitability. Moreover, tax preferences and simplification provisions can create incentives for SMEs to remain small or to split up into different businesses to continue benefiting from the preferential tax treatment. Tax simplification measures should therefore be designed such that these disincentives to growth are avoided as much as possible.

A comprehensive set of tax measures to reduce liquidity constraints for SMEs has been introduced to mitigate the impact of the COVID-19 crisis

The deferral of personal income tax (PIT) and corporate income tax (CIT) payments has been common across the region. The deferral of tax payments was targeted at all businesses, except in Albania where it targeted SMEs and businesses particularly hit by the crisis, and in the Federation of Bosnia and Herzegovina, where the measure applied only to self-employed entrepreneurs. In addition, value-added tax (VAT) payments were deferred in Kosovo, Montenegro, North Macedonia and Turkey; social security contributions (SSCs) were deferred in Kosovo, Montenegro, Serbia and Turkey. The deferral of tax payments supported business cash flow and eased liquidity constraints.

Some crisis-support tax measures were targeted at SMEs. Albania has reduced the tax rate of its simplified CIT regime that applies to SMEs. In the Federation of Bosnia and Herzegovina, self-employed entrepreneurs benefited from a 50% reduction in the flat tax rate (Official Gazette of the Federation of Bosnia and Herzegovina, 2020[15]). The minimum amount of PIT liability for the self-employed was reduced in Republika Srpska.

COVID-related VAT measures varied in scope. Albania increased the mandatory VAT registration threshold. Bosnia and Herzegovina and Serbia introduced VAT exemptions on goods and services related to health. Turkey temporarily reduced the VAT rate on products such as food and beverages, passenger transportation, and maintenance and repair activities.

Labour income taxes across the region are high and discourage entrepreneurship and tax compliance

In the Federation of Bosnia and Herzegovina, Montenegro, Serbia, and Turkey, SSCs are a particularly large tax burden for the self-employed. In these four economies, self-employed SSCs are levied at a rate exceeding 34%. As self-employed entrepreneurs are also required to pay PIT, the total tax burden resulting from taxes on labour income in these economies is particularly high.

There is scope to increase the progressivity of the PIT in most of the economies. Montenegro, North Macedonia and both entities in Bosnia and Herzegovina levy the PIT at a flat rate. In Kosovo and Serbia, the progressivity of the PIT rate schedule remains limited. Such a reform would strengthen equity and reduce the negative growth and compliance impacts of too high taxes on low-income entrepreneurs.

A minimum SSC threshold applies in Albania, Kosovo and North Macedonia, resulting in a very high tax burden for low-income entrepreneurs. In Albania, SSCs for entrepreneurs are levied on the minimum wage or a multiple of it (IBFD, 2021[16]). In North Macedonia, the SSC base for self-employed workers cannot be less than 50% of the average wage. In Kosovo, the minimum SSC base is 30% of the average wage. The use of a minimum SSC threshold results in very high effective tax burdens for entrepreneurs who earn below the threshold, as they will not pay SSCs on their actual earnings but on the minimum threshold instead. This may discourage low-income entrepreneurs from operating in the formal economy.

Restricted SSC bases will reduce future benefit entitlements. In Albania, self-employed SSCs are levied on the minimum wage, or a multiple of it, rather than on the actual earnings. In Republika Srpska, self-employed SSCs are levied on 60% of income. While these base-narrowing provisions reduce the SSCs that need to be paid, this limitation also significantly reduces the benefits that entrepreneurs will be entitled to in the future.

There is scope to limit the use of stamp duties

In the Federation of Bosnia and Herzegovina, businesses have to pay several transaction costs (stamp duties) when they file official documents, which may result in a significant additional tax burden. Business stamp duties are particularly numerous when businesses participate in public procurements. The Federation of Bosnia and Herzegovina could consider abolishing or reducing some of the stamp duties. Stamp duties might create a relatively higher burden on SMEs than on larger businesses.

Non-standard forms of work might require changes to the design of the tax system

In most of the economies in the region, no special tax rules apply to gig workers (including independent contractors, online platform workers, contract firm workers, and temporary workers). In Albania and North Macedonia, gig workers are taxed under the same rules that apply to employees or to self-employed entrepreneurs, depending on their type of work contract (Official Gazette of the Republic of Albania, 1998[17]). In Kosovo and Montenegro, gig workers are taxed under the same rules that apply to employees (IBFD, 2021[18]). In the Federation of Bosnia and Herzegovina and Republika Srpska, however, gig workers are subject to SSCs that differ from the contributions paid by employees and the self-employed. No information was available on the tax treatment of gig workers in Serbia or Turkey.

Non-standard forms of work are becoming more frequent all across the world. The digitalisation of the economy has resulted in an increasing share of non-standard forms of work. Tax and benefit systems need to be adjusted to this new reality.

Despite the low statutory corporate income tax rates, economies across the region implement a wide range of CIT incentives

A wide range of CIT incentives applies to businesses that operate in specific sectors or regions, invest in specific areas, or create additional jobs. In Albania, businesses that develop software or operate in the automotive industry benefit from a reduced CIT rate of 5% rather than the standard CIT rate of 15% (IBFD, 2021[19]). In North Macedonia, businesses located in special economic zones benefit from a ten-year CIT exemption. In Kosovo, businesses in specific sectors can deduct 10% of the cost of their newly acquired asset on top of the regular tax depreciation allowances from their CIT base (IBFD, 2021[20]). In Serbia, all businesses are allowed to deduct twice the amount of research and development expenses they have incurred from their CIT base (IBFD, 2021[21]) and in Republika Srpska, businesses can reduce their tax liabilities by the invested amount in manufacturing equipment and plants. Finally, in the Federation of Bosnia and Herzegovina, businesses that employ new staff for at least 12 months can deduct twice the gross salary of these new staff members from the CIT base.

To stimulate tax compliance, businesses in Turkey benefit from a reduction in CIT liabilities when they pay their taxes on time. Moreover, businesses that have paid their CIT on time the previous three years can benefit from a 5% reduction in their CIT liabilities. The reduction cannot exceed TRY 1.5 million (approximately EUR 81 600) annually and businesses that operate in the banking and insurance sector and investment funds do not qualify for the incentive (IBFD, 2021[22]). Until December 2021, businesses in Montenegro that paid their CIT liability on time also benefited from a reduced CIT rate (6% instead of 9%) (Montenegrin Ministry of Finance, 2021[23]). However, the law was amended at the end of 2021 abolishing these reliefs.

The rules regarding carrying forward losses vary across economies. In Albania and North Macedonia, CIT losses can be carried forward up to three years, which is the shortest period in the region. Losses can be carried forward for five years in Bosnia and Herzegovina, Montenegro, Serbia, and Turkey and for four years in Kosovo. As young and innovative SMEs might have low profits and have made high investments, a short period to carry forward losses could create a tax-induced disadvantage for these types of SMEs. Albania and North Macedonia could monitor the tax burden of young and innovative SMEs to assess whether introducing a longer period to carry forward losses could avoid tax-induced hurdles for these types of businesses from growing.

Simplified tax regimes for SMEs are widely used across economies in the region

Most of the economies implement a lump-sum tax regime for self-employed workers in specific sectors with turnover below a threshold level. In the Federation of Bosnia and Herzegovina, a lump-sum tax regime applies to a selection of self-employed entrepreneurs; their annual PIT liability ranges from BAM 360 to BAM 960 (approximately EUR 180 and EUR 200), depending on their type of business activity. In Montenegro, businesses can request to pay a lump-sum amount of PIT, which varies across a number of dimensions, including the type of business activity and turnover. In North Macedonia, to qualify for the lump-sum tax regime, businesses cannot employ more than one employee. In Serbia, a self-employed entrepreneur that qualifies for the lump-sum tax regime cannot be VAT-liable; the lump-sum tax varies across business sectors and turnover. In Turkey, SMEs that have annual rental costs not exceeding TRY 7 400 (approximately EUR 400) qualify for a lump-sum tax regime (OECD et al., 2019[24]).

In Kosovo and Republika Srpska, SMEs can be taxed on turnover rather than on profits. For qualifying businesses in specific sectors, the PIT liability in Republika Srpska equals 2% of annual turnover; business turnover cannot exceed BAM 50 000 (approximately EUR 25 500). Moreover, businesses need to be exempt from VAT and not have any employees. In Kosovo, SMEs that operate in trade, transport, agricultural and commercial activities pay a 3% turnover tax. SMEs that operate in the services and professional activities sector, which are sectors that on average have a higher profit margin, pay a 9%

turnover tax. To qualify for this simplified tax regime, turnover cannot exceed EUR 50 000 for self-employed workers and EUR 30 000 for corporations (Assembly of Republic of Kosovo, 2015[25]).

In Albania, SMEs with annual turnover below ALL 14 million (approximately EUR 116 620) benefit from a simplified and reduced CIT rate regime. SMEs with annual turnover below ALL 8 million (approximately EUR 66 640) benefit from a CIT exemption. In addition, SMEs with annual turnover between ALL 8 million and ALL 14 million (approximately EUR 6 640 and EUR 11 620) that benefited from a reduced CIT rate of 5% before the COVID-19 pandemic now enjoy a 9% CIT rate (Albanian Parliament, 2020[26])

Simplified tax regimes reduce compliance costs for SMEs and, in general, their tax burden. Simplified tax regimes impose less complex tax rules for businesses, resulting in lower tax compliance costs. In general, these regimes tend to impose a lower tax burden on businesses than the tax liability they would have faced if they had been subject to the standard PIT or CIT regime. This is particularly the case for highly profitable businesses, for which the presumptive tax base is smaller than the tax base under the standard PIT or CIT regime. On the other hand, businesses that face high costs might forego the deduction of these costs under the simplified tax regime and end up paying more tax than they would have paid under the standard regime.

Simplified tax regimes might create tax-induced hurdles for businesses to grow into the regular tax regime. Businesses that pay tax under a simplified tax regime may see a spike in their tax liability if they grow beyond a certain turnover or taxable income level such that they become liable for PIT or CIT under the standard tax regime. To avoid this discrete jump in tax liability, businesses might decide to split up their business activities into separate firms or not to grow. They might also be incentivised to hide turnover or to inflate costs to qualify for the simplified tax regime. Despite the wide-ranging advantages, simplified tax regimes themselves might become a source of tax complexity, a hurdle for growth and a source of tax evasion.

The restriction on the number of staff that can be hired to qualify for the simplified tax regime in North Macedonia and Republika Srpska could encourage businesses to hire informal employees. In Republika Srpska, self-employed workers are not allowed to hire any employees if they want to qualify for the simplified tax regime. In North Macedonia, self-employed workers are not allowed to hire more than one employee if they want to qualify for the simplified tax regime.

Careful design and regular tax policy evaluation are preconditions for simplified tax regimes to be effective. Simplified tax regimes should incentivise SMEs to operate in the formal economy and to grow into the regular PIT or CIT regime. A relatively low take-up could signal a lack of tax literacy or limited information that is available to businesses. Overall, economies in the region tend to have ample scope to improve both the design and evaluation of their simplified tax regimes.

The tax differentials between labour income and capital income tend to create a large tax-induced incentive for SMEs to incorporate

In the region, the tax burden on capital income for owner-managers of closely held corporations is low compared to self-employed entrepreneurs who are subject to the standard PIT and SSCs. Overall, the statutory CIT rates as well as the taxes on personal capital income are low for economies in the Western Balkans. For instance, unincorporated self-employed entrepreneurs face a high tax burden on business earnings in Montenegro, North Macedonia, Serbia and Turkey as a result of high PITs and SSCs compared to the lower tax liabilities faced by incorporated SMEs. Some economies, such as Bosnia and Herzegovina and Kosovo, do not levy a tax on dividends at the personal shareholder level (IBFD, 2021[27]; 2021[20]). Because taxes on personal business income (for self-employed entrepreneurs that are taxed under the PIT) are significantly higher than taxes on capital income, entrepreneurs face a tax-induced incentive to operate their business in the form of a corporation rather than as an unincorporated business (i.e. as a self-employed).

The tax-induced incentive to incorporate will not only reduce tax revenues, but also result in additional costs that incorporation brings. As labour income is taxed at relatively high rates, owner-managers of closely held corporations would want to receive their remuneration in the form of lower taxed capital income instead of higher taxed labour income (e.g. dividends). Therefore, the incentive to incorporate comes at a significant tax revenue cost for governments. In addition, as corporations face higher non-tax costs than unincorporated businesses, the tax-induced incorporation incentive may create additional costs for SMEs.

The tax-induced incentive for SMEs to incorporate might be weaker for businesses that pay tax under a simplified PIT regime. SMEs that are subject to a simplified tax regime tend to benefit from a lower PIT liability than businesses that fall under the standard PIT regime. In that context, simplified tax regimes tend to reduce the difference in tax burden between unincorporated and incorporated SMEs, and therefore tend to lower the tax-induced incentive to incorporate.

The VAT remains a major source of complexity for SMEs in the region

Few economies have introduced VAT simplification measures. Albania, Bosnia and Herzegovina, Kosovo, and Montenegro have not introduced any VAT simplification measures. In Serbia, businesses with annual turnover in the previous 12 months below RSD 50 million (approximately EUR 425 000) that have been registered for VAT purposes during that time period are allowed to use cash accounting for VAT purposes, provided VAT returns were filed and VAT liabilities were paid on time in the preceding year. In North Macedonia, businesses with annual turnover exceeding MKD 2 million (approximately EUR 32 260) are required to register for VAT purposes. Bondholders earning more than MKD 25 million (approximately EUR 404 600) annually file VAT returns on a monthly basis, while smaller businesses that generate between MKD 2 million and MKD 25 million (approximately EUR 32 260 and EUR 404 600) need to file VAT returns only on a quarterly basis.

In Albania, SMEs that would like to voluntarily register for VAT encounter restrictions that could significantly increase their compliance costs. In Albania, it is compulsory for businesses with annual turnover exceeding ALL 10 million (approximately EUR 83 300) to register for VAT. Voluntary registration is allowed only for businesses with annual turnover exceeding ALL 5 million (approximately EUR 41 650) (IBFD, 2021[19]). Thus, SMEs that do not qualify for the voluntary VAT registration but that would prefer to file a VAT return might be induced to find ways to avoid having to pay VAT on their inputs, for instance by purchasing inputs from the informal economy. Voluntary registration for VAT in Bosnia and Herzegovina is possible for businesses with annual turnover less than BAM 50 000 (approximately EUR 25 500), provided they remain VAT-liable for a minimum of five years.

Kosovo is considering measures that would improve the functioning of the VAT refund system. Kosovo is considering lowering the minimum amount of VAT credit necessary for businesses to receive a VAT refund of EUR 1 000-3 000. This reform is welcomed, as it would reduce the instances when the VAT becomes a cost for businesses, which is the case when businesses cannot receive a refund even though the VAT paid on their inputs exceeds the VAT collected on their sales. This reform might reduce costs particularly for SMEs.

Simplified bookkeeping rules for SMEs are common throughout the region

As part of the simplified tax regime, SMEs can benefit from simplified bookkeeping rules.[11] In Albania, businesses subject to the simplified CIT regime with annual turnover below ALL 5 million are only required to file an annual simplified CIT return. In the Federation of Bosnia and Herzegovina, North Macedonia, and Turkey, businesses subject to the lump-sum tax regime do not have to keep books at all (Official Gazette of the Republic of Macedonia, 2021[28]). In Republika Srpska, businesses under the regular regime are required to keep several books (income and expense, permanent assets, receivables and liabilities), but self-employed workers only have to register income and expenses. Finally, self-employed entrepreneurs or corporations subject to the presumptive tax regime benefit from simplified bookkeeping rules in Kosovo.

In Albania, Bosnia and Herzegovina, and Kosovo, simplified bookkeeping rules also apply to SMEs that do not necessarily qualify for the simplified tax regime that is in place. In Albania, businesses with annual turnover up to ALL 30 million benefit from simplified bookkeeping rules. In Bosnia and Herzegovina, cash accounting is allowed under the PIT for businesses with annual turnover below BAM 500 000. In Kosovo, unincorporated businesses are allowed to use cash accounting for PIT purposes if their annual turnover does not exceed EUR 50 000.

Overall, digital services are widely used for business taxation

E-filing of tax returns is mandatory in several economies. Businesses are required to file PIT returns on line in Montenegro, North Macedonia, Serbia and Turkey. It is mandatory to file CIT returns on line in Albania, Montenegro, North Macedonia and Serbia. Businesses are required to also file VAT returns on line in Albania, Bosnia and Herzegovina, Kosovo, Montenegro, and Serbia.

The online payment of taxes is foreseen in all economies. However, the e-payment of taxes in the Federation of Bosnia and Herzegovina remains difficult in practice due to the complexity of the online procedure and some technical problems with the online portal.

Digital services for tax purposes are not free of charge in Montenegro and North Macedonia, which is counterproductive for tax compliance. In Montenegro, all taxpayers must purchase a EUR 110 digital certificate to file their tax return on line. In North Macedonia, the two digital certificates that are used to determine the electronic identity of the business when filing a tax return and paying taxes on line are not free. These certificates are not delivered by the tax administration, but by the Clearing House KIBS AD Skopje and Macedonian Telecom.

Moreover, electronic cash registers (ECRs) have been introduced recently in three economies. ECRs are a great opportunity to reduce compliance costs for SMEs, provided the system works well. ECRs can facilitate the issuance of invoices and exchanges between the tax administration and businesses; they also ease tax control and facilitate the cross-checking of information by the tax administration (OECD, 2019[29]). ECRs are an efficient tool for lowering compliance costs, especially for SMEs, as they could significantly reduce the costs that SMEs incur when hiring accounting services. Montenegro and North Macedonia have foreseen financial assistance for businesses that have introduced ECRs. The tax administration could strengthen its capacity to deliver good quality services. In addition, the introduction of ECRs should be accompanied by training opportunities for SMEs. Box 4.6 summarises good practices with the implementation of ECRs.

Box 4.6. Good practices for implementing electronic cash registers

Develop the electronic cash registers (ECR) project in co-operation with all stakeholders. It is important to develop a strategic vision of the project through a consultative process with both internal and external stakeholders. Private and public consultations, as well as dedicated workshops with chambers of commerce, industry and associations of the business community are key to delivering successful ECR projects.

Select the type of data that will be transmitted to the tax authority. The seller's name and tax ID, date and time, transaction value, and value-added tax payable is the basic information that could be complemented by information on the type of good or service that has been sold, for instance.

Set the frequency to which data will be transmitted to the tax authorities. In the Russian Federation, ECRs have to stay connected to the communication network at all times and transactions are transferred in real time. In Hungary, the system transmits every 30 minutes, while in Greece and Korea, the transfer takes place at the end of each business day.

Set a penalty system for non-compliant businesses. Businesses can fail to register ECRs, to use them properly, to issue cash receipts to customers or to transmit the sales data. The amount of the fine associated with these failures could depend on the legal status of the business or its size; it can either be fixed or correspond to the amount of non-reported tax obligations or the value of the purchase. It is common for repeat offenders to face more serious penalties, such as the suspension of business activity. In the early days of implementation, warnings may be used instead of fines.

Foresee low-cost ECRs or offer financial assistance to reduce the costs associated with the introduction of an ECR for SMEs. Where mobile device penetration is high, an option might be to require the use of low-cost virtual cash registers that take the form of mobile apps. Developers of virtual cash registers could work with the tax authorities to offer this option free of charge to SMEs. The Ministry of Finance can also subsidise ECRs for SMEs through grants, tax deductions or tax credits.

Phase the introduction of the ECRs. A solution could be to start introducing ECRs in larger businesses only, as they may be able to absorb costs more easily or to upgrade existing ECRs. Another solution could be to start with a sector with higher estimated tax compliance, as that may prepare the ground for wider implantation.

Manage areas without an Internet connection. The functioning of ECRs relies on Internet or mobile network connectivity. The tax administration should prescribe instructions for cases when Internet connectivity is temporarily lost. In most cases, ECRs are supposed to keep all transaction data in their internal memories until the connection is restored; however, storage capacity could be limited: from 5 days in Italy to 30 in Russia. Hungary, Russia and the Slovak Republic have special provisions for areas not covered by stable online connections.

Implement sophisticated technology to prevent sales suppression. Non-secure ECRs can be easily manipulated by under-recording sales, physical deletion of records or the creation of fake records. Electronic signature devices, in conjunction with a secure electronic tax register, allow each transaction to be traced and the unique identifier guarantees that the data have not been altered since the transaction was created.

Adapt the legislation for businesses that already have ECRs. Even in the absence of regulatory requirements, some businesses will use ECRs for accounting and tax reporting and to

minimise opportunities for internal fraud. Particular consideration should be given to the possibilities to upgrade existing ECRs.

Sources: OECD (2019[29]; 2013[30]; 2005[31]).

There is scope to provide more detailed tax information targeted at SMEs

Efforts have been made to increase tax literacy in the region. In Bosnia and Herzegovina, the Indirect Tax Compliance Strategy (2019-2021), launched by the Indirect Taxation Authority, has helped to inform and educate taxpayers. In Montenegro, information such as changes in legal regulations and reminders of deadlines for submitting tax returns is regularly published on an online portal. In addition, the tax administration has organised a "tax caravan" project in all major cities that provides information to taxpayers about their taxing rights and obligations. In Serbia, the tax administration has organised meetings and seminars with business associations and has launched a communication campaign via phone calls, emails and flyers to share information on tax policy and tax administration procedures. In most economies, businesses can find information on the tax administration's general website, although this information is not necessarily targeted at SMEs.

There is scope to provide more detailed tax information specifically to SMEs. SMEs might face higher hurdles to find the correct information about their tax rights and obligations. They must be made aware of their options for reducing their compliance costs and making paying tax as simple as possible.

The way forward for tax compliance procedures for SMEs

- **Economies across the region could evaluate whether they could increase the progressivity of the personal income tax in order to finance a targeted reduction of social security contributions at lower incomes.** Rather than levying high SSC rates on a narrow base, economies should broaden their SSC bases and levy lower rates instead. Once the tax administration is confident it can avoid widespread non-compliance among self-employed entrepreneurs, SSCs should be levied on actual earnings rather than on fixed SSC bases. These economies could assess whether there is scope to rebalance the tax mix by reducing SSCs in a tax revenue-neutral manner, which is particularly important for SMEs at lower income levels.
- **Tax administrations throughout the region could assess whether stamp duties are burdensome for SMEs and whether there is scope to reduce or abolish them.** Abolishing stamp duties is key to maintaining the neutrality of the tax system with respect to business size.
- **Tax systems should not create hurdles to the development of new forms of work such as gig workers, while at the same time ensure that there is a level playing field across different types of work and contract types.** Governments should also ensure that gig workers are covered under social protection systems that apply to other types of workers.
- **Simplified tax regimes should:**
  - Be designed such that they take the average profitability of business sectors into account.
  - Not create hurdles to grow into the standard tax regime. Economies could use tax return records to assess whether businesses bunch around the eligibility thresholds of simplified tax regimes; bunching would point to the distortive impact of the tax regime.
  - Not take the number of employees as an eligibility criterion, as this type of restriction could turn out to be counterproductive and indirectly strengthen the informal sector.

- **To limit the tax-induced incentive for SMEs to incorporate**, economies could consider rebalancing the tax burden of unincorporated and incorporated SMEs, for instance by increasing the progressivity of the PIT, lowering SSCs when they are too high and increasing taxes on capital income at the personal shareholder level in case they are too low.
- **Economies could consider introducing value-added tax simplification measures**, such as those described in Box 4.7. All economies may want to assess whether there is scope to improve the functioning of their VAT refund system and Albania in particular could evaluate whether it wants to reduce the restrictions for SMEs to qualify for voluntary VAT registration.

Box 4.7. Overview of the simplified administrative procedures for VAT purposes

Simplify the calculation of value-added tax (VAT) liabilities. Under standard VAT regimes, businesses have to remit to the tax authorities the proportion of tax corresponding to their margin, i.e. the difference between the VAT imposed on their taxed inputs and the VAT imposed on their taxed outputs.

- SMEs may be allowed to apply a single flat rate to turnover for determining the amount of VAT to be remitted to tax authorities instead of requiring a detailed VAT calculation.
- SMEs may benefit from simplified input tax credit calculations, which, as a consequence, affects the amount of VAT to be paid.

Use cash accounting rather than accrual accounting for VAT purposes. VAT systems are generally accrual based, requiring that VAT be remitted on taxable sales where the cash has not yet been received. Under cash accounting, VAT is paid on sales only when the cash is received and, similarly, input tax credits are claimed only when cash is paid on a purchase.

- Prior notification of opting for a cash accounting regime and for approval from tax authorities may be required (e.g. Germany, Greece and Hungary).
- Certain economies require businesses that choose to operate under the cash accounting regime to do so for a minimum period (e.g. in Luxembourg, when SMEs have opted for the accounting scheme, they must apply it for at least five years).

Make VAT payments less frequent. Most economies require businesses to file VAT returns on a monthly basis. SMEs may be allowed to file and pay VAT at less frequent intervals. Most commonly, SMEs are allowed to file VAT returns quarterly, semiannually or annually.

Source: OECD (2015[14]).

- **Tax administrations should ensure the online payment services function properly in order to reduce compliance costs for businesses.** Montenegro and North Macedonia should assess whether the cost of the digital certificates could be paid by the tax administration instead, to further stimulate tax compliance and reduce the corresponding costs for businesses, and in particular SMEs.
- **Tax administrations across economies could continue their efforts to provide tax information to SMEs, including information about the simplified tax procedures that apply.**

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Notes

[1] The governance approach sees driving the digital transformation of the economy as a process involving multiple stakeholders (businesses, non-governmental organisation, academia), with the government acting as a strategist, facilitator and consensus builder. It also looks at the question of developing digital government through a broader lens, considering many key aspects such as ICT infrastructure, digital skills and education, digitalisation of businesses, and other factors as key prerequisites for strong and efficient digital government. By contrast, while not necessarily ignoring all of these factors, an approach that focuses on digital government from the public administration's point of view has the risk of having less strategic vision, inclusiveness of stakeholders and policy synergy between these different areas. For more information on the OECD Framework for the Governance of Digital Government, see OECD (2021[4]).

[2] Based on the combined share of "completely satisfied" and "tend to be satisfied" responses to the Balkan Business Barometer Survey's question: "Could you please tell me how satisfied are you with each of the following in your place of living – Digital services currently provided to business by the public administration?".

[3] The "digital-by-default" approach entails focusing on making digital public services the primary channel of service delivery, possibly at the detriment of traditional channels (phone, in-person, etc.). This creates a risk of aggravating digital divides and of alienating users that have a preference or need for traditional channels. An "omni-channel" approach recognises the benefits of developing digital public services, while ensuring their synergy with traditional channels where relevant. For more information, see OECD (2020[2]).

[4] The once-only principle aims to ensure that users of digital services only need to provide certain information to the government once, which is then shared by various administrations through the

government's interoperable data exchange network. For more information, see: https://ec.europa.eu/digital-building-blocks/wikis/display/DIGITAL/Once+Only+Principle.

[5] Regulation (EU) No. 910/2014 on electronic identification and trust services for electronic transactions in the internal market, or the eIDAS regulation, establishes the European framework for electronic trust services and the use of e-ID. For more information, see: https://digital-strategy.ec.europa.eu/en/policies/eidas-regulation.

[6] While Turkey is also developing e-signature solutions through the use of qualified electronic signatures, it has allowed users to circumvent this requirement by building a federated identity system, allowing users to connect to different platforms using different digital identity management systems, thanks to attributes that are scattered across these systems.

[7] The use of qualified electronic certificates often requires either acquiring them as a service from certified private providers, therefore incurring a cost, or the use of electronic ID cards, requiring the use of card-reader hardware. Both options also require software for reading the qualified electronic certificates to be installed, which can be an additional burden for SMEs with less digitally skilled workers.

[8] A federated digital identity system allows users to connect to different platforms using different digital identity management systems, thanks to attributes that are scattered across these systems.

[9] For more information on initiatives encouraged by the OECD to promote data-driven innovation, see the *Recommendation of the Council on Enhancing Access to and Sharing of Data*, available at: https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0463.

[10] In Albania, since January 2020, some processes pertaining to company registration are only available on line, such as services for registering physical persons or for the suspension and reactivation of activity by legal entities. Full digitalisation of other services related to company registration is ongoing. In Serbia, full digitalisation of company registration is ongoing for all company types and processes (incorporation of all legal forms of companies, changes, liquidation, issuing of electronic excerpts, etc.) and is expected to be finalised by 2023.

[11] For more information on good practices to simplify bookkeeping rules for SMEs, see: https://www.oecd.org/tax/administration/tax-administration-23077727.htm.

5 Support services for SMEs (Dimension 5a) in the Western Balkans and Turkey

This chapter assesses the policies in the Western Balkans and Turkey that provide small and medium-sized enterprises (SMEs) with access to business support services (BSSs). It starts by providing an overview of the assessment framework and progress since the last assessment in 2019. It then analyses the two sub-dimensions of Dimension 5a: 1) BSSs provided by the government, assessing the BSS policy framework, the extent and types of services provided by public institutions, how information about them is disseminated, and how this provision is monitored and its effectiveness evaluated; and 2) government initiatives to stimulate private BSSs, including the planning, implementation, monitoring and evaluation of policies to encourage the uptake of privately provided support services, particularly co-financing schemes. Each sub-dimension concludes with key recommendations to help ensure that SMEs have access to and benefit from a wide range of support services.

Key findings

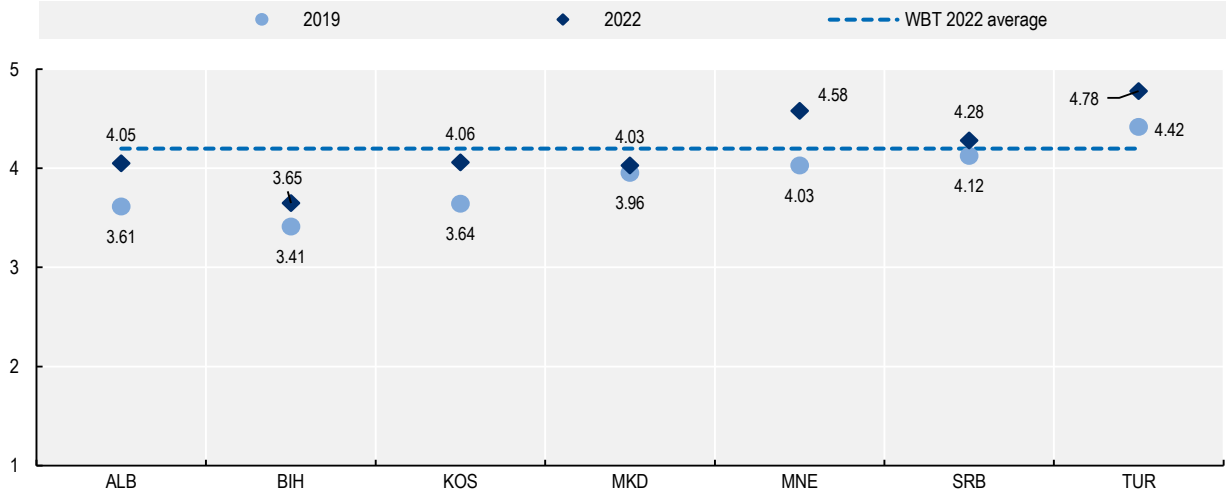
- **Since the last assessment cycle, all economies in the Western Balkans and Turkey region, with the exception of Kosovo and Serbia, have adopted new strategies emphasising the importance of government-provided BSSs to SMEs.** The strategies are well-targeted to address the obstacles faced by SMEs both in their day-to-day operations as well as in light of the pandemic and post-COVID recovery period.
- **Across the region, the assessed economies have expanded the range of BSSs provided.** Some have added training services in previously unaddressed areas, such as digitalisation or women entrepreneurship, while others have introduced new advisory or mentoring services, oftentimes in collaboration with international partners.
- **Due to the COVID-19 pandemic, many publicly provided BSSs were forced to move on line.** As a result, SMEs with a lower level of connectivity were left behind. In parallel, moving activities on line also provided an opportunity to reduce the cost of the provision of and participation in BSSs.
- **Albania, Montenegro and Turkey have improved the information dissemination regarding available support for SMEs.** However, centralised information sources are still scarce in the region, with some economies using multiple, fragmented channels to inform SMEs about support schemes.
- **Regular training needs analyses are not prevalent across the region, despite encouraging first steps undertaken by some economies.** While some economies perform training needs analysis on an *ad hoc* project basis, most of them lack a formalised structure enabling systematic assessments of the continuously evolving SME landscape.
- **Apart from mandatory audits, independent reviews of government-provided BSSs are not common practice in the assessed economies.** Despite improvements in monitoring and evaluation, limited progress has been observed in inviting a third-party institution to perform an independent assessment of public BSSs.
- **Governments across the region support private BSSs through co-financing, business incubators and accelerators, and self-employment grants.** Despite private BSSs' support being blended with public BSSs in strategic documents in almost all of the assessed economies, all of them ensure an adequate level of support for private sector providers. Co-financing the services of private sector business consultants is the most prevalent form of support in the region.
- **Only Montenegro, Serbia and Turkey have developed quality assurance mechanisms in place for privately provided BSSs.** The majority of the governments across the region do not have an accreditation system for private sector consultants, risking a suboptimal quality of private BSSs.

Comparison with the 2019 assessment scores

All assessed economies have improved their overall scores since the last assessment cycle. This can be explained by the majority of economies adopting new, well-targeted SME-specific strategies. The most

notable increases in this assessment cycle are observed in Albania, Kosovo and Montenegro, owing to new strategic documents, but also to increases in the range and scope of provided BSSs. Furthermore, many economies, namely Albania, the Federation of Bosnia and Herzegovina, and Turkey intensified their efforts to strengthen monitoring and evaluation mechanisms for government-provided BSSs. While the progress across the region was noteworthy, the COVID-19 crisis and the confinement measures that followed had a considerable effect on the provision of both public and private BSSs, as the majority of services tend to entail in-person presence. Therefore, the progress achieved across the region moved at a slower pace than expected before the onset of the COVID-19 pandemic (Figure 5.1).

Figure 5.1. Overall scores for Dimension 5a (2019 and 2022)



Notes: WBT: Western Balkans and Turkey. Despite the introduction of questions and expanded questions to better gauge the actual state of play and monitor new trends in respective policy areas, scores for 2022 remain largely comparable to those from 2019. For a detailed overview of policy changes and to compare performance over time, the reader should focus on the narrative parts of the report. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Implementation of the SME Policy Index's 2019 recommendations

Table 5.1 summarises progress made on the key recommendations for this dimension since the previous assessment.

Table 5.1. Implementation of the SME Policy Index's 2019 recommendations for Dimension 5a

Regional 2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Regional progress status
Analyse the need for and supply of business support services (BSSs) more effectively and regularly to fill the gaps in BSS provision, better target the support provided and create more effective BSS provision systems	Training needs analysis, together with an assessment of small and medium-sized enterprises' (SMEs) demand for particular BSSs, remains a challenge across the region. While some economies, such as Turkey, have a well-developed system in place, the majority of economies do not have a structured framework to ensure a regular and systematic assessment of SME training needs. Montenegro and North Macedonia rely on project-based assessments with little regularity, while Albania set out a framework for regular analysis in the new Business Development and Investment Strategy (2021-2027); however, as it is a new strategy, data on implementation are not yet available.	Limited
Strengthen the monitoring and evaluation of BSSs provided through the government	There were overall improvements in the monitoring and evaluation systems across the region, with many economies reinforcing their review mechanisms. Albania, the Federation of Bosnia and Herzegovina, and Turkey all undertook steps to enhance their	Moderate

Regional 2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Regional progress status
	monitoring and evaluation frameworks. However, almost all economies are lacking an independent review of their government-provided BSSs.	
Provide easier access to information on BSSs to stimulate SMEs' uptake of support	While centralised sources of information are still not prevalent in the region, some advancements can be observed in improving access to information about available support for SMEs. Albania, Montenegro and Turkey all have dedicated educational or training portals which enable SMEs to access relevant information about available support. Overall, all economies do inform SMEs about support schemes; however, information is published either on the website of the relevant ministry, SME agency or multiple sources, fragmenting the flow of information.	Moderate
Continue supporting the development of a sustainable market of private sector BSS providers	With the exception of Albania and Republika Srpska, all economies support private provision of BSSs through co-financing the services of either accredited or non-accredited private sector consultants. Some of the assessed economies, like Montenegro, North Macedonia and Turkey, also support the establishment of business incubators and accelerators, which serve a purpose of boosting the capabilities of newly established enterprises.	Moderate
Boost the uptake of co-financing schemes by adapting them better to SMEs' needs	While co-financing schemes across the Western Balkans and Turkey region are sometimes adapted to SMEs' stage of development, start-ups usually enjoy a higher co-financing rate than more mature enterprises. There has been limited progress in assessing the needs of SMEs, due to the lack of a framework allowing a regular review of SMEs' demand. Some economies, like Montenegro, have special provisions for women-owned SMEs, which are eligible for a higher co-financing rate. However, there is limited evidence of assessing the demand for particular co-financing schemes across the region.	Limited
Strengthen the monitoring and evaluation of BSSs provided through co-financing schemes	In the area of monitoring and evaluation, the private provision of BSSs faces similar challenges to government-provided services. Insufficient performance-based evaluations and lack of an independent review hinder the monitoring process and assessments of efficiency and effectiveness. Moreover, only three economies (Montenegro, Serbia and Turkey) have quality assurance mechanisms for private sector consultants. While Albania and Kosovo have undertaken their first steps to introduce an accreditation requirement for private BSSs, quality assurance remains uneven across the region.	Limited

Introduction

SMEs in the Western Balkans and Turkey (WBT) region often struggle with low productivity and competitiveness. To boost their growth, SMEs should have the opportunity to benefit from accessible business support services (BSSs), offered both by the government and the private sector, particularly emphasising co-financing schemes. There is strong evidence that policies aiming to support BSSs contribute to improved SME performance and job creation across economies (Cravo and Piza, 2016[1]). Complementing the financial support with technical assistance and training has proven to be beneficial for helping SMEs overcome the challenges they face in their day-to-day operations and their efforts to expand and develop.

In the WBT region, available BSSs range from counselling and advisory services to mentoring, technical assistance and educational activities. Many economies also co-finance SMEs procuring services from private sector consultants and provide businesses with incubators, accelerators and technology parks in order to encourage technology and knowledge transfers while creating an enabling a business environment. Some economies also have distinguishable support for SMEs depending on their maturity and stage of development, with the most common assistance being provided to start-ups.

Across the region, SMEs quote insufficient training and advisory services, limited market information and limited access to finance as the main deterrents to growth and productivity (Balkan Barometer, 2021[2]). The COVID-19 pandemic exacerbated these challenges even further, making SMEs particularly vulnerable to the far-reaching effects of the crisis. The provision of BSSs was affected, as many of the services rely on face-to-face interactions, therefore, when some of the BSSs were forced to move on line, many less-connected SMEs were left behind. Nevertheless, when provided virtually to better connected SMEs, these services reduced the costs related to travel. BSSs are a crucial element in mitigating the effects of the COVID-19 crisis, as they provide SMEs with tools to overcome obstacles related to hindered access to training and mentoring, as well as insufficiently developed skillsets, which can hamper their operations in the long run.

While all of the economies improved their SME landscape across the board, progress moved at a slower pace than expected, due to the negative impact of the COVID-19 pandemic on both fund allocation and access to services.

Assessment framework

Structure

The assessment framework for this dimension has two sub-dimensions: (Figure 5.2):

- **Sub-dimension 5a.1: Business support services provided by the government** focuses on three thematic blocks. The first thematic block evaluates whether the government has developed a strategic approach to the provision of BSSs by public providers and if it is included in the economy's wider SME policy framework (e.g. the national SME strategy or equivalent document). The second thematic block assesses the extent to which public institutions provide different types of BSSs, and if they are tailored to the specific needs of different SME segments (e.g. start-ups). This block also focuses on the means used by the government to raise SMEs' awareness about the BSSs it provides. Finally, the third thematic block assesses how far BSSs provided by the government are regularly monitored and their impact on SMEs' performance evaluated.
- **Sub-dimension 5a.2: Government initiatives to stimulate private business support services** evaluates government initiatives aimed at stimulating private BSSs. It largely mirrors the thematic block structure of the first sub-dimension, but rather than focusing on the provision of BSSs by

public institutions, it looks at how public policy supports SMEs' uptake of BSSs from private providers.

Both sub-dimensions divided the assessment into three thematic blocks: planning and design (30% of the total score), implementation (50% of the total score), and monitoring and evaluation (20% of the total score).

Compared to the 2019 assessment, small adjustments have been made to the framework to enhance the importance of digital aspects of policies and measures, which in the context of support services for SMEs, relate specifically to technical assistance in digitalisation of SME operations and administrative processes, as well as specialised training on digital support services. The assessment also takes into consideration COVID-19 response measures, although no evaluation has been made in this regard.

Figure 5.2 Assessment framework for Dimension 5a: Support services for SMEs

Support services for SMEs					
Outcome indicators Provision of publicly (co-)funded business support services to SMEs					
Sub-dimension 5a.1: Business support services provided by the government			**Sub-dimension 5a.2:** Government initiatives to stimulate private business support services		
Thematic block 1: Planning and design	**Thematic block 2:** Implementation	**Thematic block 3:** Monitoring and evaluation	**Thematic block 1:** Planning and design	**Thematic block 2:** Implementation	**Thematic block 3:** Monitoring and evaluation

Analysis

Performance in business support services for SMEs

Outcome indicators are vital in analysing the effects of adopted policies, providing valuable insight for policy makers to assess the effectiveness and efficiency of existing policies and the potential need for new ones. The outcome indicator selected for this publication assesses the uptake[1] of BSSs provided by governments across the Western Balkans and Turkey. The indicator uses self-assessed data provided by the governments and respective SME agencies across the region and demonstrates the number of BSSs offered to SME beneficiaries in this assessment cycle. The numbers provided by WBT governments are indicative of the uptake of offered BSSs; however, the data collected are often based on one SME benefiting from a number of services, which are then counted separately, augmenting the total uptake of BSSs.

All economies in the region provide public BSSs to SMEs, ranging from informational and educational services, training, mentoring and consulting to physical infrastructure support (Table 5.2). The BSSs in the area of information and education are the most popular in Kosovo and Turkey. Training services are also prevalent across the region, with increased intensity observed in Montenegro and Turkey.

In the majority of the assessed economies, informational services on financing opportunities, accessing foreign markets and adhering to international standards enjoyed the highest uptake among beneficiaries. Training services on information and communications technology (ICT), resource efficiency, sales and marketing were also frequently used by SMEs in the WBT region. Mentoring and consulting support, with the exception of Montenegro, Serbia and Turkey, were not particularly popular among SMEs. Similarly,

physical infrastructure services enjoyed a lower uptake; however, this can be due to limited provision by the Western Balkan economies.

Table 5.2. Business support services provided by governments by service category

	ALB	BiH		KOS	MKD	MNE	SRB	TUR
		FBiH	RS					
Informational services	1 906	36	2 337	8 440	658	2 339	2 712	7 838
Training	70	0	506	0	268	1 808	669	3 976
Mentoring and consulting	350	18	187	0	82	218	388	2 484
Physical infrastructure support	1	35	0	8	0	6	0	405
Total	**2 327**	**89**	**3 030**	**8 448**	**1 008**	**4 371**	**3 769**	**14 703**

Note: The number of business support services (BSSs) provided for Montenegro is a simple average of the total number of BSSs provided over the two-year period 2019-20 as reported to the OECD by the Government of Montenegro.

Business services provided by the government (Sub-dimension 5a.1)

By improving entrepreneurial and managerial skills and providing tailored financial and non-financial support for SMEs, BSSs can play a crucial role in improving SMEs' productivity and competitiveness, especially in the WBT region, where SMEs quote lack of entrepreneurial and technical skills as one of the main deterrents to growth, development and foreign expansion (Balkan Barometer, 2021[2]). To address these challenges, the governments across the region offer an array of BSSs, ranging from technical assistance in accessing new markets, informational and educational support to training, mentoring and advisory services, and financial support.

This sub-dimension analyses the BSSs provided by the government directly, usually by dedicated SME development agencies. It evaluates the governments' SME policies, which govern these services, and assesses their implementation. The chapter also looks at the monitoring and evaluation mechanisms in place for keeping track of the effectiveness and outcomes of the introduced initiatives and which guide the design of future policies.

Due to the adoption of SME-specific strategic documents outlining dedicated measures for SMEs, as well as support programmes implemented, all economies have improved their overall scores since the last assessment (Table 5.3). In some economies, following the expiration of key strategic documents, new strategies are still to be drafted or were currently being drafted or reviewed at the time of writing, hence the slight deterioration under the planning and design score for some economies. Nevertheless, all economies boosted their BSSs' programme implementation, resulting in augmented scores across the board. Advancements can be observed in monitoring and evaluation; however, there is still room for improvement in the area of performance-based review.

Table 5.3. Scores for Sub-dimension 5a: Business services provided by the government

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	4.43	3.17	3.86	3.57	4.71	4.43	5.00	**4.17**
Implementation	3.43	3.86	4.28	4.14	4.57	4.57	4.86	**4.24**
Monitoring and evaluation	4.11	3.06	3.56	3.89	3.89	4.33	3.89	**3.82**
Weighted average	**3.86**	**3.49**	**4.01**	**3.92**	**4.48**	**4.48**	**4.71**	**4.14**

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

Almost all economies have adopted new SME development strategies since the last assessment cycle

With the exception of Kosovo and Serbia, the economies in the region adopted new strategic documents and legal frameworks focusing on SMEs outlining key targets for increased and improved support services for SMEs (Table 5.4).

The new strategic frameworks for the provision of BSSs are poised to address the challenges faced by SMEs across the region: a lack of adequate, well-targeted training and skills development programmes; fragmented information on available support; and low productivity and competitiveness of SMEs. A policy mix of technical assistance, complemented by facilitated access to finance, has proven to be the most effective in overcoming these obstacles.

Considerable advancements can be observed, particularly in Albania and Montenegro, both of which introduced new, comprehensive and targeted strategies prioritising financial and non-financial support for SMEs (Table 5.4). In the Business Investment and Development Strategy (2021-2027), the government of Albania set out specific support measures for SMEs to develop a dynamic and sustainable entrepreneurship ecosystem. They range from providing advisory services and counselling to training and financial support, especially for newly formed enterprises. In Montenegro, the Strategy for Lifelong Entrepreneurial Learning (2020-2024) provides a framework for boosting entrepreneurship among SMEs, while also adhering to EU standards.

Table 5.4. National strategies governing business support services provision

Economy	National strategy
Albania	Business Investment Development Strategy (2021-2027)
Bosnia and Herzegovina	Federation of Bosnia and Herzegovina: Development Strategy of the FBiH (2021-2027) – 2023 Action Plan for Innovation in SMEs Republika Srpska: SME Development Strategy (2021-2027)
Kosovo	National Development Strategy (2016-2021)[1]
Montenegro	Strategy of SME Development (2018-2022) Strategy for Lifelong Entrepreneurial Learning (2020-2024) Industrial Policy of Montenegro (2020-2023)
North Macedonia	SME Strategy (2018-2023) Programme for Entrepreneurship Support, Competitiveness, and Innovation of SMEs 2020[2]
Serbia	SME Development Strategy (2015-2020)[3] Promotion of Entrepreneurship and Self-Employment Programme
Turkey	2023 Turkey Export Strategy Action Plan Eleventh Development Plan KOSGEB Strategic Plan (2019-2023) Medium-Term Program (2020-2022) Industry and Technology Strategy 2023

1. Kosovo's National Development Strategy (2016-2021) expired in 2021; while it is still being used as a governing document, a new revised strategy is underway in 2022.
2. North Macedonia's Programme for Entrepreneurship Support, Competitiveness, and Innovation of SMEs 2020 expired in 2020. Although only partially implemented, its framework is interconnected with the Industrial Policy (2018-2027).
3. Serbia's SME Development Strategy (2015-2020) expired in 2020 and has been implemented relatively successfully. A new strategy was being drafted at time of assessment.

The economies advanced in improving information dissemination among SMEs

Suboptimal uptake is common among government-provided BSSs, which can be attributed not only to their misalignment with SMEs' needs, but also to low awareness among SMEs about available support. While most initiatives are published on the websites of relevant ministries or SME development agencies, it is

not a common practice for WBT economies to have dedicated, centralised sources of information relating to all kinds of BSSs, regardless of the provider (Table 5.5). Only three economies in the region centralised all information about available BSSs by launching a dedicated website, easily accessible to SMEs. In Albania, the Access to Finance portal was introduced in 2021 and now comprises of 965 registered users.[2] It serves as a one-stop shop to assist Albanian SMEs in their expansion and development efforts. In Montenegro, the Single Access Point centralises all relevant information for SMEs seeking government-provided BSSs. It includes existing policies and programmes of support, changes to the regulatory framework and government activities in the area of SME support in one single portal, thus facilitating access to information for SMEs. In Turkey, apart from the Small and Medium-sized Enterprises Development Organisation's (KOSGEB) website, the government operates a training portal for SMEs with relevant information on available support. With the exception of the Federation of Bosnia and Herzegovina entity, all economies inform SMEs about BSSs through dedicated SME agency websites; however, the degree of clarity, relevance and consistency varies across the region.

Comprehensive SME-centric portals, containing self-diagnostic tools for SMEs, interactive training materials and online coaching are becoming increasingly popular in OECD countries, due to their low cost and high reach and impact (OECD, 2021[3]).

Table 5.5. Sources of information about business support services in the Western Balkans and Turkey

	ALB	BiH		KOS	MKD	MNE	SRB	TUR
		FBiH	RS					
SME agency website	X		X	X	X	X	X	X
Separate business services support portal	X					X*		X

Note: Montenegro announced plans to introduce the Single Access Point, which would enable small and medium-sized enterprises to access information about available business services support; however, its implementation has not been confirmed.

The range and scope of publicly provided BSSs have been broadened

Many governments added new support services in collaboration with local institutions, such as chambers of commerce or employment agencies. Montenegro, for example, bolstered inter-agency co-operation between local business associations, the Chamber of Economy, the Employment Agency of Montenegro, the Investment and Development Fund, and the Montenegrin Employers Federation. Consequently, Montenegrin SMEs now have access to new consulting services, training for start-ups, sector-specific BSSs, entrepreneurship training, conferences and seminars as well as grants for self-employment. Furthermore, many economies, such as Albania, Kosovo and Serbia, added digitalisation assistance, which demonstrates an increased commitment to an innovative, digitised economy. The economies support digitalisation through grants and tailored training on digitalising operations, ranging from administrative activities to business processes within an enterprise.

The expanded range of publicly provided BSSs has also been achieved partly through collaboration with international partners, such as the Japanese International Cooperation Agency, which assisted governments in providing new tailored mentoring services in Bosnia and Herzegovina, Montenegro, North Macedonia, and Serbia. The European Bank for Reconstruction and Development also provides hands-on advisory support through the Western Balkans SME Competitiveness Support Programme, funded by the EU, present in Albania, Bosnia and Herzegovina, Kosovo, North Macedonia, and Serbia.

Most of the economies introduced new forms of technical assistance for SMEs, and provided dedicated financial assistance intended to mitigate the effects of the COVID-19 pandemic, such as Turkey's Rapid Support for Micro and Small Enterprises programme. The project has been implemented in collaboration

with the World Bank and entails financial grants for SMEs to ensure their liquidity and viability after the COVID-19 pandemic. The project's main goal was the survival of microenterprises and SMEs within the economy, with a special focus on women-owned companies with a strategic innovative orientation, manufacturing SMEs and start-ups. The beneficiaries received performance-based reimbursable financial support in hopes of maintaining employment levels and liquidity. Technical assistance was also made available to SMEs within the scope of the project.

Regular training needs assessments remain scarce in the region

Enterprises across the WBT region often quote inadequate skills as the reason for hindered growth and development (Balkan Barometer, 2021[2]). As SMEs dominate the business structure across the region, skills mismatch with the labour market also affect them to a high degree. Training needs analyses and demand assessments are crucial to support policy design and the governments across the region should remain responsive to SME needs in order to enhance their productivity and competitiveness. It is particularly important in an increasingly dynamic environment, especially in a changing business landscape, which now includes a stronger focus on digitalisation and greening. SMEs' needs are bound to change more rapidly, therefore, governments' flexibility is crucial in staying aware and reactive. In the Western Balkans and Turkey, only a few economies have introduced formalised, structured frameworks, which would enable regular and systematic training needs analyses. Moreover, in most economies, training needs analyses and demand assessments have not been conducted since the last assessment cycle, risking a mismatch between the BSSs provided by the government and SME demand for particular services.

However, most of the economies acknowledge the importance of assessing SMEs' training needs and their demand for specific business support services by formalising the structure for the assessment, as is the case in Albania and Turkey. Some economies, such as Montenegro and North Macedonia, conduct *ad hoc* analyses on the SME landscape, BSSs' demand and training needs; however, it is solely performed within strict frameworks of the projects launched rather than on a regular basis, lacking coherence. Regular and systematic training needs analyses are still not prevalent in the region, although encouraging first steps can be observed in Albania and North Macedonia. Turkey positioned itself as the leader in that area, with KOSGEB's assessments and analysis framework formalised by the Information Management and Decision Support Department, which is tasked with conducting studies on SME needs relating to training and demand for specific support services, as well as surveying regional institutions on their capacity to collaborate and support SMEs locally. KOSGEB conducts regular training needs analyses and updates the dedicated training portal accordingly, while the results are being translated into future support programme design. In North Macedonia, despite the economy lacking a formalised, systematic training needs analysis mechanism, the Fund for Innovation and Technological Development conducted a thorough study of the start-up landscape, assessing the demand for BSSs and training needs. In Albania, the government is undertaking encouraging first steps in the new Business Investment Development Strategy (2021-2027), which provides a framework for regular training needs assessments in the area of BSSs.

Tailoring the government's offer of support services to the demand expressed by SMEs, as well as their needs, is essential in ensuring the effectiveness of government support programmes (OECD, 2018[4]). On a budgetary level, it can also reduce budget allocation inefficiencies.

Despite improved monitoring and evaluation mechanisms, independent reviews are still not a common practice across the region

Across the region, economies undertook concrete actions to improve their monitoring and evaluation systems. In the Federation of Bosnia and Herzegovina, the government introduced an online registry for all BSSs' recipients and a centralised database of all incentives and their beneficiaries to be updated on an annual basis. The Business Investment and Development Strategy (2021-2027) in Albania outlines targets and

provides a framework for monitoring by quantifying success indicators of a broad array of support measures, which is a key first step to improve both monitoring and evaluation of strategic documents. The most notable advancement can be observed in Turkey, which formalised the process of programme evaluations. KOSGEB completed a structured mechanism for assessing the impact of entrepreneurship support programmes, which entails setting up project design guidelines, regulating feedback collection from the beneficiaries and defining the scope of the data collected. The goal of the mechanism is to identify potential inefficiencies in BSSs provided by the government and correct them accordingly.

The majority of economies have an audit performed, which is a precondition for a prudent government spending strategy. Nevertheless, this does not measure the impact and effectiveness of support services, which is the key indicator of SME performance after benefiting from provided support.[3]

An independent analysis of government-provided business support services and their impact and effectiveness is still not common practice across the region. Out of all of the WBT economies, only the Albanian Investment Development Agency had an independent review of its co-financing schemes in the last assessment cycle and that practice continues.

The way forward for Sub-dimension 5a.1: Business services provided by the government

- **Develop a strong monitoring and evaluation mechanism to measure the impact of public business support services.** Evaluation of provided BSSs should be the crucial element in BSSs' policy design. To demonstrate the viability of provided services, governments should measure the performance of SMEs after taking up the provided initiatives, not only their satisfaction from the programmes. A framework to measure the performance of SMEs after taking up the provided initiatives could provide valuable insight into both the positive and negative effects of selected incentives. See Box 5.1 for a good practice example from Hungary. For more information on data that WBT governments could consider collecting in this area, please see Annex C.

Box 5.1 Performance-based monitoring and evaluation in Hungary

The Hungarian Ministry of Innovation and Technology commissioned an independent evaluation of its support programmes for small and medium-sized enterprises (SMEs), conducted by a private consulting company – Equinox Consulting Ltd, and a public research institute – HEFTA. The goal of the assessment was to evaluate the impact of current interventions directed towards SMEs and to use the results when designing a future support scheme. The main subject of the analysis was the government's Economic Development and Innovation Operational Programme targeting SMEs and aiming to improve their competitiveness.

The evaluation of the programme was structured along four dimensions:

1. financial and professional programme implementation
2. applicants' profiles and demand for support measures
3. micro and macro impact of support
4. evaluation of the programme's effectiveness.

The qualitative assessment entailed interviews with agencies responsible for implementation and relevant ministries, as well as compiling a database of online and telephone inquiries of potential and current programme beneficiaries. The quantitative analysis included a counterfactual impact assessment of support already granted within the project's framework, both on the micro and macro

level. Moreover, a computable general equilibrium model examined the impact of providing subsidies on the export performance of SMEs.

The assessment identified challenges in the programme's implementation, and explored their root cause, effects and potential solutions. It resulted in a set of recommendations to be considered in future design of support schemes. Inviting an independent institution contributed to the transparency of the assessment and provided the government with broader insight into its support programmes for SMEs. The assessment resulted in targeted, far-reaching recommendations, which can assist the government not only to optimise its budgetary efficiency, but also to calibrate its support programmes to maximise their effectiveness for SMEs.

Almost all economies in the region are lacking a performance-based evaluation of their SME support programmes. While the projects are reviewed based on the beneficiaries' satisfaction and the uptake of introduced initiatives, detailed impact assessments are not prevalent across the region. The economies could invite independent institutions to perform reviews of government-provided support programmes, which should focus of the programmes' effectiveness and efficiency.

Sources: HEFTA Research Institute (n.d.[5]); Hungarian Ministry of Innovation and Technology (n.d.[6]).

- **Conduct regular training needs analysis to better adapt business support services to SMEs' actual skills needs.** Regular and consistent training needs analyses would help fill the gaps in BSS provision, better target the support provided and create more effective BSS provision systems. Including SMEs at different stages of development, different sectors, sizes and locations would make the representative sample more comprehensive and inclusive and would provide the government with valuable insights on the SME landscape across the economy. See Box 5.2 for a good practice example.

Box 5.2. Turkey's approach to training needs analysis

Turkey's Small and Medium-sized Enterprises Development Organisation's (KOSGEB) Information Management and Decision Support Department is responsible for analysing supply and demand for business support services and small and medium-sized enterprises' (SMEs) training needs. The assessments are conducted systemically, regularly and in a formalised manner. KOSGEB extends the evaluation practice to regional institutions to assess their institutional capacity to support SMEs on the ground. KOSGEB also conducts regular training needs analysis and updates the dedicated training portal accordingly. Results of the analysis are then used in future support programme design.

The regularity and consistency in conducting training needs analyses contribute to SME support measures being well-targeted and successful in Turkey. In addition, KOSGEB collaborates with regional development agencies in Turkey; therefore, its SME outreach is broader, allowing it a more comprehensive view of SME needs across the economy.

Training needs analysis is largely lacking across the Western Balkans and Turkey region. Most economies do not analyse the demand for specific business support services among SMEs or conduct sporadic *ad hoc* reviews, without a structured framework allowing regular assessments. Government agencies responsible for SME policy should take into account the demand of SMEs for support services,

as well as their needs pertaining to training and education. Extending this practice to regional development agencies within the economies would give the assessment broader scope and outreach.

Source : KOSGEB (2022[7]).

Government initiatives to stimulate private business support services (Sub-dimension 5a.2)

A competitive private sector of BSSs providers is particularly important in the Western Balkans and Turkey, where many SMEs either have lower levels of trust towards their respective governments or the offer of government-provided BSSs is not fully aligned with their needs (OECD, 2020[8]). The government, however, can assist in facilitating access to private sector providers through co-financing, as well as raise awareness about the availability of private BSSs. While co-financing the appointment of a private sector consultant is the most common practice across the region, some economies also provide substantial support for the creation and development of business incubators and accelerators, which is also highlighted in many strategic documents in the region. A general tendency across the region is to combine public and private funding for the establishment of business incubators, with the majority being funded both by private entities, non-profit organisations, or academia and the governments.

This chapter looks at government policies to grant support for the private provision of BSSs, as well as the strategic focus it follows. It also assesses the implementation of the economies' strategies, as well as their monitoring and evaluation mechanisms in place for programmes that have been implemented to stimulate private provision of BSSs.

With the exception of Bosnia and Herzegovina and North Macedonia, all economies have improved their overall scores (Table 5.6) since the last assessment cycle. Although efforts are uneven across the region, all economies have SME-specific strategies. Not all of them, however, explicitly mention the private provision of BSSs. Some economies have advanced in programme implementation, introducing multiple support programmes, such as self-employment grants. Many economies have a degree of quality assurance for the private BSSs supported; however, accreditation systems for private sector consultants are still not prevalent across the region.

Table 5.6. Scores for Sub-dimension 5a.2: Government initiatives to stimulate private business support services

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	5.00	4.80	4.00	4.00	5.00	4.60	5.00	**4.63**
Implementation	3.80	3.75	4.30	4.50	4.70	3.70	4.70	**4.21**
Monitoring and evaluation	4.20	2.50	3.80	3.40	4.20	4.20	4.60	**3.84**
Weighted average	**4.24**	**3.82**	**4.11**	**4.13**	**4.69**	**4.07**	**4.77**	**4.26**

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

Most economies in the region support private provision of BSSs through co-financing schemes and business incubators

While all economies across the region support the private provision of BSSs, it rarely gets explicitly mentioned in strategic documents across the region. It is, however, a vital tool in facilitating access to support services for SMEs with limited resources, especially in economies with underdeveloped or inaccessible BSSs provided by the government. In economies with lower trust in public institutions and the

government, SMEs are more prone to place more confidence in the private sector. Therefore, a functioning, formalised and competitive market of business consultants who can assist SMEs in their path to growth and development is fundamental in providing a wide range of support for SMEs. The support in assessed economies entails co-financing the services of private sector consultants, business incubators, accelerators and technology parks.

Co-financing support services from private providers is the most prevalent form of assistance across the region. With the exception of the entity of Republika Srpska in Bosnia and Herzegovina, and Albania, which discontinued its co-financing schemes during this assessment cycle, all economies in the region offer co-financing of privately provided BSSs. The extent of the schemes varies across economies and often depends on the size or maturity of the company. In North Macedonia, start-ups usually enjoy a 100% co-financing rate up to a pre-defined ceiling, while more mature enterprises receive a 50% co-financing rate (APPRM, 2021[9]). In some economies, special provisions are granted to women-owned SMEs, as is the case in Montenegro, where women-owned enterprises are eligible for an 80% reimbursement of pre-determined costs (Ministry of Economic Development of Montenegro, 2020[10]). Co-financing can be offered directly by the government, SME agencies or financial institutions within the economy.

Some economies in the WBT region focus their efforts on the provision of physical and institutional infrastructure for SME growth and development. In the region, this takes the form of business incubators and accelerators, as well as technology parks. They constitute a type of business development support programme, which usually focuses on newly established enterprises, self-employed freelancers, microenterprises and start-ups. The governments can support incubators by either providing funding for the establishment of these structures, which are then operated by private entities, launching public incubator development programmes, or facilitating access to existing business centres (OECD/European Commission, 2019[11]). In the Western Balkans and Turkey, a mixed approach can be observed, as the majority of business incubators have been jointly established by the private sector or academia, with some degree of governmental assistance.

As a growing body of evidence suggests a positive impact of the incubators and accelerators on business growth, many economies in the Western Balkans and Turkey have reinforced their support for their creation and development. The most common type of support offered by these structures ranges from training and workshops to business mentoring, access to finance, networking opportunities and a physical office space (OECD/European Commission, 2019[11]). Turkey positioned itself as the regional leader in this area, with its long-standing TEKMER programme, which entails the establishment of performance-oriented incubators and accelerator centres which have a strategic focus on technology. North Macedonia is collaborating with the German Development Agency (GIZ) to boost technology transfers and create business accelerators and mentorship programmes. Montenegro approaches the private BSSs support through co-operation with local private business centres and academia to establish incubators and accelerators to provide SMEs with a well-developed physical infrastructure for growth in development, which has particularly benefited start-ups in the economy.

Quality assurance remains uneven across the region

Quality assurance for privately provided BSSs, including an accreditation requirement for private sector consultants, remains scarce, with only three economies having undertaken measures to introduce it. Most recently, Montenegro has implemented this quality assurance mechanism, while also taking an extra step in the Strategy for Lifelong Entrepreneurial Learning (2020-2024) and requiring all co-financed services to be provided by accredited consultants. The consultants' scope of activities entails the preparation of technical documents, certification assistance, implementation of the process of operations digitalisation for SMEs and consultancy services for innovation-related activities. The quality assurance systems extend to co-financing schemes, which are being monitored from the angle of environmental standards, ISO norms, occupational health and safety management. Turkey, despite having quality assurance mechanisms for

privately provided BSSs, does not condition the government's support on the use of certified consultants. In Serbia, accreditation of private BSSs is done through accredited regional development agencies, which provide various forms of technical assistance for SMEs. The Development Agency of Serbia is tasked with granting accreditation to potential applicants. It also has a list of certified consultants within the regional development agencies which is available to SMEs. Both Albania and Kosovo have undertaken first steps for an accreditation mechanism for private BSSs, but it has yet to be adopted in Albania, while in Kosovo, it is within the purview of a private entity with no government-imposed quality assurance systems. In Bosnia and Herzegovina, no formal accreditation requirement has been introduced, although Republika Srpska instituted new formal prerequisites for education and experience of private sector consultants to be included in the database available to SMEs. North Macedonia remains without a government accreditation requirement, risking a suboptimal quality of private BSSs.

The way forward for Sub-dimension 5a.2: Government initiatives to stimulate private business support services

- **Introduce quality assurance mechanisms for private sector consultants and develop a system to collect feedback from beneficiaries of private business support services** to ensure a high quality of services provided by accredited consultants. An accreditation requirement for private sector consultants would help the governments to add an additional level of assurance in supporting private provision of BSSs. Harmonising education, experience or training requirements for consultants would boost competition in the market, resulting in a higher quality of private BSSs provided to SMEs. Governments across the Western Balkans and Turkey should introduce quality safeguards to stimulate fair competition within the private sector.
- **Continue supporting the creation and development of business incubators and accelerators and adopt a flexible approach to designing support measures.** Most governments in the Western Balkans and Turkey provide financial or institutional support for the creation of business incubators and accelerators. What is needed to expand this support and make it more comprehensive is increased responsiveness and flexibility in the adequate provision of BSSs. Training and workshops should be tailored to the needs of the beneficiaries, which requires an *ex ante* assessment. In addition, the length of the programmes and the support of the physical infrastructure of the incubators should be well measured to avoid underserving newly formed enterprises in need of support and overserving ones which have already surpassed the degree of maturity requiring additional support.

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Notes

[1] When available, it is of particular importance to also monitor this indicator for services provided on a pay-per-service basis, as the uptake of free services is expected to be higher.

[2] Registering on the platform and creating a profile is a pre-requisite to using the portal.

[3] As the BSSs provided by the government are not always free of charge, measuring the effectiveness of services which are free differs from the ones performed at a cost, which typically would experience lower uptake levels.

6 Public procurement (Dimension 5b) in the Western Balkans and Turkey

This chapter assesses the system and procedures applied in the Western Balkans and Turkey to facilitate small and medium-sized enterprises' (SMEs) access to the public procurement market. It starts by outlining the assessment framework, then presents an analysis of Dimension 5b's three thematic blocks: 1) policy and regulatory framework for SMEs in public procurement; 2) implementation of public procurement provisions in practice; and 3) monitoring and evaluation of access to public procurement markets by SMEs. The chapter makes specific recommendations for improving SMEs' access to public procurement procedures in the Western Balkans and Turkey.

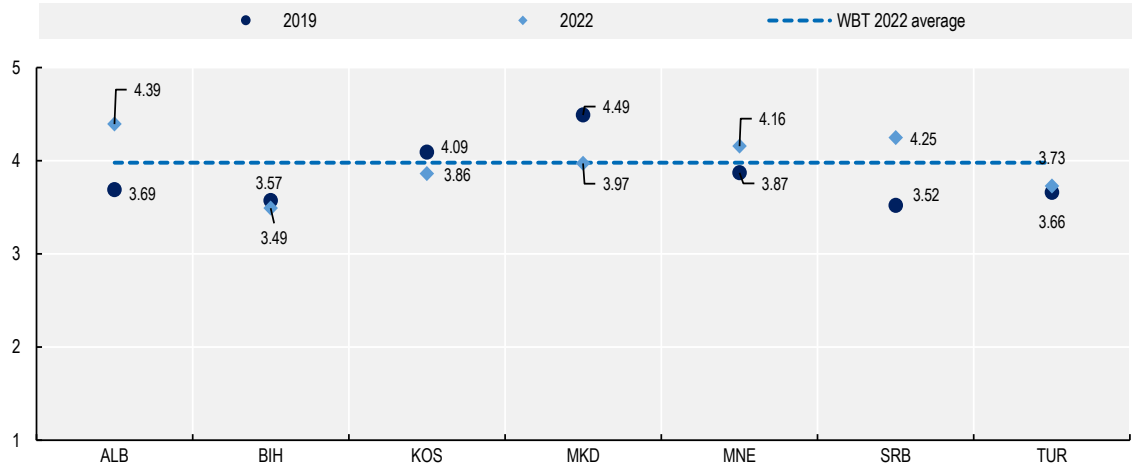
Key findings

- **Most of the assessed economies (Albania, Montenegro, North Macedonia and Serbia) have made important progress in improving their public procurement policies** and some progress in their implementation, monitoring and evaluation.
- **Most of the assessed economies (Albania, Montenegro, North Macedonia and Serbia) have significantly improved their public procurement legislation, especially provisions for enhancing the participation of SMEs.** Those economies have also simplified public procurement procedures by easing documentary evidence rules and other formal requirements, thereby reducing the administrative burden on SMEs.
- **More of the public procurement market is open to foreign companies on a level playing field than in 2019.** Domestic preferences are applied only in Turkey; they are present in the Public Procurement Law in Bosnia and Herzegovina, but at the time of writing are not applied in practice.
- **In most of the assessed economies, there has been an incremental shift in the right direction and more emphasis is put on selection of the most economically advantageous tenders.** In practice, however, the lowest-price criterion remains the dominant criterion for awarding contracts.
- **Although some progress has been made, there are still some restrictions applied as regards subcontracting** (such as the maximum value of the contract which can be subcontracted) **and joint bidding** (such as requirements that groups of economic operators adopt specific organisational forms).
- **Application of electronic procurement solutions has been significantly enhanced due to the establishment or improvement of central public procurement portals.** Submission of tenders by electronic means has become a default option with only a few exceptions.
- **Access of economic operators to legal protection measures has been facilitated by the introduction of the possibility to submit appeals electronically.** The overall transparency of the review process has been greatly improved due to the implementation of new electronic functionalities in independent procurement review bodies.
- **Not all economies provide sufficient advice, support and training to enhance SMEs' access to public contracts.** Such support should be increased, in particular as follow-up of the recent overhaul of procurement provisions.
- **There has been some improvement, but only in a few economies (North Macedonia, Serbia and Turkey), in the collection, analysis and publication of information about SMEs' participation in public procurement markets** due to improvements in electronic procurement portals.

Comparison with the 2019 assessment scores

Since the last assessment cycle, several economies have improved their scores as they adopted and implemented policy measures to ease SMEs' access to public procurement. Albania and Serbia witnessed the strongest increases, followed by Montenegro (Figure 6.1). As regards the policy and legal framework, North Macedonia has also made important improvements, although due to limited progress in implementation and a lack of collection and storage of information on economic operators by contracting authorities, its overall score is lower than in the previous cycle. The three remaining economies (Bosnia and Herzegovina, Kosovo, and Turkey), continue to score below the Western Balkans and Turkey (WBT) average of 3.98, highlighting the need for governments to step up their efforts, particularly in the area of implementation and monitoring and evaluation of public procurement measures specifically targeting SMEs.

Figure 6.1. Overall scores for Dimension 5b (2019 and 2022)



Notes: WBT: Western Balkans and Turkey. Despite the introduction of questions and expanded questions to better gauge the actual state of play and monitor new trends in respective policy areas, scores for 2022 remain largely comparable to those for 2019. For a detailed overview of policy changes and to compare performance over time, the reader should focus on the narrative parts of the report. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Implementation of the SME Policy Index's 2019 recommendations

Most of the recommendations made in the 2019 assessment have either been implemented or are currently being implemented (Table 6.1).

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Table 6.1. Implementation of the SME Policy Index's 2019 recommendations for Dimension 5b: Public procurement in the Western Balkans and Turkey

Regional 2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Regional progress status
Further align national legislation with EU rules and international good practices	Four economies (Albania, Montenegro, North Macedonia and Serbia) have adopted new public procurement laws which are aligned, with only a few exceptions, to the 2014 EU Public Procurement Directive. Another two economies – Bosnia and Herzegovina and Kosovo– have prepared either draft amendments or new public procurement laws to harmonise or approximate public procurement rules with EU rules. There is no information available about any plans concerning the implementation of those directives by Turkey any time soon.	Strong
Reduce the administrative burden of participating in public procurement	Four economies (Albania, Montenegro, North Macedonia and Serbia) have adopted rules simplifying public procurement procedures and reducing administrative requirements. New rules also provide various solutions that are beneficial to small and medium-sized enterprises (SMEs), such as dividing procurement into smaller lots, more flexible evidence requirements, greater possibilities for joint bidding and reliance of third-party resources. Bosnia and Herzegovina and Kosovo launched activities leading to the adoption of legal provisions simplifying rules and improving the position of SMEs in public procurement. There is no information available about any plans concerning the implementation of such provisions in Turkey.	Strong
Increase the use of non-price criteria for awarding contracts to enable public buyers to receive the best value for money	New public procurement rules either give complete freedom to contracting authorities to choose between the lowest price and quality-price criteria (five economies) or reduce the possibility of applying the price-only criterion (Montenegro) and give clear preference to non-price criteria (Albania). In all economies, price-quality criteria are, however, rarely used in practice and the lowest price criterion remains the predominant factor for awarding contracts. More could be done to promote the use of non-price criteria by providing more guidance to contracting authorities in the form of consultation, advice, good practice examples and models.	Moderate
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	In all economies, the adoption of new public procurement rules has been followed by advice, training and assistance to contracting authorities and economic operators as well as the adoption of new operating tools such as new templates, models and standard forms. However, there is still room for improvement in all economies when it comes to increasing support provided to economic operators through the dissemination of new or updated guidelines, manuals, examples of good practice, and commentaries to new rules as well as dedicated training.	Moderate
Constantly monitor and analyse the obstacles hindering SMEs from accessing public procurement markets, including the costs of access to legal protection	Most economies have implemented new or improved electronic procurement solutions, including new public procurement portals, allowing the participation of SMEs in public procurement procedures to be better monitored.	Moderate

Introduction

Public procurement markets provide small and medium-sized enterprises (SMEs) with attractive business opportunities. In the European Union (EU), public procurement accounts for around 14% of gross domestic product (GDP) (European Commission, 2021[1]). Among OECD member countries it accounts for approximately 12% of GDP and 29% of total government expenditures (OECD, 2018[2]).

Like elsewhere in the world, the COVID-19 pandemic has had an impact on public procurement in the Western Balkans and Turkey. The value of awarded contracts diminished as a result of postponing or reorienting planned purchases. The number of directly awarded contracts increased, due to urgent need, in particular to obtain medical equipment and personal protective equipment and tools. In Serbia, for instance, the value of the public procurement market shrank from 8% of GDP in 2019 to 6.88% in 2020 (European Commission, 2021[3]). In North Macedonia, the government adopted a number of fiscal transparency measures and proscribed most non-essential procurement. In Montenegro, the total value of contracts awarded in 2020 fell from EUR 608 million in 2019 to EUR 545 million (Montenegrin Directorate for Public Procurement Policy, 2021[4]). The government prohibited all new public procurement procedures with the exception of procurement necessary for the functioning of the health system and procurement justified by national security interests and other emergencies (Montenegrin Directorate for Public Procurement Policy, 2021[4]). In Albania, the government introduced a series of measures and legislative changes related to public procurement contracts awarded as a result of the pandemic (OECD, 2021[5]) and there was a significant increase in the value of contracts awarded through negotiated procedure without prior publication (15% of the value of contracts) (OECD, 2021[6]).

The 2014 EU Public Procurement Directives, which were or are in the process of being implemented in most WBT economies, provide for new SME-friendly provisions and procedures. However, SME participation in public procurement remains limited compared to their role in the economy. SMEs face various barriers to being awarded more public tenders. Procedural rules are complex and the effort needed to take part seems too great, given the uncertain outcome. SMEs often lack the resources and know-how to deal with burdensome administrative requirements and cannot afford to spend time and money on a potentially fruitless exercise. Even when they are prepared to tender, SMEs are prevented from doing so by unfavourable conditions, such as, for example, a contract that is too large for a small company to implement, disproportionate qualification or financial requirements that are not justified by the nature and character of the contract in question, or late payments by contracting authorities.

Engaging more SMEs in public procurement could help governments better meet the procurement needs of the public sector (OECD, 2018[2]). Increasing their participation would ensure a more competitive bidding process and affords access to a wider choice of available and innovative solutions. This, in turn, helps governments to fulfil the requirements of contracting authorities in a more responsive way and achieves better value for money. Recognising these benefits, governments have developed a series of strategies and policies to fully exploit the potential of engaging SMEs in public procurement (OECD, 2018[2]). Their most commonly recognised objectives are facilitating SMEs' access to public contracts and ensuring a level playing field for all economic operators.

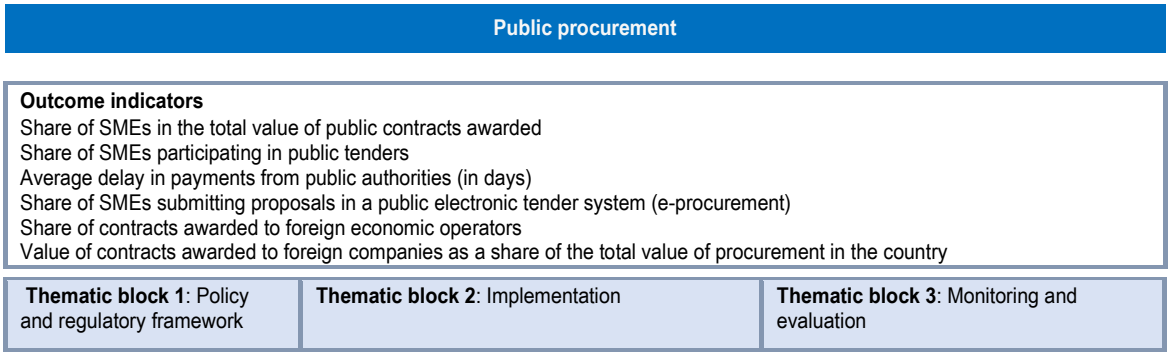
Assessment framework

Structure

This chapter analyses the policies and tools in place to improve SMEs' access to the public procurement market across the seven WBT economies. The assessment framework for this dimension includes 39 indicators, covering a number of questions gathered in 3 thematic blocks: 1) the policy and regulatory framework;

2) implementation; and 3) monitoring and evaluation. The final score is the sum of the scores obtained in these three blocks, weighed in accordance with the same formula as applied in the previous assessment.

Figure 6.2. Assessment framework for Dimension 5b: Public procurement in the Western Balkans and Turkey



Note: The outcome indicators serve to demonstrate the extent to which the policies implemented by the government bring about the intended results; they have not been taken into consideration in the scoring.

The indicators assess, among others, the extent to which governments take SMEs' needs into account in the procurement process, including the division of public procurement into lots, participation of groups of economic operators, qualification and selection requirements proportionate to and related to the object of procurement, and the possibility of subcontracting.

Other indicators measure whether:

- economies adopted strategies or action plans to support SMEs in public procurement
- relevant public procurement markets are open to foreign enterprises (either SMEs or large enterprises) and legal provisions ensure a fair level of competition
- information on public procurement is available centrally and free of charge to all participants
- public institutions offer information, training and advice to interested firms
- electronic tools are applied in public procurement procedures, from providing information on procurement opportunities through communication between contracting authorities and bidders, submission of tenders, seeking legal protection from independent procurement review bodies, and the possibility of proceeding with payment for delivered goods and performed services
- there is legislation in place imposing strict deadlines for payments from public authorities, and penalties for non-compliance.

This assessment, like the one conducted in 2019, is not a comprehensive assessment of public procurement systems in WBT economies. It only focuses on those elements in the legislative framework and practice in the field of public procurement that are relevant to SMEs. Issues such as the integrity and fairness of public procurement procedures, detecting and combating corruption, favouritism, and conflicts of interest are outside its scope. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

No major changes have been made to the methodology since the previous assessment, but the assessment framework has evolved to capture more information on various issues related to SME participation in public procurement. For example, it includes new questions on horizontal issues such as the introduction of accessibility requirements on public procurement of ICT products and services in procurement legislation and the possibility for contracting authorities to take into account environmental or

social considerations in the qualification criteria or selection of best tenders. Questions on electronic procurement have been updated and reformulated to include more advanced forms of e-procurement, such as the submission of tenders by electronic means or the use of electronic tools to process invoices submitted by contractors and appeals to procurement review bodies.

Analysis

Performance in public procurement

Outcome indicators play a key role in examining the effects of policies, since they provide crucial information for policy makers to judge the effectiveness of existing policies and the need for new ones. The outcome indicators chosen for this dimension (see Figure 6.2) are designed to assess the performance of WBT economies in public procurement and particularly in enabling SMEs' participation in this key market. The analysis starts by drawing on these indicators to describe the economies' performance.

In WBT economies, the value of awarded contracts amounts to 6-12% of GDP (OECD, 2022[7]). In North Macedonia, for example, SMEs represented 83.74% of bidders who submitted their tenders through the mandatory e-procurement system in 2020 while they only represented 63% in terms of the value of contracts awarded.[1] In Serbia, in 2020, SMEs represented 85% of bidders in public procurement, but were only awarded slightly less than 50% of the procurement market.[2]

All seven economies guarantee a review for aggrieved economic operators by independent procurement review bodies. This is available to economic operators whose interests in specific public procurement contracts were breached by contracting authorities' omissions or actions that were not consistent with the law. Access to those bodies is not hindered by unrealistic time periods for submitting complaints or excessively high costs. Relevant public procurement rules also require review body decisions to be taken as quickly and smoothly as possible, and to be enforceable. Table 6.2 presents the scores for WBT economies for public procurement.

Table 6.2. Scores for Dimension 5b: Public procurement in the Western Balkans and Turkey

	ALB	BiH	KOS	MKD	MNE	SRB	TUR	WBT average
Policy and regulatory framework	4.56	3.76	3.94	4.44	4.13	4.69	3.63	**4.16**
Implementation	4.72	3.36	4.00	3.92	4.80	4.32	3.92	**4.15**
Monitoring and evaluation	3.32	3.40	3.40	3.40	2.60	3.40	3.40	**3.27**
Weighted average	**4.39**	**3.49**	**3.86**	**3.97**	**4.16**	**4.25**	**3.73**	**3.98**

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

Policy and regulatory framework (Thematic block 1)

The purpose of this section is to assess the policy and regulatory framework for public procurement, especially those activities and legal provisions that are the most relevant to SMEs. In particular, indicators measure whether WBT economies have adopted strategic documents on activities addressed specifically to SMEs and whether their public procurement regulations provide solutions that support the participation of SMEs.

Most economies have adopted new strategic policy instruments to increase SMEs' participation in public procurement

All the assessed economies have adopted multiannual national strategies or action plans for further developing their public procurement systems. Relevant documents deal with improvements to the legislative framework, strengthening administrative capacity, increasing the efficiency of legal protection measures, and combating corruption and conflicts of interest. As far as SMEs are concerned, those strategies address issues such as simplifying and streamlining procurement procedures, reducing administrative red tape, and providing training and consultation to contracting authorities and economic operators.

For example, in Montenegro, the new Public Procurement Strategy (Montenegrin Directorate for Public Procurement Policy, 2021[8]) aims, among others, to increase the participation of SMEs in public procurement procedures through a forum of dialogue with the private sector, identifying obstacles and challenges for participation in the public procurement market, organising training for SMEs, analysing the ability of economic operators to fulfil the requirements of public tenders, and developing guidelines and documentation on how to do business with the public sector. In Serbia (Serbian Public Procurement Office, 2019[9]), the new strategy aims to increase the efficiency and cost-effectiveness of public procurement procedures; strengthen competition; reduce the risk of irregularities; and promote and stimulate environmental, social and innovative aspects in public procurement. In North Macedonia, the Public Procurement Bureau prepared a draft strategy for the development of the public procurement system (Macedonian Public Procurement Bureau, 2021[10]) which envisages a number of activities dedicated to strengthening the position of SMEs in public procurement, in particular publishing guidelines, organising training, and strengthening monitoring and reporting.

New legal procurement laws harmonised with EU requirements have been adopted across the region. All WBT economies have a solid legislative framework in the field of public procurement. Four economies (Albania, Montenegro, North Macedonia and Serbia) have recently adopted new public procurement laws (PPLs) implementing provisions of the 2014 EU Public Procurement Directive. New PPLs are characterised by a high level of EU compliance, with only a few cases of inconsistencies or shortcomings. Provisions that do not fully correspond to EU requirements concern, for example, some additional grounds for exclusion of economic operators and application of "blacklists" of economic operators (automatic exclusion for a certain period of time, due, for instance, to withdrawal by the winning bidder from signing the contract [Albania and North Macedonia], a lack of solutions concerning self-cleaning of economic operators [North Macedonia] or limitations concerning the share of contracts covered by subcontracting [Albania]). In some cases, however, this generally positive view concerning EU compliance of PPLs is affected by the adoption of, in addition to a general PPL, specific regulations addressing some types of procurement, usually major infrastructure linear constructions of big values (Serbia) or constructions executed in the aftermath of the earthquake in Albania. Those procurement rules provide for a number of exceptions from general public procurement rules that are not consistent with EU rules, concerning for example minimum time periods for submitting tenders (much shorter than those required by EU rules) or rules on procurement review (shorter time periods for appeals and a lack of a standstill period between notification of selection of the best tender and the conclusion of a contract).

Foreign bidders generally have the same rights as domestic bidders

One of the cornerstones of a public procurement system is the principle of equal treatment for all economic operators that have the capacity and resources to provide goods or perform services for the public administration, regardless of their origin or organisational form. In general, with a few exceptions, economic operators enjoy free access to public procurement procedures in WBT economies regardless of their origin and domestic suppliers do not receive privileged treatment.

At the time of writing, only Turkey applies domestic preferences, such as the right to exclude foreign suppliers from public procurement procedures under certain thresholds, a margin of price preference applied in favour of domestic suppliers for works or services and domestic goods, and the possibility (or obligation) of requiring that some or all products offered in public procurement are of Turkish origin. Serbia, which in the previous assessment period allowed domestic preferences, has adopted new public procurement provisions which require equal treatment of domestic and foreign operators. In Kosovo, an amendment to the Public Procurement Law adopted in December 2020, introduced, until 31 December 2021, preferential treatment of tenders submitted by domestic bidders or containing domestic products or services, which affected the principles of equal treatment and non-discrimination of economic operators. A level playing field has since been re-established in public procurement processes. In Bosnia and Herzegovina, the application of domestic preferences was supposed to be phased out on 1 June 2020. However, the Council of Ministers adopted a new temporary decision on preferential domestic treatment (with a 30% margin of preference) that was valid from 1 June 2020 to 1 June 2021. No new measures concerning domestic preferences have been adopted since the expiration of this temporary decision. Grounds for re-establishing domestic preferences in the future, however, still exist in the Public Procurement Law (Parliamentary Assembly of Bosnia and Herzegovina, 2014[11]) and new preferences may be adopted by the government by means of implementing regulations (a government decision).

Large procurement contracts can be divided into smaller lots to facilitate SME access to the public procurement market

One of the instruments contracting authorities can use to improve SMEs' chances in public procurement is to divide large but heterogeneous contracts into smaller chunks, or lots, which are better suited to SMEs' capacities (OECD, 2016[12]). This instrument is now explicitly provided for in the 2014 EU Public Procurement Directive. See Box 6.1 for some examples from the European Union.

Exclusion of economic operators is allowed in accordance with EU rules, but some economies allow automatic exclusion, which is contrary to EU law

Those WBT economies which adopted new PPLs have also adjusted the list of circumstances leading to exclusion of SMEs from public procurement to those provided for in the EU Public Procurement Directive. Some PPLs, though, allow for additional automatic exclusion of economic operators based on decisions of the public procurement office (or agency) in situations not explicitly allowed by EU law. For example, in Albania, an economic operator who withdraws from signing a contract is "blacklisted" and excluded from all procurement procedures for a period established by the public procurement agency (PPA). In such a case, contracting authorities conducting public procurement procedures are not allowed to conduct their own assessment of the reliability of the economic operator, but are bound by the PPA's decision. Such an "automatic" exclusion, without the possibility of the contracting authority carrying out a case-by-case assessment, is not consistent with the case law of the Court of Justice of the European Union. In North Macedonia, bidders who withdraw their tender before the expiration of its validity period, do not accept correction by the tender committee of any arithmetical errors in the tender, fail to sign the public contract in accordance with requirements of the tender documentation and the tender submitted, or do not provide the performance guarantee, if so required by the contracting authority, lose their tender security. In addition to their tender security being forfeited, such bidders receive negative references published on the electronic system of public procurement website. This results in them being automatically excluded from participating in procurement procedures for a period not shorter than six months (and not longer than one year) from the date of issuing of the negative reference, which is not compliant with the EU *acquis.* Box 6.2 provides a good practice example from Romania.

Box 6.1. Division of procurement subject into lots

Dividing procurement into lots is seen as one of the most important practices to facilitate small and medium-sized enterprises' (SME) participation in public procurement. Allegedly, it is also one of the most efficient tools to enhance their participation. The European Commission shows that the subdivision of contracts into lots increases SME participation rates from 62% for procurement without a division into lots to 65% where 10-19 lots have been created. As reports submitted by EU member states on public procurement show, it is one of the most often used tools applied in practice. There are many examples from EU member states on supporting contracting authorities in applying this tool.

In **Lithuania**, the Public Procurement Office issued Guidelines for Public Buyers on the application of "divide or explain" principle.

In **Belgium**, the Public Procurement Commission issued a document explaining how division into lots should be applied to increase the participation of SMEs. Accordingly, it explains the concept, its formal ramifications and requirements, and provides practical advice to contracting authorities on how to proceed at various stages of the procurement, from the preparation of tender documents and the procurement notice through the collection and evaluation of tenders up to the selection of the best tenders and response to participants.

Most economies in the Western Balkans and Turkey provide relevant rules for dividing bigger procurement into lots. For example, in Montenegro, a subject of public procurement may be divided into lots according to the type, characteristics, purpose, place or time of implementation, taking into account the possibility of SMEs participating. If contracting authorities have not divided the procurement into smaller lots, they should explain the main reasons for their decision. Similar rules exist in North Macedonia and Serbia. In Kosovo, according to the Public Procurement Law, public contracts may be divided into homogenous or heterogeneous lots. Operational guidelines suggest that, to encourage the participation of SMEs in public procurement, limiting the number of lots which may be applied for should be a preferred option if there are many SMEs potentially interested in a given procurement. Provisions concerning the division of procurement into lots also apply in other economies in the region, namely in Bosnia and Herzegovina and Turkey, even though they have not yet implemented the 2014 EU Public Procurement Directive. The difference with the first four economies mentioned above is that in the case of Bosnia and Herzegovina, Kosovo, and Turkey, contracting authorities which have decided to not divide procurement into smaller parts do not have to justify their decision.

Sources: European Commission (2021[1]; n.d.[13]); Belgian Commission des Marchés publics (2020[14]).

Box 6.2. Court of Justice of the European Union case law concerning automatic exclusion of economic operators

The European Union's public provisions, as interpreted by the Court of Justice of the European Union, allow the exclusion of an economic operator due to "grave professional misconduct". However, national procurement rules cannot allow the automatic exclusion of an economic operator (C-465/11 "Forposta and ABC Direct Contact"). The Court of Justice of the European Union defines the concept of "grave misconduct" as conduct that denotes a wrongful intent or negligence of certain gravity on the part of the economic operator. Any incorrect, imprecise or defective performance of a contract or a part thereof could potentially demonstrate the limited professional competence of the economic operator concerned, but does not automatically amount to grave misconduct. To determine whether grave misconduct exists, a specific and individual assessment of the economic operator's conduct must, in principle, be carried out.

Example from Romania

Romania operated a central registry that contains information on both the positive and the negative contract performance of economic operators. After the completion of each contract, contracting authorities issued a document with information on how the economic operator had fulfilled its contractual obligations, which could be positive or negative depending on whether or not the economic operator had properly performed the contract. The document was issued to the contractor, and a copy was placed in the procurement file. A further copy was sent to the National Authority for Regulating and Monitoring Public Procurement (NARMP). The NARMP received copies of all positive and negative documents relating to contract performance from all contracting authorities across Romania. The NARMP created a database containing this information; it was not posted on the NARMPP website. During a procurement procedure, contracting authorities could ask the NARMP for information related to one or more participating economic operators. Following such a request, the NARMP sent that contracting authority all of the available documents (both "positive" and "negative"), without any comments or suggestions. The final decision – whether to exclude the economic operator or not – remained the responsibility of the contracting authority. The contracting authority could also contact other contracting authorities to obtain more information or evidence regarding cases where the tenderer concerned failed to fulfil its contractual obligations.

Public procurement rules should not provide for exclusion from procurement procedures on the basis of a decision of the public procurement office or agency. Such an "automatic" exclusion is not consistent with EU rules. Contracting authorities should be allowed to carry out a case-by-case assessment of whether or not in certain circumstances, in the light of the public procurement law's provisions, a given bidder should be excluded as not being reliable due to some wrongdoings committed in the past. However, if the authorities insist that their public procurement office or agency should play some role in verifying the reliability of an economic operator, it is still possible to do so in a way that complies with EU standards, as presented above.

Source: OECD (2016[15]).

New public procurement rules have simplified evidence requirements to be fulfilled by bidders

Albania, Montenegro, North Macedonia and Serbia have introduced standard forms of self-declaration that include most of the relevant information used as preliminary proof of fulfilment of exclusion and qualification (selection) criteria by economic operators. In these economies, in principle, a self-declaration containing the relevant information on the economic operator is submitted by all bidders or candidates in public procurement procedures and documents or certificates issued by public institutions or third parties are only required from the best bidder. In Turkey, economic operators may submit their self-declarations with their bids when e-procurement is used. However, in addition to the best bidder, the second-best tenderer must also submit the relevant documents that cannot be verified on line prior to the contract award decision. Qualification (selection) requirements could still be simplified in Bosnia and Herzegovina and Kosovo.

Box 6.3. Self-declarations in the EU Public Procurement Directives: European Single Procurement Document

Economic operators participating in public procurement procedures in European Union member states can prove compliance with exclusion and qualification (selection) criteria by means of self-declarations. Self-declarations are submitted with tenders or requests to participate, in principle, instead of certificates issued by public authorities or third parties. Certificates, statements and other means of proof – supporting documents – are then required only from the bidder to whom the contracting authority has decided to award the contract.

In EU member states, at least above the thresholds of application of the Public Procurement Directive, this self-declaration takes the form of the European Single Procurement Document (ESPD). Contracting authorities are obliged to accept ESPDs from economic operators as preliminary proof that the economic operator fulfils the following conditions:

a) is not in a situation in which economic operators should or may be excluded

b) meets the relevant selection criteria that have been set by the contacting authority

c) where applicable, fulfils the objective rules and criteria that have been set by the contracting authority for the purposes of short-listing (in the case of a multi-stage procedure).

The ESPD has a form established by the European Commission and is obligatory for EU member states in procurement covered by the EU Public Procurement Directive. The ESPD consists of a formal statement by the economic operator that relevant grounds for exclusion do not apply and/or that the relevant selection criterion is fulfilled and the economic operator should provide the relevant information as required by the contracting authority. The ESPD should also identify the public authority or third party responsible for establishing the supporting documents and contain a formal statement to the effect that the economic operator will be able, upon request and without delay, to provide those supporting documents.

The possibility of using self-declarations should encourage the participation of economic operators, and in particular SMEs, by reducing the costs related to their participation in public procurement. Instead of evaluating numerous documents, contracting authorities only need to verify that self-declarations are submitted by all of the participants of the procedure – bidders submitting tenders (in an open procedure) or candidates submitting requests for participation in two-stage procedures (for example, a restricted procedure) to decide whether they should be excluded or admitted to the procedure. Self-declarations and information included therein should be sufficient for the contracting

authority to decide whether a given bidder (candidate) should be excluded or admitted to the public procurement procedure.

Sources: (European Commission, 2017[16]); (European Commission, n.d.[17]); (European Commission, n.d.[18])

Joint bidding in general is allowed, though in some cases additional burdens are imposed on companies willing to jointly participate

One instrument that increases SMEs' chances in public procurement is joint bidding. This allows a number of suppliers who do not individually meet the contracting authority's requirements to combine their resources and capacities to fulfil them. According to EU rules, tenders or requests for participation may be submitted by groups of economic operators (consortia) and contracting authorities may not require such groups to take a specific organisational form for that purpose. Contracting authorities may only require it from the winning bidder if it is necessary for the successful delivery of supplies or performance of services. Some economies, however, even if they in principle comply with the EU rules, require groups of bidders or candidates to fulfil additional requirements. For example, in Montenegro, tenders or requests for participation may be submitted by groups of economic operators. However, the PPL imposes some formal requirements concerning such groups. Bidders submitting joint tenders should conclude in advance a contract on joint participation which regulates mutual rights and obligations, determines which member of the joint bid is the holder of the bid, which part of the procurement subject each of the members of the joint bid is in charge of, as well as their percentage share in the total value of the bid. In Albania, the new PPL, unlike the previous one, does not allow contracting authorities to request that groups of economic operators assume a specific legal form to submit a tender or request to participate. However, implementing regulations impose additional obligations on jointly participating bidders and require submission, together with a tender, as in the case of Montenegro, of a co-operation agreement regulating the details of the co-operation of members of the group.

Box 6.4. Rules concerning the submission of joint tenders

In accordance with EU rules, tenders or requests for participation may be submitted by groups of economic operators (consortia) and contracting authorities may not require that such groups take a specific organisational form for that purpose. They may only require it from the winning bidder if it is necessary for successfully carrying out the contract.

In **Poland**, the Public Procurement Law stipulates that economic operators may compete for a contract jointly. In such a case, they should appoint a plenipotentiary to represent them in the procurement procedure or to represent them in the procedure and to conclude the contract.

Similarly, in **France**, public procurement rules limit themselves to stating that one of the members of the consortium be indicated in the request for participation or in a tender to represent its members in contacts with the contracting authority and to co-ordinate the performance of the whole group.

Western Balkans and Turkey (WBT) economies which have already implemented EU procurement rules prohibit contracting authorities from requiring that groups of economic operators assume a specific legal form. However, in some cases, procurement rules require that such groups submit with their tender or request for participation a text of their internal agreement, including a minimum of specific information. This seems to go beyond what is permitted by the EU *acquis* and may imply certain restrictions on the organisation of such a group. In accordance with good practice, it should suffice to require that all economic operators who decide to participate jointly appoint one economic operator to represent the whole group.

WBT economies could build on the good practices from Poland and France, where it suffices to require that all economic operators who decide to participate jointly appoint one of the participating economic operators to represent the whole group in the procedure in contacts with contracting authorities during the procedure.

Sources: Polish Public Procurement Office (2019[19]); French Ministry of the Economy, Finance and the Recovery (2019[20]).

Subcontracting is permitted, though in some cases the share may be limited

Another instrument that favours SMEs is subcontracting: the winning bidder who signs the contract allows a part or parts of it to be performed by third parties (subcontractors). In this way, SMEs which are not able to carry out the whole contract can provide their services for smaller parts of a bigger project that is better adjusted to their capacities. All WBT economies provide for the general possibility of subcontracting a part or parts of a contract to third parties. Some economies even underline that subcontracting should be allowed to permit SMEs to participate. Two economies removed previously applicable limitations from their procurement rules concerning the maximum share of the contract that may be subcontracted (Montenegro and Serbia). Elsewhere, some limitations still exist. In Albania, for instance, the subcontracted part of the contract must be proportionate to the value of the contract and may not exceed 50% of the overall contract value[3]. This upper limit has been raised, though, from 40% in the previous rules. In Kosovo, while the PPL does not set limits on the share of subcontracting, the operational guidelines set a limit of 40% of the contract value.[4] In Turkey, contractors can choose their subcontractors freely; however, they must give the subcontractors' names to the contracting authority for confirmation. According to the general procurement specifications, subcontractors cannot undertake the whole work covered by the contract (subcontractors cannot perform 100% of the contract).

Rules on contract award criteria were modified to put more emphasis on selection of the most economically advantageous tender

The use of the best price-quality criterion instead of the lowest price is often recommended as a tool to help SMEs gain an equal footing to public contracts (European Commission, 2019[21]). It is assumed that while SMEs may be disadvantaged in delivering off-the-shelf mass products at the cheapest possible purchase price, they may be able to offer customised, innovative goods or services that perform better in terms of quality, and broader economic, social and environmental impacts. Such products may be more cost-effective in the longer term when the full life-cycle cost is considered.

Across the WBT region, modified public procurement rules either give complete freedom to contracting authorities to choose between the lowest price or quality-price criteria or limit the possibility of applying the price-only criterion. For example, in Montenegro, selection of the best tender must be based on the most economically advantageous tender criterion and price as the only criterion may only be applied exceptionally. In particular, it is allowed in a negotiated procedure without prior publication; to award contracts on the basis of the framework agreement; in an electronic auction or a dynamic purchasing system; in procedures for social and other specific services; and in the case of public procurement for the needs of defence and security or for the needs of diplomatic missions, consular offices, and military and diplomatic representatives abroad. In North Macedonia, public contracts are awarded based on the most economically advantageous tender and e-auctions are no longer mandatory. In addition, the price cannot be used as the sole award criterion for the procurement of services for software development, architecture or engineering services; translation services; or consultancy services. In Albania, in principle, the PPL provides for free choice between the lowest price and the best price-quality ratio and it does not recommend or oblige the use of the best price-quality ratio, except in the consulting services procedure. However, a preference for price-quality is clearly expressed in the implementing rules of the PPL.

Accordingly, the price as the only evaluation factor can be used in the case of works, goods or services which have simple specifications, well-known technical standards and are easily available on the market. Serbia has introduced an EU-compliant definition of the most economically advantageous tender in its PPL.

Notwithstanding changes in legal provisions, in practice, the lowest-price criterion remains the dominant criterion for awarding contracts.[5] In cases where the PPL gives contracting authorities the freedom to choose between the price-only criterion and the best price-quality ratio, the price criterion is predominantly applied, from 86% in Bosnia and Herzegovina to 99.63% of all procurement procedures in Kosovo (Lemke et al., 2020[22]). Only in Montenegro, where the PPL gives preference to price-quality criterion, does the share of the price criterion fall to 72% (OECD, 2022[7]) (however, in 2020, the new PPL was only applied for half the year, so this share should fall in the coming years when it will apply for an entire year).

There appear to be a number of reasons for the very limited use of criteria other than lowest price, including: fear of change and preference for sticking with well-understood routine procedures and a lack of practical training, guidance and resources needed to increase knowledge, understanding and confidence on the part of contracting authorities who may be concerned about the consequences of selecting and applying qualitative criteria incorrectly. Economies should do more to promote the application of quality criteria by providing consultation and advice, good practice examples, and models.

Participation conditions in all economies are non-discriminatory and proportionate

In accordance with EU procurement rules and good international practice, any requirements imposed by contracting authorities on economic operators who would like to apply for public contracts should be non-discriminatory, transparent and related to the object of the public procurement in question. Excessive requirements, especially if not justified by the complexity of the object of procurement, would deprive SMEs of the chance to participate in the public procurement market. Accordingly, all the assessed economies require that any conditions applied are non-discriminatory, related to and proportionate to the object and value of procurement.

For example, in Albania, economic operators participating in a procurement procedure should fulfil the criteria deemed necessary by the contracting authority, provided that those criteria are proportionate to the nature and size of the contract, and non-discriminatory. In Bosnia and Herzegovina, the minimum criteria required for candidates/bidders and the documents required to prove their fulfilment thereof must be proportionate, relevant to the procurement subject matter, clear and precise. Similarly, in North Macedonia, contracting authorities are not allowed to apply requirements related to suppliers' economic and financial standing, or their professional or technical ability that are not proportionate to the contract's subject matter. In Kosovo, a contracting authority may require that economic operators submit evidence demonstrating that they meet the minimum economic and financial requirements specified in the tender dossier and the contract notice. The minimum annual turnover required from the economic operators should not exceed twice the estimated contract value.

In Turkey, the PPL specifies that economic operators must submit their economic, financial, professional and technical qualifications to prove they are able to perform the contract in question. The PPL also defines the conditions under which economic operators are deemed ineligible and should be excluded from public procurement procedures. The contracting authorities' tender documents and notices in invitations for procurement or pre-qualification should specify which documents are required for evaluating economic operators' qualifications, in accordance with the procurement subject matter.

Tender and performance securities are all regulated

All the assessed economies have rules regulating the amounts of tender and performance securities, the form they take, and the cases in which they should be either returned or retained. However, in some cases,

those provisions may act as a barrier to access to public procurement. For example, in Albania, a bid security (at 2% of the estimated value of procurement) is obligatory for contracting authorities in all public procurement procedures above the low monetary thresholds. It was optional in the previous law, allowed in procedures for contracts above high thresholds. Bid securities are forfeited if the winning tenderer decides not to sign the contract. This is understandable, since the role of the bid security is to ensure that the bid is serious and binding for the bidder. However, the PPL obliges the contracting authority to exclude a bidder who withdraws from signing the contract with this contracting authority for a period of one year, which seems to be a disproportionally harsh penalty as the bidder also loses their bid security. Additionally, bidders who decline more than five times to sign a contract within a year are excluded from participation in all public procurement procedures on the basis of a decision of the PPA for a period ranging from three months to three years. Similar solutions exist in North Macedonia, where economic operators must submit a tender security (in the form of a bank guarantee) up to a maximum of 3% of the tender value. They will lose this security if they withdraw the tender before the expiration of its validity period, do not accept correction by the tender committee of any arithmetical errors in the tender, fail to sign the public contract in accordance with the requirements of the tender documentation and the tender submitted, or do not provide the performance guarantee, if so required by the contracting authority.

Late payments and advance payments are appropriately addressed

One of the problems economic operators face in public procurement is late payments by public institutions for services performed or supplies delivered. Payments which are not made promptly pose an additional risk for SMEs and affect them more than they do larger enterprises; it can severely affect their liquidity and in extreme cases force them out of the public procurement market. All economies set maximum time periods for payments in public procurement and impose penalties for late payments. In Albania, contracting authorities are required by law to pay their contractors within 30 days unless a given contract or other legal provisions envisage a different time period. The law gives the creditor the right to interest if payment is delayed. In Serbia, the Law on Payment Terms in Commercial Transactions states that public authorities or public undertakings cannot exceed the 45-day payment period, with an exemption for the National Healthcare Fund and public healthcare providers when the 90-day period applies. In Bosnia and Herzegovina, legal provisions in both entities also require contracting authorities to pay their contractors within certain time limits – 60 days. If this period is not respected, economic operators can claim financial penalties or other comparable sanctions. In Montenegro, the time period for payment is 30 days from the day that goods are delivered or services performed. A contract may allow a longer period, but not more than 60 days. Economic operators who have fulfilled their obligations to the contracting authority are entitled to statutory interest rates in the event of late payment.

Advance payments by contracting authorities – i.e. payments made while the contract is being executed – are especially beneficial to economic operators, particularly SMEs. Some economies explicitly allow for this. For example, in North Macedonia, contractors can receive remuneration partially in advance, but for contracting authorities in the public sector, only up to a maximum of 20% of the value of the contract. The amendment of the PPL adopted in April 2020 allowed such contracting authorities to provide even higher advance payments, without a need to request a bank guarantee from the contractor, but only for products related to fighting the COVID-19 pandemic.

Implementation (Thematic block 2)

Even the best-conceived legal provisions will not be enough to ensure that SMEs have access to public procurement if they are not implemented and (correctly) applied. The purpose of this thematic block is to assess how public procurement provisions are implemented in practice, focusing especially on disseminating information, the support and training provided by public institutions, and the use of electronic procurement.

The institutional set-up is solid and offers support to both contracting authorities and economic operators, but more practical advice is needed

All of the assessed economies have a solid institutional set-up at the central level with public procurement offices or agencies (PPOs/PPAs), either as separate institutions (Albania, Bosnia and Herzegovina, Kosovo, Serbia, and Turkey) or within the framework of Ministries of Finance (Montenegro and North Macedonia). PPOs/PPAs discharge all central procurement functions required by EU rules, related to legislation, monitoring and reporting of the functioning of public procurement systems, control of legal compliance with rules and advice, training, and other support to contracting authorities and, to a certain degree, also to economic operators. Support takes the form of telephone help desks organised by central procurement institutions, providing advice to questions raised by economic operators, publishing guidance or manuals for contracting authorities, advising them on how to enhance SME participation in public procurement procedures, and direct support dedicated to economic operators.

Professional support offered by PPO/PPAs to contracting authorities and economic operators is, however, still insufficient as regards, in particular, complex procurement and the capacity of contracting authorities needs to be strengthened. In those cases where public procurement provisions have been recently modified (new PPLs were adopted), only basic information about the new rules has been provided and new operational tools such as manuals, guidelines and other practical tools are not yet generally available.

Box 6.5. Advice on how to involve SMEs offered by public procurement offices

Public procurement offices in many EU member states provide information to contracting authorities on how to best engage small and medium-sized enterprises (SMEs) in public procurement procedures. They also provide information and advice to economic operators on how to successfully compete for public contracts.

In the **Slovak Republic**, in April and May 2020, the Public Procurement Office prepared two comprehensive documents: “What do you need to know about doing business with the state?” and “How to do business with SMEs”. The purpose of the first document was to provide guidance to SMEs to help them improve and strengthen their position in the public procurement process. It is a comprehensive document that provides answers to basic questions about how to do business with the state and seeks to motivate SMEs to participate in public procurement, thus contributing to wider competition. The second document focuses on contracting authorities, encouraging them to use all legal institutes and opportunities to facilitate SME access to public procurement and increase their participation in public procurement. Among those, for example, pre-market consultations, the division of contracts into lots or the method of setting selection criteria, for example, will apply. In addition, the Public Procurement Office provided various interpretative opinions on the topic of SME participation.

Training of representatives of the business

In some economies, central purchasing bodies (CPBs) play an important role in the professionalisation of public procurement. They go beyond the traditional role of conducting centralised purchasing by also providing training for public officials in charge of public procurement or even establishing policies for contracting authorities. In such cases, CPBs are usually considered to be procurement knowledge hubs. In **Italy**, CONSIP has recently strengthened its co-operation with suppliers by setting up supplier training desks at the level of enterprises associations territorial units. The main objective of this initiative is to facilitate the participation of SMEs in public procurement and improve their familiarity with ICT tools, provide training on the use of e-procurement tools, support to qualify for operating on the electronic public procurement market MePA. CONSIP trains people from associations who in turn train the local SMEs. Today, 380 training desks in Italy support this training. CONSIP, in turn, provides the desks with

free assistance and disseminates information about the advantages of a fair and transparent public procurement system.

In other economies, training of economic operators is organised by public procurement offices. For example, in North Macedonia, the Public Procurement Bureau organised two one-day training sessions in February 2021 for suppliers in co-operation with a twinning project with the Croatian administration.

Considering the relatively low level of competition in public procurement, measured in terms of the average number of bids per procurement procedure, economies in the Western Balkans and Turkey should do more to encourage economic operators, and in particular SMEs, to participate in public tenders. Apart from complex procedural rules, one reason for which suppliers shy from participation may be a lack of information about relevant rules.

Sources: Lemke et al. (2020[22]); CONSIP (n.d.[23]); Italian Ministry of Economy and Finance (n.d.[24]); OECD (OECD, 2022[7]).

Electronic procurement has been significantly enhanced and submission of tenders by electronic means has become, with few exceptions, a general requirement

Use of digital technologies in the tendering process (e-procurement) to overcome lengthy paper-based procedures is regarded as being convenient for all kinds of enterprises, and particularly for SMEs, as it contributes to the simplification of the public procurement process and to the reduction of transaction costs (OECD, 2018[2]).

Electronic procurement is well advanced in all WBT economies, with new or significantly improved central public procurement portals, managed by PPO/PPAs, enabling fully electronic communication between contracting authorities and bidders, including also the electronic submission of tenders. In particular, in this assessment period, new public procurement portals have recently been established in Montenegro and Serbia, thanks to support from EU funds through technical assistance projects.

In Montenegro, the new e-procurement system, the National System of Electronic Public Procurement (Montenegrin Directorate for Public Procurement Policy, n.d.[25]), is obligatory for all contracting authorities and bidders. It has functionalities from the publication of procurement plans and tender documents up to the submission of tenders and their evaluation. In Serbia, the transparency of the procurement system is ensured by the new Public Procurement Portal (Serbian Public Procurement Office, n.d.[26]). The portal is comprehensive, and designed to support the entire public procurement process by enabling electronic communication among all parties involved at all the stages of the procedure. Access to the Public Procurement Portal is free of charge and allows users to conduct only those public procurement activities allowed under the PPL. In North Macedonia, the public procurement system benefits from an advanced Electronic System for Public Procurement (ESPP, n.d.[27]), which is efficient and highly appreciated by users. All communication and exchange of information, requests to participate and submission of tenders must be conducted through the ESPP, from which procurement documents can be downloaded. The ESPP has been upgraded and started using “red flags” for irregularities; it has also started using electronic archives and electronic complaints mechanisms. The ESPP’s E-appeals function became fully operational with effect from 1 April 2019. Electronic procurement systems have also been enhanced in Albania, Kosovo and Turkey. Only in Bosnia and Herzegovina does the PPL not foresee the electronic submission of requests to participate and tenders. They are still handled, in principle, in the traditional paper manner, although there are examples of electronic submissions where the contracting authority requests or indicates such a possibility and uses electronic auctions in specific cases.

Existing electronic procurement tools are being upgraded in Albania, Kosovo and North Macedonia. In some cases, works are very much advanced to introduce solutions enabling the application of electronic measures in legal protection procedures (submission of appeals to review bodies in Albania) as well as monitoring and management of contracts (also in Albania).

Monitoring and evaluation (Thematic block 3)

Monitoring and evaluation of public procurement rules and practices allows the relevant institutions to intervene and make any necessary adjustments. This section assesses whether, in practice, access to public procurement markets by economic operators, especially SMEs, is monitored and evaluated.

Most economies collect data on participation in public procurement, but not enough on SMEs specifically

Although all assessed economies collect and process various statistical data on public procurement, only a handful apparently dispose of specific information on the participation of SMEs, such as their participation or success rates. Only North Macedonia and Serbia were able to provide any useful statistical information in that regard. Other economies replied that such information was not available. Collecting information on SMEs in public procurement enables procurement offices and other relevant institutions to remove or lower barriers to their participation.

Monitoring SMEs' participation in public procurement in Serbia has been improved through the introduction of an obligation for contracting authorities to provide as a part of contract award notices information on whether the awarded economic operator is an SME or not. Such data allow further activities to be defined to help improve SMEs' level of participation. The new Public Procurement Portal should allow the PPO to collect data on the participation of micro and SMEs in public procurement procedures, the number and value of contracts awarded to them, as well as other parameters in accordance with the new features of the portal. The PPO is obliged to provide, in its annual reports, information about the level of participation of SMEs in the public procurement market. However, the PPO does not monitor or gather data on procurement conducted in accordance with the special law mentioned above (OECD, 2021[6]). Such contracts and their values are not included in the annual reports and their importance and influence on the procurement system cannot be properly assessed. The same is true for contracts concluded on the basis of international agreements (OECD, 2021[6]). The lack of this information does not allow the impact of those rules on the public procurement market to be properly assessed, in particular how it affects SME participation. In North Macedonia, the Public Procurement Bureau publishes annual reports on the functioning of the public procurement system, which include some statistical information on SMEs. All the economies collect information on the share of contracts awarded to foreign economic operators.

Independent review mechanisms and offices exist and transparency of the review process, timeliness of review and quality of review bodies' ruling have improved

Even the most transparent, competitive and fair public procurement rules and procedures would be toothless without instruments to enforce them. To trust the public procurement process, suppliers need to know that if public institutions do not respect the rules there are special mechanisms in place to enforce them. This is why access to review procedures and bodies is so important for aggrieved suppliers. In accordance with the respective EU rules and good international practice, the appeals of economic operators whose rights have been breached by public bodies' illegal actions and omissions should be reviewed by independent institutions.

All the assessed economies enable economic operators to have their complaints reviewed by procurement review bodies that are independent both from procuring entities and economic operators. In Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia, economic operators' appeals are heard by review bodies whose members are appointed for a given term by parliament or the government.

In Turkey, a separate department in the Public Procurement Authority (PPA) deals with "appeal applications". To secure the independence and integrity of the PPA as the review body and avoid conflicts with other functions of the PPA (regulatory, monitoring and advisory), elaborate administrative routines are

in place. Decisions on appeal applications are adopted by the nine members of the PPA's board, supported by public procurement experts and assistants.

Review procedures mostly comply with minimum time periods and other EU requirements

In all the assessed economies, economic operators having or having had an interest in obtaining a contract, irrespective of the value of the procurement and type of the procedure, have the legal right to challenge the decisions taken by the contracting authority if they infringe the legal provisions. In most economies, appeals are submitted first to contracting authorities (entities) then to independent procurement review bodies or directly to procurement review bodies and then to administrative courts. Review procedures are thus composed of two or three stages. The time limits for challenging the decisions, the standstill period, and the mechanism for ensuring the ineffectiveness of the contracts are in line with the requirements of the *acquis*.

All the economies have time-efficient review procedures

All the assessed economies regulate the maximum time period in which procurement review bodies should reach decisions on complaints submitted by economic operators. In Montenegro, rulings of the procurement review body should be adopted within a statutory time limit of 30 days from the receipt of the complete documentation. In Albania, the PPC must conclude its review with a decision adopted within 30 days of receiving information or documentation from the contracting authority (entity), in case of procurement above the high monetary threshold, and 20 days below this threshold. A 30-day period is also applied in Serbia. The review procedure is shorter in North Macedonia, where the procurement review body is required to decide on an appeal within 15 days, counted, though, from receipt of the complete documentation related to the reviewed case.

All the economies require appeal fees, but they are low enough so as not to hinder access to legal protection

Public procurement rules should also provide effective remedies for aggrieved tenderers applied by independent review bodies. One of the functions of appeal fees is to reduce the submission of frivolous, vexatious complaints. An appeal fee works, especially if it is set at a relatively high level, as a deterrent against such practice – parties who will risk losing a given amount of money in the event they lose a case will probably refrain from submitting an appeal if they do not think they have a good chance of succeeding. On the other hand, excessively high fees may act as a barrier to access to justice and may discourage bidders from complaining of an infringement of rules by contracting authorities, especially if they risk losing significant funds if their claim is unsuccessful.

Most EU member states apply fees for filing complaints to reduce the risk of abuse through fraudulent claims. In WBT economies, submitting an appeal is also subject to a fee, but they are not excessively high. In Albania, the fee for submitting an appeal amounts to 0.5% of the estimated procurement value (without a maximum ceiling). In Bosnia and Herzegovina, entry fees are also defined according to the entire public procurement value. Fees range from BAM 500 to BAM 25 000 (about EUR 256-12 780). In North Macedonia, fees for an economic operator filing an appeal vary between EUR 100 and EUR 400, in addition to an administrative fee. In Kosovo, 2016 amendments to the PPL increased fees to 1% of the value of the estimated contract value, or in some cases of the bid, but to no less than EUR 100 and no more than EUR 5 000. In Montenegro, fees are 1% of the estimated value of the public procurement, but cannot exceed EUR 20 000.

In general, economic operators' access to review procedures has greatly improved due to the introduction of e-appeals functionalities. In Albania and North Macedonia, appeals can be submitted, mandatory fees paid and processed by contracting authorities and procurement review bodies electronically.

Box 6.6. E-complaints and the Public Procurement Commission's new website in Albania

Through the system of E-complaints, all appeals in Albania are submitted electronically through the unique government platform E-Albania. The new electronic system allegedly has halved the time limit for reviewing complaints, increasing the efficiency of procurement procedures and the of the Public Procurement Commission (PPC) in its decision making. Economic operators can electronically submit their complaints and arguments, as two separate services, eliminating any extra costs and any direct contact with any state institution, including the PPC.

Data contained in the complaints regarding the economic operator are automatically generated by the system, which is interconnected and interacts with the PPA's system, the National Business Center and the tax administration. The electronic complaints system also interacts with the electronic procurement system of the PPA, from which data migrates automatically after the economic operator has filled in the reference number of the procurement procedure in the relevant space.

Other data are then automatically generated in the complaints system through data interoperability with the PPA's system. Economic operators can submit their claims in an exhaustive manner in relation to the alleged infringement committed by the contracting authority. The system allows documents or written evidence to be uploaded with attachments in PDF as well as the complaint. With just one click, economic operators can simultaneously submit their complaint to the contracting authority and the PPC, saving time and money. In 2022, the PPC intends to upgrade the system by linking it to the court system and government financial system. If the complaint is accepted through this integration automatically, the complaint fee is refunded to the economic operator. By the end of 2022, the system should also provide an audio recording functionality of the minutes of the meetings of the commission in the case of open meetings and hearing panels.

In addition to the establishment of the E-complaints system, the PPC's new website has also been launched, which enables full access to three public registers: the Register of Complaints, the Register of Decisions and the History of Decisions.

Sources: Government of Albania (n.d.[28]); (PPC, n.d.[29]).

The way forward for public procurement

- **Complete the implementation of the 2014 EU Public Procurement Directive** in those economies which have not yet implemented new or modified provisions and remove remaining inconsistences in those economies which have adopted new public procurement laws, concerning domestic preferences, participation of consortia, exclusion of economic operators, self-cleaning and subcontracting:
  - Economies where PPLs still contain provisions on domestic preferences should ensure that all economic operators have access to public procurement on an equal footing, regardless of their origin. This means abolishing provisions on domestic preferences.
  - Economies which have not yet implemented the 2014 EU Public Procurement Directive should introduce solutions and instruments beneficial for SMEs, such as greater possibilities of using self-declarations as preliminary proof of fulfilment of requirements concerning exclusion and qualification (selection) criteria and so-called self-cleaning as well as provisions concerning sustainable procurement.
- **Support the application of non-price criteria for awarding contracts**, in particular related to sustainable public procurement. This should include informing public purchasers about the shortcomings and limitations of applying the price-only criterion; presenting the advantages of

quality criteria; and providing practical advice through good practice examples, standard models and evaluation formula. Finally, application of quality criteria should be a prominent topic of training of procurement officers.

Box 6.7. Support to contracting authorities for applying non-price criteria

The EU Public Procurement Directive requires that contracts be awarded to the most economically advantageous tender from the point of view of the contracting authority.[1] The most economically advantageous tender can be chosen based on price or cost alone, or on the basis of the price-quality ratio when non-price criteria are also taken into account. According to EU rules, preference between these two options is left to the discretion of the contracting authority. EU member states may, however, decide that contracting authorities may not use solely price (cost) or restrict it to certain categories of contracting authorities or certain types of contracts.[2] Indeed, some economies use this option by introducing, for example, the maximum weight the price factor can have among the evaluation criteria.[3] Other economies recommend plurality of criteria to assess other elements of the offer than just the price.

Application of the price-quality criterion enables contracting authorities to obtain customised, innovative goods or services that perform better in terms of quality, with broader economic, social and environmental impacts.[4] Although more expensive when simply comparing the purchase price, procurement based on price quality criteria may be more cost-effective in the longer term, when the full life cycle cost is considered. The use of the best price-quality criteria instead of the lowest price is often recommended as a tool to help small and medium-sized enterprises (SMEs) gain an equal footing to public contracts. It is assumed that while SMEs may be at a disadvantage in delivering off-the-shelf mass products, they may be able to offer higher quality products or services, or better adjust to the needs of the contracting authorities. However, application of non-price criteria is not simple. Contracting authorities often have difficulty formulating proper and meaningful quality criteria, including those involving strategic public procurement (green, socially responsible and innovative) and establishing a relevant link with the subject matter of the procurement . Central procurement institutions should help contracting authorities apply price-quality criteria by training them and providing examples of good practice or models.

In the Slovak Republic, the Public Procurement Office (PPO) is aware that non-price criteria are rarely used by contracting authorities due a lack of knowledge for correctly applying it and for setting this type of award criteria. The Slovak PPO therefore established a Responsible Public Procurement project, financed by the European Economic Area and Norway Funds. The project's main goal is to increase awareness of price-quality criteria through methodologies and training to help contracting authorities set conditions correctly and thus increase value for money.

In Poland, the Public Procurement Office's website contains a section dedicated to disseminating good practices in the field of public procurement. Contracting authorities that are more experienced in applying quality criteria may share their experience with other procurement practitioners by participating in a contest organised by the PPO on the best examples of quality criteria. Winning submissions, chosen by the PPO, are published on the PPO's website with practical comments.

To increase the application of quality-price criteria, the public procurement office or agencies in the Western Balkans and Turkey should provide contracting authorities with

training as well as examples of good practices or models.

1. Data provided by the Macedonian Public Procurement Bureau
2. Data provided by the Serbian Public Procurement Office.
3. PPL, Article 126 (2).
4. Rules and operational guideline for public procurement, Article 18.1.

Sources: Bas (2019[30]); Slovak Public Procurement Office (n.d.[31]); European Commission (2021[32]); OEAP (2019[33]); Polish Public Procurement Office (n.d.[34]).

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Note

[1] Data provided by the Macedonian Public Procurement Bureau.

[2] Data provided by the Serbian Public Procurement Office.

[3] Data provided by the Albanian Public Procurement Agency.

[4] Data provided by the Public Procurement Office of Kosovo.

[5] Rather than only taking into account the lowest cost, governments should assess "value for money".

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

This chapter assesses the strategies, policies and instruments deployed across the Western Balkans and Turkey to facilitate access to finance for SMEs. It starts with an overview of the assessment framework and key developments since the last assessment, proceeding with assessing access to finance for SMEs along five sub-dimensions: 1) looking at the legal and regulatory framework fundamental for lending, such as creditor rights, credit information and registers, as well as banking regulations and capital markets; 2) discussing banking sector lending practices and the availability of credit enhancement and risk mitigation mechanisms; 3) considering the availability of non-bank finance instruments in support of SME lending, including microfinance, leasing and factoring; 4) reviewing the ecosystem in support of venture capital and 5) looking at efforts to promote financial understanding and awareness, both among businesses and the broader population. Each sub-dimension concludes with a set of key recommendations to help address the outstanding challenges and, where applicable, provides best practices to enhance SMEs' access to finance.

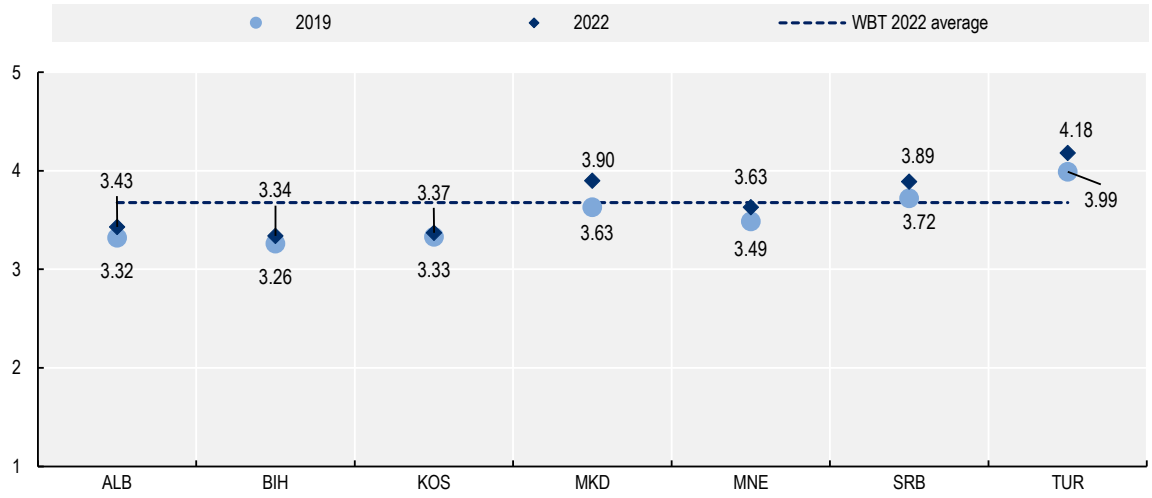
Key findings

- **Financial stability has been maintained.** Owing to solid macroprudential measures across most Western Balkan and Turkey (WBT) economies in the years preceding the COVID-19 pandemic, access to credit has remained stable. Stability and confidence in local financial markets have further been supported by tightened regulation in line with European best practices, and banking supervision has increased.
- **Financial intermediation has remained resilient** across all WBT economies amid large-scale liquidity measures, coupled with subsidised credit lines and scaled up state-backed credit guarantee schemes in response to the COVID-19 pandemic. As a result, SME lending has eased across the region, though the long-term effect of these temporary crisis response measures remains to be seen.
- **Credit guarantee funds have been vital to economies' COVID-19 stimulus packages.** All economies, except Montenegro where work is still ongoing, have either significantly strengthened existing credit guarantee funds or established new ones to ensure the supply of finance to enterprises. However, not all of these funds specifically focus on small and medium-sized enterprises (SMEs), and some appear to be temporary without reflecting best practice.
- **Market penetration for some non-bank financial instruments has increased.** This is particularly true for microfinance, where legal frameworks support this kind of activity. Leasing has also gained some traction, although from low levels, while factoring activity, except in Turkey, has dropped to marginal levels, despite improved legal frameworks in some economies.
- **Venture capital remains at an early stage across the Western Balkan region,** though some economies have taken concrete steps to introduce dedicated legislation in support of developing ecosystems conducive to venture capital (VC). In contrast, in Turkey, VC investments have reached unprecedented levels, evidencing the impact of significant efforts made during previous assessment cycles.
- **Economies increasingly support financial literacy development.** Some economies, notably Montenegro and North Macedonia, have undertaken benchmarked assessments of financial literacy levels, and have initiated or adopted dedicated financial education strategies. However, overall, measures to support financial literacy among entrepreneurs remain *ad hoc* and uncoordinated, with limited monitoring and evaluation.

Comparison with the 2019 assessment scores

All WBT economies have progressed in Dimension 6, evident in particular with regard to bank and non-bank finance (Figure 7.1). Turkey continues to be the best performer in this dimension, with North Macedonia and Serbia tied for second place. North Macedonia has advanced the most since the previous assessment, largely due to improvements in the VC ecosystem and financial literacy. The four remaining economies (Albania, Bosnia and Herzegovina, Kosovo, and Montenegro) remain below the WBT average of 3.67.

Figure 7.1. Overall scores for Dimension 6 (2019 and 2022)



Notes: WBT: Western Balkans and Turkey. Despite the introduction of questions and expanded questions to better gauge the actual state of play and monitor new trends in respective policy areas, scores for 2022 remain largely comparable to 2019. To have a detailed overview of policy changes and compare performance over time, the reader should focus on the narrative parts of the report. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Implementation of the SME Policy Index's 2019 recommendations

Most of the recommendations made in the 2019 SME Policy Index have been addressed by at least some economies, but the speed of implementation remains mixed. Table 7.1 summarises progress made on the key recommendations for Dimension 6 since the previous assessment.

Table 7.1. Implementation of the SME Policy Index's 2019 recommendations for Dimension 6 in the Western Balkans and Turkey

Regional 2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Regional progress status
Continue efforts to strengthen collateral registries	The coverage of the cadastre in Montenegro has expanded and been digitalised, but does not yet cover all of the economy's territory, while Serbia has made improvements to its registry for pledges over immovable assets. However, the accessibility, accuracy and reliability of registers remain limited, in particular in Albania, Bosnia and Herzegovina, and Kosovo.	Limited
Strengthen and align data collection	Systemic collection of financial market data, particularly with regard to non-bank financing, remains scattered in some economies. No progress has been made in enhancing efforts to participate in the OECD's Financing SMEs and Entrepreneurs Scoreboard[1] (OECD, 2020[1]), with only Serbia and Turkey participating.	Limited
Continue efforts to support banking sector recovery	Macroprudential indicators had improved prior to the COVID-19 pandemic in all economies, although the Turkish banking sector was still recovering from the economic turbulences of 2018. Progress has also been made in de-euroising the financial sector in the Western Balkans.	Moderate
Work on establishing and strengthening credit guarantee schemes	Progress has been made in all economies amid the COVID-19 pandemic, when operations of existing credit guarantee funds (CGFs) were expanded (Kosovo and Turkey) or new COVID-specific sovereign credit guarantee funds were established (Albania, Bosnia and Herzegovina, North Macedonia, and Serbia), though they do not all have an exclusive small and medium-sized enterprises (SME) focus. In Montenegro, the establishment of a credit guarantee fund is still ongoing. While this is a significant development, it remains to be seen whether these new CGFs will become lasting, sustainable instruments to facilitate SMEs' access to finance.	Strong
Support the market penetration of factoring and leasing	Leasing has grown substantially in all economies, in line with the overall trend of credit expansion during the assessment period. In contrast, factoring activity has only further grown in Turkey, while volumes have fallen dramatically from already low levels in Montenegro, North Macedonia and Serbia. Factoring remains non-existent across Albania, Bosnia and Herzegovina, and Kosovo, and dissemination and awareness raising about the opportunities of these kinds of financial products remain limited.	Moderate
Embed microfinance into a supportive legal and regulatory framework	In the Federation of Bosnia and Herzegovina, a dedicated Microfinancial Institutions Law developed in 2018 is still pending adoption. In Serbia and Turkey, where there is no legal framework in place to support the development of microfinance, no efforts have been made to establish dedicated legislation.	Limited
Continue efforts to build a business environment conducive to innovation	North Macedonia and Republika Srpska have conducted a review of (legal) obstacles to the development of venture capital. As a result, North Macedonia introduced amendments to the Law on Investment in 2021. Serbia adopted a new Law on Alternative Investment Funds in 2020 which now regulates venture capital activity, and in Turkey, the legal framework has been further improved. A new Law on Collective Investment Funds in Albania in 2020 falls short of sufficiently regulating venture capital. At the time of writing, Republika Srpska was also preparing amendments to the Law on Investment Funds. All economies continue to implement measures to create an ecosystem for start-ups and innovation, though at varying speeds and scales.	Moderate
Prioritise financial literacy within existing policy frameworks	North Macedonia adopted its first National Financial Education and Financial Inclusion Strategy in 2020, while in Montenegro, the development of a financial literacy strategy is well under way. In Albania, preliminary work on preparing a strategy has also commenced. In Serbia and Turkey, in contrast, strategic policy frameworks supporting financial literacy have expired, with no renewals in place.	Moderate
Improve analysis of financial literacy levels	Montenegro and North Macedonia have both participated in a regional assessment on financial literacy in adults led by the OECD, which established important baseline assessments to monitor the impact and progress of their new/forthcoming financial literacy strategies.	Limited

1 The OECD Scoreboard provides a comprehensive framework for policy makers and other stakeholders to monitor access to finance by SMEs and entrepreneurs. It also constitutes a valuable tool to support the design and evaluation of policy measures, and to monitor the implications of financial reforms on access to finance and financing conditions for SMEs more generally (OECD, 2020[1]).

Introduction

Access to affordable finance is a key ingredient for economic growth, enabling companies to expand their operations, upgrade their equipment, and invest in innovation and modernisation, thus building and maintaining a competitive edge. A well-functioning and stable financial system is therefore critical for sustainable private sector development. However, the ease of accessing credit typically correlates with the size and maturity of a business. The smaller the company or the less mature it is, the more difficult and expensive it is to access funding. This can be due to many reasons, including a higher (perceived or actual) risk profile, business informality, limited collateral or asymmetries in available credit information, as well as limited creditworthiness and financial management capacity within a firm. According to the most recent EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS VI)[1], 45% of surveyed small businesses claim that they have either been rejected or discouraged from applying for a loan, compared to around 31% of corporates (EBRD, 2021[2]).

This situation was exacerbated at the onset of the COVID-19 pandemic in 2020. Smaller businesses are more vulnerable to market disruptions and the sudden economic shock following the outbreak of COVID-19 reduced funding for many firms. Without significant financial back-up and amid plummeting revenues, collapsing cash flows and rapidly diminishing working capital, creditors became even more reluctant to lend.

Recognising the significance of closing the SME finance gap and addressing market failures, policy makers can play an important role in facilitating access to credit. Principle VI of the Small Business Act for Europe encourages governments to "facilitate SMEs' access to finance and develop a legal and business environment supportive to payments in commercial transactions" (European Commission, 2008[3]). Such support can come in many forms. For instance, a legal framework that supports the enforcement of creditor rights, provides flexible collateral options and comprehensive, reliable information on credit history helps minimise lending risks and reduce asymmetries of information between borrowers and creditors. Dedicated SME support schemes further help address investors' risk aversion and can stimulate lending. Notwithstanding, conventional lending instruments may be ill-suited for smaller businesses, particularly early-stage firms. The development of alternative sources of finance, such as microfinance, leasing or factoring, as well as equity or mezzanine finance, can be actively supported by embedding them into tailored legal frameworks to provide governance and long-term security for operators. Lastly, supporting SME financial management and education, including about the benefits and opportunities of non-bank financing instruments, may help to boost their investment readiness and make them attractive clients for financial service providers.

More than ever, the COVID-19 pandemic has demonstrated the need to strengthen the resilience of the private sector, and SMEs in particular. Without timely and wide-ranging governmental support, many businesses may not have withstood the economic shock that swept the globe in early 2020. Sustaining the liquidity of local financial markets and providing short-term credit to enterprises have been critical. However, as economies emerge from the crisis and fiscal policies are set to be tightened, it will be more important than ever to ensure that public measures in support of SME finance are designed to crowd in private sector financial service providers and remain additional.[2]

Assessment framework

Structure

The assessment framework for this dimension has five sub-dimensions:

- **Sub-dimension 6.1: Legal and regulatory framework** looks at the legislative and regulatory set-up facilitating access to finance, including protecting creditor rights, the depth of credit information and collateral use, as well as banking and capital market regulations.
- **Sub-dimension 6.2: Bank financing** assesses the lending practices in local banking sectors, including available SME finance support schemes and credit enhancement measures, such as credit guarantee schemes.
- **Sub-dimension 6.3: Non-bank financing** reviews the legal framework and penetration levels of microfinance, leasing and factoring.
- **Sub-dimension 6.4: Venture capital ecosystem** analyses the legal and support framework enabling VC finance, including the availability of business angel networks.
- **Sub-dimension 6.5: Financial literacy** assesses measures promoting financial literacy among the business community and the wider population.

Figure 7.2 illustrates how the five sub-dimensions together make up the overarching assessment framework for this dimension. Ease of access to credit is the result of multiple, interconnected determinants, including the overall macroeconomic environment, the health of local financial markets and the investment readiness of enterprises. While these cannot all be captured in this assessment, the framework aims to look at the specific themes and indicators regarded to be disproportionally important for SMEs and within policy makers' control.

Figure 7.2. Assessment framework for Dimension 6: Access to finance for SMEs

Access to finance for SMEs

Outcome indicators
Bank loans to SMEs
Interest rate for new business loans for SMEs
Government loan guarantees
Total annual volume of microfinance loans
Total annual leasing volume
Total annual factoring volume
Venture capital investments, total volume
Adult population that holds a bank account
Government direct loans

Sub-dimension 6.1: Legal and regulatory framework			**Sub-dimension 6.2:** Bank financing	
Thematic block 1: Creditor rights	**Thematic block 2:** Register	**Thematic block 3:** Credit information bureau	**Thematic block 1:** Banking lending practices and conditions	**Thematic block 2:** Credit guarantee schemes
Thematic block 4: Banking regulations	**Thematic block 5:** Stock market			

Sub-dimension 6.3: Non-bank financing			**Sub-dimension 6.4:** Venture capital ecosystem			**Sub-dimension 6.5:** Financial literacy	
Thematic block 1: Monitoring	**Thematic block 2:** Leasing	**Thematic block 3:** Factoring	**Thematic block 1:** Legal framework	**Thematic block 2:** Design and implementation of government activities	**Thematic block 3:** Monitoring and evaluation	**Thematic block 1:** Planning, design and implementation	**Thematic block 2:** Monitoring and evaluation

Quantitative indicators
Credit information coverage (% of population)
Quality of legal framework for capital markets
Market capitalisation (% of GDP)
Share of credit-constrained firms
Severity of access to finance as an obstacle to doing business
Total leasing volume (% of GDP)
Total factoring volume (% of GDP)

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

Compared to the 2019 assessment, small adjustments have been made to the framework that gauges the inclusion of the green and digital aspects of policies and measures, which, within the context of access to finance, relate specifically to credit enhancement and risk mitigation measures. The assessment also takes into consideration COVID-19 response measures, although no evaluation has been made in this regard.

Analysis

Following the global economic and financial crisis in 2008/09, when financial markets across the globe experienced turbulence and dramatically reverted years of positive credit growth across most of the WBT region, access to finance had eased in the years preceding the COVID-19 crisis.

Financial intermediation has deepened across the WBT region since 2019, albeit from relatively low levels in most economies. Private sector credit has grown substantially across the region, particularly in Turkey and Montenegro, where credit growth stood at 37.1% and 24.4% at the end of 2021, respectively (CEIC Data, 2022[4]). However, while this is a welcome development, overall, average private sector credit, expressed as a percentage of gross domestic product (GDP), despite growth, stood at 55% in 2020, remaining well below the EU average of 94% (World Bank, 2021[5]).

In addition, efforts have been stepped up to increase financial markets' resilience to external shocks. As a result, non-performing loans have declined significantly in recent years from their peak in 2010-16, ranging from just 2.2% in Kosovo to 6.2% in Montenegro at the end of 2021 (CEIC Data, 2022[4]). However, considering ongoing regulatory measures, including loan moratoria and temporary relaxation of loan restructuring in response to the COVID-19 economic crisis, a full assessment of the level of impaired loans across the financial markets of the WBT economies is not fully possible, and an increase in the level of non-performing loans may become evident once the temporary measures are phased out.

Reflecting these financial sector indicators, the most recent BEEPS, which is based on enterprise survey data collected between 2018 and 2020, also suggests that credit constraints for the majority of WBT economies is less of an obstacle for enterprises seeking a loan.

Table 7.2 summarises the recent trends in financial markets across the region, outlining key banking sector indicators.

Table 7.2. Key banking sector indicators in the Western Balkans and Turkey (2012-2020/21)

	Private sector credit, % of GDP			Credit constrained firms, % of firms needing a loan		Non-performing loans, % of gross loans			Bank assets, % of total financial sector assets
	2014	2016	2020	2012-14	2018-20	2014	2016	2021	2020
Albania	39.3	36.6	38.6	62.4	36.9	22.8	18.3	5.6	89.4
Bosnia and Herzegovina	60.2	57.9	58.5	24.7	42.8	14.0	11.8	5.7	88.8
Kosovo	37.0	38.9	51.6	43.3	39.8	8.3	4.9	2.2	67.6
Montenegro	52.0	49.3	60.0	57.0	57.7	15.9	11.5	6.2	92.5
North Macedonia	50.5	49.0	56.2	67.6	49.0	10.8	6.3	3.4	82.0
Serbia	40.8	40.9	45.5	51.9	23.2	21.5	17.0	3.6	90.0
Turkey	63.5	69.4	75.1	13.3	65.4	2.8	3.2	3.0	91.0

Sources: World Bank (2021[5]); EBRD (2021[2]); CEIC Database (2022[4]) respective regulatory bodies, IMF Financial Sound Indicators, IMF Article IV consultation staff reports, respective central/national banks.

While these trends are critically important for facilitating access to finance, conventional bank lending continues to be the predominant source of external financing for businesses, and accounts for the vast majority of financial market assets across the entire region. In contrast, non-bank finance continues to play a marginal role, even though its share of total assets has increased substantially since the previous assessment in some economies. Overall market penetration rates (as a percentage of total assets) – where data are available – remain below 1% of total assets in all of the economies (well below EU levels), except for Turkey.

This analysis aims to assess the overall health of financial systems of the WBT economies and evaluate policy makers' performance in creating the right conditions enabling, and encouraging, access to finance for smaller businesses.

Legal and regulatory framework (Sub-dimension 6.1)

An efficient and well-implemented legal and regulatory framework provides legal certainty and confidence for investors in local financial systems, while strong institutional supervision helps to ensure financial sector stability to withstand external economic shocks. A credible and comprehensive legal framework addressing secured transactions is important to encourage lending in particular to smaller businesses, as these are inherently perceived as being a higher risk. Such a framework should aim to reduce information asymmetries and provide guarantees that can be easily enforced in case of impairment. Comprehensive and reliable credit information systems further enable the collection and dissemination of credit information on borrowers, and, where including information beyond credit history, can be particularly important for less mature businesses and first-time borrowers. Allowing different types of collateral can further reduce lenders' risk aversion, while the effective realisation of collateral in case of non-payment is crucial to keep enforcement time and costs low.

Table 7.3 summarises the performance in this sub-dimension and suggests that access to finance is embedded in a solid and relatively advanced legal and regulatory framework across the WBT region, with a high average score of 4.20 and only slight discrepancies across economies.

Table 7.3. Scores for Sub-dimension 6.1: Legal and regulatory framework in the Western Balkans and Turkey

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Creditor rights	4.00	3.90	4.00	4.80	5.00	4.20	4.00	**4.27**
Registers	4.60	4.50	4.80	4.60	4.90	4.40	4.60	**4.63**
Credit information bureaus	4.00	4.50	3.30	5.00	4.00	5.00	4.80	**4.37**
Banking regulations	4.00	3.20	3.60	4.40	3.60	4.80	5.00	**4.09**
Stock market	2.00	3.00	2.00	3.80	4.00	3.80	4.00	**3.23**
Weighted average	**3.86**	**3.94**	**3.68**	**4.60**	**4.40**	**4.47**	**4.48**	**4.20**

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

A solid legal framework for secured transactions is in place across the region, though enforcement remains problematic

A well-designed legal and regulatory framework for secured transactions encourages lending at acceptable conditions and provides guarantees to investors for regulated payouts in case of default. Across the WBT region, solid frameworks are generally in place in all economies, except for Albania and Bosnia and Herzegovina, where delayed amendments to the Law on Investment Funds continue to impede the full application of creditors' rights.

Notwithstanding, enforcement remains an issue, despite ongoing efforts to improve efficiency in some economies (see Dimension 2). Bankruptcy procedures remain lengthy, particularly in Turkey, where there has been a significant backlog of insolvency procedures, and outcomes often remain suboptimal. For instance, according to the World Bank, the recovery rate in insolvency procedures in the region has deteriorated further since the last assessment to around 33 cents to the dollar, compared to 65 across the European Union in 2019 (World Bank, 2022[6]).

Registers for pledges of security assets are inconsistently used across the region, while collateral requirements remain high

Within the framework of secured transactions, access to comprehensive and reliable registers that facilitate the use of immovable and movable assets as collateral is critical. Combined with a legal framework that

allows for an easy repossession process in case of default, such systems can ease lending. Across many WBT economies, collateral requirements by lenders remain high, impeding particularly smaller companies and suggesting continued shortcomings in the economies' registries for security assets.

A cadastre enables land and real estate to be registered, including their value, ownership and existing pledges over these assets. All WBT economies have cadastres in place; accessibility, reliability and usage, however, vary. For instance, in Montenegro, the cadastre only covers 93% of the territory, even though coverage has increased compared to the previous assessment and has been digitalised. In Albania, Bosnia and Herzegovina, and Kosovo, concerns over the reliability of data, due to reporting discrepancies and continued undocumented, illegal construction, continue to impede its usage. Access also remains limited in Serbia, despite some improvements. To complement immovable assets, registers for security interests over movable assets can help broaden the range of assets used for collateralisation. This is particularly important for smaller businesses, which usually possess limited property or land. Like with the cadastre, such systems exist across all WBT economies, but usage remains mixed. In Turkey, immovable assets are widely accepted by the banking sector, and security interest over movable assets can even be extended to future proceedings. In Serbia, in 2019, the registry of movable assets was also expanded, but is not yet fully digitalised. In Bosnia and Herzegovina, the central bank operates a national registry of movable assets (unlike for the cadastres), while access is somewhat cumbersome in Albania, Kosovo, Montenegro and North Macedonia.

Coverage and availability of credit information remain largely unchanged across the region

Credit information asymmetries are a major obstacle for SME access to finance, limiting lenders' ability to assess the creditworthiness of borrowers. Comprehensive public credit registries or private credit bureaus can help alleviate limited credit information by compiling data on loan repayments, while additional financial performance data sought from retailers and utility providers particularly help first-time borrowers and businesses with a limited credit history.

In the WBT, data coverage of public or private credit information systems has only grown marginally since the last assessment and remains below its full potential in most economies (Table 7.4). Most registries are limited to data collected from financial service providers, though some, notably North Macedonia's private credit bureau, include data from retail and utility providers. Compared to the previous system, in Turkey, the registry has commenced the collection of arrears from telecommunication providers. Lastly, in an attempt to increase coverage and usage of its registry, in 2020, Kosovo introduced new legislation to require lenders to actively use the system.

Table 7.4. Credit information coverage in the Western Balkans and Turkey (2012-19)

	Public credit registry coverage (% of adults)			Private credit bureau coverage (% of adults)		
	2013	2016	2019	2014	2016	2020
Albania	13.1	38.9	56.2	n/a	n/a	n/a
Bosnia and Herzegovina	39.1	37.6	47.1	4.9	10.4	14
Kosovo	22.2	38.1	41.4	n/a	n/a	n/a
Montenegro	25.2	30.8	41	n/a	n/a	n/a
North Macedonia	34.8	40	41.7	77.1	94.5	100
Serbia	n/a	n/a	n/a	100	100	100
Turkey	23.5	76.6	80.2	71.7	n/a	n/a

Note: n/a indicates that institution is non-existent in the economy.
Source: World Bank indicators.

Strong macroprudential performance and increased supervision have contributed to financial stability throughout the COVID-19 pandemic

In the years preceding the COVID-19 pandemic, efforts had been made across all WBT economies to increase financial stability. Therefore, in 2020, the financial sector entered the economic crisis with solid capital and liquidity buffers, maintaining financial stability throughout the crisis.

Further progress has been made to align regulatory frameworks to Basel III requirements, though at different speeds, and non-performing loans have continued to fall in most economies except Turkey, where the financial sector had still been somewhat recovering from the economic turmoil of 2018/19 (see Table 7.2). As during the previous assessment cycle, across most of the region, the banking sector remains dominated by foreign subsidiaries, accounting for 85% of all banking assets in Montenegro and Serbia, for instance. At the same time, increasing supervision led to some consolidation of the industry, with smaller, less competitive local banks closing (for instance, in Montenegro).

Foreign-currency denominated or indexed loans remain systemic in some economies, averaging 51.5% in the Western Balkans (excluding Kosovo and Montenegro, which have unilaterally adopted the euro) in 2020, but falling, particularly in North Macedonia and Serbia, which continued to implement de-euroisation strategies. All affected economies require banks to disclose foreign currency risks, which is particularly important for smaller borrowers who typically are not hedged against exchange rate fluctuation. In Turkey, to curb the weakening of the Turkish lira, foreign currency lending to individuals and unhedged borrowers is prohibited since May 2018, and foreign-currency indexed loans are banned. The share of foreign-currency loans has increased more recently, although this was mainly driven by the significant lira depreciation since 2021.

Capital market access remains nascent across the Western Balkans, while capital market finance has gained momentum in Turkey

Access to capital markets as a means of raising equity-based finance has become increasingly popular in recent years and can provide finance to more mature SMEs in the form of an initial public offering or corporate bond issuance. However, capital market finance imposes stringent requirements on enterprises and entails detailed and frequent disclosure of financial performance beyond the capacity of smaller businesses. To make SME listings more attractive, there have been several attempts across developed and emerging markets to establish dedicated SME listing platforms, with requirements adjusted to meet the demand and capacity of smaller enterprises.

Within the WBT region, only Turkey has a well-developed and well-capitalised stock exchange, Borsa Istanbul. In 2020, its Emerging Companies Market, targeting SMEs, was expanded into a larger sub-market to attract more companies, listing 42 businesses at the end of 2021. In other economies, capital market

development remains subdued or non-existent. In Serbia, a new capital market development strategy aims to simplify listings, while a project aimed to support SME listings and raise awareness about capital market opportunities has not yet yielded results. In North Macedonia, forthcoming legislation also envisages the establishment of a dedicated listing platform for smaller companies, while Albania has also introduced a new Law on Capital Markets since the previous assessment.

The two stock exchanges in Bosnia and Herzegovina – namely the Sarajevo and Banja Luka stock exchanges, North Macedonia, and Serbia, together with Bulgaria, Croatia and Slovenia, continue to participate in the pan-regional SEE Link. In 2020, with the support of the European Bank for Reconstruction and Development (EBRD), it launched a dedicated SME Research Hub,[3] which provides equity reports on listed SMEs and aims to boost investor interest.

The way forward for the legal and regulatory framework

- **Increase enforcement capacity to protect creditor rights.** Across the WBT region, creditors benefit from well-defined legal frameworks to protect their security interests. However, enforcement remains an issue in most jurisdictions. Efforts should be placed on increasing enforcement capacity to effectively realise collateral in case of default, including through promoting alternative, out-of-court settlements for small claims or financial mediation facilities. This would provide creditors additional securities while minimising the costs and duration of otherwise sometimes lengthy enforcement procedures, thereby increasing lenders' appetite to provide finance to smaller businesses.
- **Increase access to bank lending by strengthening systems to support lending decisions.** Collateralised lending remains expensive amid a lack of reliable information on immovable and movable assets. At the same time, the increased coverage of credit information bureaus witnessed during previous assessment cycles has somewhat stagnated. Further measures are needed to improve the quality and reliability of the information in cadastres and facilitate the collateralisation of movable assets. In addition, expanding the type of data collected to assess borrowers' creditworthiness, for instance by including data from utility providers, would help to overcome credit information asymmetries and encourage lending to smaller businesses.

Bank financing (Sub-dimension 6.2)

Bank financing remains critical for SME access to finance, while the health and soundness of the local banking sector are equally essential for an economy's macroeconomic stability and growth. Many factors influence the availability of bank financing. In addition to the legal and regulatory environment, discussed above, governments can provide direct support to encourage banks to on-lend. Such measures typically come in the form of credit enhancement or risk mitigation measures and may include the provision of state-backed credit lines, either via dedicated development banks or public or private sector lenders, as well as interest rate subsidies, caps and guarantees.

The mix and choices of instruments depend on various factors. It is, however, important that measures are designed to be complementary to existing market products and aligned to market decision making and risk profiling, with a view to avoiding distortion and crowding out of the private banking sector.

During the COVID-19 pandemic, many governments implemented enormous stimulus packages, often including all or many of the above instruments to safeguard financial stability, boost market liquidity and pre-empt waves of business bankruptcies (OECD, 2021[7]). While these measures have been instrumental to weather the economic impact of the pandemic, they have also increased the risks of over-indebtedness of already highly leveraged firms, which could, if unaddressed, increase financial instability in the medium to long term (Bircan et al., 2020[8]). In the context of this analysis, numerous support measures implemented amid the response to the COVID-19 crisis, often temporary, may limit a full assessment of sustained progress and development in the bank financing sub-dimension.

All economies have made progress with regard to SME bank financing, and comprehensive support packages have ensured financial stability across the region, resulting in an increase in this sub-dimension (Table 7.5). In particular, most economies have introduced credit guarantee funds, except for Montenegro, which is reflected in its significantly lower than average score.

Table 7.5. Scores for Sub-dimension 6.2: Bank financing in the Western Balkans and Turkey

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Banking lending and practices and conditions	3.00	2.80	3.20	3.60	2.60	3.50	3.90	**3.23**
Credit guarantee schemes	2.80	2.40	3.10	2.40	1.40	2.60	3.60	**2.61**
Weighted average	**2.92**	**2.64**	**3.12**	**3.14**	**2.12**	**3.15**	**3.79**	**2.98**

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

Financial intermediation has deepened throughout the region amid comprehensive policy measures to ensure liquidity and sustain lending in the short term

Bank lending continues to remain the prevailing source of finance, accounting for close to or over 90% of total financial sector assets in all economies but Kosovo and North Macedonia, and the industry remains dominated by subsidiaries of foreign banks in most cases. Despite relatively small markets, in some cases, for instance in Montenegro, the number of operating banks remains high, increasing competition and sometimes running the risk of undermining sound banking practices.

As described above, credit growth has been strong in recent years, fuelled further by extensive government support during the pandemic in 2020 (following a temporary drop) and 2021. As a result, private sector credit, expressed as a percentage of GDP, expanded significantly across all WBT economies in 2020, notably in Montenegro and Turkey, suggesting increasing financial intermediation even if accounting for a lower GDP denominator. While the gap compared to the EU average is gradually narrowing, the overall financial mediation of the private sector remains low, especially in Albania but also Serbia, where private sector credit remains below 50% of GDP (World Bank, 2021[5]).

Average interest rates have continued to fall in recent years, but access to finance remains expensive, particularly for smaller enterprises, amid high collateral requirements. According to the BEEPS VI, collateral requirements for SMEs mainly range between 150% and 200% of the total loan value. In Kosovo, requirements reach 250%, while in contrast, only in Serbia do collateral requirements account for less than 100% of total loans.

In response, many economies offer a subsidised lending programme, which have been significantly ramped-up during the COVID-19 pandemic, channelling large-scale subsidised credit facilities mainly via public development banks and state-owned banks, and often undercutting market conditions. For instance, in Turkey, the government-backed credit impulse amounted to nearly one-fifth of the economy's entire stimulus package, while in Montenegro and North Macedonia, the public Investment and Development Fund and the Development Bank of North Macedonia have made available credit lines at, or close to, 0%, temporarily easing access to finance for SMEs. The sustainability and impact of government support schemes on private sector lending will only be evident during the next assessment cycle.

Sovereign credit guarantee funds have been critical in governments' responses to the COVID-19 pandemic

Credit guarantee funds are an effective tool to facilitate SME lending, aimed at reducing risks for commercial lenders without artificially distorting market conditions.

Pre-COVID, only a few WBT economies, notably Turkey, had a comprehensive credit guarantee scheme in place to support SME lending. Small-scale guarantee funds were also operative in Albania, Kosovo, North Macedonia and Republika Srpska, though with limited uptake. Amid the pandemic, however, all economies but Montenegro have introduced or significantly expanded their operations of sovereign credit guarantee funds, though not all focus specifically on SMEs. In Turkey, the credit limit of the Credit Guarantee Fund was doubled and its mandate expanded to households, while in Kosovo, operations of the Kosovo Credit Guarantee Fund have significantly increased. Albania created two public credit guarantee funds, combined accounting for around 1% of GDP, supporting salary payments and working capital. North Macedonia also established a sovereign CGF. In Bosnia and Herzegovina, both entities established temporary funds; a new fund in Republika Srpska complements an existing one, although it no longer has an SME focus, unlike during the first months of its operation. In Serbia, two new SME CGFs include special provisions for local currency lending, thereby contributing to the economy's dinarisation strategy. Lastly, in Montenegro, the creation of a state guarantee scheme is still underway, supported by the EBRD.

The establishment of these credit guarantee schemes is a significant development since the previous assessment, and important policy measures to facilitate sustainable access to finance. However, the impact and longevity of these newly created CGFs will only become fully evident in the next assessment. For instance, the Turkish Credit Guarantee Fund remains the only CGF with some element of private ownership, as recommended as best practice by the World Bank (see Box 7.1), while in Kosovo, for instance, key international development co-operation partners continue to participate in the Kosovo Credit Guarantee Fund's board.

Under the auspices of the Western Balkans Enterprise Development and Innovation Facility (WB EDIF) platform, an EU-supported regional credit guarantee facility has been implemented via commercial banks since 2013, providing nearly EUR 40 million until the end of 2020 and demonstrating good utilisation rates. In addition, in 2018, the first national EDIF guarantee facility was launched in Serbia for EUR 20 million, followed by another regional one, dedicated to support SMEs by providing employment and training opportunities for youth, later that year. Until end-2020, over 4 000 SMEs had benefited from these facilities. SMEs can also benefit from the COSME Loan Guarantee Facility available in all WBT economies, but awareness about these products remains somewhat limited.

The way forward for bank financing

- **Ensure the additionality and sustainability of credit enhancement measures.** As economies gradually phase out temporary COVID-19 measures, subsidised lending schemes should be reviewed and adjusted to maximise the impact of budgetary support schemes, expected to be tightened amid increased financial austerity post-COVID. Measures should be designed and limited to support those segments of the private sector requiring the most support and aimed at crowding in and leveraging existing financing provided by commercial lenders.
- **Transition temporary COVID-19 credit guarantee funds into a more permanent support mechanism.** Building on the initial lessons learnt and preliminary framework that helped establish or expand public credit guarantee schemes across the region, establish more sustainable structures that allow for public-private co-ownership, clear additionality and sound risk assessment, in line with international best practice (Box 7.1). Yet, to ensure that the additional support does not induce a material misallocation of resources over the medium to longer term, guarantee schemes would need to be fine-tuned and further targeted, for instance through redesigning the main covenants of the loans (e.g. portion of the loan backed by the government guarantee or a fee to access the programmes) to diminish the risk of moral hazard and adverse selection (Demmou and Franco, 2021[9]).

Box 7.1. Common principles of state credit guarantee schemes

In response to the COVID-19 pandemic, many governments have established state credit guarantee schemes to help address urging liquidity problems and support recovery. If well-designed, these public schemes can be an effective, sustainable crisis response measure, particularly when they leverage the private sector financial system. The mechanism allows for quick deployment while keeping budget implications relatively low, especially compared with other tools such as subsidised lending and grants.

In 2015, the World Bank established a set of common principles to guide the structure, mandate and governance of sovereign credit guarantee funds, around four main pillars:

1. legal and regulatory framework: ensure legal and regulatory independence and promote private sector participation
2. corporate governance and risk management: clearly define the mandate and establish sound corporate governance structures, including an independent board, internal control frameworks and a risk management framework
3. operational framework: clearly define eligibility criteria and ensure the approach balances outreach, additionality and financial sustainability, and establish transparent risk-based pricing
4. monitoring and evaluation: set stringent reporting requirements and conduct regular external audit, and systematically conduct performance and impact assessments.

Source: World Bank (2015[10]).

Non-bank financing (Sub-dimension 6.3)

As financial markets mature, diversification of financial instruments can facilitate SME access to finance and enhance the financial inclusion of businesses for which conventional bank finance may be less appropriate.

Microfinance, for instance, can help finance smaller enterprises and sole proprietors who are typically not covered by commercial banks. Where microfinance activities tie into a credit information system, this can also help these borrowers build a credit history, which may eventually help them to become more bankable. Other non-bank financial instruments (NBFIs) include assets-based financial leasing and factoring, both of which facilitate access to finance for enterprises struggling with collateral or credit history requirements. Leasing can be used as an alternative to debt financing for upgrading equipment or technology, for example based on a temporary leasing contract. Factoring, in contrast, is based on the sales of accounts receivable from a firm with a good performance track record and credit history, thereby reducing short-term liquidity constraints for suppliers and enabling them to have off-balance sheet access to working capital, which is priced against the credit risk of their customers instead of their own.

Overall, the WBT region has progressed in developing non-bank financing, and in line with the general trend of credit expansion since the last assessment, take-up of most of these types of finance has accelerated, albeit at different speeds and levels. Table 7.6 summarises the economies' performance in this sub-dimension, suggesting that a solid legal framework is in place in particular in Albania, Kosovo, Montenegro and Serbia and, with the exception of microfinance, also in Turkey.

Table 7.6. Scores for Sub-dimension 6.3: Non-bank financing in the Western Balkans and Turkey

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Microfinance institutions	4.90	4.40	4.00	2.00	4.00	2.00	2.30	**3.37**
Leasing	2.40	3.00	3.00	3.40	3.20	3.70	4.00	**3.24**
Factoring	2.90	1.60	2.00	2.00	3.00	3.50	4.00	**2.71**
Weighted average	**3.38**	**2.99**	**2.98**	**2.45**	**3.38**	**3.04**	**3.42**	**3.09**

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

Microfinance has gained significant momentum

Microfinance has gained significant traction in some WBT economies in recent years, although it is mainly used for private consumption. Microcredit accounts for the largest share in the NBFI portfolio in Albania, where statistics also include the activities of savings and loan associations, accounting for nearly two-thirds of all NBFI loans. Shares also expanded in Kosovo and Bosnia and Herzegovina (based on statistics mainly from Republika Srpska) by 25 percentage points (CBBH, 2021[11]) and 17 percentage points (CBRK, 2020[12]), respectively, between 2018 and 2020, despite significant legal shortcomings for microfinance institutions in Kosovo, which can only operate as non-governmental organisations and a pending Microfinance Institutions Law in the Federation of Bosnia and Herzegovina. In Montenegro, microfinance has also continued to grow, though less substantively.

In contrast, microfinance remains subdued in North Macedonia, Serbia and Turkey, primarily owing to limited legal and regulatory guidance, but also to the relative maturity of local financial systems. In Turkey, most commercial banks already serve smaller businesses, while dedicated microfinance institutions are mainly run by non-governmental organisations and only target the economy's least developed regions. In Serbia, despite plans to introduce a legal framework for non-deposit credit institutions and the formation of a working group to monitor trends in microfinance, no progress has been made to introduce such legislation, thereby limiting microfinance institutions' activity in Serbia. In North Macedonia, microfinance is not regulated by the central bank, though a number of specialised microfinance institutions support otherwise unbankable, mainly informal, businesses.

Steps have been taken to strengthen the legal framework for leasing and factoring, but spill-over effects are yet to materialise, especially for factoring

Building on the momentum during the previous assessment cycle, most economies have further progressed in strengthening the legal framework for leasing and factoring, thereby increasing regulatory oversight and legal certainties for NBFI service providers for these sometimes complex financial transactions.

Following the adoption of new laws on factoring and leasing in Kosovo and Montenegro in 2018, both developed with support of the EBRD, Albania introduced amendments to its legal framework for factoring in 2019 and Republika Srpska adopted a Law on Factoring in 2020, while in the Federation of Bosnia and Herzegovina, a dedicated Factoring Law has been in place since 2016. In Turkey, legislation for leasing and factoring has also been consolidated since the last assessment, while in Serbia, even though changes were introduced in 2018, they do not fully reflect the EBRD's recommendations on factoring. Lastly, in North Macedonia, dedicated legislation for factoring has been pending adoption since 2018.

Leasing activity has increased since the last assessment across all WBT economies for which data are available, even though it continues to be used mainly for vehicle leasing. For instance, in Serbia, leasing accounted for 2.2% of total financial market assets. In Albania, it stood at 0.95% of NBFI assets, while in Montenegro and Turkey, leasing amounted to 0.8% each.

In contrast, market penetration of factoring remains well below potential and has even fallen in most economies since the last assessment. This suggests that despite robust legislation, awareness about the opportunities and use of factoring, as well as absorption capacity, remain limited and require further support to ensure uptake. In addition, in light of economic uncertainties and disruptions to supply chains during the COVID-19 pandemic, demand for factoring may have temporarily dropped. Factoring is largely non-existent in Albania, Bosnia and Herzegovina, and Kosovo, while volumes have dropped significantly in Montenegro, North Macedonia and Serbia. Only in Turkey has factoring grown since the last assessment, at an annual rate of around 20%.

The way forward for non-bank financing

- **Raise awareness about the opportunities of alternative finance.** Despite robust legal frameworks, the uptake of factoring remains subdued. This suggests limited understanding and awareness about this financial product, both among providers and potential users, thereby requiring more systemic dissemination efforts and outreach to the private sector. This could be done, for instance, through joint awareness-raising activities with factoring service providers or aggregators, or the launch of dedicated state-backed initiatives in support of factoring. Box 7.2 presents one example of a public-backed initiative to promote factoring.

Box 7.2. Supply chain finance initiative to encourage factoring in Mexico

In the early 2000s, Mexico's development bank, NAFIN, pioneered and promoted reverse factoring through the launch of the Production Chains Programme ("Cadenas Productivas"), aimed at facilitating access to working capital for small suppliers via receivables from larger buyers under a reversed factoring scheme.

While NAFIN did not factor in receivables directly, it helped co-ordinate factoring services through a dedicated e-platform, requiring all factoring transactions it brokers to be offered without additional collateral and service fees. Besides its role as a broker, NAFIN also offers assistance and financial management training to small and medium-sized enterprises (SMEs), while the digital nature of the system enables SMEs to build a credit history, reduces costs and transaction time, and fosters inclusion.

The programme is ongoing, with over 70 Mexican bank and non-bank financial providers participating and supporting over 18 000 small suppliers and distributing nearly MXN 180 million (approximately EUR 8 million) in 2020, alone.

Sources: OECD (2015[13]); NAFIN (2020[14]).

Venture capital ecosystem (Sub-dimension 6.4)

Venture capital provides financing opportunities for early-stage companies with high growth potential, typically focused on innovative projects or technological development, for which traditional debt financing is particularly ill-suited. Venture capitalists – typically business angels or dedicated VC funds – invest in start-ups and support their development with additional expertise and capacity building throughout the early stages of the business' development. VC funds can provide large sums for upfront, long-term investments in innovative products or technologies that have a higher risk, but also higher returns, while business angel investments are usually much smaller in size and driven by high net-worth individuals. Governments can encourage the development of these equity-based sources of finance by creating

adequate legal and regulatory environments to support investor protection, taxation and corporate governance while creating an innovation ecosystem to create investment opportunities.

While the development of the VC ecosystem remains at an early stage across the Western Balkan economies, further good progress has been made in Turkey, consolidating the economy's top position in this sub-dimension. Good progress has also been made in North Macedonia and Serbia, as both economies advanced their respective legal framework, as outlined in Table 7.7.

Table 7.7. Scores for Sub-dimension 6.4: Venture capital ecosystem in the Western Balkans and Turkey

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Legal framework	2.00	2.00	2.10	2.30	2.00	3.70	5.00	**2.73**
Design and implementation of government activities	1.80	1.40	2.30	2.90	1.70	3.00	4.90	**2.57**
Monitoring and evaluation	1.00	1.00	1.00	1.00	1.00	1.00	4.30	**1.47**
Weighted average	**1.71**	**1.53**	**1.97**	**2.31**	**1.65**	**2.83**	**4.81**	**2.40**

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

Venture capital remains at an early stage in most economies, but efforts have been stepped up to introduce dedicated legislation

As in previous assessments, VC activity remains limited across the Western Balkan region, but is available at scale in Turkey, where a dedicated framework regulating venture capital was further strengthened in 2020 when the definition of VCs was extended to allow more funds to be registered. Large-scale support programmes, some of which were initiated in the mid-2000s, including state-backed direct VC funds and "fund of funds", have yielded results and encouraged other investors. Between 2017 and 2020, despite some market turbulence, overall investment volumes doubled to over USD 140 million, reaching unprecedented levels at USD 1.2 billion in 2021, when two Turkish tech start-ups attracted significant investments.

In contrast, while progressing, the Western Balkan economies remain in the early stages of developing VC ecosystems. Both North Macedonia and Serbia have taken steps to strengthen their legislative framework to explicitly address VC activities. Serbia adopted a new Law on Alternative Investment Funds in 2020, detailing venture capital, while following an assessment aimed at identifying legal obstacles, North Macedonia introduced amendments to the Law on Investments in 2021. In addition, a new Law on Alternative Investments is under preparation. In Albania, a new Start-up Law was adopted in March 2022 and a new Law on Collective Investments was adopted in 2020; however, legislation falls short of effectively regulating venture capital. Lastly, some progress has also been made in Republika Srpska, where a study assessing obstacles to VC has led to amendments to the Law on Investment Funds, which were under preparation at the time of drafting. No progress was observed in Kosovo or Montenegro.

The Enterprise Innovation Fund, under the auspices of the World Bank's EDIF platform and backed by significant support from international and bilateral financial institutions such as the EBRD, the European Investment Fund and the KfW, as well as the European Commission, remains the only VC fund active in the region. Since 2016, the fund has invested EUR 30 million, or around 75% of committed capital, into 29 early-stage companies across the region,[4] with the exception of Albania and Bosnia and Herzegovina. Reflecting the size of its economy, most investments were made in Serbian start-ups (14), followed by North Macedonia (5), Kosovo (2) and Montenegro (1) (EIF, 2020[15]).

Business angel investments remain nascent

Progress identified in the previous assessment with regards to the availability of angel investors has somewhat been reversed amid limited support for business angel investments. According to the European Business Angel Network's data for 2020, just over EUR 2 million in angel investments were made across Montenegro, North Macedonia and Serbia in 2020 across eight investments, down slightly from EUR 2.4 million in 2019. In Kosovo, where business angels had been fairly active, no investments were recorded in 2020 at all. In contrast, angel investments more than doubled in Turkey compared to 2019, totalling more than EUR 32 million.

FinTech solutions, such as crowdfunding, are gaining traction

Crowdfunding remains at an early stage of development, with most economies reporting no such activity, except for Turkey. With the support of the EBRD, in 2019, Turkey adopted new legislation on crowdfunding, which enabled equity-based crowdfunding in addition to the previously existing reward-based model, all under the auspices of the regulator. Subsequently, a new unified crowdfunding platform was launched in 2021 and has reported its first successful investments.

Across the rest of the region, some economies have initiated the development of dedicated crowdfunding legislation. In Serbia, legislation on crowdfunding is at the drafting stage and expected to be adopted in 2022, while in Montenegro, preliminary work on developing legislation has also commenced. In North Macedonia, the stock exchange has established a co-operation with Funderbeam SEE, a leading crowdfunding platform within the European Union, to support this type of finance for Macedonian start-ups. To date, one Macedonian company has initiated fundraising.

Initial coin offerings and crypto currencies are also being explored across the region as a means to facilitate access to finance, but efforts remain at an early stage of development.

The way forward for the venture capital ecosystem

- **Further build on efforts to create an environment conducive to venture capitalists.** Where legislation is not yet in place, introduce a dedicated legal and regulatory framework to regulate and incentivise venture capital, based on consultation with practitioners and on gap analyses. This should be linked with continuous efforts to strengthen the investment readiness of local high growth potential enterprises, for instance through targeted support schemes to boost innovation, research and development (see Dimension 8b).

Financial literacy (Sub-dimension 6.5)

Limited access to finance is not only a supply-side issue. Entrepreneurs often are not aware of the different financing options available, and limited financial management and understanding, including appropriate accounting, may impede the investment-readiness of their business.

The importance of financial awareness and skills of SMEs is recognised by the G20/OECD High-level Principles for SME Finance (G20/OECD, 2015[16]) as a critical component for access to finance. Against this background, the OECD, under the guidance of its International Network on Financial Education (INFE), has adopted a set of recommendations on financial literacy, centred around (OECD, 2020a[17]):

- the establishment of a national strategy for financial literacy, based on evidence and analysis
- the development of a road map with a clearly mandated body to oversee implementation and to ensure consistency and synergy of programmes
- monitoring and evaluation.

In addition, the recommendations suggest identifying and focusing on clear target groups, including entrepreneurs, while ensuring measures address both current and future generations.

Progress in this sub-dimension has been made by some economies, albeit from low levels. North Macedonia, in particular, and Montenegro have progressed, but little progress is evident in Bosnia and Herzegovina or Kosovo. The average WBT score remains low, at 2.50 (Table 7.8).

Table 7.8. Scores for Sub-dimension 6.5: Financial literacy in the Western Balkans and Turkey

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning, design and implementation	2.40	1.40	3.00	3.60	3.20	3.00	3.20	**2.83**
Monitoring and evaluation	1.00	1.00	1.00	1.00	1.00	1.00	2.30	**1.19**
Weighted average	**2.12**	**1.32**	**2.61**	**3.08**	**2.75**	**2.60**	**3.02**	**2.50**

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

Some economies have undertaken concrete steps to introduce a more strategic approach to financial literacy

Following the results of an assessment of financial literacy in adults in seven South East European economies in 2019, conducted by the OECD/INFE and supported by the Netherlands (Box 7.3), Montenegro and North Macedonia have initiated work on developing a financial literacy strategy. North Macedonia adopted its first strategy for financial education and financial inclusion in 2021, and preparatory work is progressing well in Montenegro. Similarly, in Albania, where the central bank conducts periodic surveys on financial literacy, preliminary work on developing a financial education strategy has commenced with support from the World Bank. In contrast, the implementation of Kosovo's five-year financial literacy plan, adopted by the economy's central bank in 2017, has stagnated amid limited resources and capacity. In Turkey and Serbia, which had adopted the WBT region's first dedicated Financial Literacy Strategy in 2014 and 2016, respectively, action plans have expired without clear successors in place. No strategic approach to financial literacy is evident in Bosnia and Herzegovina.

Learning opportunities remain fragmented and lack co-ordination, alignment and sufficient impact monitoring

All economies offer some level of training opportunities for entrepreneurs and awareness-raising campaigns, either implemented directly by the regulator or SME and development agencies. In some economies, private sector providers, usually financial sector associations or affiliated foundations, also offer training opportunities. However, these efforts remain largely *ad hoc* and lack a strategic focus, while COVID-19 restrictions have further reduced output. Some economies operate dedicated online platforms that provide e-learning, general guidance on finance and savings, as well as information on available support schemes. Such examples include North Macedonia's konkurentnost platform or Serbia's Tvoj Novac. In Bosnia and Herzegovina, however, the portal U plusu has become largely inoperative. While these platforms serve as a good outreach tool, they could be further leveraged to raise awareness about different types of finance opportunities, such as leasing and factoring.

Box 7.3. Financial literacy in adults in South East Europe: An OECD/INFE assessment

In 2019, the OECD's International Network on Financial Education commissioned a survey of over 7 000 adults between the ages of 18 and 79 across 7 selected economies in South East Europe: Bulgaria, Croatia, Georgia, Moldova, Montenegro, North Macedonia and Romania. Around 10% of respondents were small and medium-sized enterprise (SME) entrepreneurs. The survey assessment, in line with the International Network on Financial Education's vetted methodology, covered questions about financial knowledge, financial behaviour and attitude to finance. Questions were also included to evaluate financial inclusion and well-being.

Overall, adults in South East Europe scored on average about 57% of the maximum possible, lower than comparable scores obtained through the same methodology from surveys of European Union and OECD member countries, at 64% and 65%, respectively. North Macedonia and Montenegro both scored below the SEE average, at 56% and 55%, respectively, only ahead of Romania. In North Macedonia, adults performed equally strong across all three main dimensions, whereas in Montenegro they performed the strongest in relation to financial knowledge.

Entrepreneurs scored consistently higher across all dimensions and economies, with scores for Montenegro and North Macedonia aligned to the South East Europe average. While Macedonian SME owners demonstrated a slightly higher level of financial knowledge, with a score of 73% compared to 71% on average across the surveyed economies, they performed somewhat worse with regards to attitudes (56%, compared to an average of 58%). Montenegrin entrepreneurs received a lower score for financial knowledge (69%).

Lastly, the survey also found that across all surveyed economies, financial literacy is significantly higher among men than women, and among those in more urban areas, with the exception of Montenegro. Here, levels appear to be equal between those located in urban and rural areas, likely reflecting the small size of the economy and population.

Source: OECD (2020[18]).

Lastly, some economies have taken steps to incorporate financial education into the national curriculum, though these remain voluntary. For instance, in Kosovo, the central bank signed a memorandum of understanding with the Ministry of Education in 2020 to raise financial awareness among pupils, and materials have been developed for primary schools. In Serbia, an initiative launched in 2018 between the Ministry of Science, Technology and Education with VISA has resulted in a comprehensive handbook for teachers to introduce financial education in the classroom.

The way forward for financial literacy

- **Introduce or renew strategic frameworks to enhance financial literacy.** Such strategies should be designed in close consultation with public and private stakeholders and mandate an implementation body. Measures should target both the broader population, and businesses in particular, and aim to raise understanding of financial management and finance options, with a view to boost the investment-readiness of local enterprises and engage in grass root activities to raise entrepreneurial and financial skills.

Box 7.4. Financial literacy and education at higher education institutions in the United States

Higher education institutions (HEIs) in the United States play an important role in society and the economy by developing educated citizens and skilled workers who are vital to the country's long-term economic sustainability. Along with preparing the workforce, HEIs can prepare their students to make financial choices throughout their lives, which enable them to effectively participate in the economy, build wealth and attain their goals. This starts by ensuring students avoid the pitfalls associated with financing higher education.

Against this background, in 2019, the US Financial Literacy and Education Commission prepared a set of guidelines for HEIs for teaching financial literacy, by providing best practice methods of teaching financial literacy and information to assist students with borrowing decisions.

The Financial Literacy and Education Commission's recommendations were twofold, centred around recommendations for delivering financial education to the public and specifically for post-secondary education:

1. Best practices for delivering financial literacy to the public

- **Know the individuals and families to be served,** and tailor content and delivery to the users' circumstances and needs.
- **Provide actionable, relevant and timely information.**
- **Improve key financial skills.** Financial literacy and education can be more effective when they help develop skills, rather than transmitting knowledge of particular facts about financial products and services.
- **Build on motivation.**
- **Make it easy to take good decisions and follow through.** The environment or context can make it easier for people to carry out their intentions and bridge the gap between intentions and actions.
- **Develop standards for professional educators.** Financial literacy and education providers should demonstrate a high level of quality, including knowledge of the content and how to deliver it effectively.
- **Provide ongoing support.** Financial literacy and education providers should provide ongoing support, including one-on-one financial coaching.
- **Evaluate for impact.** Financial literacy and education programmes need to be assessed for impact and develop a culture of continuous improvement.

The Financial Literacy and Education Commission also recognised that in addition to best practices for delivery and content for financial education trainings, HEIs should play a proactive role to channel and implement financial education and disseminate information among HEIs, and identified the following actions for HEIs:

2. Best practices for higher education institutions

- **Provide clear, timely and customised information to inform student borrowing.**
- **Effectively engage students in financial literacy and education** – for example, when introducing mandatory financial literacy courses, deploy well-trained peer educators and integrate financial literacy into core curricula.

- **Target differences in populations –** understanding students' personal and financial circumstances and goals, consistent with appropriate privacy practices, to better know the population they intend to serve.
- **Communicate the importance of graduation and major on the repayment of student loans** – provide incentives that spur students toward completion, including banded tuition, reduced summer tuition and extended enrolment periods.
- **Prepare students to meet financial obligations upon graduation –** for example, help students understand loan repayment options and obligations, build a budget to set a repayment goal, identify and connect with their student loan servicer, and assess the costs and benefits of graduate and professional studies.

Source: FLEC (2019[19]).

- **Improve monitoring and analysis of levels of financial awareness and understanding.** Linked to a dedicated framework, economies should undertake a baseline assessment of financial literacy levels, ideally based on a best practice methodology, and disaggregated by specific demographics, such as age, gender, entrepreneurs. This would contribute to developing impactful measures to close existing gaps and allow for systemic monitoring against pre-set targets. For more information on data that WBT governments could consider collecting in this area, please see Annex C.

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Notes

[1] The Business Environment and Enterprise Performance Survey is a joint initiative of the European Bank for Reconstruction and Development and the World Bank Group. It is a firm-level survey of a representative sample of an economy's private sector whose objective is to gain an understanding of firms' perception of the environment in which they operate. BEEPS covers a broad range of business environment topics including access to finance, corruption, infrastructure, crime, competition and performance measures. Its findings can be used to help policy makers better understand how businesses experience the business environment and identify, prioritise and implement reforms of policies and institutions that support efficient private economic activity.

[2] Alongside Transition and Sound Banking, one of the three founding principles for driving the multilateral development banks work is additionality – that multilateral development banks' support to the private sector should make a contribution beyond what is available in the market, and it should not crowd out the private sector. For more information, see: https://www.ebrd.com/our-values/additionality.html.

[3] https://listed-sme.com/en-GB.

[4] Includes seven investments in companies in Croatia.

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

This chapter assesses the quality infrastructure systems and procedures required in the Western Balkans and Turkey to facilitate SMEs' access to the EU Single Market. It starts by outlining the assessment framework, then presents an analysis of Dimension 7's three sub-dimensions: 1) overall co-ordination and general measures, which assesses the strategic documents and institutional framework for quality infrastructure co-ordination; 2) harmonisation with the EU *acquis*, which analyses the capacities of quality infrastructure institutions as well as their alignment with international and European rules for technical regulations, standardisation, accreditation, metrology, conformity assessment and market surveillance; and 3) SMEs' access to standards, which explores government initiatives to enhance and support access. Each sub-dimension makes specific recommendations for increasing the capacity and efficiency of quality infrastructure systems in the Western Balkans and Turkey.

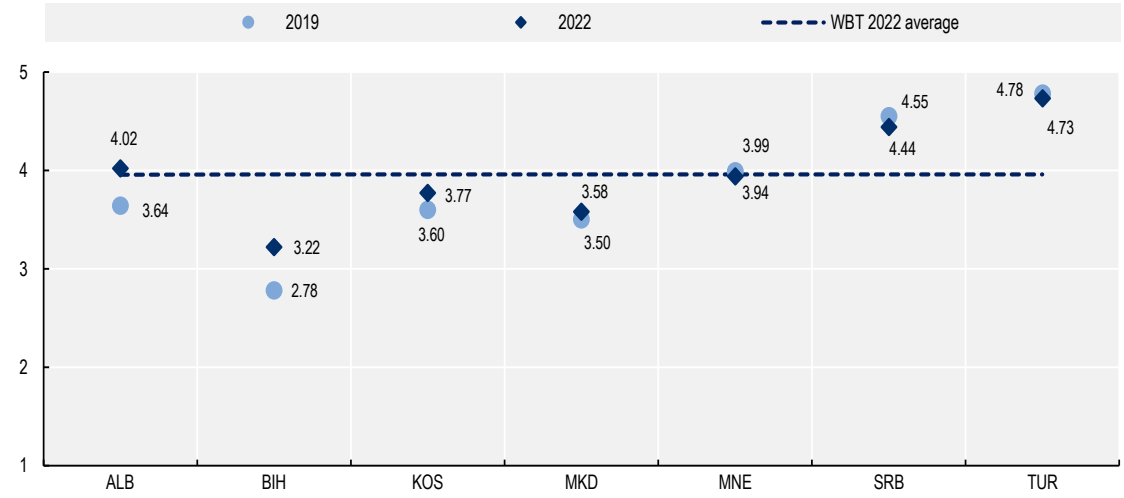
Key findings

- **Quality infrastructure (QI) activities are centrally co-ordinated in most economies in the Western Balkans and Turkey, but often lack updated strategies or action plans.** As quality infrastructure requires the co-operation of various institutions and ministries, it is important to have a joint strategy that covers the different dimensions of quality infrastructure, or at least to harmonise the strategies for the different institutions involved.
- **Regional co-operation on quality infrastructure happens at various levels and fora, but should be further deepened.** There is exchange on QI within the Central European Free Trade Agreement (CEFTA) as well as in regional QI programmes funded by international development partners, but deeper forms of co-operation, such as mutual recognition of technical regulations, which could further strengthen intra-regional trade within CEFTA, are not yet complete.
- **Harmonisation of technical regulations and quality infrastructure legislation is continuing, albeit slowly.** Western Balkans and Turkey (WBT) economies continue to harmonise legislation as foreseen in their domestic integration plans, but often legislation has not yet been harmonised with the more recent *acquis*, as evaluation of technical regulations and other legislation is carried out primarily on demand rather than following periodic reviews.
- **Governments continue to expand the international recognition of their quality infrastructure by the relevant European institutions.** Recognition of the domestic accreditation and metrology institutes continues to grow through the expanded scope of the European co-operation for Accreditation (EA) Multilateral Agreement (MLA) for some economies. The share of adopted European standards also continues to rise, particularly in economies that had lower adoption rates. Kosovo and Montenegro also initiated application processes for membership in different European QI associations.
- **Financial support for SMEs has expanded, but there are few efforts to foster SMEs' participation in standards development.** An array of financial support schemes exist for SMEs, which also cover costs related to implementing standards. However, there are still no specific incentives in place to foster SMEs' participation in standards development.

Comparison with the 2019 assessment scores

Overall, the regional average score in this dimension improved from 3.83 in 2019 to 3.96 in 2022 (Figure 8.1). Progress has been made in all three sub-dimensions, despite a slightly more comprehensive assessment. Convergence in the performance of the QI systems can be observed, as economies that had lower scores in the previous cycle made the greatest improvements. While Serbia and Turkey still have the most comprehensive QI systems, other WBT economies are increasingly meeting international requirements, continue to align their legislation with the *acquis*, perform awareness-raising activities, and provide technical and financial support for small and medium-sized enterprises (SMEs).

Figure 8.1. Overall scores for Dimension 7 (2019 and 2022)



Notes: WBT: Western Balkans and Turkey. Despite the introduction of questions and expanded questions to better gauge the actual state of play and monitor new trends in respective policy areas, scores for 2022 remain largely comparable to 2019. To have a detailed overview of policy changes and compare performance over time, the reader should focus on the narrative parts of the report. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Implementation of the SME Policy Index's 2019 recommendations

Table 8.1 summarises progress made in implementing the key recommendations for this dimension since the previous assessment. While there has been substantial progress in offering online participation in standard committee meetings and financial support programmes that cover standard-related costs for SMEs, progress on most of the other recommendations has been limited. Education on standards remains mostly limited to industry, and co-operation with universities is sporadic, without a broader strategic approach to incorporating education on standards or QI into education systems. There are signs of increasing regional co-operation on QI within CEFTA, but the recognition of technical regulations in priority sectors, one of the objectives for 2021, has not been achieved.

Table 8.1. Implementation of the SME Policy Index's 2019 recommendations for Dimension 7 in the Western Balkans and Turkey

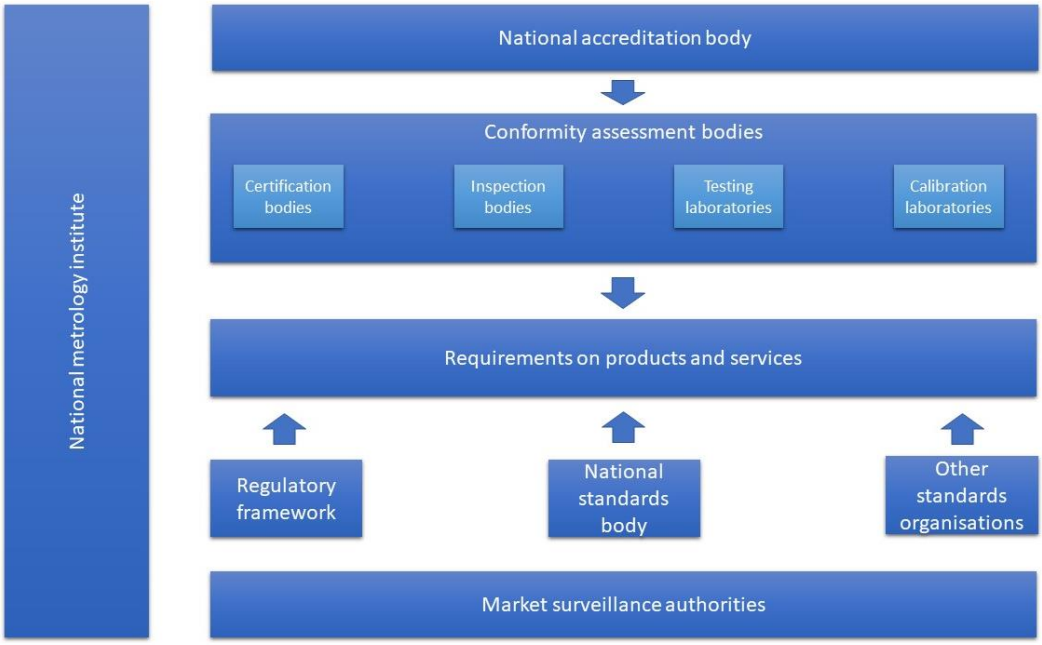
Regional 2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Regional progress status
Establish a single source of tailored information for SMEs	Most economies still do not have a single source of tailored information for small and medium-sized enterprises (SMEs) in the form of single web portals or SME trade help desks. Serbia's TEHNIS portal remains the only website that summarises quality infrastructure (QI) and export-relevant information in a user-friendly way. Albania and Turkey also have export help desks, but they lack specific (regulatory) information about QI.	Limited
Explore regional collaboration and consider taking steps to establish common use of quality infrastructure at the regional level	Regional exchange on QI occurred as part of the German-funded project "South-eastern European Quality Infrastructure Fund", which took place between 2018 and 2022 and included QI institutions from all six Western Balkan economies. In addition, CEFTA initiated a discussion on the mutual recognition of technical regulations in 2021; the discussion is ongoing. Turkey's collaboration with the Western Balkan economies remains restricted to bilateral co-operation, for example through accreditations undertaken by the Turkish accreditation body TURKAK.	Moderate
Scale up the revenue-earning services of national standards bodies	Most national standards bodies are still highly reliant on public budgets, with alternative incomes making up at most 10-15%. The Institute for Standardisation of Bosnia and Herzegovina introduced a subscription-based online reading service. The Institute for Standardisation of Serbia and the Turkish Standards Institution create alternative revenues through conformity assessment services, which may, however, lead to a conflict of interest with their standard-setting function.	Limited
Include standardisation in national secondary and tertiary curricula	There has been very little progress on this recommendation. Most national standards bodies (NSBs) do not follow a systematic approach with respect to education and activities remain restricted to short-term trainings for industry. In Montenegro, staff from the standards body offer a course at a public university. The Institute for Standardization of Bosnia and Herzegovina is preparing a service so that students can access standards free of charge.	Limited
Complement the enforcement of regulation with measures to increase transparency and compliance	Most market surveillance authorities publish their annual work plans, annual reports and dangerous product notifications (both national and the Rapid Alert Information System [RAPEX]). However, guidance notes to enhance self-compliance activities, as proposed in this recommendation, have not been introduced.	Limited
Disseminate successful case studies that highlight the benefits of standardisation in a local context	No progress has been made on this recommendation. NSBs in the region are not using case studies to raise awareness. Brochures on websites are often outdated or are in English from CEN-CENELEC or ISO.	No progress
Allow SMEs to participate in standards development through digital tools or by covering their travelling costs	Due to the COVID-19 pandemic, all NSBs moved their technical committee meetings on line. While there were no specific measures targeting SMEs, this lowered barriers to participation. No NSB in the region provides travel cost allowances.	Strong
Scale-up financial support programmes to help SMEs implement standards	With the exception of Bosnia and Herzegovina, every economy in the region has at least one programme that offers financial support to SMEs to implement standards. The number of firms supported by these programmes has also increased in most economies.	Strong

Introduction

Technical regulations and standards serve to assure key policy objectives such as environmental and health protection. At the same time, they assure that goods and services traded in the global market adhere to certain minimum quality standards as well as interoperability between goods from different markets, thereby removing trade barriers. Well-harmonised technical regulations and standards can facilitate cross-border trade by reducing uncertainty and increasing trust among market participants.

However, to assure that adopted regulations and standards are also implemented by firms, one needs an appropriate set of institutions to assess and confirm compliance. The combination of these institutions is referred to as the national QI system. One key institution is the national standards body, which is responsible for adopting and developing new standards. Once standards are adopted, compliance with them is verified by so-called conformity assessment bodies. Through services such as certification, testing, inspection and calibration, these bodies evaluate and confirm compliance with the requirements specified in technical regulations and standards. Conformity assessment bodies must be sufficiently qualified and possess the required systems to assess firms' conformity to the standards. The national accreditation body and the national metrology body (in calibration) are responsible for monitoring and controlling the competence of the assessment bodies. Finally, the system is complemented by market surveillance authorities, which are responsible for controlling products entering the economy and circulating in the market through inspection and removing dangerous and non-conforming products if necessary. Figure 8.2 summarises the structure of a national QI system in which the interrelated elements build on one another to maximise impact.

Figure 8.2. A national quality infrastructure system



Source: Blind and Koch (2020[1]).

Against this background, WBT economies must create the necessary structures and fulfil their obligations with regard to the free movement of goods in their preparation for EU accession. When products are subject to different national regulations that are not mutually recognised or harmonised, their free movement across member states is hindered. Therefore, prior to EU accession, governments must ensure

that they align their product regulations with the current *acquis*, transpose European standards into national regulations and repeal conflicting national standards.

Improvements in QI systems have the potential to further boost trade with the European Union as well as intra-regional trade in the WBT region. Although trade volumes have doubled over the past decade, reaching more than EUR 50 billion with the Western Balkans (European Commission, 2021[2]) and EUR 132 billion with Turkey (European Commission, 2021[3]), WBT economies' openness to trade remains low given their size, level of development and geographic location (Sanfey and Milatovic, 2018[4]). In addition to improving trade with the European Union, adopting European QI standards can also help improve intra-regional trade, especially within the Western Balkans, where intra-regional trade accounts for only 20% of total trade and has lost relative importance (Kaloyanchev and Kusen, 2018[5]).

Despite the great improvement in market access, SMEs in the WBT economies do not fully take advantage of the potential offered by the European Single Market. Reasons for this are the lack of information about the rules applied in the European Union, as well as insufficient language skills. For example, most WBT economies only translate the cover pages of adopted European standards, which makes it difficult for SMEs without English language skills to access this information. Another barrier are the costs of meeting the regulatory requirements.

In this context, SMEs in WBT economies must have access to reliable and efficient QI services that help them to ensure that their products are in line with EU standards and regulations and that also assist them if further efforts are required to assure this conformity. Moreover, given the globalisation of value chains, technical regulations and standards beyond the EU market are gaining in importance (Blind, Mangelsdorf and Pohlisch, 2018[6]). The ability of firms, sectors and economies to absorb, adapt and diffuse current technologies and participate in global value chains depends on investments in QI facilities and mechanisms (Doner, 2016[7]). Despite the high potential benefits, SMEs often do not have the expertise or capital to undertake these investments without external support. To reap these benefits, an entire network of interdependent national QI organisations and instruments must be created. This would be a system composed of public and private organisations with the appropriate legal and regulatory frameworks and practices needed to support and improve the quality, safety and environmental performance of goods, services and processes. When building this network, it will be extremely important to pay particular attention to the needs and challenges of SMEs (UNIDO, 2017[8]). Ultimately, a well-functioning QI system is a requirement not only for increasing and diversifying exports, but also for industrial upgrading and, ultimately, promoting sustainable economic growth (Swann, 2010[9]; Guasch et al., 2007[10]).

Assessment framework

Structure

The overall objective of Dimension 7 is to analyse whether the economies have a well-functioning QI system, how aligned it is with EU rules, and how governments are endeavouring to improve SMEs' access to the EU Single Market.

The assessment framework for this dimension has three sub-dimensions:

- **Sub-dimension 7.1: Overall co-ordination and general measures** looks at general policies and tools for overall policy co-ordination and strategic approaches to adopt and implement EU legislation. The assessment also evaluates if all relevant information on requirements for exporting to the European Union is accessible to SMEs.
- **Sub-dimension 7.2: Harmonisation with the EU *acquis*** explores the national quality infrastructure systems by examining the main elements of their key pillars – technical regulations, standardisation, accreditation, metrology, conformity assessment and market surveillance – in six

thematic blocks. More specifically, it analyses their institutional capacity, adoption and implementation of strategic documents, and integration into international structures. It also examines if the legislation and instruments are subject to regular monitoring and evaluation.

- **Sub-dimension 7.3: SMEs' access to standardisation** evaluates government efforts to increase SMEs' awareness of standards, facilitate their participation in developing standards and support them in implementing standards.

Figure 8.3. Assessment framework for Dimension 7: Standards and technical regulations

<table>
<tr><th colspan="6">Standards and technical regulation</th></tr>
<tr><td colspan="6">Outcome indicators
Percentage of exports to the EU Single Market in total exports
Percentage of annual growth of exports to the EU Single Market
Percentage share of manufactured products in total exports to the EU Single Market</td></tr>
<tr><td rowspan="3">Sub-dimension 7.1: Overall co-ordination and general measures</td><td colspan="3">Sub-dimension 7.2: Harmonisation with the EU acquis</td><td colspan="2" rowspan="2">Sub-dimension 7.3: SME access to standardisation</td></tr>
<tr><td>Thematic block 1: Technical regulations</td><td>Thematic block 2: Standardisation</td><td>Thematic block 3: Accreditation</td></tr>
<tr><td>Thematic block 4: Conformity assessment</td><td>Thematic block 5: Metrology</td><td>Thematic block 6: Market surveillance</td><td>Thematic block 1: Awareness raising and information</td><td>Thematic block 2: SMEs' participation in developing standards</td><td>Thematic block 3: Financial support to SMEs</td></tr>
<tr><td colspan="6">Quantitative indicators
Percentage of EU standards transposed into national standards
Percentage of transposition by "endorsement" and "cover page method" in total number of EU standards transposed
Number of accredited conformity assessment bodies
Number of annual market surveillance inspections</td></tr>
</table>

Compared to the 2019 assessment, no changes were made to the number or weighting of the sub-dimensions and thematic blocks. However, new questions were added to each of the sub-dimensions to reflect recent developments. The first set of new questions relates to plans and activities that were introduced by the different QI institutions in response to the COVID-19 pandemic, such as remote inspections and online committee meetings as well as the introduction of contingency plans. The second set of questions relates to the introduction of digitalisation measures in the different institutions. Finally, an additional question about adaptations that were the result of evaluations was added to the six different QI pillars. Overall, these changes had only a minor impact on the scores, as the majority of the new questions did not enter the scoring framework. Nonetheless, since the additions were usually asking about more advanced functions and activities of the national QI system, it made the assessment slightly more comprehensive.

The main findings of the European Commission's EU accession progress reports for the Western Balkans and Turkey are referred to throughout this chapter. In particular, progress made under Chapter 1 of the EU negotiations (free movement of goods) has been reflected in the analysis whenever relevant. Eurostat data were used to inform the trade performance section.

Analysis

Performance in EU trade

Exports to the European Union were chosen as an outcome indicator for this dimension, as export performance strongly correlates and partially also depends on the QI system and the alignment of technical regulations and standards in particular (Harmes-Liedtke and Oteiza Di Matteo, 2020[11]). Furthermore, one of the ultimate objectives of a QI system is harmonisation, which in turn lowers barriers to trade.

Trade is a key aspect of the integration of WBT economies into the European Union, and the European Union has gradually concluded bilateral free trade agreements with the Western Balkans and signed the Customs Union Agreement with Turkey.

The Western Balkan economies were granted autonomous trade preferences in 2000 (extended in 2020 until the end of 2025). The autonomous trade preferences allow unlimited and duty-free access for almost all Western Balkan exports to the European Union. Exceptions are wine, sugar, baby-beef and certain fishery products, which are subject to preferential tariff quotas. The main EU imports from the Western Balkans are machinery and equipment (24.9%), base metals (11.4%), and chemicals (10.0%) (European Commission, 2021[2]).

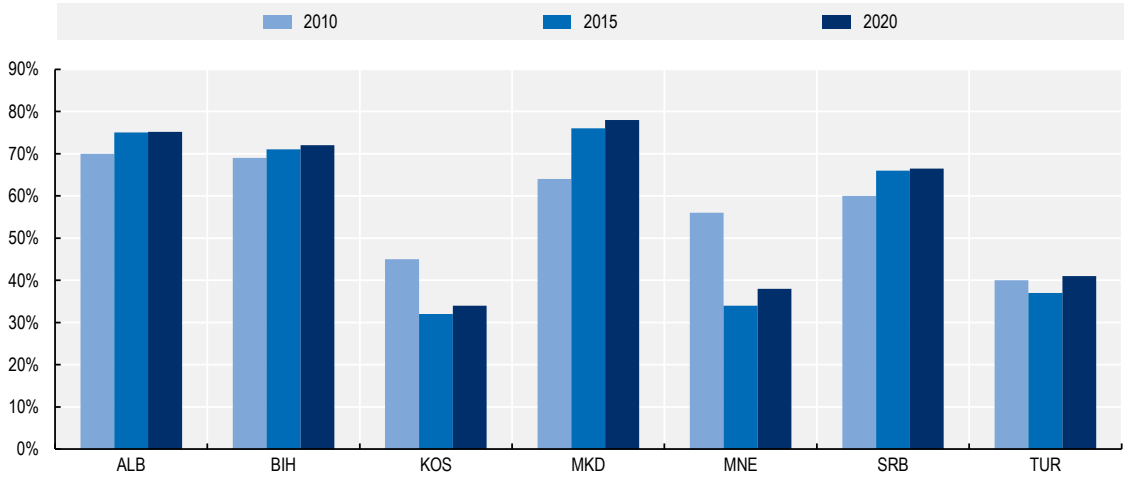
The major milestone for Turkey's path towards closer EU trade ties was the conclusion of a Customs Union Agreement with the European Union in 1995. The agreement stipulated that Turkey must implement the *acquis* regarding the elimination of technical trade barriers. As a consequence, Turkey started to align its legislation and QI system relatively early, which may also partially explain why it has the most advanced QI system among all WBT economies today. In December 2016, the European Commission proposed adapting the Customs Union Agreement and extending it to areas such as services, government procurement and sustainable development. This recommendation was temporarily halted by the General Affairs Council on 26 June 2018. Discussions resumed in October 2020 after approval by the European Council, but no further progress has been made to date (European Parliament, 2020[12]).

The European Union is the most important trading partner of each of the WBT economies, and four of the seven economies export more than 60% of their goods to the European Single Market (Figure 8.4). While the overall share of EU exports is lower in Kosovo and Montenegro, which also send a significant share of their exports to neighbouring CEFTA partner economies, the share of EU exports increased between 2015 and 2020 in six out of seven economies and remained stable in Albania. The European Union also remains Turkey's largest trading partner, accounting for 41% of Turkish exports (Figure 8.4).

Exports from WBT economies to the European Union steadily increased from the financial crisis in 2008 to the start of the COVID-19 pandemic in 2020. After some slower growth in the first half of the past decade, exports to the European Union grew very strongly between 2016 and 2018, with an average growth rate of 12.2% in the Western Balkans and 8.6% in Turkey (Figure 8.5). Export growth slowed significantly in 2019, then contracted in 2020. As can be observed in both panels of Figure 8.5, the 2020 decline in EU-destined exports was more pronounced in Turkey (-10.9%) than in the Western Balkans (-6.4%). This trend can be attributed primarily to the slowdown in global trade due to COVID-19, as the share of European exports remained stable in all seven economies in 2020. In turn, this means that the slowdown in trade due to the pandemic did not affect EU-WBT trade disproportionally.

Trade with the European Union remains dominated by manufactured goods, which accounted for 80% of Western Balkan exports to the EU Single Market and 77% of imports in 2017 (Eurostat, 2020[13]). Since requirements for manufactured goods are more stringent than for other goods, the trade composition shows that standards and technical regulations have an above-average relevance for trade between the Western Balkans and the European Union, which also underlines the importance of facilitating SMEs' access to relevant standards in the Western Balkan economies.

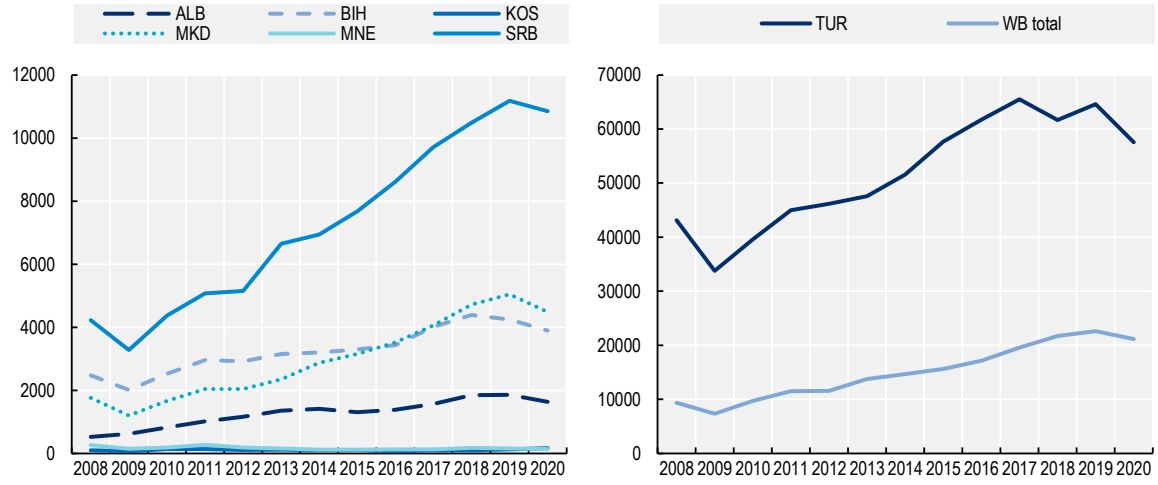
Figure 8.4. Share of EU exports in total exports (2010-2020)



Source: Adapted from Eurostat (2021[14]).

StatLink https://stat.link/umvajb

Figure 8.5. Western Balkans' and Turkey's exports of goods to the European Union (2010-2020)



Source: Adapted from Eurostat (2021[14])

StatLink https://stat.link/li69xo

Recent studies show that despite the increase in trade over the past 20 years, there is still potential to further intensify trade flows between the WBT region and the European Union as well as to increase trade within the region itself (Kaloyanchev and Kusen, 2018[5]; Sanfey and Milatovic, 2018[4]). Greater alignment of the economies' legal and institutional frameworks for QI with the *acquis* and targeted support for SMEs in complying with standards and technical regulations would help WBT governments to further increase trade volumes and diversify their exports by facilitating access for additional goods.

Overall co-ordination and general measures (Sub-dimension 7.1)

Quality infrastructure is a complex system that requires effective co-ordination of public as well as private institutions that participate in adopting as well as in implementing and controlling technical regulations and standards. Effective and efficient co-ordination of QI activities is important to assure that information is exchanged quickly between institutions and that market demands for regulation and standardisation are being met rapidly. Furthermore, information about QI needs to be provided to firms in a user-friendly way, which requires co-ordination at the subnational level to reach firms in all regions. Due to the inter-related pillars and the involvement of various institutions, it is important to have a designated body responsible for the co-ordination of quality infrastructure.

This section considers the extent to which the WBT economies have ensured the overall co-ordination of their QI systems. As in the previous assessment, Turkey and Serbia continue to be the best performers in this sub-dimension. However, all the other WBT economies have seen considerable improvements, which are also reflected in the higher WBT average.

Table 8.2. Scores for Sub-dimension 7.1: Overall co-ordination and general measures in the Western Balkans and Turkey

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Overall co-ordination and general measures	3.89	3.77	4.00	3.00	3.33	4.33	5.00	**3.90**

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

All economies have a central co-ordinating body for quality infrastructure and legislative alignment is directed by national integration plans

Each of the WBT economies has a national plan for adopting the *acquis*, which serves as the key strategic document for regulatory alignment and contains QI-specific legislation in the chapter on the free movement of goods. However, the plans differ in their level of detail. While Montenegro, Serbia and Turkey provide all the laws and the planned adoption dates in their reports, other economies' plans are less concrete. For example, Turkey has a concrete adoption plan that lists the related *acquis*, the related national legislation, the responsible institution, and the estimated date for implementation or adoption. Having such a structure improves the monitoring of the harmonisation process as well as accountability.

All WBT governments have a public body, usually a department within the Ministry of Economy, which is responsible for the co-ordination of QI activities. However, joint QI strategies that guide and monitor the activities across the different QI pillars are rare. So far, only Serbia has a joint QI strategy; the other economies operate with pillar-specific strategies in standardisation, accreditation and metrology. While this approach is also feasible, having a joint strategic document or action plan that specifies the co-operation between the different QI institutions can help to improve and monitor co-ordination.

Despite continuous growth in the number of EU-aligned regulations and applicable European standards, most economies do not have a centralised information portal that bundles information about technical regulations and conformity assessment procedures required for accessing the EU Single Market. Therefore, firms seeking this information need to collect it from various institutions and websites, which poses an information barrier, particularly for SMEs, which may not be particularly familiar with the European and national QI systems. While some economies have export help desks or export promotion agencies, they do not provide information about technical regulations, standards or conformity assessments. The exception is the Serbian Ministry of Economy's Sector for Quality and Product Safety's TEHNIS website, which presents technical regulations categorised by sector, key horizontal legislation and existing support programmes and links to all major QI institutions (Serbian Ministry of Economy, 2021[15]).

The way forward for overall co-ordination and general measures

- **Establish a centralised, single information source for SMEs and other firms interested in exporting to the European Union.** As information about technical regulations, standards and conformity assessment continues to be scattered, this recommendation, which was already made in the 2019 assessment, is still valid. Such a single information source can be provided by establishing a web portal that presents key information in a user-friendly way (e.g. clustering technical regulations and listing key horizontal QI legislation) and provides links to potential support programmes and the national QI bodies. In addition, an offline information channel in the form of a help desk may also be useful.
- **Develop/update strategies and action plans to better monitor and evaluate the institutional performance of quality infrastructure institutions.** As QI requires various institutions to co-ordinate their activities, having a joint strategy or pillar-specific strategies (e.g. metrology, standardisation, accreditation) that are harmonised among each other is important. While most economies have developed such a strategy at some point, many documents are outdated and need to be adapted to reflect the most recent developments in the national, European and international QI landscapes. One positive example from the region is Serbia's Quality Infrastructure Strategy (2015-2020) (Box 8.1).

Box 8.1. A joint quality infrastructure strategy: Serbia's Quality Infrastructure Strategy (2015-2020)

Despite having an institution that co-ordinates the economy's quality infrastructure (QI) activities (usually the Ministry of Economy), most economies in the Western Balkans and Turkey (WBT) lack a joint QI strategy. A joint strategy could be an important guide for identifying common as well as dimension-specific challenges, co-ordinating the activities of the different QI institutions, and setting joint as well as dimension-specific targets.

One notable exception in the region is Serbia, which has developed a five-year Quality Infrastructure Strategy (2015-2020). The strategy begins by analysing the *status quo* in each of the QI pillars (technical regulations, standardisation, accreditation, conformity assessment, metrology and market surveillance). For some areas this is done through a so-called SWOT analysis. This is followed by a list of objectives per QI pillar. Finally, the strategy is accompanied by annual action plans, which operationalise the strategy's more generic objectives into concrete measurable activities. Each activity lists the responsible entity, a timeline and the budget source from which the respective activity is financed.

This traditional combination of a multi-year strategy and annual action plans is a good approach to break large strategic goals down into smaller pieces and keep track of them, which is particularly useful in a policy area like QI, which has so many different institutions.

The different QI pillars (i.e. technical regulations, standards, accreditation, etc.) are usually governed by different institutions in the WBT region, which poses the risk that QI activities are not (sufficiently) based on joint overarching objectives. Having a joint strategy can remedy this. Furthermore, due to the small size of most WBT economies, it often does not make sense for each of these institutions to have their own strategy; they could rather include their actions within a larger strategic framework. A joint QI strategy could set joint and pillar-specific objectives that would then be implemented by the different institutions at the different governance levels and monitored by a central authority, thereby assuring co-ordination of and adherence to activities over the medium and long term.

Source: Serbian Ministry of Economy (2021[15]).

Harmonisation with the EU acquis *(Sub-dimension 7.2)*

The harmonisation of national legislation with the *acquis* is an essential step in the EU accession process. Harmonising national regulations with EU product legislation ensures the free movement of goods into and across the EU Single Market. It also benefits businesses by reducing regulatory burdens, ensuring that their products also meet European requirements once they comply with the national regulations and standards. EU-compliant technical regulations and adopted European standards provide firms with the regulatory security required to make long-term investments, like expanding their sales to the European Single Market.

This section examines the extent to which QI legislation and implementation procedures in the WBT economies are harmonised with the *acquis*. The assessment considers all six QI pillars, from technical regulations to standardisation, accreditation, conformity assessment, metrology and market surveillance. Serbia and Turkey continue to have the highest degree of alignment followed by Montenegro and Albania. Bosnia and Herzegovina continues to have the largest gap in alignment, as important laws are still not aligned with the *acquis*.

Table 8.3. Scores for Sub-dimension 7.2: Harmonisation with the EU *acquis* in the Western Balkans and Turkey

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Technical regulations	4.64	3.91	4.27	3.91	3.91	5.00	5.00	**4.38**
Standardisation	3.40	2.38	3.53	3.27	4.07	5.00	4.73	**3.77**
Accreditation	4.33	2.67	2.78	3.89	4.22	4.33	5.00	**3.89**
Conformity assessment	4.24	2.86	4.71	4.43	3.86	4.71	4.71	**4.22**
Metrology	5.00	3.97	3.62	3.31	4.85	4.38	3.77	**4.13**
Market surveillance	3.40	3.44	3.67	3.27	4.47	4.47	5.00	**3.96**
Weighted average	**4.17**	**3.20**	**3.76**	**3.68**	**4.23**	**4.71**	**4.70**	**4.06**

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

Alignment with the EU acquis *continues, albeit at a slow pace*

The Western Balkans and Turkey continue to adapt their technical regulations to the *acquis*, as defined in their national integration plans. However, progress in the area of free movement of goods has been regarded mostly as limited in the European Commission's recent reports. While all economies report that the technical regulations are aligned in their priority sectors, there continue to be gaps in alignment in both the harmonised and non-harmonised areas. In most economies, evaluation of technical regulations is done on demand rather than in periodic cycles. Furthermore, having a detailed adoption plan with target dates for harmonisation, as, for example, in the Serbian, Montenegrin and Turkish national integration plans for EU accession, is important and should be adopted by all WBT economies.

Adoption of European standards continues to increase, but translation remains a challenge

The adoption of European standards continues to grow in the WBT region and, with the exception of Kosovo, all economies have adopted more than 80% of the CEN-CENELEC standards (Table 8.4). In particular, Montenegro, whose Institute for Standardisation of Montenegro is not yet a full CEN-CENELEC member, substantially increased its adoption rate from 70% to 86%. Kosovo is lagging behind in adoption partially because it has to request European standards on a case-by-case basis through a license agreement formed with CEN-CENELEC. This slows down the adoption process, considering that most economies adopt several hundreds or even thousands of European standards per year. Albania's adoption

rate slightly decreased between 2019 and 2022, but remains largely above the 80% required for members. The adoption rate can drop if the frequency of newly published European standards surpasses the rate at which national standards bodies convene to adopt the new standards or due to delays in reporting of the adoption decision between the national standards body and CEN-CENELEC.

With the exception of Bosnia and Herzegovina, all WBT economies have aligned their national standardisation legislation with the European Regulation on Standardisation (1025/2012). As of March 2022, North Macedonia's, Serbia's and Turkey's national standards bodies are full members of CEN-CENELEC and Albania's, Bosnia and Herzegovina's, and Montenegro's bodies are affiliate members. Montenegro applied for full CEN-CENELEC membership at the end of 2021 and the peer assessment is expected to be completed within a year.

Furthermore, most national standards bodies operate under a multi-year strategy that sets high-level targets combined with an annual work plan, as required by Regulation 1025/2012, which specifies the type and number of standards that are planned to be adopted during the year. These plans are usually available on line. One drawback remains the limited translation of standards into local languages, as most national standards bodies continue to translate only the cover page of European or international standards. For example, the Turkish Standards Institute translated only 25% of the 24 516 European standards that have so far been adopted (TSE, 2021[16]; 2020[17]). Data are not available for the other WBT economies, but it can be assumed that their share of translated standards is even lower.

Table 8.4. Adoption of European standards by the Western Balkans and Turkey

	Adoption rate 2019	Adoption rate 2022
Albania	98%	93%
Bosnia and Herzegovina	87%	93%
Kosovo	50%	50%
Montenegro	70%	86%
North Macedonia	95%	95%
Serbia	98%	99%
Turkey	98%	99%

Notes: Data for Kosovo are only approximations as adoption rates for Kosovo are not monitored or reported by CEN-CENELEC. For Albania, CEN-CENELEC reports a lower adoption rate of 85%, but the Albanian standards body attributes this difference to a time lag in reporting.
Sources: CEN-CENELEC (2021[18]) and national standards bodies in the Western Balkans and Turkey.

The adoption rate of 94% mentioned in the Executive summary does not take into account the data for Kosovo as adoption rates for Kosovo are not monitored or reported by CEN-CENELEC.

The recognised accreditation scope and number of conformity assessment bodies continue to grow

The number of accreditation fields where the WBT accreditation institutes obtained MLA signatory status with the EA continued to increase during the assessment period (Table 8.5). Turkey is now an EA-MLA signatory in all fields, whereas North Macedonia and Serbia are signatories in the six primary fields. Albania and Bosnia and Herzegovina also expanded their EA-recognised accreditation scope. Montenegro has been a full member of the EA since 2011 and applied for EA-MLA signatory status in five fields at the end of 2020. The government expects to complete its recognition process in 2022. Serbia also applied for a scope extension for the area of proficiency testing providers. Overall, this is a very positive development, as recognition of the national accreditation services by the EA means that certification obtained from conformity assessment bodies certified by the national accreditation institute is recognised by EA

members. This facilitates market access for SMEs that wish to export to the European Union, as they may no longer need to seek certification outside their own economy.

The number of accredited conformity assessment bodies (CABs) grew on average by 30% in the WBT region between 2019 and 2022 (Table 8.6). This means that the possibilities for firms seeking to get their products, services or processes certified are growing. This lowers barriers to implementing standards, particularly for SMEs, which may not be able to seek certification abroad or in another region. However, matching the accreditation demands of this growing number of CABs with sufficient experts can be difficult, particularly for small economies such as Kosovo or Montenegro. To tackle this issue, the Accreditation Body of Montenegro has signed bilateral co-operation agreements with various Western Balkan economies, which also addresses the exchange of technical assessors and experts. In addition to the shortage of experts, many accreditation institutes in the region report administrative staff figures that are below the requested human resources. This shortage may also complicate the administration of a continuously growing number of CABs. Online registries of all accredited CABs are available in all WBT economies.

Table 8.5. Accreditation fields in which the Multilateral Agreement with European Co-operation for Accreditation was signed with Western Balkans and Turkey economies

Accreditation fields	ALB	BIH	MKD	SRB	TUR
Calibration		X	X	X	X
Testing and medical examination	X*	X	X	X	X
Product certification		X	X	X	X
Management systems certification	X		X	X	X
Certification of persons	X		X	X	X
Inspection	X	X	X	X	X
Validation and verification					X
Proficiency testing providers					X

* Signatory for testing laboratories only; not signatory for medical laboratories.
Notes: Scopes that were added between 2019 and 2022 are marked in **green**. Kosovo and Montenegro are not EA-MLA or Bilateral Agreement signatories.
Source: European Accreditation Directory of EA Members and MLA Signatories: https://european-accreditation.org/ea-members/directory-of-ea-members-and-mla-signatories.

Table 8.6. Number of accredited conformity assessment bodies in the Western Balkans and Turkey

No. of accredited conformity assessment bodies	2019	2022	Growth in %
Albania	69	93	35%
Bosnia and Herzegovina	116	151	30%
Kosovo	38	56	47%
Montenegro	33	43	30%
North Macedonia	206	259	26%
Serbia	628	727	16%
Turkey	1 580	1 980	25%

Source: Survey responses on OECD SME Policy Index questionnaire filled out by relevant public institutions.

Metrology bodies are well-integrated in the international technical community, but lack sufficient staff capacities

With the exception of Kosovo, the metrology bodies of the WBT economies are all either full or associate members of the European Association of National Metrology Institution (EURAMET) and of the European Cooperation in Legal Metrology (WELMEC). The Kosovo Metrology Agency is currently a liaison organisation of EURAMET and applied for associate membership status in April 2021. Membership in these European and international associations is very important for WBT economies, as they get access to training and can take part in discussions and exchanges about the most recent global developments in metrology.

Various metrology bodies report a lack of sufficient staff or adequate premises. As metrology is a highly specialised field, it is not surprising that smaller economies find difficulties attracting sufficiently qualified staff. To address this, all metrology bodies in the WBT region have signed bilateral co-operation agreements with at least some of the other WBT economies. Furthermore, regional projects like the German-funded "South-Eastern European Quality Infrastructure Fund" help bring together experts from the regions through joint training and seminars. Several WBT metrology bodies also participate in EURAMET's inter-laboratory comparison programmes, which allow test results to be compared, thereby assuring the quality of testing services. For example, Albania, Bosnia and Herzegovina, Kosovo, Montenegro, and North Macedonia all participate in regional volume comparisons.

Alignment with the EU Market Surveillance Regulation 2019/1020 is slow

Market surveillance was the only QI area in which the EU regulation changed during the assessment period. The new EU Regulation 2019/1020, which was adopted on 20 June 2019, added provisions on the regulation of online sales from non-EU member states that want to sell to the EU Single Market (European Commission, 2019[19]). So far, Turkey is the only economy that has already adapted its national market surveillance legislation to align with the new *acquis*. All WBT economies have some market surveillance legislation in place that is at least partially aligned with the old *acquis* 768/2008.[1]

Fast alignment with EU Regulation 2019/1020 is important, as the regulation will lead to intensified market surveillance activities and will restrict non-compliant products from outside the European Union more effectively (Norton Rose Fulbright, 2021[20]).

Inspection activities decreased in 2020 and 2021 compared to 2019 among most market surveillance agencies in the WBT region, due to impediments caused by the COVID-19 pandemic. Nonetheless, three out of the seven WBT economies reported increased co-ordination between the different public authorities on market surveillance compared to 2019. The other four reported no change in the level of co-ordination.

According to the most recent EU enlargement reports on the WBT economies, market surveillance remains the area where human resource constraints are the most pressing. Given the new demands from the adapted EU legislation, this may be an important area to strengthen staff capacities.

The way forward for harmonisation with the EU acquis

- **Further strengthen regional collaboration in quality infrastructure beyond bilateral co-operation.** As described above, the regional co-operation between the different QI institutions in the WBT region has improved over this assessment cycle. Co-operation activities include the exchange of experts and assessors as well as joint training. However, most of this co-operation still happens through bilateral agreements. Truly regional co-operation at the level of CEFTA has so far been limited and should be further expanded so that all WBT economies can capitalise on the full QI expertise in the region.

- **Increase the frequency of evaluation of technical and horizontal quality infrastructure regulations.** While most of the QI-relevant legislation is nowadays aligned with the *acquis*, the evaluation of regulations is mostly done on demand rather than reviewing them systematically. More frequent evaluation and comparison of national law with EU regulations can reduce the amount of unaligned legislation and reduce the time until said legislation is harmonised. As the reliance of WBT exports on the European Single Market is high, quickly aligning laws and procedures is particularly important.

SMEs' access to standardisation (Sub-dimension 7.3)

The recently published European Standardisation Strategy (European Commission, 2022[21]) underlined the importance of SMEs as drivers and users of standards. As SMEs form the backbone of all WBT economies, both in terms of their share of economic output and in terms of employment, ensuring they have access to standards and participate in the development of standards is key.

This section gauges whether the existing policy frameworks foster SMEs' awareness of the benefits of standards facilitate their participation in developing standards and reduce the financial burden of implementing standards.

Access to standards for SMEs in the WBT region has improved since the last assessment, particularly in the area of financial support (Table 8.7). However, there is still a lot of heterogeneity to the extent of which national standards bodies foster access and participation in the region.

Table 8.7. Scores for Sub-dimension 7.3: SMEs' access to standardisation in the Western Balkans and Turkey

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Awareness raising and information	4.07	3.53	3.80	3.80	2.87	4.47	4.60	**3.88**
SMEs' participation in developing standards	3.00	2.50	3.50	3.00	2.50	3.50	4.50	**3.21**
Financial support to SMEs	3.40	2.20	3.40	4.40	4.20	2.80	4.60	**3.57**
Weighted average	**3.49**	**2.74**	**3.57**	**3.73**	**3.19**	**3.59**	**4.57**	**3.55**

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

Basic awareness-raising activities are in place, but no new materials or practices have been introduced

All NSBs in the WBT region engage in basic awareness-raising activities through regularly updated news sections on their websites, social media accounts and in some cases newsletters or even magazines, as is the case of the Turkish Standards Institute. These activities are complemented by training as well as webinars, which have gained importance due to the COVID-19 pandemic. In addition, in Serbia, Turkey and Republika Srpska, the NSBs also provide training and information seminars together with the national or local chambers of commerce. Such co-operations are very useful because the chambers of commerce usually have a much larger and decentralised network, which increases the outreach of such events well beyond the respective capitals.

Unfortunately, there has been very little progress with respect to the development of guides or case studies in the local language. The Turkish Standards Institute is the only NSB among the WBT economies that has sector-specific brochures introducing the main standards in the different business sectors. Furthermore, none of the NSBs have published a local language guide that explains the standard implementation process, from identification until completed conformity assessment. Such a step-by-step guide is particularly important for SMEs, which may not be very familiar with standard and conformity

assessment procedures. The European Blue Guide is a good example of how to visualise and explain this process (see Box 8.2).

There are very few activities to foster SMEs' participation in standards development

Fostering the participation of SMEs remains the most challenging area for standard-setting institutions, not only in the WBT region, but also in the European Union, which is why it was named one of the priorities in the European Union's recent Standardisation Strategy (European Commission, 2022[21]). While moving technical committee meetings on line in response to the COVID-19 pandemic may have slightly lowered the barriers of participation for SMEs, little else has been done in the region to further incentivise SMEs to participate in the development of standards. However, during the research done for this report, it was noted that some NSBs are currently preparing more SME-related activities, meaning more developments may be seen in this area in the near future.

The NSBs in the region report having standard participation approaches like public enquiries on draft standards or public calls to receive feedback, but none of them are tailored to SMEs. With the exception of North Macedonia, which offers seminar discounts for SMEs that are members of the Standardization Institute of North Macedonia, no economy offers SME-specific financial support to incentivise participation in committee meetings or other standards meetings. While some economies offer discounts to technical committee members for the purchase of standards, this does not resolve the barrier to participation in the first place.

Two established approaches to foster SMEs' participation are travel costs or meeting allowances as well as representation through SME associations (see Box 8.3). While allowances may be difficult to implement for most NSBs in the region due to budgetary constraints, closer collaboration with national SME associations may increase the representation of SME interests in the development of standards.

Projects that support standard-related costs for SMEs are expanding

A very positive finding of this report is that all WBT economies have at least one financial support programme that covers costs related to implementing standards for SMEs. However, it has to be noted that the programmes, either government- or international partner-funded, vary widely in their size and therefore in the number of firms they support.

A widely employed modality are government support programmes that cover costs up to a certain maximum share of total cost combined with a cap on the maximum amount per firm. For example, the Albanian Investment Development Agency's Competitiveness Fund provides grants of up to EUR 10 000 per firm that cover up to 70% of the firm's project costs. The fund supported 15 companies in 2018 and 30 in 2019 (Albanian Investment Development Agency, 2019[22]). Similarly, in North Macedonia, the Ministry of Economy's Programme for Competitiveness, Innovation and Entrepreneurship co-finances up to 60% of certification-related costs for SMEs and supported 12 firms in 2019 and 11 in 2021 (APPRM, 2021[23]); it was paused in 2020. Montenegro and Serbia have similar programmes implemented by the Ministry of Economy (Box 8.2) and the Serbian Development Agency, respectively.

A second support channel are programmes offered by the chamber of commerce or other business association that also cover standard-related costs. The North Macedonia Agency for Promotion of Entrepreneurship has a voucher scheme that firms can use to get consulting services and small grants to cover standards-related costs (APPRM, 2022[24]). The Turkish SME development organisation KOSGEB also offers research, development and innovation support that covers up to 80% of costs related to certification for standards (KOSGEB, 2021[25]).

Box 8.2. Montenegro's two-sided support programme for the introduction of international standards

The implementation of international standards continues to be a challenge for many small and medium-sized enterprises (SMEs) in the Western Balkans and Turkey region. Two widely stated problems are:

- the lack of conformity assessment bodies (CAB) in the region or economy for the specific sector or technology, which is particularly a problem in smaller economies,
- high implementation costs to get certified.

Montenegro's programme line for the introduction of international standards, introduced in 2018, is a very positive example, as it addresses both these challenges. The programme line is part of a larger competitiveness programme of the Ministry of Economic Development that encompasses a total of 17 support lines. Two of the programme's components address both the supply of conformity assessment services as well as its demand:

1. The first component provides financial support to CABs by reimbursing up to 70% of the accreditation costs incurred. The support is limited to costs related to accreditation services for a series of international and European standards (ISO/IEC 17020, ISO/IEC 17025, ISO/IEC 17029, ISO/IEC 17021 -1, ISO/IEC 17024, ISO/IEC 17043, CEN/TS 15675, EN ISO 15189) and is only provided if the CAB successfully earned the accreditation certificate from the national accreditation body, the ATCG.
2. The second component provides financial support to SMEs by reimbursing up to 70% of the certification and recertification costs of management system standards (i.e. ISO 9001, ISO 14001 and OHSAS 18001). The funds can be used for hiring consultants to help the company prepare the technical documentation required for the certification as well as for staff training.

Funding is capped at EUR 5 000 per firm on both components. To promote female entrepreneurship in particular, this programme is reimbursing up to 80% of the costs for female-led firms (compared to 70% for other firms). While being comparatively small, with total funding of EUR 765 000 between 2018 and 2000, a total of 217 SMEs benefited from the programme during that period. In 2021, the programme lines yielded EUR 250 000.

Overall, this programme can be regarded as a best practice because it simultaneously applies to the supply and the demand of conformity assessment services, thereby addressing the two main bottlenecks of small economies, namely insufficient local CABs and funding constraints for SMEs.

Source: Ministry of Economic Development of Montenegro (2018[26]).

A third support channel are support programmes funded by international development partners, as in the case in Kosovo, where SMEs can receive support via the World Bank's Competitiveness and Export Readiness Program. The programme provides matching grants that cover up to 90% of the activity costs or up to EUR 40 000 per firm. These grants can be used to cover inspection-related costs that may arise in the certification process and to buy small equipment. In the first round of applications (2018-20), 28 SMEs received financial support (World Bank, 2021[27]). The second round of applications was held in mid-2021 and 139 firms were selected for support (World Bank, 2021[27]).

Overall, there are a wide range of SME support programmes available in the WBT region that also cover costs related to the implementation of standards. While the total number of firms supported by these programmes remains low, the number of beneficiaries has been growing over time in all economies, which is a positive sign.

The way forward for SMEs' access to standards

- **Incentivise SMEs' participation in technical standards committees through specific measures, such as travel support, online participation or representation by associations.** SMEs form an integral part of the economy in many WBT economies, and it is therefore important to incorporate their knowledge and experience when developing new or adapting existing standards. As SMEs have more limited resources, national standards bodies need to provide specific incentives to increase their participation. The European Small Business Standards (SBS) has an interesting approach in this regard (Box 8.3).

Box 8.3. Representing SMEs in technical committees via associations: Small Business Standards' representation at European and international technical committees

As CEN-CENELEC alone has 364 working groups and publishes more than 1 000 standards per year, it is hard for firms to keep track of which technical committees might be worth their time. Furthermore, small and medium-sized enterprises (SMEs) often lack the financial or human resources or time to take part in technical committee meetings, be it at the national, European or international level. To assure that SMEs' interests are nonetheless being heard and taken into account at technical committee meetings, the European non-governmental organisation Small Business Standards (SBS) represents SMEs in technical committees. The SBS works with national SME associations to periodically select the technical committees that are of the most relevance for SMEs, then appoints experts to represent the SMEs in the technical committee meetings.

This approach assures that SMEs' interests are being represented in the most relevant and impactful technical committees by designated experts. Due to the periodic review of the relevance of technical committees, national SME associations can articulate which technical committees are of particular relevance for firms in their economies. The SBS also keeps its members informed about the progress of the technical committees and the impact of new standardisation on SMEs, thereby assuring that the information is also relayed to the SMEs.

As economies in the Western Balkans and Turkey are also highly reliant on SMEs, introducing a representation mechanism to assure that their ideas and interests are being discussed in technical committees would be beneficial for both the economy and the firms. SMEs will benefit, as their demands, needs and feedback on standards will be incorporated into the standard development process without them needing to be present and they stay informed about the process. At the same time, the economy benefits from incorporating SMEs' interests and knowledge into new or updated standards, as they will be better adapted to the needs of SMEs, which should increase their competitiveness in the future. Finally, incentivising participation through representation is also financially less burdensome than providing direct allowances for firms.

Source: Small Business Standards (2021[28]).

- **Develop guides that explain the conformity assessment process and standards development in the local language.** Many SMEs that want to certify that their products, processes or services comply with international or national standards have little knowledge about the different steps and requirements. Most NSBs in the region only present basic information of the potential benefits of standards on their web page and more comprehensive guides from ISO, CEN-CENELEC or SBS are usually not available in the local language. Developing informational material in the local language is, therefore, crucial to facilitate SMEs' access to quality infrastructure. One example for presenting the different steps of the certification process is the European Union's Blue Guide (Box 8.4).

Box 8.4. Providing concise and clear information about product regulations and conformity assessment procedures: The European Union's Blue Guide

To create a better understanding of its product rules and their application, the European Union created the so-called Blue Guide. This comprehensive guidebook is structured along actors and the different quality infrastructure pillars (e.g. conformity assessment, market surveillance), which allows the reader to quickly find the required information. The chapter on conformity assessment describes the certification process in a user-friendly way using a flowchart depicting the different steps required, from the technical documentation to the market placement of the product.

Through graphical means, the rather complex process of conformity assessment is explained and depicted in a clear, concise manner, which is particularly useful for small and medium-sized enterprises (SMEs) which, contrary to large firms, may not have specialised staff familiar with quality infrastructure processes.

Economies in the Western Balkans and Turkey often lack such information materials and firms are therefore left with the legislative text or other material in complex, technical language, which may represent an information barrier for SMEs. Having process flowcharts and guides like the one described above available in the local language is one way to overcome such barriers for SMEs aiming to get their products or processes assessed and certified.

Source: Source: European Commission (2016[29]), Section 5.1.3. Actors in Conformity Assessment, and Flowchart 2.

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Note

[1] In the case of Bosnia and Herzegovina, the degree of alignment with the EU *acquis* may depend on the entity, as most laws referring to quality infrastructure are made at the entity level. While the market surveillance legislation at the central government level in Bosnia and Herzegovina is not aligned with 768/2008 (i.e. the old *acquis*), Republika Srpska claims that its more recent legislation from 2013 is partially aligned with this EU legislation.

9 Enterprise skills (Dimension 8a) in the Western Balkans and Turkey

This chapter assesses policies in the Western Balkans and Turkey to promote the skills small and medium-sized enterprises (SMEs) need, from start-up throughout the different growth phases. It starts by providing an overview of the assessment framework and progress since the last assessment in 2019. It then presents an analysis of Dimension 8a's three thematic blocks: 1) planning and design, which assesses policies in the areas of skills intelligence; 2) implementation, which focuses on training provision for SMEs, responding to the skills required of digital and green economies, and smart specialisation; and 3) monitoring and evaluation, which considers whether economies ensure their SME skills policies are working and keeping up with market needs. The chapter concludes with key recommendations to help the region's policy makers tackle the challenges identified.

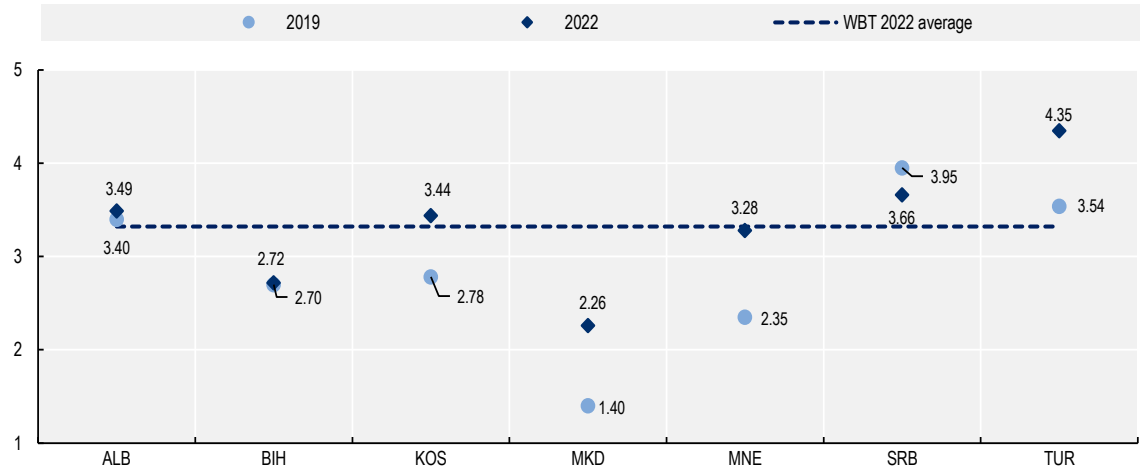
Key findings

- **The provision of skills intelligence is improving across the Western Balkans and Turkey (WBT) region. However, there is significant scope to keep making progress** to ensure a robust and comprehensive evidence base to shape policy decisions across government is available in all economies.
- **There is an overall increase in the provision of enterprise skills training across all WBT economies.** However, there is not yet sufficient focus on training to support SMEs coping with ongoing major structural transformations for key themes such as digitalisation and the green transition.
- **Training for the social economy sector is underdeveloped across all economies**, with a lack of government-financed training or support tailored to the needs of social enterprises and co-operatives.
- **Skills training for the green and circular economy is not well developed;** more development is needed.
- **All WBT economies recognise the importance of the digital economy for SMEs.** However**,** there remains an implementation gap between policy and practical training provision and support.
- **Some progress can be seen in the availability of gender-disaggregated data.** However**,** work remains to ensure comprehensive provision of gender-sensitive data in skills intelligence and analysis of government-financed enterprise skills actions.
- **There is lack of effective monitoring and evaluation,** particularly regarding the efficacy of government programmes and the change created as a result. In most economies, there is no comprehensive evaluation of government-funded training.
- **SME skills need to be embedded into smart specialisation strategies**; as yet, there has been no visible consideration given to gender mainstreaming as part of the smart specialisation strategies (S3) process.

Comparison with the 2019 assessment scores

Overall, there has been good progress on the enterprise skills dimension since the 2019 assessment. Turkey is the top performer and is the only economy to improve across each thematic block. Looking at the specific scores for each economy (Figure 9.1), Montenegro has made the most progress in this assessment period, particularly for practical implementation of support and training. North Macedonia has also moved forward significantly after having launched a new SME policy that includes new actions on SME skills training during this assessment period. Albania, Bosnia and Herzegovina, and Kosovo have made more modest progress. Serbia has a lower score than in 2019 due to less provision across the expanded questions linked to digitalisation, digital skills and green transition, which is intended to be addressed in the upcoming SME Strategy anticipated for 2022.

Figure 9.1. Overall scores for Dimension 8a (2019 and 2022)



Notes: WBT: Western Balkans and Turkey. Despite the introduction of questions and expanded questions to better gauge the actual state of play and monitor new trends in respective policy areas, scores for 2022 remain largely comparable to 2019. To have a detailed overview of policy changes and compare performance over time, the reader should focus on the narrative parts of the report. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Implementation of the SME Policy Index's 2019 recommendations

Table 9.1 summarises progress on the key recommendations for the enterprise skills dimension since the previous assessment.

Table 9.1. Implementation of the SME Policy Index's 2019 recommendations for Dimension 8a

Regional 2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Regional progress status
Designate a body to strengthen SME skills intelligence	Good progress can be seen in three economies. In Kosovo, there is now a set of three tools including the online Labour Market Barometer, the Vocational Education and Training (VET) Barometer, and the Skills Barometer. These are dynamic tools developed through funding from international development co-operation partners in Aligning Education and Training with Labour Market Needs (ALLED2). Sustainability for the Labour Market Barometer is now confirmed by the government taking ownership, with the Employment Agency managing further implementation. In Turkey, the ambitious Geleceğin Becerileri programme has been launched to lead the development of skills intelligence and solutions to reduce the skills gap. Third, Albania has recently allocated a budget to the Albanian Investment Development Agency (AIDA) to lead the creation and implementation of a national skills intelligence framework. While not yet implemented, this is a good step forward.	Moderate
Build SME skills into smart specialisation strategies	This has been achieved through the two national smart specialisation strategies launched in the region in Montenegro and Serbia. Both strategies are seen as examples of good practice in involving small and medium-sized enterprises (SMEs) in the development process, while skills are explicit within the narrative and actions of the strategy for each economy.	Moderate
Refine and better target the training offer	The SME training offer has been improved during this assessment period, with an increased variety of training financed by the government, and enhanced by a wider offer of training from funded by international development co-operation partners or non-government led training initiatives. More work remains to be done to consolidate training offers across all government and non-government providers. In Turkey, regional administrations are leading the way in this work.	Moderate

Regional 2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Regional progress status
Make training offers relevant for local growth and competitiveness	There is now more availability of training that targets early-stage and more established businesses, through technology or growth programmes. However, these programmes are not yet widespread and the impact is not well understood. Initiatives like Boost Me Up in Montenegro is an example of an in-depth start-up programme for innovative businesses, developed by non-governmental organisations and co-financed by the government. In Kosovo, a triple helix-based agreement was signed in 2021 between the city of Pristina, the University of Pristina and the Kosovo Chamber of Commerce, the first of its kind in the economy and an example of collaboration to support new SME and labour market skills development initiatives. However, more work needs to be done to spread the triple-helix model across the region, engage further universities and open up more engagement from VET institutions in the entrepreneurial ecosystem.	Limited
.Boost SMEs' innovation potential by building on the digital and green economies	While all economies now highlight the importance of training for green and digital economies, this is not yet translated into practical implementation across all economies. There remains a significant implementation gap between policy and training for green transition, with not all economies providing government funded support or training across all the key themes of sustainability, resource efficiency and the circular economy. Training for digital skills and digitalisation has seen more progress during this assessment period, though a comprehensive government-supported SME training offer remains to be developed in North Macedonia.	Moderate
Build the systems and capacity to monitor SME skills policies and policy interventions	Monitoring and evaluation approaches remain under-developed in all WBT economies with limited progress during this assessment period. While policy commitment has progressed, for example in Albania, there is a real need for concrete progress towards comprehensive actions to collate and analyse data for SME skills to support skills and smart specialization policies, including gender disaggregated data.	Limited

Introduction

Enterprise skills are critical to ensuring that businesses, co-operatives and social enterprises reach their potential and positively contribute to social cohesion and sustainable economic growth. Despite the crises of past years, SMEs remain dominant in terms of number and employment in every economy. In the WBT region, they employ approximately three-quarters of the total business sector,[1] which is higher than the EU average. Enterprise skills are needed more than ever following the COVID-19 crisis, which has left businesses in the WBT region severely challenged in many sectors, after a period of increasing job creation (World Bank, 2020[1]). Barriers to growth are many, notwithstanding recent research that found that there is a potential lack of awareness among SMEs that they are underperforming against their potential (World Bank, 2020[1]). Government intervention for SME skills support is vital to help overcome potential financial barriers and raise awareness of the importance of this skills development offer across key themes such as digitalisation and sustainability. In the WBT region, SMEs are more likely to remain in low value-added sectors and create lower paid jobs than large enterprises. To overcome barriers to growth, SMEs need to invest in skills, greening, digitalisation and innovation to boost productivity and create higher paid employment.

There are new business opportunities emerging in which SMEs can find their paths in different and emerging sectors such as green growth or those identified within smart specialisation entrepreneurial discovery processes. Supporting enterprises with skills development to reskill and upskill will help improve their capacity to adjust to new circumstances and opportunities. Social economy businesses, including social enterprises and co-operatives, are a growth sector in the European Union, and this is still to develop in the WBT region.

Investment in enterprise skills takes action by policy, education and training providers, and civil society and involves SMEs themselves as primary users. A first step should always be to secure adequate skills intelligence to avoid skills mismatches. This is critical to underpin and justify decisions taken to shape policy and implement specific skills development actions across an economy. In times of significant change, this process needs to be dynamic and responsive to evolving markets and opportunities.

Assessment framework

Structure

The assessment framework for the enterprise skills dimension is divided into three thematic blocks (Figure 9.2): 1) planning and design (30% of the total score); 2) implementation (50% of the total score); and 3) monitoring and evaluation (20% of the total score). See the Policy Framework and Assessment Process chapter and Annex A for more information on the methodology.

Figure 9.2. Assessment framework for Dimension 8a: Enterprise skills

Enterprise skills		
Thematic block 1: Planning and design	**Thematic block 2:** Implementation	**Thematic block 3:** Monitoring and evaluation

The assessment framework for Dimension 8a has not changed substantially since the 2019 assessment. However, some policy and implementation aspects have been expanded to better gauge the actual state of play in those areas and add new perspectives that have grown in importance since the previous assessment questionnaire.

Across all thematic blocks, there is an expanded perspective of enterprises to include social impact business models, particularly social enterprise and co-operatives, reflecting their increasing importance in recent European and regional policy. It also pays more attention to practical SME-linked engagement and implementation related to smart specialisation, based on recommendations from the 2019 assessment. More emphasis is placed on SME skills for a green and digital transition across all three thematic blocks to align with European policy priorities. Within the third thematic block on monitoring and evaluation, questions have been added to better capture how evaluation results have been used, and whether there is a publicly available database on SME skills. Finally, a question has been added on training for intellectual property as a key driver for SME innovation.

Analysis

This dimension assesses government support for SMEs in developing enterprise skills, to illustrate the extent to which economies are providing the right skills development support aligned to economic priorities, including smart specialisation domains. For the purposes of this assessment, enterprise skills comprise business skills (e.g. sustainable business practices, greening, digital skills, marketing and finance); entrepreneurship as a key competence (e.g. creativity, sustainable thinking, planning and management, taking initiative – as defined in EntreComp) (Bacigalupo et al., 2016[2]); and vocational skills (i.e. professional skills for specific sectors). All three areas are necessary to launch and nurture sustainable and resilient businesses, co-operatives, and social enterprises during challenging social and economic conditions. The need for skills will change as an enterprise moves from start-up to growth phases and will also constantly evolve in response to new circumstances and opportunities, such as internationalisation, market change or technological advances.

Overall, Turkey performs best in this dimension, thanks to scores well above average in all three thematic blocks (Table 9.2). Serbia also performs well, reflecting the substantial resources the Serbian government is investing in SME support, including training services dedicated to specific target groups of SMEs and supporting different phases of enterprise development. Albania also scores above average in all three thematic blocks, while North Macedonia scores the lowest across the board – most of the initiatives that would increase its score are in the pipeline but not yet in place.

Table 9.2. Scores for Dimension 8a: Enterprise skills in the Western Balkans and Turkey

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	2.17	2.04	3.58	1.17	3.17	3.75	4.17	**2.86**
Implementation	4.21	3.42	3.53	3.16	4.00	3.88	4.74	**3.85**
Monitoring and evaluation	3.67	2.00	3.00	1.67	1.67	3.00	3.67	**2.67**
Weighted average	**3.49**	**2.72**	**3.44**	**2.26**	**3.28**	**3.66**	**4.35**	**3.32**

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

Enterprise skills policy can be seen in various strategies across the region

Enterprise skills policy has cross-government links, reaching the domains of education and training, employment and those more linked to economic development including innovation, smart specialisation, entrepreneurship and the directly relevant area of SME development.

Table 9.3 shows the range of strategies highlighted in each economy. In some economies, previously relevant strategies have lapsed, such as the entrepreneurial learning strategy in North Macedonia and the National Strategy for Innovation and Entrepreneurship in Turkey. In Kosovo, the new National Development Strategy is under development, while in Albania, there is a renewed vision for the development of SME skills intelligence and support programmes through the recent Business Development and Investment Strategy 2021-2027.

Table 9.3. Current strategiescovering enterprise skills

Economy	Relevant strategy
Albania	Business Development and Investment Strategy 2021-2027 National Employment and Skills Strategy 2019-2022
Bosnia and Herzegovina	**Federation of Bosnia and Herzegovina**: Federation of Bosnia and Herzegovina Development Strategy 2021-2027 – Innovation Action Plan 2021-2023 **Republika Srpska**: SME Development Strategy 2021 – Government Work Programme 2021
Kosovo	Private Sector Development Strategy 2019-2022 National Strategy for Innovation and Entrepreneurship 2019-2023
Montenegro	National Strategy for Lifelong Entrepreneurial Learning 2021-2024 Smart Specialisation Strategy Operational Plan 2021-2024
North Macedonia	SME Strategy 2018-2023
Serbia	Industrial Policy Strategy 2021-2030 4S Smart Specialisation Strategy Serbia 2021-2027 Employment Strategy 2021-2026
Turkey	Eleventh Development Plan 2019-2023 KOSGEB Strategic Plan 2019-2023 National Artificial Intelligence Strategy 2021-2025 Ministry of Economy Strategy Plan 2018-2022 National Employment Strategy 2014-2023 Green Deal Action Plan 2021

Notes: The documents above highlight enterprise skills as a priority. Please note, they may not include specific actions or targets. For more insight, see the more detailed narrative for each economy.

Development of skills intelligence is still in progress and needs to move faster

Improving skills intelligence is the foundation of upskilling and reskilling for SMEs and their employees. The European Skills Agenda (European Commission, 2020[3]) identified that this process of aligning skills to the needs of the labour market must begin with the creation of strong skills intelligence frameworks embedded into national policy and in partnership with social partners. For the WBT region, the European Commission has highlighted the significant constraints to business caused by skills mismatch (European Commission, 2021[4]); national skills intelligence must form a critical part of any solution.

Skills intelligence is gathered to different extents across all economies, but good progress can be observed during this assessment period. Most economies undertake actions that develop national skills intelligence ranging from training needs analyses and sector-based studies to analysis of employment statistics. Bosnia and Herzegovina, Kosovo, and Turkey stand out for their approaches. Kosovo has launched three statistical skills intelligence barometers. Developed as collaborations between international development

co-operation partners' agencies and the government, these include the Labour Market Barometer,[2] the VET Barometer[3] and the Skills Barometer[4] (Box 9.1).

Box 9.1. Statistical barometers used to strengthen the skills agenda in Kosovo

In Kosovo, a set of statistical barometers has been developed to strengthen the skills agenda and establish a domestic approach to skills intelligence. The three barometers so far established are: 1) the Labour Market Barometer, which collates information and analysis from 12 institutional data sources[1] 2) the VET Barometer, which collates 200+ variables from 20 vocational education and training (VET) schools; and 3) the Skills Barometer, launched in December 2021, which will collect 3-5-year forecasts of skills needs from businesses in Kosovo to inform government and other institutions.

The challenge in Kosovo has been to ensure sustainability for the work initiated through funding by external partners. The Labour Market Barometer is a portal collecting information, resources and data on current and future skills needs for the labour market and creates strong collaboration between diverse partner institutions relevant to the skills agenda. The system is now managed by the Employment Agency, after a two-stage development phase supported by the United Nations Development Programme and Aligning Education and Training with Labour Market Needs (ALLED2), a project of the Austrian Development Agency. ALLED2 developed the Skills Barometer in co-operation with the Kosovo Chamber of Commerce, and commitment is now finalised between the Kosovo Chamber of Commerce, the Ministry of Education and the National Council for VET to conduct the barometer every three years. The VET Barometer grew from pilot research into the provision across VET schools in the economy, and now offers online information and analysis based on systematic data collection that can be transferred to relevant agencies.

This example shows a pathway to shaping a domestic skills intelligence framework at the system level based on the need to support evidence-based policy making using robust information on skills mismatch and future skills needs. The actions stemmed from initiatives funded by international development co-operation partners towards sustainable action led by a partnership of public and private sector institutions and offer a channel to bring together and present available government statistics.

1. See: https://sitp.rks-gov.net for a list of the institutional databases used to create the Labour Market Barometer.
Sources: Government of Kosovo (n.d.[5]); Institute for Entrepreneurship and Small Business (2021[6]); ALLED2 (2019[7]).

In mid-2021, Turkey launched a high-profile Skills Gap Reduction Accelerator Programme linked to a multi-country World Economic Forum initiative. The Geleceğin Becerileri programme[5] has a cross-government commitment from key ministries to implement a set of actions designed to significantly upgrade skills intelligence provision, anticipation and evaluation at the national and regional levels.

In Bosnia and Herzegovina, there is ongoing, extensive research to collate and analyse data to provide state- and entity-level skills intelligence on a range of themes, including women, sectors and specific geographic areas. This process is resulting in a growing database of publicly available reports and is led by the EU-funded Improving Labour Market Research[6] programme.

Other economies have also shown good development during this assessment period. Serbia has undertaken a comprehensive analysis within the evaluation of the previous Employment Strategy and carries out a regular training needs analysis as part of the national employment action plans. In Albania, plans are in place to implement a national skills intelligence framework led by AIDA through a new department, with a newly committed budget from the Business Development and Investment Strategy 2021-2027.

Overall, there is a lack of evidence of how available skills intelligence has been used to inform policy development and develop new training programmes. In economic reform programmes in the region

addressing broad sectors, there are rarely specific priorities or actions related to SME skills intelligence or training programmes.

Specific aspects of skills intelligence receive less focus. However, training needs analyses are carried out in all economies except North Macedonia. Skills anticipation is less visible, though actions are evidenced in Kosovo, Montenegro, Serbia and Turkey. Most economies include digital skills intelligence, as in Bosnia and Herzegovina, Kosovo, Serbia, and Turkey.

Gender-sensitive skills intelligence is not standard, with ongoing challenges across the region to ensure the availability of gender-disaggregated data and analysis. A recent research study by the European Centre for the Development of Vocational Training (Cedefop) made a positive link between gender equality and a well-functioning skills system.[7]

In economies with a current smart specialisation strategy, there remains a need to upscale the provision of skills intelligence. This will be critical for evidence-based development at both the national and regional levels to fully develop the potential of S3 priorities.

Montenegro and Serbia have taken steps toward creating a national skills intelligence framework, though the national body taking lead responsibility for this work has not yet been defined. It is important to unite these different areas of skills intelligence and combine the sources necessary to create a coherent picture of current and future skills needs. This area of work requires urgent action to underpin the wider developments in education, training, employment, SME skills and smart specialisation that would benefit from a comprehensive skills intelligence framework as a robust evidence base.

Training provision has improved, but gaps remain

The importance of SME training is well recognised in all economies. The training offer across the region has consistently increased since the last assessment across all themes, from start-up through to training provided to SMEs and their employees to support their development throughout their lifecycles.

Government-financed start-up training programmes have increased during this assessment period and are now available to different extents in all economies. Kosovo and North Macedonia offer more limited support. In North Macedonia, start-up training at the pre-start stage is provided via the employment agency, while wider support is led by the Agency for Support of Entrepreneurship. This wider support includes time-limited access at certain times of the year to business counselling vouchers for early-stage start-ups and women entrepreneurs. In Kosovo, training is generally driven by international development co-operation partners with limited government-financed training via the Kosovo Investment and Enterprise Support Agency, which organises business plan competitions and basic training on legal issues and marketing. The offer in Albania is growing from mainly grant funding to additional SME training provision led by AIDA, newly financed by the Business Development and Investment Strategy 2021-2027. Once launched, this has the potential to become an example of training and mentoring delivered as an integral part or pre-condition of the grant programme, enhancing the potential for success for entrepreneurs and their businesses.

Every WBT economy provides an element of tailored training for women and youth entrepreneurs, while most also provide training for technology start-ups. In Montenegro, a consortium supported by finance from the Ministry of Economy has launched the Boost Me Up programme[8] as a pre-accelerator for innovative start-up teams to develop their ideas through a five-month training, mentoring and grant programme. This is the first such programme in the economy, and the sector focus of the start-up ideas to be developed are required to align with the priorities of the national smart specialisation strategy.

Restart entrepreneurs are not widely supported, and where provision exists, it is through access to generic start-up programmes. This can be a lost opportunity given the increases in business closures through recent crises, such as COVID-19 and the conflict in Ukraine. Restart entrepreneurs already have business experience and are statistically more likely to grow and succeed in their second or subsequent business

ventures. However, they may face different challenges, such as overcoming fear of failure and access to finance for those who may have debt or bankruptcy issues. There are no visible examples of bespoke training in the region, but EU-funded projects such as Restart+[9] offer insights into relevant training and tools. There is a real need to support experienced entrepreneurs who benefit from experience and lessons learnt from their previous business activities and who are more likely to succeed as second-time entrepreneurs creating businesses that contribute to the economy and employment. For wider insights on bankruptcy and second chance for SMEs, see Chapter 2 of this volume.

Training for intellectual property is provided in most economies, including Montenegro, Serbia and Turkey, which are all active in smart specialisation and the highest ranked within the region on the Global Innovation Index,[10] for which intellectual property and patents are an important marker. As business moves more on line and becomes ever more global, the importance of patents and ownership of intellectual property becomes more evident, with critical importance of developing innovation, particularly within smart specialisation priority domains.

In every WBT economy, government-led training is complemented by actions undertaken by private or non-governmental actors, through support, training and mentoring to entrepreneurs and SMEs, often supported by funding from international development co-operation partners or grant programmes from the government. In Albania, despite the low level of government-financed provision, the level of training and support available in the economy from actors within its entrepreneurial ecosystem is notable for its variety and amount of information available on different opportunities. The information can be accessed through the AlbaniaTech portal developed with funding by external partners through the EU for Innovation programme and now sustained through multiple private sources and those from international development co-operation partners. The case is similar in Kosovo, where limited training is detailed via the online portal at the Kosovo Investment and Enterprise Support Agency's website, but an alternative online portal, called StartUpKosovo, details a broader offer of SME support and skills training. These examples highlight the value of a one-stop shop portal collating both government and non-government information and opportunities to open up access to wider and new audiences.

While policy acknowledges the importance of the social economy, actions to understand and support the skills development needs of this sector are still to be developed

Across Europe, there is now strong emphasis placed on developing social economy businesses[11] as contributors to sustainable, green and resilient social and economic growth. This sector is now recognised within the proximity and social economy ecosystem, one of the 14 industrial ecosystems identified in the new EU Industrial Strategy (European Commission, 2020[8]). The new 2021 European Social Economy Action Plan (European Commission, 2021[9]) intends to provide a blueprint to support social economy actors, including social enterprises and co-operatives, to grow, innovate and create new employment. As a picture of the scale of this sector, 2.8 million social economy entities employ 6.2% of all workers across Europe. The new EU Social Economy Action Plan has committed to specific actions for the WBT region to boost support and access to finance for social entrepreneurs, as part of a vision to develop the sector across economies surrounding the European Union.

Through this lens, the sectors covered have been expanded to include social enterprise and co-operatives for the first time in this assessment period. The evidence across the economies shows that this is an emerging sector that is still to be developed and supported to achieve its social and economic potential. Legal forms for social enterprises do not yet exist in all economies, though this is changing,[12] while co-operatives may primarily be in agricultural or food systems related sectors (Rosandić, 2018[10]). While there is clear evidence that social economy businesses are supported through training, it is not yet included in data relating to skills intelligence in any WBT economy except Turkey, where recent research provides comprehensive data and analysis of the sector.[13]

However, there is a mismatch between support and training provision and national policy. Policy in most economies recognises the importance of training to develop the social economy sector, as seen in Albania, Montenegro, North Macedonia, Serbia, Turkey and at the entity level in Bosnia and Herzegovina within Republika Srpska. In contrast, few economies provide practical actions. Training programmes that take into account the needs of social enterprises and/or co-operatives are only evidenced at the entity level in Bosnia and Herzegovina, in the Federation of Bosnia and Herzegovina. Start-up support is available for co-operatives in Montenegro and both entities of Bosnia and Herzegovina, and for social enterprises in North Macedonia, Serbia and Turkey.

Investment is needed to grow the social economy sector and benefit from the wider social impact that comes with the added social and environmental value focus of this sector, with research showing that social economy businesses are more likely to be green and sustainable businesses (Rural Development Network of North Macedonia, 2020[11]). Increasingly across Europe, new legal models allow social enterprises to access commercial opportunities and create profit that can be channelled into social impact actions. High-quality training designed for aspiring social entrepreneurs can unlock a return on investment that has the triple objective of supporting people and community, preserving the planet, and driving sustainable economic growth.

SME training for a green transition is not yet evident across all economies

Commitment to sustainable and green recovery post-COVID is at the heart of European SME policy and the Green Deal (European Commission, 2019[12]), the principles of which are made directly relevant to the Western Balkans through the Green Agenda for the Western Balkans (European Commission, 2020[13]), Turkey, for its part, has responded through the launch of the Green Deal Action Plan (Government of Turkey, 2021[14]). This becomes more imperative when considering the clean energy, infrastructure and technology challenges to be transformed in the region to achieve climate targets.

With SMEs representing 99% of the business population, they are integral to the green transition. All WBT economies recognise the importance of training to support the transition to a sustainable and green economy in their national policies. However, this is not always translated into practical training for SMEs, covering key themes of sustainability, resource efficiency and the circular economy. Most economies, except Montenegro and Serbia, provide government financial support to deliver training on sustainable business and resource efficiency. For the circular economy, four economies and the entity of the Federation of Bosnia and Herzegovina provide training, with a gap in Kosovo, Montenegro and Serbia as well as at the entity level in Republika Srpska.

The importance of training for a digital economy is recognised in all economies' economic policies

The COVID-19 crisis has brought digitalisation and digital skills training into sharp focus. All WBT economies recognise the importance of supporting SMEs to adapt and integrate into the digital economy. Government support is available in most economies (except at the entity level in Republika Srpska) to buy digital and information and communication technology (ICT) resources. Almost all economies provide a comprehensive set of training to help SMEs adapt, including training on the digital single market, digitalisation and digital skills training. This is often delivered by government agencies linked to SME development or employment or through government funding programmes supporting delivery by private or non-governmental organisation actors, and involvement can be seen from Enterprise Europe Network providers, especially where training is linked to internationalisation. In Turkey, a number of digitalisation initiatives feature private sector collaborations. The only exception is North Macedonia, which does not provide government support for this training. However, funding by international development co-operation partners has been active in this area in North Macedonia as part of the World Bank COVID-19 response,

providing support to SMEs for rapid reorganisation and implementation of digital tools and systems, so companies could easily adjust to new market conditions.

Smart specialisation has progressed, but challenges remain, including the need for gender mainstreaming

Smart specialisation builds on the strengths and potential of an economy, matching the resources available to the opportunities for development and growth. Research and innovation are at the heart of opening up the entrepreneurial and innovation potential of specific sectors across an economy. To be successful, smart specialisation should use an inclusive approach that embraces broad and diverse stakeholders in the process of discovery, resulting in the identification of priority domains and a process of strategic actions implemented, monitored and evaluated to grow these sectors and the associated supply chains. Consideration of the enterprise skills needed to drive forward smart specialisation is vital. Smart specialisation strategies are under development in all economies, as is highlighted across policy. National strategies have already been launched in Montenegro (2019) and Serbia (2021), while Turkey has opted for a regional approach. Kosovo and North Macedonia are planning their first strategies for 2022, while Albania has initiated the process. In Bosnia and Herzegovina, the S3 process is not yet initiated.

There are evident challenges in both the initial strategy development process and practical implementation at the national and regional levels, including government capacity, stakeholder engagement, adequate skills intelligence, gender-disaggregated data and the need to include relevance to the S3 priorities across existing and new policy and strategy. Serbia stands out for the effectiveness of its approach and continuous entrepreneurial discovery process, while Montenegro has been recognised for its efforts to successfully engage stakeholders, including SMEs (Bolognini, 2021[15]). The engagement of a diversity of SMEs from both national and regional levels in the entrepreneurial discovery process and subsequent stages is a vital factor in developing the relevance of S3 and overcoming scepticism and potential lack of engagement from the business community. To overcome this, a number of economies have established awareness-raising campaigns and launched national S3 portals[14] to provide information and raise the profile of the process among key stakeholders. Gender-sensitive policy making should also be a consideration in S3 development. There is no visible evidence of this within currently launched national strategies in the region.[15] This should be strengthened across all policy development, including S3, placing more emphasis on the need for gender-disaggregated data and embedding gender as a cross-cutting theme across all S3.

Monitoring and evaluation have improved, but there is more work needed to ensure that it supports skills intelligence

Monitoring and evaluation approaches remain underdeveloped in all WBT economies. While improvements can be seen during this assessment period, the lack of comprehensive provision of monitoring and evaluation has a negative impact on the long-term quality of both policy design and practical implementation. In Kosovo, while there is a requirement for government-funded grants to be monitored and evaluated, this information is not shared or collated at the system level. This means that there is also no mapping or sharing of proven good practices, and that performance data cannot be used to adapt or inform new funding decisions. In Serbia, where there is evidence of evaluation of training provision, there is a lack of gender-disaggregated data throughout the process and little co-ordination to collate results, limiting the economy's capacity to provide a more rounded picture of the impact of multiple actions in the SME policy sphere. Understanding the reach, efficacy and impact of actions is vital for the ongoing development and implementation of S3, as well as the new national skills frameworks being established in Albania, Kosovo and Turkey.

The way forward for enterprise skills

- **Act urgently to upgrade skills intelligence.** A lack of skills intelligence on current and future supply and demand makes it difficult to set priorities across education, labour market and industry policy areas to shape enterprise skills provision. Consideration should be given to harmonising national skills intelligence frameworks with the permanent online skills intelligence platform being developed as a flagship action of the European Skills Agenda[16] and the European Skills Index led by Cedefop.[17]
- **Mainstream SME skills, including the gender perspective, into smart specialisation strategy development and implementation.** SME skills development needs should be considered a cross-cutting action area within S3. This will support both S3 priority domains and associated value chains at national and local levels, equipping them with the skills, including reskilling and upskilling, to support the changing nature of the economy as S3 domains develop and grow. The gender impact of this discovery process should be included, with some practical steps, as illustrated in Box 9.2.

Box 9.2. Promoting gender mainstreaming through smart specialisation in Värmland, Sweden

The region of Värmland developed a regional smart specialisation strategy (S3) and took an explicit decision to design a strategy that created sustainable and inclusive growth. To achieve this, it re-interpreted the purpose of smart specialisation to reflect its commitment. Its vision became: "Smart specialisation is a smart way to organise and develop existing regional assets in order to create value for users and society." While the starting point was to create an innovation strategy for business, the goal evolved into a gender-mainstreamed innovation strategy for smart specialisation. Gender mainstreaming at every stage of the S3 process was included due to the nature of the industry in the region, reflecting the economic reality that the primary industries (pulp and paper, steel, and engineering) were male-dominated and thus the labour market is heavily gender-segregated. It was regarded as a positive societal benefit that could be integrated as a planned outcome of the smart specialisation process through its design and implementation.

This was the first time that gender had been considered so comprehensively within S3, and the process was undertaken with support from the EU Joint Research Centre Smart Specialisation team as well as a local university with expertise in gender studies. Key areas where gender mainstreaming was applied were to:

- implement statistical analysis of the gender structure of the labour market
- apply a gender-equality perspective throughout the mapping process, bringing not only an awareness of gender in all aspects, but also the ambition to work towards a more gender-equal innovation and business climate in the region
- assess the likely gender impacts of the decisions taken in strategy, to more fully understand the consequences that different decisions have on women, men, girls and boys, and to use this understanding to decide how best to achieve inclusive, sustainable growth
- consider how to further gender equality within the priority economic domains by exploring how to shape them to attract more women employees and identify potential areas of innovation within priority sectors that can assist in gender mainstreaming as a societal benefit.

Gender inequality is prevalent and multi-faceted across all economies. To embrace gender equality at the heart of smart specialisation would advance the ambitions of all economies to decrease gender inequality. This is particularly pertinent due to of the emphasis in all economies on the development of S3. For Montenegro and Serbia, this example may provide added ideas for reflection during the next

stages of S3 development and implementation.

Sources: European Commission (n.d.[16]); Thinking Smart (2015[17]); Region of Varmlands (2015[18]).

- **Place a priority on training for SMEs that will support the green transition,** in particular opening up the relevance of the circular economy across all sectors. The current low level of training provision needs to be expanded if the opportunities for green growth are to be exploited for both social and economic impact. Inspiration can be taken from actions recommended through the European Circular Economy Action Plan (European Commission, 2020[19]), such as recycling businesses, circularity in industrial processes, digital technologies for tracking resources or working with other enterprises to develop cluster collaborations, or the selection of actions in the Eurochambres guidance (Eurochambres, 2020[20]).
- **Establish comprehensive monitoring and evaluation of all programmes related to SME skills, including a strong gender focus and fully gender-disaggregated data.** A high-quality and co-ordinated approach to monitoring and evaluation is needed to document progress and impact. This work should be supported by consistent, gender-disaggregated data gathered from government-financed SME support and training actions. It should inform a gender impact assessment of the current approaches to enterprise skills and support. This will address and seek solutions for the current challenges faced by women across the labour market and entrepreneurship. For more information on data that WBT governments could consider collecting in this area, please see Annex C.

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[2] See: https://sitp.rks-gov.net. The Labour Market Barometer automatically collates real-time data from the following statistical sources:

1. Employment Agency of the Republic of Kosovo
2. Kosovo Agency of Statistics
3. Tax Administration of Kosovo
4. Civil Registration Agency
5. Ministry of Education and Science
6. Ministry of Labour and Social Welfare
7. Ministry of Internal Affairs
8. Business Registration Agency
9. Agency for Vocational Education and Training and Adult Education
10. University of Pristina
11. Kosovo Accreditation Agency
12. National Qualification Authority

[3] See: http://alled.eu/en/edu-net-2.

[4] See: http://alled.eu/wp-content/uploads/2022/02/Kosovo-Skill-Barometer-1.pdf.

[5] See: https://www.geleceginbecerileri.com/en/gelecegin-becerileri-programi.

[6] For more information, see: https://trzisterada.ba.

[7] For more insight, see: https://www.cedefop.europa.eu/en/news/cedefop-links-gender-equality-better-skills-systems.

[8] See: https://boostmeup.me.

[9] For more information, see: www.restart.how.

[10] For more information on the Global Innovation Index 2021 see: https://www.wipo.int/edocs/pubdocs/en/wipo_pub_gii_2021.pdf.

[11] For the European Commission definition and description of social economy businesses, see: https://ec.europa.eu/growth/sectors/proximity-and-social-economy/social-economy-eu_en#:~:text=The%20social%20economy%20encompasses%20a,and%20pursuing%20a%20social%20cause.

[12] For more insights and access to European Commission research and economy reports, see: https://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=8274 and https://ec.europa.eu/docsroom/documents/29642/attachments/15/translations/en/renditions/native.

[13] For more information on this research led by the British Council, see: https://www.britishcouncil.org.tr/en/programmes/education/social-enterprise-research

[14] The current S3 platforms can be accessed at:

Kosovo: https://smartkosova.rks-gov.net

Montenegro: https://www.s3.me/en

Serbia: https://pametnaspecijalizacija.mpn.gov.rs/s3-u-srbiji

[15] There is no evidence of gender-sensitive approaches within smart specialisation strategies that are already established in Montenegro and Serbia.

[16] See action 2 of the European Skills Agenda (European Commission, 2020[3]).

[17] For more information regarding the European Skills Index see: https://www.cedefop.europa.eu/en/projects/european-skills-index-esi.

10 Innovation policy for SMEs (Dimension 8b) in the Western Balkans and Turkey

This chapter assesses the strategic framework, available infrastructure and policy measures to stimulate SME innovation to build a knowledge economy in the Western Balkans and Turkey. The chapter starts with an overview of the assessment framework and outlines the key developments since the last assessment. It then presents the four sub-dimensions of Dimension 8b: 1) policy framework for innovation, which reviews the framework in which innovation is embedded and progress implementing it; 2) government institutional support services for innovative SMEs, which looks at the institutional support structure to foster innovative entrepreneurship, both for early-stage and more mature small businesses; 3) government financial support services for innovative SMEs, which assesses the availability and scale of direct and indirect financial support schemes to enhance firm innovation, and 4) SME and research institution collaboration and technology transfer, which analyses the level of collaboration between SMEs and research institutions, and support measures that are in place to stimulate business-academia co-operation, technology transfer and commercialisation. Each sub-dimension concludes with a set of key recommendations to help address outstanding challenges.

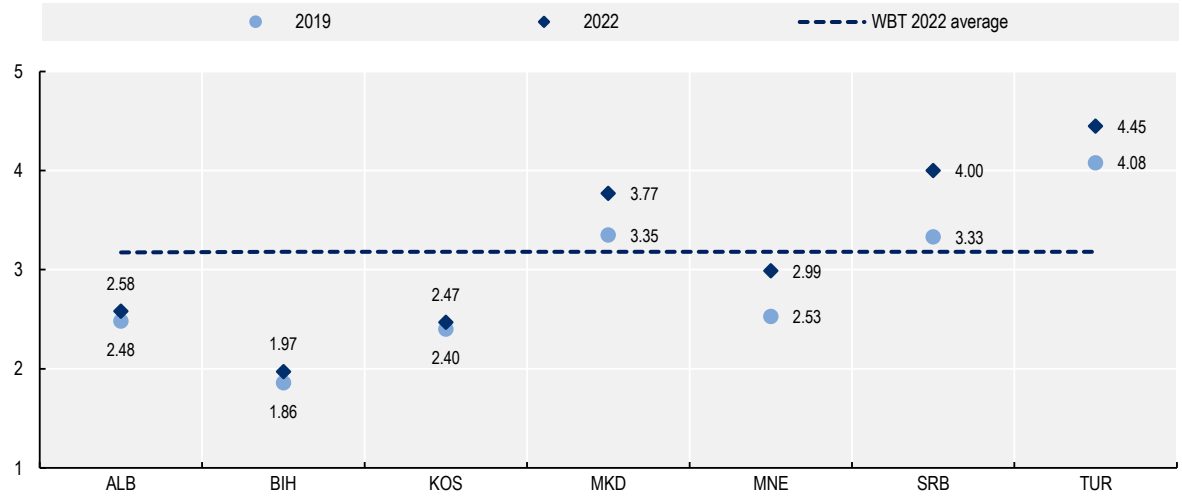
Key findings

- **Most economies in the Western Balkans and Turkey have a comprehensive framework for innovation policy in place;** however, some of the more advanced economies need to ensure that momentum is maintained and efforts are consolidated in a renewed strategic approach. Implementation continues to be somewhat impeded by complex co-ordination mechanisms in most economies, reflecting the highly interdisciplinary nature of innovation.
- **Smart specialisation is advancing.** In addition to Montenegro, the first Western Balkan economy to adopt a smart specialisation strategy (S3) during the previous assessment, both North Macedonia and Serbia are in the process of or have adopted smart specialisation strategies since the last assessment. Albania has started preliminary work while in Turkey, five regions have formulated an S3 approach. Inter-regional linkages could be further explored to maximise the available resources and capabilities.
- **The speed and scale of implementation are increasingly diverging.** Those economies with well-established, clearly mandated institutions to support innovation development (North Macedonia, Serbia and Turkey) have further increased the scale and outreach of their support programmes, while in the remaining economies, implementation of innovation policy has progressed more slowly. In Montenegro, a major development was the creation of a new Innovation Fund, which is expected to increase the economy's implementation capacity once it becomes operational in 2022.
- **Efforts to build an innovation ecosystem are progressing.** Multiple incubators operate throughout the region, often supported by public funds or self-sufficient. Not all of them, however, have obvious links to innovation. Acceleration programmes have also been established, but overall support for more mature enterprises continues to be limited.
- **Financial support has expanded**, in particular in economies with previously established dedicated innovation agencies. The allocation of the state budget for these agencies has increased, and dedicated COVID-19 programmes were introduced to help mitigate the impact of the COVID-19 pandemic. In other economies, small and medium-sized enterprises (SMEs) can access small-scale support. Indirect financial support in the form of fiscal support or demand-side incentives is increasingly available, but remains below potential.
- **Business-academia collaboration remains nascent.** Financial support schemes specifically targeting co-operation in research and development (R&D) remain limited to a few economies (North Macedonia, Serbia and Turkey), while the emerging institutional support infrastructure does not always focus on stimulating linkages.
- **Despite improvements in intellectual property protection, enforcement remains low, thereby discouraging patenting.** Almost all economies have strengthened their legal frameworks for intellectual property to align with the EU *acquis* and internationally recognised patents emerging from the region are gradually increasing, though remain significantly below potential.

Comparison with the 2019 assessment scores

All economies have made progress in designing and implementing effective innovation policies for SMEs. However, the scale and speed of implementation have varied significantly, with those economies that were previously already more advanced in the area of innovation adopting additional measures, reflected in solid increases in their overall scores (Montenegro, North Macedonia, Serbia and Turkey). Gaps with the other economies have widened, increasingly suggesting two rates of development of innovation policy across the region (Figure 10.1).

Figure 10.1. Overall scores for Dimension 8b (2019 and 2022)



Notes: WBT: Western Balkans and Turkey. Despite the introduction of questions and expanded questions to better gauge the actual state of play and monitor new trends in respective policy areas, scores for 2022 remain largely comparable to those of 2019. To have a detailed overview of policy changes and compare performance over time, the reader should focus on the narrative parts of the report. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Implementation of the SME Policy Index's 2019 recommendations

Across the Western Balkans and Turkey (WBT) region, some measures have been taken to address and implement the recommendations made in the 2019 assessment. Table 10.1 summarises the progress made in implementing the key recommendations made for this dimension in the previous assessment.

Table 10.1. Implementation of the SME Policy Index's 2019 recommendations for Dimension 8b in the Western Balkans and Turkey

Regional 2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Regional progress status
Take an overarching strategic view and co-ordinate policies across the whole of government	Co-ordination remains complex, with the involvement of multiple ministries, agencies and advisory bodies across all levels of government. Since the previous assessment, the number of stakeholders has even increased in most economies in the region. The exception is Montenegro, which established a dedicated Council for Innovation and Smart Specialisation in 2019, which has a unique and clear mandate to co-ordinate national innovation policy.	Limited
Develop sector-specific support and "smart specialisation" frameworks	Following Montenegro in 2019, Serbia adopted a Smart Specialisation Strategy in 2020. North Macedonia's Smart Specialisation Strategy is expected to be adopted in 2022. In Turkey, five regions have formulated smart specialisation approaches, while in Albania, work to develop one has also commenced, but remains at an early stage. In Bosnia and Herzegovina, a working	Moderate

Regional 2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Regional progress status
	group has been established to look preliminarily into the development of a smart specialisation strategy. All efforts are supported by the European Commission's Joint Research Centre.	
Improve statistical data to formulate evidence-based policies	Bosnia and Herzegovina and Montenegro participated in the European Innovation Scoreboard (EIS) for the first time during the assessment period, alongside North Macedonia, Serbia and Turkey. Albania is aligning the collection of statistical data to the Eurostat methodology in preparation for joining the EIS during the next assessment cycle. Further efforts are, however, needed overall to enhance statistical data collection and use for developing evidence-based policies.	Moderate
Explore cross-border collaboration and promote an ecosystems approach to innovation	No actions have been taken.	No progress
Step up the efforts to accelerate technology diffusion among SMEs	In Turkey, the number of technology development zones, which offer some sort of technology extension support, has expanded. In North Macedonia, following a dedicated technology extension programme implemented by the Fund for Innovation and Technology Development during the previous assessment, three providers now offer such services.	Limited
Map the innovation infrastructure	North Macedonia, Serbia and Turkey have carried out an assessment of the start-up ecosystem, though these did not have a specific focus on innovation. Progress has been made by some economies, notably Serbia, in conducting a research infrastructure road map under the umbrella of its membership in the European Strategy Forum on Research Infrastructure.[1]	Moderate
Consolidate financial support measures and increase disbursements	Public spending has increased across most of the region, albeit at significantly varying speeds and scales. In North Macedonia, Serbia and Turkey, availability and disbursement of funds have expanded further, while in Albania, despite temporary improvements (from very low levels) in 2019, all funding for innovation was halted at the onset of the COVID-19 pandemic. Funding remains scarce in Bosnia and Herzegovina, Kosovo* and Montenegro, but in Montenegro in particular, an increase in the availability of financial programmes is expected once the newly established Innovation Fund becomes operational.	Moderate
Diversify public support to business research and development (R&D)	Serbia introduced tax relief for R&D activities and amended its procurement legislation to encourage innovation. Montenegro is also preparing tax breaks. In Republika Srpska, a new Law on Incentives supports investment in new technology and equipment, while in North Macedonia, research activities were excluded from value-added tax during the assessment period.	Moderate
Intensify co-operation between academia and the private sector	Private sector investments in R&D are gradually increasing, albeit from very low levels. Several economies (Montenegro and North Macedonia) have introduced or are planning to deploy financial support programmes encouraging business-academia co-operation and efforts are being made to strengthen the institutional support infrastructure, particularly in the form of science and technology parks. However, the link to research is not always evident. Intellectual property protection is increasing, but enforcement remains an issue across the region.	Moderate
Scale up intellectual property rights support services for SMEs	Small-scale support is provided in some economies for patent applications, and awareness-raising activities increased in the pre-COVID period, albeit from low levels. Some economies, for instance Serbia, have reduced fees for patent applications.	Limited

1. For more information on the WBT economies' participation in the European Strategy Forum on Research Infrastructure and progress on mapping their research infrastructures, see OECD (2021[1]).

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

Introduction

Globalisation, technological development and growing markets have been major triggers for firm innovation in the last decade, and increasingly, SMEs have been recognised to play key roles in the development of innovation- and knowledge-based economies. In addition, there is also a clear link between firm innovation and economic output. Innovative practices and activities help firms expand and boost productivity, even if only a small percentage of them advance to the global technological frontier (EBRD, 2014[2]).

Recent developments and global trends have further emphasised the need for innovation and knowledge development and have demonstrated the incremental role innovation can play in tackling global social and

economic challenges. Innovation and R&D have been at the forefront of the global response to the outbreak of COVID-19, including through the development of vaccines and medical treatments, but also by providing digital solutions to tackle social distancing, which has accelerated the automation and business adoption of other technologies and practices (Paunov and Planes-Satorrai, 2021[3]), and have often been driven by the private sector. At the same time, innovation is also seen as critical for fostering green growth and developing carbon-neutral business processes. Such "eco-innovations" reduce environmental impact, with or without intent, and distinctly can also include broader changes in social and institutional structures, with a long-lasting, sustainable impact. Although not all eco-innovations are driven by SMEs, in particular, relatively new market entrances are seen as pioneers of eco-innovations (OECD, 2013[4]).

Against this background, supporting innovation and creating adequate frameworks have become a policy priority for governments around the world. The development of innovative activities requires sound macroeconomic conditions. Analysing cross-country differences finds that robust output growth, low inflation and low real interest rates have a positive influence on the rate of growth of R&D (Jaumotte and Pain, 2005[5]). While creating broader innovation and knowledge systems, comprised of the flow of information between public research institutions, universities and enterprises, at the same time, it is imperative to also support and develop innovation capacity directly at the firm level, for instance in the form of financial and technical support schemes. As such, creating a sound framework for innovation is essential to boost private sector innovation activities.

The Small Business Act for Europe suggests a number of measures to support innovation for small businesses, and calls on governments to "encourage investment in research by SMEs and their participation in R&D support programmes, transnational research, clustering and active intellectual property management by SMEs" (European Commission, 2008[6]).

The following sections describe the progress WBT economies have made in achieving these principles, among others.

Assessment framework

Structure

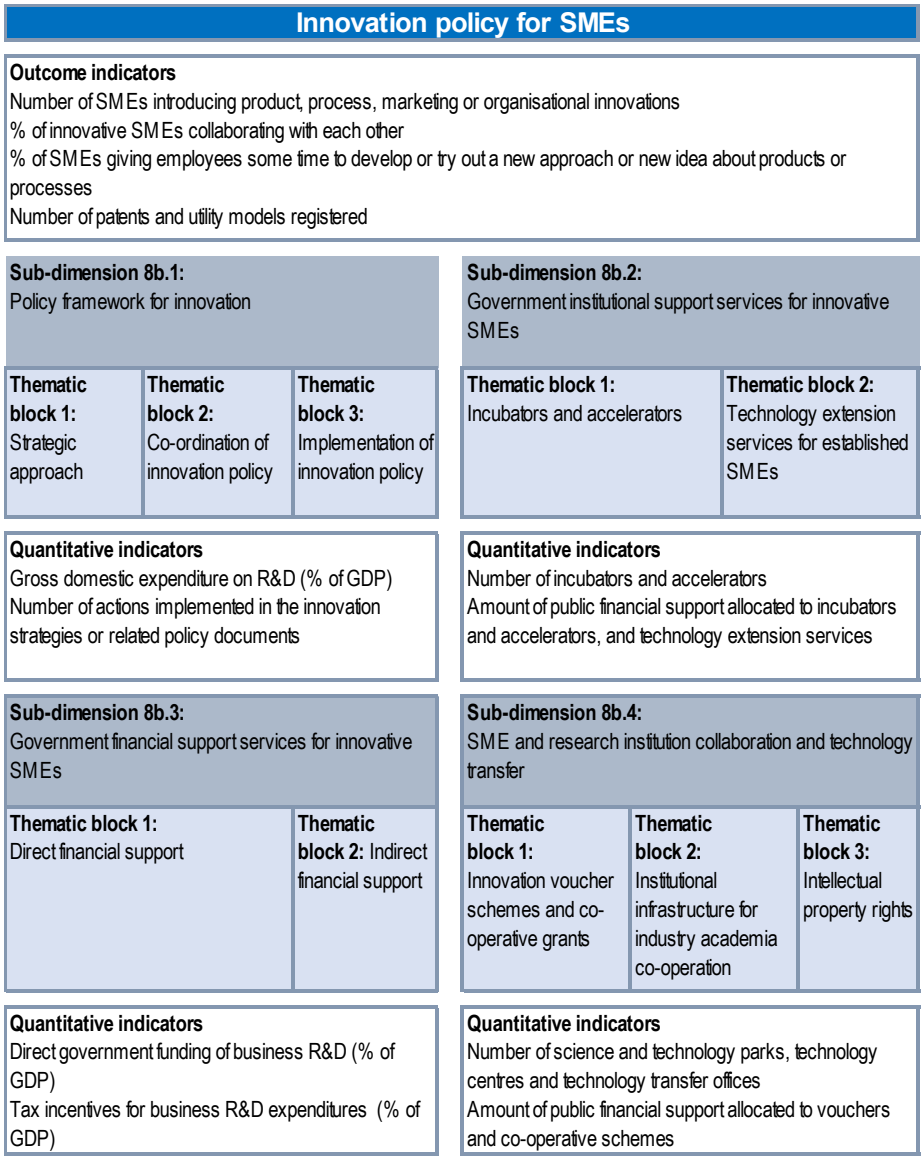
Dimension 8b aims to assess the innovation policy framework, its implementation mechanism, and public support measures to support and enhance innovative entrepreneurship across the WBT region. The analysis is based on four sub-dimensions:

- **Sub-dimension 8b.1: Policy framework for innovation** looks at the overall strategic approach that SME innovation policy is based on, as well as co-ordination and implementation mechanisms.
- **Sub-dimension 8b.2: Government institutional support services for innovative SMEs** assesses the physical, non-financial infrastructure available to SMEs, including for start-ups and early-stage companies as well as for more mature SMEs.
- **Sub-dimension 8b.3: Government financial support services for innovative SMEs** evaluates the availability and scale of both direct financial support schemes and indirect financial incentives to stimulate innovation and R&D in firms.
- **Sub-dimension 8b.4: SME and research institution collaboration and technology transfer** looks at policy measures to stimulate exchange and collaboration between academia and the business community, both in terms of financial and non-financial support, and also considers the legal framework for intellectual property protection and support to commercialisation.

Figure 10.2 illustrates how these four sub-dimensions together make up the overarching assessment framework for this dimension. Innovation, and the development of a knowledge-based economy, are

determined by both demand- and supply-side factors. While this assessment predominately looks at the policy framework to stimulate firm innovation and enhance the technological absorption capacity of SMEs, it recognises that the level of innovation is also linked to the quality and quantity of scientific research outputs, which is not specifically covered in this assessment.

Figure 10.2. Assessment framework for Dimension 8b: Innovation policy for SMEs



Note: SME: small and medium-sized enterprise; GDP: gross domestic product; R&D: research and development.

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

Since the 2019 assessment, small adjustments have been made to the framework that gauges the inclusion of the green and digital aspects of policies and measures. The assessment also takes into consideration COVID-19 response measures, although no evaluation has been made in this regard.

Analysis

Following a trend already evident in the previous assessment, the WBT region has further progressed in creating an ecosystem conducive to SME innovation, reflecting the strong emphasis on innovation and the development of a knowledge economy in national policy agendas. However, regional discrepancies are becoming increasingly apparent.

Output indicators play an important role in assessing and evaluating the impact and effectiveness of policy measures. While the overall availability of reliable statistical data on key areas related to innovation and R&D remains limited, some progress has been made, and is well captured in the 2021 edition of the European Innovation Scoreboard (EIS) (see Box 10.1 for further details). Since the previous assessment, Montenegro and Bosnia and Herzegovina started participating in this pan-European comparative assessment in 2020 and 2021, respectively, in addition to North Macedonia, Serbia and Turkey.

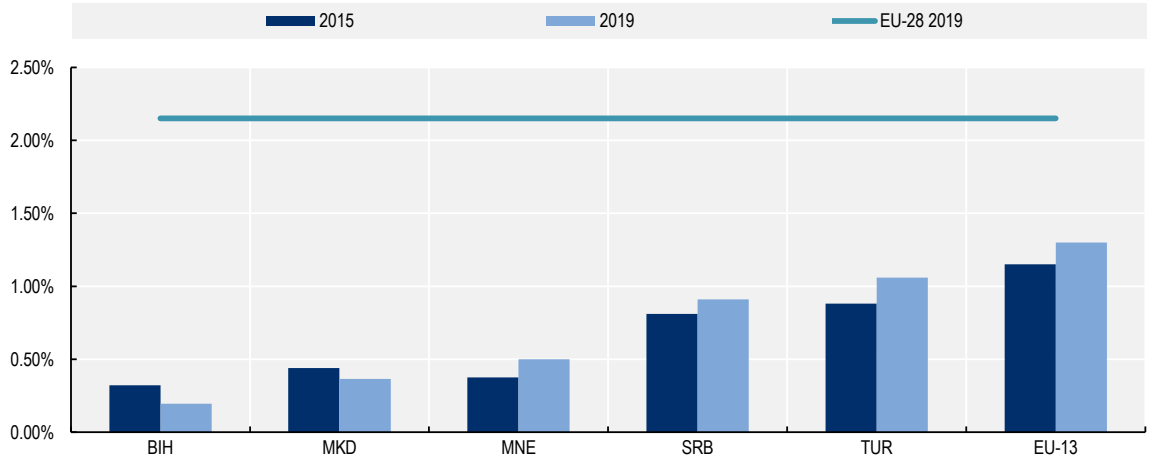
Accordingly, the WBT region is catching up, but significant gaps remain compared to most of its European peers. All five participating economies are categorised as “emerging innovators”, suggesting that their performance is less than 70% of the EU average. Bosnia and Herzegovina, Montenegro and North Macedonia rank towards the bottom of this category, ahead of Ukraine and Romania. Turkey also sits in the bottom half, following a drop in its overall performance compared to the 2020 EIS assessment, whereas Serbia is positioned just behind the leaders within this group, Hungary and Croatia (EIS, 2021[7]).

Other data support these findings. Spending on R&D as a percentage of gross domestic product (GERD) remains low across all WBT economies (Figure 10.3) and is even decreasing in some. Even where progress is tangible, particularly in Serbia and Turkey, spending remains well below the EU target of 3%. R&D investments continue to be mainly public sector driven, though private sector contributions have increased, particularly in Serbia.

As a result, patent application levels also remain very low in most economies, but are gradually increasing. Very few patents granted by the European Patent Office originate from the WBT region, suggesting limited high-quality research activity, but also a lack of awareness about the importance of intellectual property protection. In 2021, the European Patent Office granted 256 applications from the WBT region, 252 of which originated from Turkey, 2 from Serbia, and 1 from each Albania and North Macedonia. No patents were successfully filed that originated from Bosnia and Herzegovina, Kosovo, or Montenegro that year (EPO, 2021[8]).

All economies also continue to participate in the European Commission’s Horizon 2020 programme. However, the scope and scale of activities vary significantly across the region, and remain below potential. In total, 1 592 projects had received more than EUR 466 million in funding by the end of 2021. Serbia and Turkey, reflective of their size, have been the most active, but project participation has also increased in Kosovo amid increased promotion and awareness raising, albeit from very low levels (Table 10.2).

Figure 10.3. Gross domestic expenditure on R&D as a percentage of GDP (GERD) (2015 and 2019)



Note: Data for Albania are only available for 2008; data for Kosovo not available. The EU-13 refers to Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic and Slovenia.
Note by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus. Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue".
Note by all the European Union member states of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the government of the Republic of Cyprus.
Sources: UNESCO Institute for Statistics (2020[9]); Eurostat (2020[10]).

StatLink https://stat.link/6obgnf

Table 10.2. Horizon 2021 portfolio for Western Balkan and Turkey economies

	ALB	BiH	KOS	MKD	MNE	SRB	TUR
Number of participating projects	48	70	106	92	39	414	823
Funding awarded (EUR million)	5.79	8.72	17.35	14.8	4.62	135	280.5

Source: European Commission (2021[11]).

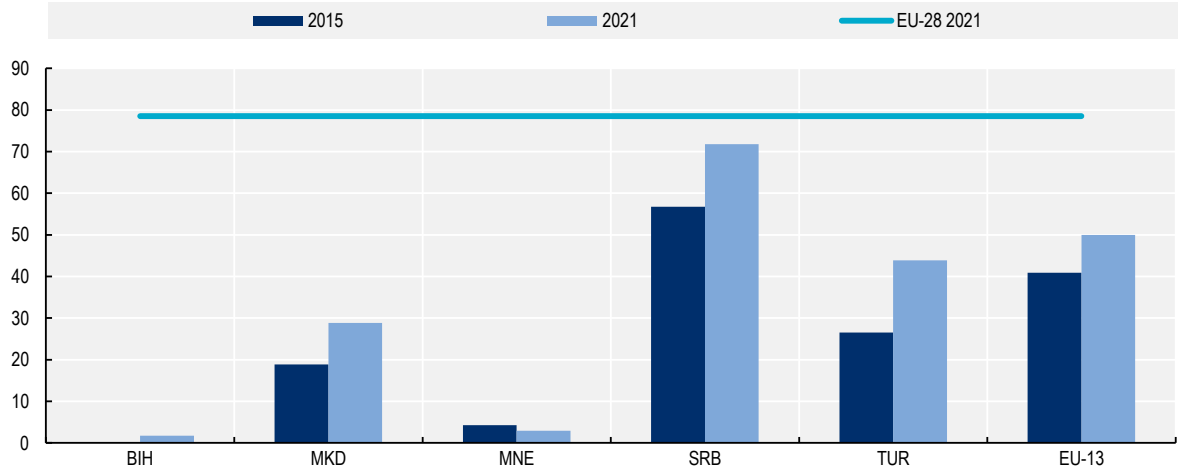
However, innovation goes well beyond R&D, as suggested by the OECD *Oslo Manual* (OECD/Eurostat, 2018[12]). Innovation also includes more incremental changes, such as adopting new business processes and technologies, products, or services, or introducing organisational change.

Against this background, when looking at self-reported firm-level data on innovation, a more positive trend emerges. According to the latest Business Environment and Enterprise Performance Survey (EBRD, 2021[13]), around one-third of surveyed enterprises report having introduced products of technological innovations to their business. However, amid limited investments in R&D, these innovations are likely to be limited to adopting existing technologies and products from abroad.

Lastly, the region's limited yet gradually growing innovation capacity is reflected in its performance in high value-added exports. For these predominately service-oriented economies, particularly in the Western Balkans, the share of knowledge-intensive exports can serve as a solid indicator for assessing their capacity to generate a high level of value added, typically stemming from innovation and participating in knowledge-intensive global value chains. Data from the EIS, where available, also confirm the regional trend. Overall, performance in the region is improving, although at varying levels, but remains significantly

below the EU average. The COVID-19 pandemic is likely to have further contributed to an increasing level of innovation, including through more active e-commerce. At the same time, however, the gap is narrowing compared to the EU-13 average or, in the case of Serbia, even exceeding it, though this is likely the result of the increasing share of ICT in Serbia's export mix (Figure 10.4).

Figure 10.4. Knowledge intensive service exports, European Innovation Scoreboard (2015 vs 2021)



Notes: Data indicate normalised performance of economies in 2021 relative to that of the European Union in 2021. Data are unavailable for Albania and Kosovo. The EU-13 refers to Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic and Slovenia.
Source: EIS (2021[7]).

StatLink https://stat.link/trd9em

The analysis confirms an overall positive trend for the WBT region, but also the significant catch-up potential. This can be further leveraged and supported with well-designed and targeted policy measures, as discussed below.

Policy framework for innovation (Sub-dimension 8b.1)

An overarching strategic framework to support innovation is critical to guide the design, implementation and impact evaluation of policy in this inherently interdisciplinary area, which covers a wide range of topics, from science and technology, education, and industrial policy to entrepreneurship development.

Due to the cross-cutting nature of innovation policy, the strategic framework should outline the overall innovation objectives for the economy and define the roles of the different public institutions. It should also incorporate an effective co-ordination mechanism to ensure buy-in across government and complementarity of the proposed policy measures, to maximise impact and address existing gaps in policy frameworks. Lastly, an effective and impactful innovation system should include strong, sufficiently funded implementation bodies with a clear mandate, thereby ensuring that policy priorities are not compromised amid competing agendas.

The policy framework is best designed to cover both technological and non-technological innovations and should include specific measures to enhance firm-level innovation and absorption capacity, building an innovation system, R&D, and technology transfer as well as collaboration between the research and

business communities. In addition, a strong focus should be placed on supporting innovation for SMEs, a segment that typically faces proportionally higher obstacles to innovate. As for all policy frameworks, a concrete action plan for implementation, as well as quantifiable indicators to measure progress and impact, are essential.

Table 10.3 summarises the performance of the WBT region in this sub-dimension, assessing the economies' progress in developing best-practice, comprehensive policy frameworks for innovation. Most of the economies across the region have a solid policy framework in place and have made further progress since the last assessment; however, shortcomings remain in particular with regard to co-ordination and ineffective implementation. Turkey, Serbia and North Macedonia continue to be the top performers in this dimension, while Montenegro is increasingly closing the gap.

Table 10.3. Scores for Sub-dimension 8b.1: Policy framework for innovation in the Western Balkans and Turkey

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Strategic approach	3.72	2.40	3.20	4.08	4.04	4.62	4.60	**3.81**
Implementation of innovation policy	2.60	1.92	2.52	4.32	3.00	4.40	4.44	**3.31**
Co-ordination of innovation policy	2.60	1.52	2.52	3.80	3.52	4.12	5.00	**3.30**
Weighted average	**2.94**	**1.98**	**2.72**	**4.14**	**3.42**	**4.41**	**4.60**	**3.46**

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

Policy frameworks have further advanced, but efforts are needed to maintain momentum

Overall, the WBT region has made further progress in enhancing policy frameworks for innovation, increasingly reflecting key socio-economic challenges such as brain drain, climate change and inclusion. In Serbia, the new "Power of Knowledge" strategy (2021-2025) has replaced the previous innovation strategy. In Montenegro, North Macedonia and Turkey, work has commenced to develop successor strategies after the expiration of old ones. In contrast, in Kosovo, the strategic framework for innovation remains at a high level, without concrete actions or targets, while in Bosnia and Herzegovina, where innovation is a competency of the entities, the economy's complex constitutional set-up has thus far impeded the development of a comprehensive policy approach altogether. However, both entities have innovation action plans in place, though implementation results are mixed.

Progress has been made in some economies to introduce S3, with support from the European Commission's Joint Research Centre. Smart specialisation enables economies to leverage existing resources and assets to identify competitive advantages and opportunities for growth. In 2020, Serbia followed Montenegro, which adopted its S3 in 2019 as the first WBT economy to do so, while work has also commenced in Albania and North Macedonia, though it remains at an early stage in Albania. In Turkey, five regions have formulated S3 approaches, while in Bosnia and Herzegovina, a working group at the federal level tasked with developing an S3 has been established.

Policy frameworks are implemented at varying speeds and scales

Implementation progress remains uneven, partially impacted by continuing complex co-ordination mechanisms across most economies. Reflecting the highly interdisciplinary nature of innovation, numerous ministries, agencies and advisory bodies are often involved in the design, implementation and oversight of innovation approaches, while a single and uniquely mandated body only seems to be present in Montenegro in the form of the Council for Innovation and Smart Specialisation, established in 2019.

In addition, implementation capacity varies significantly across the region. In Turkey, both the Small and Medium-sized Enterprises Development Organisation KOSGEB and the Scientific and Technological Research Council TUBITAK implement large-scale, fully state-funded support schemes and other measures. The Fund for Innovation and Technology Development (FITD) in North Macedonia and the Serbian Innovation Fund have further scaled up operations, increasingly with state budgets, while Serbia has also established a dedicated Science Fund since the last assessment. Montenegro established an Innovation Fund in 2021, but it had not yet become fully operational at the time of writing. In stark contrast, little progress has been made in Albania, Bosnia and Herzegovina, or Kosovo, where implementation capacity remains limited amid limited resources and sometimes competing priorities.

Monitoring and evaluation are gradually improving

Some progress has been made in collecting statistical data relevant for innovation, which helps to inform policy actions. During the assessment period, both Bosnia and Herzegovina and Montenegro participated in the EIS for the first time in 2021 and 2020, respectively, alongside North Macedonia, Serbia and Turkey. In Albania, the collection of innovation-related statistics has expanded as the economy prepares for participation in future rounds of the EIS. Efforts should be maintained to fill outstanding gaps in data collection for the EIS, and will greatly enhance the monitoring and evaluation of national innovation frameworks.

The way forward for policy framework for innovation

- **Complete innovation policy frameworks.** Economies with recently expired innovation policies should swiftly adopt successor strategies to maintain momentum, comprehensively applying lessons learnt from previous implementation cycles. This should be coupled with steady progress in completing the development of smart specialisation strategies. In economies with a limited strategic focus, notably Bosnia and Herzegovina and Kosovo, further efforts are needed to identify clear innovation policy priorities and implementation frameworks. Continuous efforts to strengthen the collection of statistical data, ideally aligned to the EIS methodology, will help to design policy measures and monitor progress against pre-defined targets and objectives (Box 10.1).
- **Further strengthen implementation and co-ordination capacity.** Clearly mandated co-ordination and implementation bodies can maximise complementarity of policy measures, track progress and consolidate the implementation of innovation policy, which is especially helpful following governmental restructuring or the establishment of new public agencies that may have overlapping objectives and responsibilities. Furthermore, continuous capacity building of implementation agencies and regular monitoring and impact evaluation of policy measures, including lessons learnt, strengthen delivery capacity. For more information on data that WBT governments could consider collecting in this area, please see Annex C.
- **Increase regional linkages in the context of smart specialisation.** Leveraging the newly developed smart specialisation strategies, explore opportunities for increased cross-border and inter-regional co-operation. Regional capabilities are a core pillar of smart specialisation strategies, and increased linkages with regions with similar capabilities or complementary resources would help develop economies of scale and maximise impact.

Box 10.1. European Innovation Scoreboard

The European Innovation Scoreboard (EIS), released annually by the European Union, provides a comparative assessment of the research and innovation performance of EU member states as well as 11 associated economies[1] and the relative strengths and weaknesses of their research and innovation systems, thereby helping participating economies to concentrate their efforts to boost innovation performance. The framework also includes ten benchmark global economies.

In 2021, the assessment framework for the EIS was revised, now incorporating four main dimensions: 1) the innovation framework conditions, aimed at capturing external factors to firm innovation; 2) investments, including both public and private; 3) innovation activities, such as the introduction of innovative products or processes, linkages, and patents; and 4) impact, looking at spillovers to employment, sales and environmental impact.

Based on a quantitative assessment, participating economies are benchmarked against the 2014 EU average, and categorised into four categories, ranging from:

- emerging innovators (performance below 70% of the EU average)
- moderate innovators (performance between 70% and 100% of the EU average)
- strong innovators (performance between 100% and 125% of the EU average)
- innovation leaders (performance above 125% of the EU average).

In total, the EIS captures 32 different indicators, sourced mainly from Eurostat, but also from other internationally recognised sources, such as the OECD and the United Nations.

Within the context of the five WBT economies participating in the 2021 EIS, only Serbia submitted all 32 indicators, followed by North Macedonia and Turkey, for which 30 indicators were used. Montenegro provided 29 indicators, though these are unofficial and collected via a separate survey. The analysis for Bosnia and Herzegovina is based on only 25 indicators.

1. These include, in addition to the Western Balkans and Turkey economies mentioned, Iceland, Israel, Norway, Switzerland, Ukraine and the United Kingdom.
Source: European Union (2021[14]).

Government institutional support services for innovative SMEs (Sub-dimension 8b.2)

A vibrant ecosystem that nourishes entrepreneurship and creative thinking is essential for an effective innovation system. Incubators and accelerators are core to this system of innovation support, providing support to create and develop innovative businesses.

Incubators typically support companies at the start-up stage, providing workspace, utilities and support services. Accelerators are related to incubators; however, they typically target start-ups with significant growth potential, and a preliminary, innovative business idea already in place, aimed at accelerating business creation and provision (or preparation for) early-stage or seed financing. Short-term accelerator programmes usually offer beneficiaries intensive entrepreneurial training and access to local and international mentorship networks, often concluding with a pitching event to potential investors.

Both incubators and accelerators can be publicly or privately run and managed, though given the nature of accelerators, they are usually commercially motivated. However, while incubators usually target a broader segment of start-up companies and can offer support over several years, they do not typically provide capital. In contrast, accelerators are highly selective, usually sector focused and ultimately, aim to prepare beneficiary firms for future investments.

While early-stage support is crucial to nurture creative business ideas, innovation is not exclusive to start-ups. Many enterprises, particularly smaller ones, import knowledge into their companies instead of developing it in-house. In addition, incremental firm innovations often emerge from adopting existing technologies, which, even if not at the global technological frontier, positively contribute to developing the knowledge and productivity of local economies. Therefore, dedicated technology extension and diffusion services targeting more mature enterprises are instrumental to comprehensive institutional support infrastructure for innovation, helping to both develop "new to firm" innovation and facilitate access to existing innovative products and processes.

Many WBT economies have progressed substantially in this sub-dimension, in particular in establishing a solid ecosystem for start-ups (Table 10.4). In contrast, only a few economies, notably North Macedonia and Turkey, offer comprehensive innovation support services for more mature SMEs. As a result, Turkey continues to outperform the rest of the region in this sub-dimension, though the previous wide gap is gradually closing.

Table 10.4. Scores for Sub-dimension 8b.2: Government institutional support services for innovative SMEs in the Western Balkans and Turkey

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Incubators and accelerators	2.04	2.40	2.71	3.86	3.24	3.96	4.71	**3.27**
Technology extension services for established SMEs	2.33	1.00	1.40	3.00	1.04	2.55	3.67	**2.14**
Weighted average	**2.16**	**1.84**	**2.19**	**3.51**	**2.36**	**3.40**	**4.30**	**2.82**

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

Institutional support services continue to expand across the region, but they mainly focus on start-ups

The scope and scale of institutional support for early-stage companies have expanded across the WBT region since the previous assessment. Economies such as Kosovo, Serbia and Turkey are increasingly prioritising the development of an ecosystem conducive to start-ups, especially in the ICT sector.

Albania adopted a new Law on the Support and Development of Start-ups in March 2022, which envisages a state budget allocation in support of the innovation ecosystem. North Macedonia has established a National Start-up Committee, tasked to strengthen the start-up ecosystem. One of its first projects is commissioning a review of the economy's start-up support infrastructure. Similar assessments have also taken place in Serbia and Turkey over the assessment period.

Numerous incubators operate across all economies. Turkey continues to lead in this area, with more than 80, mainly operating out of dedicated technological development zones (TDZs), which have further expanded since the previous assessment with government support. Incubation services are also available via KOSGEB's technology incubators, the TEKMER programme, which, following some restructuring, has further expanded, particularly in more urban areas.

Incubators are also present across the Western Balkans, though many are limited to basic incubation services, without an obvious link to innovation. In Serbia, the ecosystem review suggested that more than 40 active incubators are operating throughout the economy and particularly in university hubs. In North Macedonia, several well-established incubators offer comprehensive incubation services to innovative start-ups. In Kosovo, the government has supported the development of several regional innovation centres. Two additional centres have been created since the last assessment, although not all of them are fully operational. A notable development is also the inauguration of the Innovation and Training

Park in Prizren in 2020, which, with support of the Kosovar authorities and Germany, aims to provide training, incubation, and R&D facilities. In Bosnia and Herzegovina, incubators in both entities receive financial support, particularly the Innovation Centre Banja Luka, but there are suggestions that especially in the Federation of Bosnia and Herzegovina, some incubators host long-term tenants and no longer serve their original purpose. Incubation in Montenegro is mainly provided through the entrepreneurship centre Tehnopolis in Nikcic, meant to become one of three decentralised hubs under the auspices of the economy's new science and technology park, once it is operational. In Albania, incubators are largely dependent on external support from international partners, or based on private small-scale initiatives. However, the newly adopted Law on the Support and Development of Start-ups is expected to develop the local start-up ecosystem more systematically with public funds. This will be assessed in the next assessment round.

Several state-supported accelerators have been launched in the Western Balkans, while in Turkey accelerators increasingly focus on more mature companies

Progress has also been made in establishing local accelerators. As before, Turkey significantly outperforms the Western Balkan economies, with 70 operational accelerators, up from 47 in the last assessment, particularly focusing on e-gaming. In addition, TUBITAK continues to support accelerators through its BIGG programme. Accelerators in Turkey appear to increasingly focus on the internationalisation of beneficiaries and are willing to look beyond the initial start-up stage, suggesting a gradual shift towards more mature companies. In North Macedonia, with support of the FITD, three new accelerators were created during the assessment period, while in Serbia, the Innovation Fund also initiated an accelerator programme. Small-scale state-supported acceleration programmes were also launched in Albania and Montenegro, though somewhat resemble business angel activities.

Innovation support to mature SMEs remains limited

While the support infrastructure for start-ups has greatly expanded, more mature innovative firms remain underserved across all WBT economies, largely limited to general consultancy services (see Chapter 5 on support services for SMEs).

Some form of technology extension and diffusion support is only available in North Macedonia and Turkey. In Turkey, the TDZs and technology development centres offer some technology support to more established companies, while in North Macedonia, following an FITD initiative during the previous assessment cycle, three providers are now equipped to offer technology extension services.

The way forward for government institutional support services for innovative SMEs

- **Build an innovation ecosystem beyond start-up support.** Enterprise creation and development are critical to building a knowledge economy. A balanced policy mix to support both start-ups more generally and those that have the ability or potential for innovation and knowledge development in particular would help to ensure that ecosystems are designed to truly support innovative ideas and build technology absorption capacity. For instance, some incubators could introduce more selective eligibility criteria for tenants, based on their potential and business vision to innovate and offer more tailored support to develop those objectives.
- **Introduce more targeted services to support technology absorption in more established SMEs.** As start-up ecosystems become more mature, governments should seek to expand their support structure to serve more mature enterprises. Dedicated technology extension services, for instance targeting specific sectors, would help increase the technology absorption capacity of such enterprises, contributing to new-to-firm innovation and increasing capability for future innovations (see Box 10.2for a sectoral approach). A regional approach for key sectors may help maximise impact and resources.

Box 10.2. United States Manufacturing Extension Partnership Program

The Manufacturing Extension Partnership (MEP) Program, implemented under the auspices of the US Institute of Standards and Technology, is a publicly financed initiative aimed at providing industrial services for small and medium-sized enterprises (SMEs) operating in manufacturing. It provides companies with the information and tools they need to improve productivity, strengthen quality assurance, accelerate the transfer of manufacturing technology and infuse innovation into production processes. The programme is available via 51 MEP centres across the United States and Puerto Rico, supported by a Foundation of Manufacturing Excellence, as well as more than 1 400 advisers and experts at 450 MEP service locations. An Advisory Board provides advice on the MEP's overall activities, strategic direction and policies while monitoring overall performance.

When the programme was launched in 1988, its original aim was to transfer state-of-the-art technology to manufacturers, but it soon adapted its approach to adjust to local conditions, offering a more customised set of services, including quality systems, ICT, human resources and support to product development. This pragmatic approach to technology extension, driven by the needs and demands of companies rather than by research targets set by the state, has made the MEP one of the most successful technology extension programmes to date.

The MEP is based on a public-private partnership, designed as a cost-share programme to ensure the commitment of its beneficiaries. The federal government covers around half of the budget, with the remaining 50% covered by local governments, private entities and fees. In 2020, the federal budget for the MEP exceeded USD 150 million, with an additional USD 50 million provided to support COVID-related projects.

An impact assessment published in 2020 suggests that the MEP has generated substantial economic and financial returns of nearly 13.4:1 for the federal budget in 2019. It also found that total US employment was over 217 000 higher than without the programme, and that it had generated nearly USD 23 billion.

Source: NIST (2020[15]).

Government financial support services for innovative SMEs (Sub-dimension 8b.3)

Access to finance remains a key obstacle to company growth, productivity and innovation (see Dimension 6 on access to finance). High growth potential and innovative SMEs are typically even more financially constrained, as these companies are usually at an early stage of development and have only a few tangible assets and collateral, making them unattractive for conventional lenders.

Technological development and innovation, however, are expensive, often requiring significant upfront investments into research, prototyping and equipment, but also to fund high-skilled employees and patent fees. Lack of guaranteed returns on investment and risks of failure further limit investor appetite for innovative firms.

Public sector support schemes can help address these externalities and provide financial support for the development of innovative business ideas and to engage in R&D activities. This support can come in the form of grants, subsidised loans or guarantees, for instance. However, governments can also provide indirect financial incentives. These include tax relief for investments in R&D, employing researchers or purchasing innovative equipment. Other forms of indirect financial support include demand-side instruments such as prioritising innovation in public procurement, which, if carefully designed to ensure

competitive selection, can encourage the commercialisation of innovation to deliver public goods and services, and champion early adoption.

Significant progress has been made in those economies which already performed relatively well in the previous assessment, notably North Macedonia, Serbia and Turkey, all of which have expanded further direct financial support programmes. In contrast, less progress is evident in the other economies, where the scale and availability of financial support continue to be limited, as illustrated in Table 10.5. Notwithstanding, most economies have made some progress in offering indirect financial incentives.

Table 10.5. Scores for Sub-dimension 8b.3: Government financial support services for innovative SMEs in the Western Balkans and Turkey

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Direct financial support	3.09	2.60	3.26	4.60	3.56	4.68	4.88	**3.81**
Indirect financial support	1.80	1.60	1.20	2.70	2.32	2.60	3.60	**2.26**
Weighted average	**2.57**	**2.20**	**2.44**	**3.84**	**3.06**	**3.85**	**4.37**	**3.19**

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

The scale and range of financial support have advanced at different speeds

When it comes to direct financial support, the increasing divergence of the WBT region is particularly evident. In North Macedonia, Serbia and Turkey, direct financial support schemes have continued to be available and have increased further since the last assessment.

Turkey has made over EUR 70 million available to support innovation since 2019, channelled via multiple co-finance grant schemes from both KOSGEB and TUBITAK. Support targets start-ups, R&D, commercialisation, and technology transfer for enterprises at different stages of development. Turkey's regional development agencies provide additional financial support for innovative projects. In Serbia, the Innovation Fund now operates seven programmes, including its flagship mini- and matching-grant programmes, and had awarded over EUR 43 million by the end of 2021, including via contributions from the state budget since 2017. The new Science Fund has also started to provide financial incentives for R&D. In North Macedonia, the FITD has significantly expanded its operational capacity and has played a key role in the government's Economic Growth Plan. Funding for the FITD has increased, too, up from just EUR 4 million in 2018 to EUR 12 million in 2021, including with state budget contributions. For 2022, even though the key World Bank project that supported the FITD until 2021 has expired, the FITD has an allocated budget of EUR 18.5 million.

All three economies have also leveraged these institutions in their response to the COVID-19 crisis and have introduced dedicated COVID-19 programmes linked to innovation. In Turkey, TUBITAK launched two specific calls under the umbrella of its SME R&D start-up support programme, offering financial support to an additional 48 projects. In Serbia, a new programme was introduced to support innovative ideas focused on health and well-being, awarding 12 projects. In North Macedonia, the FITD launched two new programmes linked to the pandemic.

All programmes undertake regular internal monitoring and evaluation; however, only the Serbian Innovation Fund has undertaken an independent external performance evaluation to date. In North Macedonia, some FITD programmes were evaluated as part of a broader impact assessment of state-supported programmes, indicating that the level of grant intensity offers should be closely monitored.

In contrast, financial support schemes remain limited in the remaining economies. In Montenegro, a pilot Innovation Programme for Grants and Innovative Projects in 2018 continued to be implemented, awarding over EUR 800 000 to companies developing innovative products, services or technologies between 2019 and 2020. In 2021, the economy also established an Innovation Fund, which is expected to become fully

operational in 2022. Financial assistance measures for implementing the S3 are also being designed. In Albania, budget support for the Innovation Fund and the Start-up Fund, both established in 2018 under the auspices of the SME agency AIDA, increased significantly in 2019, though from very low levels, and absorption capacity has increased. However, in 2020 and 2021, all AIDA funds were repurposed to tackle the COVID-19 pandemic, thereby effectively halting all innovation support activities, except for some small-scale support by international development co-operation partners. Funding is expected to resume in 2022. Little progress has been made in Bosnia and Herzegovina and Kosovo. While both economies (Republika Srpska in the case of Bosnia and Herzegovina) have established preliminary plans to establish an Innovation Fund, enterprises receive little financial support for innovation activities to date. As part of a broader initiative to support the export readiness and job creation of SMEs, in 2021, the Kosovan authorities allocated EUR 1.15 million to support start-ups, spin-offs and innovative projects. The exact scope, however, remains somewhat unclear. In Bosnia and Herzegovina, small-scale support is available via international development co-operation partners, especially from Sweden.

Indirect financial support is largely limited to fiscal support, without specifically targeting SME innovation

Progress has been made to introduce more indirect financial support measures in most economies. Fiscal measures, such as tax incentives for R&D activities or the purchase of equipment or technology in support of innovation development, enable firms to prioritise activities themselves and are usually a more market-oriented policy tool compared to grants, but limit the impact of monitoring and evaluation.

In North Macedonia, research activities are now excluded from value-added tax, while in Montenegro, a new Law on Financial Incentives Measures for Research and Innovation foresees tax breaks for certain research activities, though guidelines to define exact eligibility are yet to be published. In Turkey, tax breaks continue to be in place for enterprises receiving state support for R&D, while companies and their employees located in the TDZs are fully exempt from corporate and income tax. In Albania, Bosnia and Herzegovina, and Serbia, tax relief also applies to the purchase of ICT equipment or some research activities (in Serbia).

On the other hand, demand-side policy measures to stimulate innovation remain limited and significantly below potential. Serbia introduced changes to its public procurement framework to encourage innovation, while in Turkey, R&D-based procurement methods have been in place since 2005, but are not fully compliant with the *acquis* as they favour local suppliers.

The way forward for government financial support services for innovative SMEs

- **Scale up and consolidate financial support.** For economies with large-scale direct financial support schemes in place, comprehensive monitoring and evaluation, including via external performance assessments, will help identify existing bottlenecks and consolidate measures. Lessons learnt could be shared with those economies that have not yet, or are in the process of, establishing dedicated agencies. Within this context, sufficient funding will be critical for those economies with early-stage plans, including to build enterprise absorption capacity and firm readiness for financial support schemes.
- **Further diversify public support measures and disseminate information on indirect financial support for R&D to increase take-up**. While the focus remains strongly on direct financial support in the form of grants, more flexible and demand-driven policy tools could help ease pressure on budgets and dependency on external partners, particularly in the form of R&D favouring public procurement policies (see Box 10.3for innovative public procurement solutions). This should be coupled with targeted awareness-raising campaigns, for instance via the platforms of the innovation funds or equivalent agencies.

Box 10.3. Eco-innovation through public procurement in Poland

The Regional Centre for Water and Sewage Management in the town of Tychy used to have the reputation of being one of the dirtiest in the region. Amid high levels of pollution, the plant required significant modernisation, given impetus to include environmental, innovative and societal benefit considerations in public procurement.

Today, the Regional Centre for Water and Sewage Management of Tychy has become one of the leading innovative facilities of this type in the entire country, and a large-scale producer of co-generated renewable energy, hereby significantly contributing to Tychy's goal of becoming a smart city.

These innovative environmental benefits were achieved by introducing environmental requirements into the description of the subject matter of procurement that had to be achieved during the contract performance stage. By working with eco-innovators in areas such as wastewater treatment and renewable energy generation via biogas and management, the plant has become 100% energy self-sufficient.

By implementing green, innovative and pro-social public procurement, the centre has gained the status of a leader in eco-innovation and a pioneer of pro-eco solutions in the field of wastewater treatment, generation and the management of energy from renewable sources, as evidenced by the number of awards received in environmental and quality competitions.

Sources: Brandt (2018[16]); Public Procurement Office of Poland (2020[17]).

SME and research institution collaboration and technology transfer (Sub-dimension 8b.4)

A strong partnership between businesses and research institutes is a critical component of the knowledge economy and can help accelerate the value creation of innovation and research.

In a linear model, knowledge is created by researchers, typically universities or research institutes, in basic research, which is then followed by applied research resulting in a patent. This knowledge is then adopted and commercialised by businesses, that use it to introduce new or optimised products, services, processes or other methods of doing business.

In reality, however, the transfer of knowledge is rarely linear, and there are several practical challenges. Most notably, exchange between academia and the business community is often limited, meaning that research may not be demand-driven and not known to businesses, and little feedback is given on its commercial viability. Researchers may also not be encouraged or receive sufficient support from their organisations to collaborate with companies, while diverging priorities may mean that researchers focus more on publishing while the business community seeks patenting and commercialisation.

Governments can play a crucial role in overcoming these obstacles and enhancing knowledge transfer mechanisms. In a "triple helix" approach – describing the interplay between governments, academia and industry – governments can acquire insights into the obstacles preventing effective knowledge transfer and commercialisation, which helps to design policy measures to encourage more collaboration between researchers and businesses (OECD, 2013[18]).

Such support can take various forms. To alleviate funding barriers for R&D, financial support schemes can incentivise joint research. For instance, innovation vouchers enable businesses to engage with research institutes for small-scale services such as laboratory testing or preliminary research and can create further

collaboration. Co-operative grants, on the other hand, aim at co-financing larger research projects, involving joint business-academia consortia, and are awarded based on competitive merit.

Other tools include creating a physical infrastructure for industry-academia linkages, including technology transfer offices and competency centres, which offer R&D services or access to equipment. In addition, dedicated science and technology parks (STPs) provide a platform for co-innovation and more long-term collaboration engagements.

Lastly, the legal framework for intellectual property can encourage collaboration and the commercialisation of intellectual property by clearly regulating ownership and the split of royalties of publicly funded research outputs.

Table 10.6 outlines the performance of the WBT region in Sub-dimension 8b.4. Overall, business-academia collaboration remains below potential in all WBT economies and constitutes the weakest link in the regional innovation system, with an average score of 2.95. However, some economies, notably Serbia and Turkey, have made some progress, particularly in providing financial support to incentivise business-academia collaboration, and efforts are underway throughout most of the economies to strengthen the institutional support infrastructure, though the link to scientific research is not always evident.

Table 10.6. Scores for Sub-dimension 8b.4: SME and research institution collaboration and technology transfer in the Western Balkans and Turkey

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Innovation voucher schemes and co-operative grants	2.00	1.72	2.00	3.50	2.52	4.00	4.20	**2.85**
Institutional infrastructure for industry-academia co-operation	2.36	1.68	2.48	3.04	2.92	3.88	4.60	**2.99**
Intellectual property rights	2.72	2.48	2.52	3.00	2.52	3.80	4.33	**3.05**
Weighted average	**2.29**	**1.86**	**2.30**	**3.22**	**2.68**	**3.91**	**4.39**	**2.95**

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

Financial incentives for collaboration remain very limited, though plans to introduce dedicated financial support are gaining momentum

Only a few economies offer innovation vouchers or competitive co-operation grants. In Serbia, the Innovation Fund introduced such grants in 2017, and had awarded over 840 vouchers by the end of 2021. Similarly, the FITD also introduced a pilot innovation voucher scheme in 2020. Montenegro has also introduced a small-scale innovation voucher programme with support from international development co-operation partners, though it mainly focuses on digitalisation and general consultancy services in support of innovation. In Kosovo, an innovation voucher scheme implemented throughout 2018 and 2019 was discontinued amid limited absorption capacity and repurposing of the funds during the COVID-19 pandemic. In Bosnia and Herzegovina, a small-scale pilot innovation voucher scheme has been implemented with support by international development co-operation partners. Only Serbia offers a dedicated co-operative grant scheme and has awarded more than 50 projects since 2016. It is expected that the new Science Fund will introduce further financial measures to support research collaboration between academia and the industry. In North Macedonia, plans to establish a dedicated programme are still underway, while in Montenegro, similar plans were announced in 2019, but there is no evidence of progress or implementation to date.

In Turkey, TUBITAK runs several financial support schemes to stimulate collaboration and commercialisation of research, even though traditional innovation vouchers and co-operative grants are not available. For example, the “Support Programme for University-Industry Co-operation” offers up to

EUR 50 000 to support commercialisation, while a dedicated e-platform promotes university-industry collaboration and technology transfer. In 2020, TUBITAK further introduced new programmes to support patent- and order-based research projects.

The institutional infrastructure is being strengthened, but opportunities for collaboration remain below potential

Progress has been made in some economies to accelerate plans for or expand the operations of STPs. In Serbia, the STP network has expanded significantly since the previous assessment, while in Turkey, the TDZs offer similar services. A focus on academia and R&D is not always evident. In Montenegro and North Macedonia, the construction of such STPs is still ongoing. In Bosnia and Herzegovina, some technology parks, mainly focusing on incubation, operate throughout the Federation of Bosnia and Herzegovina, while there are plans to establish a dedicated STP in Republika Srpska. In Albania and Kosovo, institutional support also remains limited, though the newly established Prizren Training Centre in Kosovo is expected to offer services similar to an STP.

Several economies also offer technology transfer services, even though take-up from SMEs remains mixed. Multiple technology transfer offices exist across Turkey, and TUBITAK implements a dedicated Technology Transfer Support Programme. Similarly, in Serbia, the Innovation Fund runs a technology transfer facility and several universities offer similar services. In North Macedonia, the Centre for Technology Transfer and Innovations, which also hosts the accelerator, has offered technology transfer services since 2018. Technology transfer services remain limited in the remaining economies, even though Montenegro's S3 envisages the establishment of a technology transfer office and in Bosnia and Herzegovina, a pilot programme offered some technology transfer services in 2019, but there is no recent information available.

Intellectual property legislation typically does not encourage collaboration, and enforcement remains a key obstacle

Several economies have introduced amendments to their intellectual property legislation during the assessment period to better align legal frameworks to European standards. However, with the exception of Serbia, legislation does not explicitly regulate the spilt of royalties, thereby discouraging business-academia collaboration and commercialisation. Overall, awareness about the importance of intellectual property and patenting capacity remains low across the WBT region, albeit the number of patents granted by the European Patent Office originating from the region is gradually increasing.

Notwithstanding, annual progress reports provided by the European Commission continue to emphasise the limited enforcement capacity, despite some improvements, thereby significantly risking to undermine policy efforts to stimulate business-academia collaboration.

The way forward for SME and research institution collaboration and technology transfer

- **Identify existing bottlenecks for business-academia collaboration.** Such a mapping should include a review of the available financial support to stimulate co-operation, the infrastructure in place to enable exchange and soft measures to encourage commercialisation, such as intellectual property legislation, awareness raising and support to individual researchers to collaborate with the business community, for instance via the Marie Skłodowska-Curie Actions.[1]
- **Emphasise the link between scientific research and academia in the design of the institutional infrastructure for innovation and R&D.** If designed well, science and technology parks can be an effective platform to increase linkages between businesses and academia. This includes geographic proximity to university hubs, access to solid infrastructure, and onsite research

facilities and dedicated co-creation spaces, going beyond basic incubation services. A regional approach to establishing STP infrastructure could be a more cost-efficient alternative.

- **Strengthen the enforcement of intellectual property protection.** Limited enforcement capacity of intellectual property remains a major impediment to the development of a knowledge economy across the WBT region. Awareness-raising activities to inform businesses and researchers about the importance and benefits of intellectual property protection should resume as economies emerge from the COVID-19 pandemic to increase patent applications, while better co-ordination of enforcement bodies, coupled with training, would help increase enforcement capacity.

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11 SMEs in a green economy (Dimension 9) in the Western Balkans and Turkey

This chapter assesses the provision of policies that promote green behaviour among small and medium-sized enterprises (SMEs) in the Western Balkans and Turkey. It starts by outlining the assessment framework and progress since the last cycle in 2019. It then presents the two sub-dimensions of Dimension 9: 1) framework for environmental policies targeting SMEs, which considers the greening aspects in national SME, sectoral and innovation policy frameworks; and 2) incentives and instruments for SME greening, which looks at the various tools and instruments in place – such as regulatory and information-based instruments, financial incentives, and green public procurement – to support SMEs in their greening efforts. Each sub-dimension makes specific recommendations to tackle the challenges identified and help to facilitate SME greening in the region.

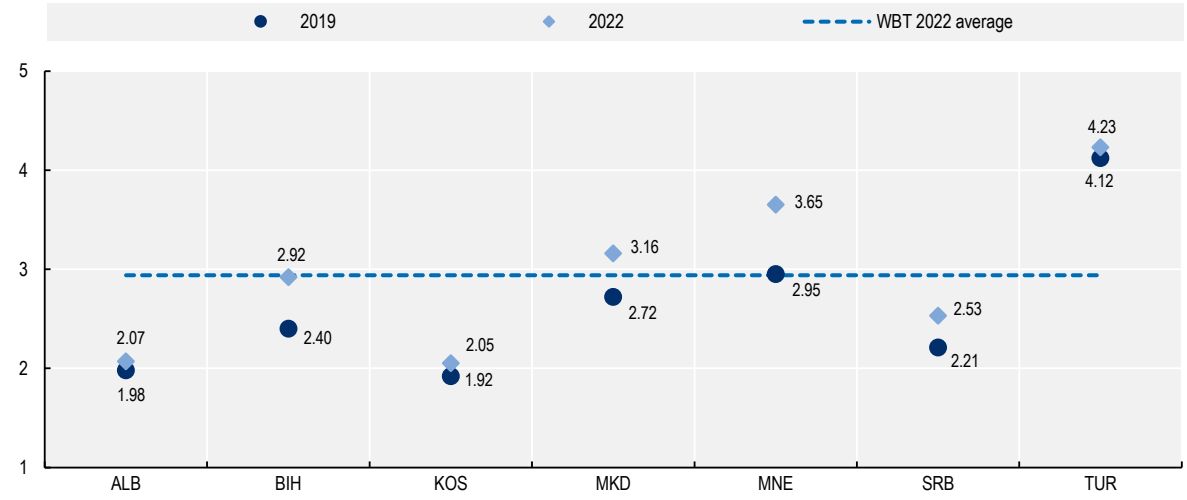
Key findings

- **SME greening policies have continued to gain momentum in the region and have been integrated into several strategic documents**, with energy efficiency and eco-innovation lying at their forefront. These strategies have clearer targets and dedicated budgets compared to previous legislation and include awareness raising and technical and financial support.
- **Effective cross-sectoral co-ordination of greening measures is lacking in the majority of the economies,** hampering the proper implementation of policies. Only Montenegro and Turkey have made progress in adopting a whole-of-government approach to strengthen the co-ordination of environmental policies targeting SMEs.
- **Implementation of SME greening policies has advanced unevenly across the region**, primarily due to limited budgetary allocations for the envisaged greening measures, high dependence on support from external partners and the reallocation of funds due to the COVID-19 pandemic. Nevertheless, Bosnia and Herzegovina, Montenegro, and Turkey have been the most successful in implementing greening measures.
- **There are no systematic monitoring and evaluation mechanisms for SME greening policies in the Western Balkans.** Moreover, the collection of specific SME greening data is lacking in all Western Balkans and Turkey (WBT) economies, which hampers proper evaluation of the measures introduced.
- **Significant progress has been achieved in introducing financial incentives for SME greening,** in particular in Bosnia and Herzegovina, Montenegro, North Macedonia, and Turkey, the majority of which target energy efficiency and renewable energy projects.
- **Information-based tools for the greening of businesses have been scaled up in the region.** Several activities are envisaged to raise SMEs' awareness of environmental practices, while chambers of commerce and business associations have become increasingly involved in the provision of green advice and guidance to SMEs.
- **Other tools remain scarce in the WBT economies and there is no evidence as to whether SMEs have benefited from such schemes as of yet.** While green public procurement measures and regulatory instruments have been introduced in legislative frameworks to support SMEs in their greening efforts, their implementation remains insufficient.

Comparison with the 2019 assessment scores

All WBT economies have progressed in Dimension 9, albeit at uneven rates (Figure 11.1). Turkey continues to be the best performer in this dimension, reflecting its comprehensive and well-designed government approach to SME greening. Bosnia and Herzegovina, Montenegro, and North Macedonia have made the most progress compared to the previous assessment by introducing a number of measures to enhance the environmental performance of their SMEs. The three remaining economies (Albania, Kosovo and Serbia), continue to score below the WBT average of 2.94, highlighting the need for governments to step up their efforts, particularly in implementing their policy frameworks and scaling up incentives and instruments for SME greening.

Figure 11.1. Overall scores for Dimension 9 (2019 and 2022)



Notes: WBT: Western Balkans and Turkey. Despite the introduction of questions and expanded questions to better gauge the actual state of play and monitor new trends in respective policy areas, scores for 2022 remain largely comparable to those of 2019. For a detailed overview of policy changes and to compare performance over time, the reader should focus on the narrative parts of the report. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Implementation of the SME Policy Index's 2019 recommendations

Across the WBT region, progress has been achieved in implementing the majority of the recommendations outlined in the 2019 assessment. Table 11.1 summarises progress on the key recommendations for this dimension since the previous assessment.

Table 11.1. Implementation of the SME Policy Index's 2019 recommendations for Dimension 9

Regional 2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Regional progress status
Ensure effective cross-sectoral co-ordination	Progress in ensuring effective cross-sectoral co-ordination of greening measures was achieved in Montenegro and Turkey, where specific working groups were established. The Republika Srpska (RS) Chamber of Commerce in Bosnia and Herzegovina has established a co-ordination body to support the private sector in the field of industrial energy efficiency. Cross-sectoral co-ordination, on the other hand, continues to be limited in the remaining WBT economies, hampering proper implementation of greening measures.	Limited
Facilitate partnerships among businesses to support SME greening activities, such as increasing resource efficiency	The Chamber of Commerce and Industry of Serbia has implemented some initiatives to enhance best-practice sharing and networking between SMEs (such as the Academy for Circular Economy and the Digital Platform for Circular Economy). Several initiatives were also undertaken in Turkey, in particular as part of green organised industrial zones, where programmes that link firms to local universities and research institutes are planned to be introduced to help SMEs introduce or commercialise eco-innovative ideas. To some extent, the recently opened Aarhus Centre[1] in North Macedonia will also act as a platform to engage the private sector in a dialogue on environmental challenges. Facilitating partnerships among businesses to support SME greening is part of both of Bosnia and Herzegovina's entities' SME strategies, with Republika Srpska introducing a specific measure on creating and expanding energy efficiency networks based on the learning energy efficiency networks.	Moderate
Step up efforts to provide advice and guidance to SMEs on green practices	All economies have scaled up their efforts to provide advice and guidance to SMEs on green practices. Several activities have been conducted to raise SMEs' awareness on environmental practices in Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, and Turkey. Chambers of commerce and business associations are increasingly involved in this regard, in particular in Montenegro through its Committee on Energy Efficiency, and Serbia through its web-based guidance tools and digital platforms. Turkey remains the regional frontrunner in this regard, as business associations often have their own policies when it comes to SME greening.	Strong
Introduce regulatory instruments into the SME greening policy mix	Regulatory instruments remain largely non-existent in the Western Balkans. Nevertheless, Turkey stands out for its performance standards which set requirements for recycling with the aim of incentivising SMEs to adopt greener practices. Some performance standards, in particular those concerning waste management, have been introduced in Republika Srpska, but relevant data or evidence confirming that they benefit SMEs are lacking.	Limited
Address financial barriers to SMEs' greening efforts	Important steps have been taken to multiply financial incentives available to SMEs for their greening efforts since the last assessment, in particular in Bosnia and Herzegovina, Montenegro, and North Macedonia, with Turkey remaining the regional leader in this regard. Green funds have been established in Montenegro and North Macedonia and the funds of both entities in Bosnia and Herzegovina increasingly target SMEs. Governments and public financial institutions have offered reduced interest loans or grants to assist SMEs in making investments to improve their greening efforts in Montenegro, North Macedonia, Serbia, and Turkey. Financial support programmes for SMEs, financed by by external parters are common in the region and increasingly focus on green development, in particular in Kosovo, Montenegro and Serbia.	Strong
Fill the funding gap through the support of state investment banks to SME greening	The Development Bank of North Macedonia has become an important actor in fostering lending to SMEs' green projects, including as part of the COVID-19 recovery programmes. As part of its new strategy, the Federation of Bosnia and Herzegovina plans to finance a credit line targeted at SMEs through its Development Bank to provide funding support for greening measures. The RS Strategy for Industrial Development (2021-2027) also plans to increase credit support from its Investment and Development Bank for green projects. However, progress remains limited in the other economies in this regard.	Limited

1. Aarhus centres are established in line with the Aarhus Convention. The United Nations Economic Commission for Europe Convention on Access to Information, Public Participation in Decision-Making and Access to Justice in Environmental Matters (Aarhus Convention) was adopted on 25 June 1998 in the Danish city of Aarhus (Århus) at the Fourth Environment for Europe Ministerial Conference and aims at empowering the role of citizens, civil society organisations and the private sector in environmental matters. The Aarhus Convention establishes a number of rights for individuals and civil society organisations with regard to the environment.

Introduction

While climate change and environmental degradation are increasingly affecting people's lives, disrupting economies and transforming ecosystems, they have taken on a new urgency and impetus in the wake of the COVID-19 pandemic. Although mitigating climate change and preserving the environment are among the most central issues on the global policy agenda, small and medium-sized enterprises (SMEs) and entrepreneurs have only received attention in analysis and in the policy debate in recent years. Historically, the key focus has been on large emitters, mostly because the environmental footprint of SMEs was considered scarce. However, SMEs in the aggregate have a significant environmental footprint as small firms make up for 50% of greenhouse gas emissions in the world (ICT, 2021[1]) and 63% in the EU (European Commission, 2022[2]). It is hence essential that all governments, including in the Western Balkans and Turkey, include SMEs in their environmental considerations to achieve the net zero goal for greenhouse gas emissions and ensure that economic growth does not come at the cost of the environment, especially in the post-COVID context.

Environmental issues are important from an SME perspective as well for several other reasons. On the one hand, like any other economic entity, SMEs face the consequences of environmental degradation and are exposed to energy-price volatility and uncertainty, which can generate specific challenges for their survival and growth. On the other hand, and more importantly, SMEs can be a source of innovation and solutions to develop the technologies needed to address these challenges. New green markets, such as those created through circular economy, can also create new business opportunities for SMEs (OECD, 2021[3]). Even without moving into new markets, SMEs can potentially improve the performance of their business by realising efficiency gains and cost reductions through the greening of their products, services and processes. In fact, in the EU, 89% of SMEs are already taking at least one action to become more resource-efficient, for example, by using predominantly renewable energy, recycling or minimising waste (European Commission, 2022[2]).

In this regard, tailored policies, incentives and instruments are necessary to enable SMEs in the WBT economies to participate in the green transition, as SMEs face more barriers (financial, informational, etc.) in their greening efforts than large enterprises. In addition, the COVID-19 pandemic has exposed SMEs' vulnerabilities, and has put additional pressures on their greening efforts, primarily due to issues with liquidity maintenance and access to finance. In this regard, well-co-ordinated and targeted financial and technical support will be required to overcome challenges in adopting sustainable practices.

Assessment framework

Structure

The assessment framework for this dimension is divided into two sub-dimensions:

- **Sub-dimension 9.1: Framework for environmental policies targeting SMEs** considers the greening aspects in national SME, sectoral and innovation policy frameworks.
- **Sub-dimension 9.2: Incentives and instruments for SME greening** evaluates the various tools and instruments in place to support SMEs in their greening efforts.

Figure 11.2 shows how the sub-dimensions and their fundamental indictors make up the assessment framework for this dimension. For more information on the methodology see the Policy Framework and Assessment Process chapter and Annex A.

Compared to the 2019 assessment, small adjustments have been made to the framework to enhance the importance of digital aspects of policies and measures, which in the context of SMEs in a green economy relate specifically to policy frameworks and information-based tools to enhance SME greening efforts. The

assessment also takes into consideration COVID-19 response measures, although no evaluation has been made in this regard.

Figure 11.2. Assessment framework for Dimension 9: SMEs in a green economy

<table>
<tr><th colspan="6">SMEs in a green economy</th></tr>
<tr><td colspan="6">Outcome indicators
Share of SMEs that adopted/use an environmental management system
Share of SMEs with green certificates
Share of SMEs that have taken resource efficiency measures
Share of SMEs with a turnover of more than 50% generated by green products or services
Share of SMEs that offer green products or services</td></tr>
<tr><td colspan="3">Sub-dimension 9.1:
Framework for environmental policies targeting SMEs</td><td colspan="3">Sub-dimension 9.2:
Incentives and instruments for SME greening</td></tr>
<tr><td>Thematic block 1:
Planning and design</td><td>Thematic block 2:
Implementation</td><td>Thematic block 3:
Monitoring and evaluation</td><td>Thematic block 1:
Planning and design</td><td>Thematic block 2:
Implementation</td><td>Thematic block 3:
Monitoring and evaluation</td></tr>
<tr><td colspan="6">Quantitative indicators
Share of SMEs that have benefited from public support measures for their green production methods
Share of SMEs that have benefited from public support measures for their resource efficiency actions</td></tr>
</table>

Analysis

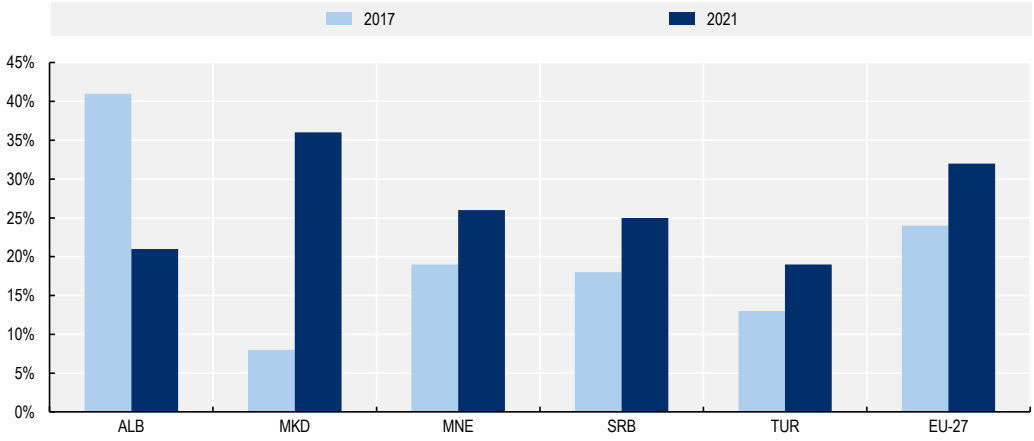
Performance in SME greening

Outcome indicators assess the performance of overall framework conditions for enabling SMEs to take environmental concerns into account. The indicators chosen in this dimension (see Figure 11.2) help policy makers track whether policies are achieving the desired outcomes in creating the conditions that make SMEs' transition into a green economy easier. This section starts by drawing on these indicators to describe the level of greening among SMEs in the WBT region.

While SME greening in the WBT economies still lags behind EU and OECD countries, the topic has gained momentum in the region in recent years. This is particularly the case for the six Western Balkan economies, as Turkey remains the regional frontrunner in this regard. Since the last assessment, policy frameworks targeting SMEs have increasingly taken into account greening aspects and now particularly focus on resource efficiency, eco-innovation and circular economy principles. The European Commission's (EC) 2021 Eurobarometer illustrates how SMEs in the WBT economies perform with regards to resource efficiency measures and offering green products as well as the progress that has been achieved since 2017.

The share of SMEs offering green products or services has increased in all of the WBT economies assessed, with the exception of Albania (Figure 11.3). North Macedonia has advanced the most in this regard, with 36% of its SMEs offering green products or services, an even higher proportion than the EU average. This demonstrates that developing new products and services and eco-innovation in general has been recognised as a valuable business opportunity.

Figure 11.3. Share of SMEs offering green products or services(2017 and 2021)

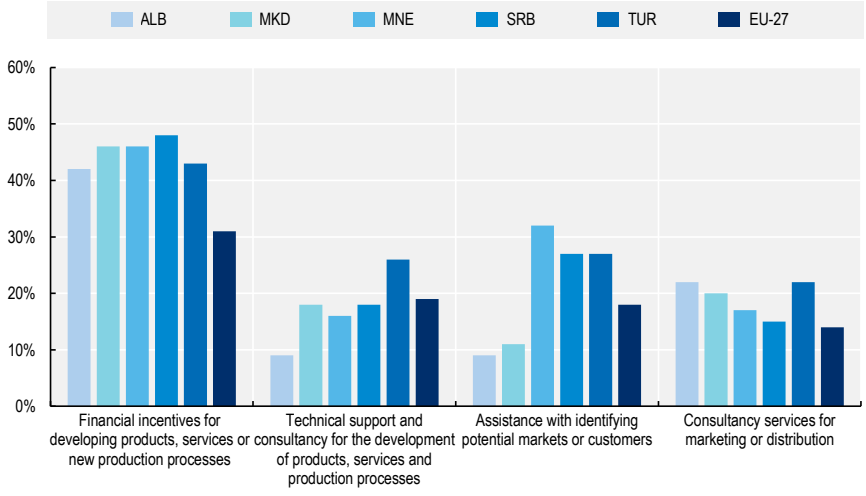


Notes: Data for Bosnia and Herzegovina and Kosovo are unavailable. EU-27 is the average, as the data are collected after 1 February 2020, after the United Kingdom left the European Union.
Sources: EC (2018[4]; 2022[2]).

StatLink https://stat.link/jk93so

When asked which support measures would help their company the most in launching green products or services, between 40% and 50% of all SMEs in the assessed economies indicated financial incentives would be of most assistance, a larger share than in the EU (31%), pointing to the need for more available financial support to SMEs for their greening efforts in the region (Figure 11.4). Although the majority of WBT economies have advanced in making more green financial incentives available to SMEs, there is still room for improvement when it comes to guidance and advice on funding possibilities.

Figure 11.4. Type of support that would help SMEs launch green products or services (2021)

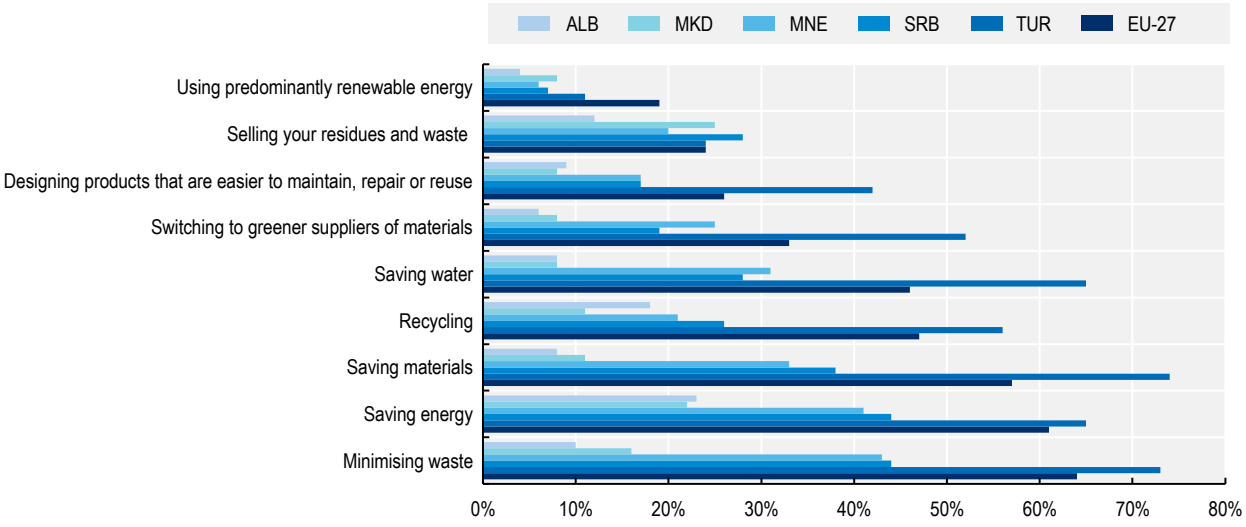


Note: Data for Bosnia and Herzegovina and Kosovo are unavailable. EU-27 is the average, as the data are collected after 1 February 2020, after the United Kingdom left the European Union.
Source: EC (2022[2]).

StatLink https://stat.link/nq19la

The majority of SMEs took at least one of the actions listed in the survey to become more resource-efficient, in particular minimising waste or saving energy or water (Figure 11.5). While all Western Balkan economies performed well below the EU average on all actions, Turkey's SMEs performed better than those of the EU in undertaking resource efficiency measures, in particular by saving materials (74%), minimising waste (73%), and saving water and energy (65% each). Turkey's performance in this regard reflects the government's long-term commitment to SME greening.

Figure 11.5. Resource efficiency measures undertaken by SMEs(2021)



Note: Data for Bosnia and Herzegovina and Kosovo are unavailable.
Source: EC (2022[2]).

StatLink https://stat.link/dhn5f2

Framework for environmental policies targeting SMEs (Sub-dimension 9.1)

To accelerate SMEs' transition to a green economy and their uptake of greening measures, governments need to mainstream the topic in broader SME, sectoral and innovation policy frameworks, and ensure that climate and environmental policies (including the circular economy) better take into account the perspective of SMEs and entrepreneurs (OECD, 2021[3]). Efforts to encourage SMEs' green transition need to be harmonised in particular with energy policies[1], because the subsidisation of coal-fired power generation across the Western Balkans, which lowers energy prices, cancels out and even reverses efforts to reduce GHG emissions (OECD, 2021[5]). Systematic co-ordination across several levels of government is also necessary to ensure alignment, proper implementation and monitoring of greening policies. An integrated whole-of-government approach to SME and greening policies can help mitigate the potential trade-offs between improving environmental and business performance.

This section analyses the extent to which strategic documents target SME greening in the WBT economies. It examines whether current environmental policies include SME-specific targets and whether national SME strategic documents cover environmental issues. The assessment considers the level of co-ordination between relevant stakeholders and evaluates the speed of implementation of green policies. Lastly, it focuses on monitoring and evaluation mechanisms that follow the execution of environmental policies in SMEs.

The average score in this sub-dimension has slightly improved since the last assessment, from to 2.85 in 2019 to 3.06 (Table 11.2). While the WBT economies' performance for planning and design is high, implementation remains rather limited across the region. With important progress having been achieved in co-ordinating SME greening policies, Montenegro and Turkey rank as regional leaders in this sub-dimension.

Table 11.2. Scores for Sub-dimension 1: Framework for environmental policies targeting SMEs

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	3.82	3.55	2.70	3.70	4.32	4.11	4.87	**3.87**
Performance	2.00	2.60	2.55	2.62	3.40	2.35	4.15	**2.81**
Monitoring and evaluation	1.75	2.25	1.58	1.89	3.86	1.95	4.00	**2.47**
Weighted average	**2.50**	**2.82**	**2.40**	**2.80**	**3.77**	**2.80**	**4.34**	**3.06**

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

SME greening policies are mainstreamed in strategic documents across the region, whereas implementation and monitoring have progressed unevenly

SME greening policies have continued to gain momentum in the region and have been integrated into several strategic documents, with energy efficiency and eco-innovation lying at their forefront. Environmental policies are included in SME strategies in Albania (2021-2027), Republika Srpska (2021-2027), the Federation of Bosnia and Herzegovina (2021-2027), Montenegro (2018-2022), and North Macedonia (2018-2023), and are planned to be integrated into Serbia's revised strategy for the upcoming period. Compared to the previous assessment, these strategies have clearer targets and budgets and now include awareness raising and technical and financial support.

Green policies targeting SMEs, including those aimed at boosting a circular economy (with Montenegro, Serbia, and Turkey standing out in this regard; see Box 11.1), have also been increasingly recognised in several strategic documents since the last assessment. Turkey's recently adopted horizontal strategies (the Eleventh Development Plan [2019-2023] and Medium-Term Programme [2022-2024]) recognise the importance of green growth and the role of SMEs in the green economy. Moreover, Montenegro's Smart Specialisation Strategy (2019-2024) and North Macedonia's Plan for Accelerated Growth (2022-2026) pave the way for future green investments, including in the post-COVID economic recovery. In Serbia, the Strategy of Industrial Policy (2021-2030) and the Programme for the Introduction of Cleaner Production (planned to be adopted for the 2023-2025 period), the RS Strategy for Industrial Development (2021-2027), and Turkey's Industry and Technology Strategy (2019-2023) should respectively provide a stronger impulse to sustainable and resource-efficient industrial production. While Kosovo's policy framework remains underdeveloped in this regard, the revised National Development Strategy, under preparation at the time of writing, in accordance with the Government Programme (2021-2025), is planned to have a special focus on environmental policy.

While the region's green policies targeted at SMEs are increasingly integrated into strategic documents, implementation of the envisaged measures has remained rather limited in the majority of WBT economies since the last assessment. Limited budgets allocated for SME greening measures represent a major impediment in this area. Several economies are highly reliant on funding from external partners, putting the long-term sustainability of these initiatives into question. Moreover, dedicated funds were reallocated during the COVID-19 pandemic in several economies, delaying the implementation of greening measures. While Kosovo and North Macedonia report having dedicated specific budgets to awareness-raising activities and trainings in relation to the green economy (EUR 400 000 and EUR 125 000 respectively), they have seldom materialised into concrete activities during the assessment period.

Due to, for the most part, progress achieved in terms of cross-sectoral co-ordination (see next section), greening measures have been implemented at a good pace in Turkey, and to a lesser extent in Montenegro, in comparison to their regional peers. Significant progress in implementing greening measures in both entities in Bosnia and Herzegovina since the last assessment should also be highlighted. In all three economies, the majority of measures implemented have been in relation to the promotion and financing of energy efficiency measures.

However, there are almost no systematic monitoring and evaluation mechanisms for SME greening policies in the Western Balkans. In Turkey, while all strategies are regularly monitored and evaluation mechanisms exist with specific indicators to measure green targets, an impact analysis of SME greening policies has not yet been conducted. Moreover, the collection of specific SME greening data is lacking in all WBT economies, which hampers proper evaluation of the measures that have been introduced.

Box 11.1. The circular economy in the Western Balkans and Turkey

The circular economy is a model of production and consumption, which involves sharing, leasing, reusing, repairing, refurbishing and recycling existing materials and products as long as possible. In this way, the life cycle of products is extended (EU Monitor, 2020[6]). Small and medium-sized enterprises (SMEs) are important for achieving objectives regarding the circular economy, both by making their business operations more circular and by contributing to the innovation that can strengthen circularity across economies. As the concept of the circular economy is gaining momentum in the Western Balkans and Turkey, SMEs, which represent the largest share of enterprises in the economy, should lead the way in the transition from a linear to a circular economy.

Since the last assessment, incremental progress has been achieved in developing a **circular economy framework** in most economies. Serbia was the first economy of the region to prepare its Roadmap for the Circular Economy in 2020, an important document that sets the guidelines for the transition towards a circular economy. Following the adoption of the roadmap, further actions are being taken on this front through the drafting of the Programme for the Circular Economy Development (2022-2024), ongoing at the time of writing, with one of its objectives being to support SMEs in the transition to a circular economy. The circular economy framework is being developed in Montenegro through the Roadmap Towards the Circular Economy in Montenegro, launched in April 2022, which is expected to serve as a guiding document for the development of the Strategy for Circular Transition and its Action Plan, planned for the end of 2022. Both are harmonised with EU recommendations and aligned with the European Union's guidelines on the circular economy (the Green Deal and the new Circular Economy Action Plan). Turkey also has a solid framework, with most strategies adopted since the last assessment having a special emphasis on zero waste and the transition to a circular economy. In Republika Srpska, the Strategy for Industrial Development (2021-2027) aims to develop an efficient waste management system, with a special focus on waste recycling and reusing, energy recovery of waste, and safe disposal of waste. Moreover, waste management strategies adopted since the last assessment in Albania (2020-2035), Republika Srpska in Bosnia and Herzegovina (2019-2029), Kosovo (2020-2029), and North Macedonia (2021-2031) also have a specific focus on the circular economy, although they do not target SMEs specifically.

The **promotion of circular economy concepts** has varied widely between WBT economies. Turkey and Serbia are the frontrunners in this regard. For instance, in Serbia, the Digital Platform for Circular Economy (https://circulareconomy-serbia.com), launched in 2021, contains a Circular Economy HUB which serves as a virtual classroom on the topic of the circular economy. It aims to improve companies' knowledge on the circular economy potential, activities in the EU, available grants and financial support. The HUB also includes a "green alliance", a virtual space intended for companies to network, connect and create new business collaborations as well as share good practice examples. The HUB currently has 42 business members. In Turkey, circular economy workshops are regularly organised by

KOSGEB, the Small and Medium-sized Enterprises Development Organisation. The most recent one, organised in 2021 within the framework of the COSME Turkey project, gathered 115 SMEs.

Some **financial incentives** have been introduced to support SMEs in their circular transition, although their uptake by SMEs has remained limited in Montenegro (through the Programme for Improving the Competitiveness of the Economy for 2021 and 2022), North Macedonia (through the Programme for Competitiveness, Innovation and Entrepreneurship 2021) and Turkey (as part of green organised industrial zones). The circular economy was also promoted via **non-financial incentives**, such as performance standards in Turkey and environmental management systems in Bosnia and Herzegovina, Montenegro, North Macedonia, and Turkey.

Sources: OECD (2021[3]; n.d.[7]; 2021[5]).

Effective cross-sectoral co-ordination is lacking in most WBT economies

Several institutions are in charge of developing and implementing greening measures targeted at SMEs in the region, ranging from ministries of environment, economy and finance to agencies in charge of SMEs, environment or energy. Efficient co-ordination of their work and dedicated budgets are necessary to facilitate the implementation of greening measures.

Montenegro and Turkey stand out for the significant progress achieved in adopting a whole-of-government approach to strengthen the co-ordination of SME greening measures. In Montenegro, a Green Economy Working Group was formed in April 2021 (Box 11.2). Moreover, a specific working group has been formed within the Central Bank to co-ordinate existing green projects and contribute to the greening of the financial system in accordance with the bank's competencies, available instruments and resources. In Turkey, two working groups have been established since the last assessment. The Green Reconciliation Working Group was created in 2020 to enhance co-ordination and harmonise Turkey's policies with the EC's Green Deal and in 2021, KOSGEB established an SME-specific Working Group, focusing on green economy, energy and environmental issues. No similar developments have been undertaken to strengthen co-ordination and efficient division of competencies across institutions in the other WBT economies, hampering proper implementation and monitoring of greening measures.

Box 11.2. Montenegro's Green Economy Working Group

In Montenegro, the Ministry of Ecology, Spatial Planning and Urbanism; the Ministry of Economic Development; and the Environment Protection Agency are in charge of environmental policies targeting small and medium-sized enterprises (SMEs).

As recommended in the previous cycle, successful co-ordination has been established through the **Green Economy Working Group** (GE WG), formed in April 2021.

Members of the GE WG are representatives of relevant institutions, international organisations and business associations and non-governmental organisations. The government plans to include other relevant stakeholders in the future, such as representatives from MONSTAT.

Its role is to promote green development, through awareness-raising activities and co-operation with business associations, co-ordinating greening programmes between relevant stakeholders, and developing relevant policy documents.

The GE WG has the obligation to report to the government on its work programme and past activities every three months. It co-ordinated its first projects in 2021, in collaboration with the Eco Fund, which provided grants for solar panels to households and private companies.[1]

1. Public calls were held in 2021 for two energy efficiency financial support programmes: 1) public competition for the award of subsidies for the purchase and installation of a photovoltaic system; and 2) procurement of electric and hybrid vehicles. Funds for these calls were donated by the United Nations Development Programme (UNDP) (EUR 100 000) as part of the "Development of Green Jobs in Montenegro" to encourage SMEs and agricultural farms to implement energy efficiency measures.
Source: Information provided by the Government of Montenegro.

The private sector is increasingly being involved in developing and implementing SME greening policies

In most WBT economies, the private sector is regularly consulted when developing green strategies and action plans targeted at SMEs. For instance, the Union of Chambers of Commerce and Industry of Albania (UCCIAL) has been a part of roundtable discussions on all policies regarding the environment and working groups in Kosovo are regularly appointed by the government for the drafting and planning of strategic documents. In Montenegro, the new Eco Fund was established through a broad consultation process aimed at defining its priorities and scope of funding, which included SMEs both directly and indirectly via business association representatives. The WBT governments also co-operate with chambers of commerce and local councils on providing advice and guidance to SMEs (see sub-dimension 9.2).

Turkey remains the regional frontrunner in this regard, where business associations are consulted in the development of all relevant strategies, involved in the implementation of measures and often have their own green policies targeting SMEs (Box 11.3).

Box 11.3. The role of business associations in developing and implementing green policies in Turkey

The Turkish government recognises the value of business associations and regularly engages in dialogue with them. Business associations are increasingly involved in public affairs, represent the private sector's interests and provide inputs into the development of environmental policies for small and medium-sized enterprises (SMEs).

For instance, **the Business Council for Sustainable Development (SKD Turkey),** comprised of 13 private sector entities, contributes to policy development through a platform which enables interaction and partnership among enterprises of all sizes, in particular on the transition to a low-carbon economy and resource efficiency.

Moreover, a number of business associations have their own policies (including on greening aspects) and are increasingly becoming leaders in implementing greening measures, in particular by providing advice and guidance to SMEs.

The **Turkish Exporters' Assembly (TIM)** has been active in promoting greening measures for SMEs through several programmes. TIM runs several (digital) mentoring and training programmes on the minimisation of waste, the acquisition of energy from waste, the development of waste management business models for exporters and the corporate carbon footprint. For instance, TIM's Ecological Export Academy facilitates partnership and best-practice exchange between firms.

TIM is also involved in the implementation of circular economy measures, such as through the "Zero Waste Project",[1] which started in 2017 and aims at reducing waste by recycling and repurposing through

evaluation of waste capacities and creation of a waste inventory of enterprises under a common platform.

1. The Zero Waste project was established in Turkey by the first lady, Emine Erdoğan, in 2017. The project added EUR 2 billion to the Turkish economy due to a large amount of material and food saved reducing waste. The goals of the Zero Waste project in Turkey are to reduce waste by recycling by-products of agriculture activities and repurposing hazardous waste.
Source: Information provided by the Government of Turkey.

The way forward for environmental policies targeting SMEs

- **Ensure effective implementation of SME greening measures through cross-sectoral co-ordination.** Given the cross-cutting nature of SME greening policies, effective co-ordination among the relevant stakeholders is essential for their successful implementation as well as to create a synergy between the various financial instruments and avoid overlaps between the different initiatives. Montenegro and Turkey, which have already established relevant working groups, should ensure that their co-ordination does not stop at policy design and implementation, but continues for regular monitoring and evaluation.
- **Strengthen evaluation tools to ensure efficient implementation of SME greening policies, green certification and support programmes.** WBT economies need to improve their approach to monitoring the impact of different measures and tools to support the greening of SMEs. Cross-sectoral and systematic evaluation of greening measures targeting SMEs would help identify bottlenecks hindering SME greening and assess the impact of the financial support programmes offered by different institutions. Moreover, evaluation mechanisms will be necessary to ensure the efficiency of green certification awarding procedures. To ensure appropriate evaluation of measures, WBT economies should also improve SME-specific greening data collection of energy efficiency, green products, environmental management systems (EMS) and beneficiaries of public support measures. For more information on data that WBT governments could consider collecting in this area, please see Annex C.
- **Support SMEs' transition to a circular economy**, through awareness raising, capacity building and best-practice sharing. Facilitating partnerships and peer-to-peer learning between businesses of all sizes could encourage SMEs to engage in green and circular practices (OECD, 2020[8]). Building on the work of these activities, WBT governments should adopt circular economy roadmaps to reflect and shape circular economy approaches at the national level (as undertaken in Montenegro and Serbia). WBT governments could facilitate circular economy initiatives, such as the "Circular Glasgow", led by the Glasgow Chamber of Commerce. Even though this is a city-level project, it could easily be scaled up to the national level (Box 11.4).

Box 11.4. "Circular Glasgow": Capacity building on the circular economy

Since 2015, the Glasgow Chamber of Commerce has hosted the Circular Glasgow initiative and is responsible for delivering this scheme alongside Zero Waste Scotland, the Glasgow City Council (United Kingdom) and key stakeholders.

Circular Glasgow aims to build best practices and capacity on the circular economy across Glasgow businesses, helping them identify opportunities to support and implement circular ideas.

This is done by: workshops and events – a series of knowledge-sharing business-to-business networking events; Circle Assessment – a tool which helps businesses understand opportunities to

become more circular; and the Circle Lab – an online hackathon event to find a circular solution to local challenges. The Circle Lab sought solutions to make Glasgow's event industry more circular.

Following the 2020 edition, ways to turn the winning ideas (namely a deposit-based reuse system for food and drink containers, circular designs for event marketing and branding, and a scheme that will repurpose organic waste into energy and fertilisers) into pilot projects were explored.

Building on the work of Circular Glasgow, the city of Glasgow adopted its Circular Economy Route Map (2020-2030) to reflect and shape a circular economy approach at a city-wide level to continue this momentum.

Sources: OECD (2019[9]; 2020[10]); City of Glasgow (2020[11]).

Incentives and instruments for SME greening (Sub-dimension 9.2)

A wide range of tools are available to governments to support SME greening. Such instruments comprise broad support for SME development, such as access to finance and assistance when entering new markets, while others are specific to environmental concerns, such as regulatory incentives and eco-labelling initiatives. Information-based tools are also a vital component for influencing attitudes and encouraging the uptake of green practices. These tools include guidance on different communication approaches, from advising individual businesses directly to disseminating guidance on environmental compliance and good practices to a wide audience.

This sub-dimension examines financial incentives available to SMEs, information-based and other tools introduced to encourage greener practices. It assesses WBT economies on these incentives and instruments, as well as their progress on implementation, monitoring and evaluation.

The overall score for Sub-dimension 2 is higher on average than in the previous assessment (which stood at 2.42), but individual scores underline that there are still notable differences among the economies. Significant progress has been achieved by Bosnia and Herzegovina, Montenegro, and North Macedonia, with Turkey remaining the regional frontrunner in this regard. There is significant room for improving the monitoring and evaluation of incentives and instruments introduced in the majority of the WBT economies (Table 11.3).

Table 11.3. Scores for Sub-dimension 2: Incentives and instruments for SME greening

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	1.90	3.10	1.90	4.40	3.44	2.85	3.80	**3.06**
Performance	1.90	3.44	2.00	3.23	3.67	2.13	4.75	**3.02**
Monitoring and evaluation	1.00	1.80	1.00	2.60	3.40	1.91	3.10	**2.12**
Weighted average	**1.72**	**3.01**	**1.77**	**3.46**	**3.55**	**2.30**	**4.14**	**2.85**

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

A range of financial incentives has been introduced to support SMEs in their greening efforts, although they remain mainly dependent on support from external partners

Many SMEs are willing to invest in more energy-efficient and environmentally friendly processes, but they require reliable partners for financing their investments. In general, SMEs face greater challenges with respect to access to finance than larger enterprises. SMEs may find interest rates and collateral

requirements of bank loans prohibitive and may not be familiar with other sources of financing that are available (OECD, 2021[12]).

Important steps have been taken – albeit unevenly across the region – to multiply financial incentives available to SMEs since the last assessment. Bosnia and Herzegovina, Montenegro, and North Macedonia have made the most progress while Turkey remains the regional leader in this regard.

Green funds can play an important role in providing technical and financial support to SMEs in their greening projects. Both the RS Fund for Environmental Protection and Energy Efficiency and the FBiH Environmental Protection Fund are operational and have increased the scope and outreach of their programmes to target smaller enterprises, in particular for their energy efficiency and renewable energy projects. Moreover, Montenegro and North Macedonia have both established green funds since the last assessment. Montenegro's Eco Fund was established in 2020 and provides financial support, such as tax incentives and grants, for greening projects. The fund's budget for 2021 was EUR 1.6 million and financial support was provided for the purchase of hybrid and electric cars and the installation of solar systems. As foreseen in North Macedonia's Plan for Accelerated Growth (2022-2026), a Hybrid National Green and Digital Fund for SMEs, Start-ups and Innovative Enterprises was recently established with the aim to invest in the greening and digitalisation SMEs, with a total portfolio of EUR 27 million.[2] A Green Investment Fund is also being developed by the government and international partners to specifically accelerate investments in renewable energy sources and energy efficiency solutions with an expected budget of EUR 36.3 million. Meanwhile, Kosovo's National Energy Efficiency Fund, established in 2019, and Serbia's Green Fund, re-established in 2017, focus on large and mainly infrastructural projects and do not yet target SMEs. In Turkey, where green financial incentives were introduced several years ago, KOSGEB provides financial support, along with training and technical assistance to SMEs and several of its current programmes support SMEs in their energy efficiency and eco-innovation projects.

Governments and public financial institutions may offer reduced interest rate loans or grants to assist SMEs in making investments to improve their greening efforts. The Development Bank of North Macedonia's credit line "Financing Sustainable Energy Sources Projects" was developed to finance SMEs' projects related to renewable energy and energy efficiency. Montenegro's Ministry of Economic Development has established a programme credit line for stimulating the circular economy in 2021 and 2022, by co-financing the costs for wastewater treatment and waste management for SMEs and entrepreneurs. In Turkey, the Ministry of Energy and Natural Resources has an energy efficiency grant programme for establishments that consume more than 500 tonnes of oil equivalent (toe)/year. SMEs in Serbia have had access since 2020 to two *ad hoc* programmes of the Ministry of Economy which provide non-refundable capital for the purchase of solar panels and solar power plants. The Federation of Bosnia and Herzegovina also plans to finance a credit line targeted at SMEs through its Development Bank to provide funding support to foster the development of energy service companies markets.[3]

Credit lines extended by international financial institutions and disbursed through local commercial banks can be a good approach to improving access to green finance for SMEs. Financial support programmes for SMEs, financed by international development co-operation partners, are common in the region and increasingly focus on green development. For instance, the French Development Agency has extended a EUR 50 million credit line and a EUR 400 000 technical assistance grant to support investments in green projects. The credit line is targeted at SMEs and municipalities, particularly in the most vulnerable regions of Montenegro. The European Bank for Reconstruction and Development (EBRD) provided a EUR 20 million loan to UniCredit Leasing Serbia in 2021 to support the greening and competitiveness of local SMEs by requiring more than half of each loan to finance investments and technical assistance in green technology and energy efficiency. In Kosovo, the recently established Credit Guarantee Fund (KCGF) signed an agreement with the KfW in November 2021 to support micro, small and medium-sized enterprises for green investments (EUR 6 million grant), in particular energy efficiency, resource efficiency and investments in renewable energy. Millennium Foundation Kosovo launched the "Women Energy Entrepreneurs Programme" in 2020, which combines technical assistance with investment grants to

support the growth of women-owned businesses in Kosovo through efficient energy use. In Albania, while some guarantee funds cover green investments, such as the KfW-supported Rural Credit Guarantee Fund, which has a dedicated "green window", their uptake by SMEs for greening projects remain limited.

Taking into account the deep and continuous impact that COVID-19 has had on SMEs in the WBT economies, taking an SME perspective into account in greening measures in recovery packages is essential for enabling progress on preserving the environment and reaching climate mitigation objectives. Financing SMEs' renewable energy equipment or energy efficiency products could become crucial for their recovery in the post-COVID recovery phase if they are provided with the necessary incentives (UNECE, 2021[13]). However, green aspects have rarely been included in post-COVID economic recovery programmes in the region. North Macedonia stands out in this regard as its Development Bank's credit line "KOVID3" offers SMEs affected by the pandemic the possibility to apply for grants of up to 30% of project costs related to the green economy.

Information-based tools are becoming increasingly available to SMEs to encourage engagement in greener practices

Information-based instruments aim to address SMEs' barriers related to their lack of awareness of green opportunities and obligations stemming from the economies' commitment to reaching the net zero goal. Policy instruments aimed at information provisions and technical assistance have an important role to play in modifying environmental behaviour and influencing attitudes, and should be targeted at SMEs to maximise their effectiveness (OECD, 2021[3]).

WBT economies have scaled up their informational tools on greening policies since the last assessment. Awareness-raising campaigns have been organised by the governments in co-operation with international partners to highlight the benefits of greening to SMEs. In Montenegro, awareness-raising activities were undertaken on green entrepreneurship with the support of the UNDP and the Foundation for the Development of Northern Montenegro (FORS) while in Albania, campaigns have been organised with the support of the Food and Agriculture Organization to present green practices in the agriculture, forestry and other land-use sector. Republika Srpska in Bosnia and Herzegovina has also organised an online workshop on energy efficiency measures for SMEs with the support of the EBRD. Several WBT economies organise conferences and forums as a means to raise awareness on green practices and inspire businesses to invest in a greener economy. This is the case of the Energy Efficiency Forum and Fair in Turkey organised every year by the Ministry of Energy and Natural Resources and "Green Days" run annually in Montenegro. Competitions are also organised to recognise green best practices and encourage SMEs' eco-innovation. North Macedonia's annual National Corporate Social Responsibility award includes environment as one of its categories and Albania's "Green Businesses" award competition aims to promote small-scale green development ideas.

Chambers of economy and business associations have also been active in providing information and guidance to SMEs in adopting environmental practices. The chambers of economy of Montenegro and Serbia are vigorously involved in advocating and implementing measures for SME greening. The Montenegrin Chamber of Economy has a committee on energy efficiency that organises regular roundtables on opportunities and instruments available to SMEs. The Chamber of Commerce and Industry of Serbia's (CCIS) digital platform for a Circular Economy launched in 2021 is also a useful tool to enhance best-practice sharing and networking between SMEs (see Box 11.1). The CCIS also provides web-based guidance, such as brochures and guidelines on green tools (such as audit schemes, carbon footprint of products or eco-labelling). Moreover, in Bosnia and Herzegovina, both entities' respective chambers of commerce were active in promoting energy efficiency measures through the implementation of a joint project in 2021.[4] On top of guidance on complying with environmental regulations provided by government authorities and KOSGEB, SMEs in Turkey also benefit from advice and guidance on carrying out green practices from business associations (see Box 11.3). Furthermore, the government has increased its

technical support and guidance on environmental policies through the "Development of the Green Organised Industrial Zones Framework for Turkey Project" (Box 11.5).

Box 11.5. Green organised industrial zones in Turkey

In addition to energy management units in organised industrial zones (OIZs) reported in the previous assessment, work to increase energy efficiency and the provision of advice and guidance on environmental sustainability has been carried out in Turkey within the framework of the "Development of the **Green Organised Industrial Zones Framework for Turkey Project**". The project, which started in 2020, is implemented by the Ministry of Industry and Technology and funded by the World Bank (for an amount of EUR 275 million).

At the time of writing, 18 of the 346 OIZs present across 81 cities had been transformed into green zones, in line with circular economy principles. OIZs were established to provide all infrastructural necessities (such as energy supplies, solid waste elimination facilities and water purification systems) to industrial enterprises with an energy consumption of below 1 000 toe/year. They contribute to more than one-third of Turkey's exports and employ 2.1 million workers – approximately one-third of total industrial employment in the economy.

Along with investments in "green" infrastructure, green OIZs will directly benefit the private sector, in particular small and medium-sized enterprises (SMEs), in scaling up clean production, resource and energy efficiency. The project will support investments in OIZs' innovation centres, including model factories, to demonstrate new technologies and new practices, skills upgrading, standards, and testing services for SMEs. Programmes that link firms in the OIZs to local universities and research institutes will also be introduced to help them introduce or commercialise eco-innovative ideas. A special focus will be put on clean production in the textile and leather industries, which consume large quantities of water. Moreover, promotion and technical assistance on the use eco-labels will be provided.

Sources: Information provided by the Government of Turkey; World Bank (2021[14]).

In addition to contributing to an increased demand for green business practices, EMS[5] and certification of green practices can be useful for SMEs when dealing with business licensing and administrative requirements (OECD, 2021[3]). While EMS, green certification (of business practices) and eco-labels (of products) that support SMEs in their greening efforts have been introduced in several economies' legislative frameworks, their implementation remains insufficient.

Albania, both entities in Bosnia and Herzegovina, North Macedonia, Serbia, and Turkey's environmental legislative frameworks contain provisions governing the system of eco-labelling and EMS which aim to encourage the production, marketing and use of products with a reduced impact on the environment. Moreover, programmes to promote EMS (in particular International Organization for Standardization [ISO] 14001 and the Eco-Management and Audit Scheme) have been introduced and standards have been adopted by SMEs in Bosnia and Herzegovina, Montenegro, North Macedonia, and Turkey. Rulebooks on eco-labels are available in North Macedonia, Serbia and Turkey and to a lesser extent in Albania (only one guideline on textiles has been developed so far). However, almost no evidence exists on how many SMEs have adopted eco-labels and if they have benefited from such schemes as of yet.

Other tools for SME greening have been introduced, but their implementation remains limited

Besides financial incentives and information-based instruments, governments have the possibility to introduce a range of other tools to encourage greener practices and eco-innovation.

Green public procurement can play a significant role in creating demand for green products and services and boosting the market where private consumer demand for them is insufficient. Green public procurement policies can support SMEs by ensuring that requirements to qualify are accessible and clear, providing assistance to meet requirements, and targeting sectors of the economy in which SMEs predominate (OECD, 2021[12]).

Laws and strategies on public procurement envisage the introduction of environmental impact criteria, such as life-cycle costs, in Montenegro, North Macedonia, Serbia and Turkey. Nevertheless, this option has been insufficiently used in practice and limited activities have been organised in North Macedonia and Turkey in this regard. Promisingly, activities to encourage the use of green public procurement have been conducted in Montenegro and Serbia. The government of Montenegro has been implementing a project since 2021 dedicated to increasing awareness and capacities for public administrations and enterprises to facilitate green public procurement. In the case of Serbia, a specific training was organised in 2021 by the Public Procurement Office to educate contracting authorities and equip them with practical tools and examples to facilitate the application of green public procurement.

Regulatory instruments aim to reduce the administrative burden on SMEs when complying with environmental standards and rules. Their objective is also to set incentives for actors to green their activities or standards for environmental performance, providing incentives for innovation (OECD, 2021[3]). In this regard, energy taxes, including emission trading schemes (ETS)[6] could be one of the main policy instruments to reduce energy consumption and associated carbon emissions by encouraging cleaner investment and consumption choices (OECD, 2021[15]). Environmental regulatory tools should be approached from a perspective of helping SMEs adopt greener practices rather than punishing non-compliant activities (OECD, 2021[12]).

Regulatory instruments, such as performance standards, privileges in the permitting process or reduced inspection frequency for low-risk facilities, remain scarce in the Western Balkans. Like in the previous cycle, Turkey stands out in the region for its regulatory instruments, in particular its waste management performance standards, which set requirements for recycling and should lead SMEs to adopt greener practices. The Regulation on Packaging Waste Control was revised in 2021 and stipulates that until 2026, 70% of glass, 55% of plastic, 60% of metal, 75% of paper and 25% of wood should be recycled by the manufacturer. Some performance standards, in particular waste management standards, are introduced in Republika Srpska, but relevant data or evidence confirming they benefit SMEs are lacking. In North Macedonia, the Long-Term Climate Action Strategy (2021) prescribes permits for stationary installations with simplified requirements for facilities with minimal environmental impact, which should mainly benefit SMEs by minimising unnecessary costs.

The way forward for incentives and instruments for SME greening

- **Step up awareness-raising activities and the provision of advice and guidance to SMEs on adopting environmentally sound practices.** Activities to disseminate guidance on good practices and outreach programmes should be undertaken region-wide to promote eco-friendly practices. Workshops, training, industry fairs, distributing successful case studies and fostering co-operation over environmental issues could be particularly successful in circulating information and generic advice on how to apply green practices. Targeted advisory services could also be provided directly to SMEs by a relevant public agency or in collaboration with business associations for a more direct outreach, to help them identify greening possibilities and access resources. The Irish Green for Micro programme provides an example of such policies (Box 11.6).

Box 11.6. Climate advice to small and medium-sized enterprises in Ireland

The **Irish Green for Micro programme** is an initiative from the government business support agencies (local enterprise offices with support from Enterprise Ireland) and was rolled out nationwide in March 2021 to help prepare small businesses for the low-carbon, more resource-efficient economy of the future.

With the help of a green consultant, small businesses with up to ten employees can get free advice and technical support on resource efficiency, how to better understand their carbon footprint, and how to implement an environmental management system to reduce costs and lower greenhouse gas emissions.

The programme, launched in the midst of the COVID-19 pandemic, aims at a green recovery for small businesses. It is particularly suited for small businesses in the sectors of construction, retail, manufacturing, textiles, food, electronics, plastic and packaging. It raises awareness on the many benefits developing a "greener" policy can offer businesses (increased cost savings, improved resource efficiency, reduced environmental footprint, opportunities for higher and additional value on products and services, increased access to customers, improved corporate image, etc.). The programme also shares best practices among small businesses in the economy.

Sources: Local Enterprise Office (2021[16]); OECD (2021[3]).

- **Consider introducing regulatory instruments into the SME greening policy mix.** First, Western Balkan governments could envisage the introduction of performance standards as part of their energy, waste management or cleaner production strategies. For instance, the Fit for 55 proposals by the European Commission, designed to help member states reduce emissions by at least 55% by 2030, include performance standards for building and transport sectors, among others, which are of relevance to SMEs (European Commission, 2021[17]). (UNDP, 2021[18])

  Second, the governments could introduce special regimes for low environmental risk installations (such as frequency and scope of inspections), the vast majority of which relate to SMEs, in particular for those SMEs that have adopted EMS. This would involve a shift from permitting requirements to standardised regulatory requirements, where activities that remain under certain thresholds are exempted from notification or face simplified and more standardised requirements for this. For instance, some countries use "general binding rules", which ensure standard conditions specific to a type of activity or a sector, either with obligatory notification of environmental authorities before engaging in an activity (such as in the Netherlands) or without such a requirement (such as in the United Kingdom) (OECD, 2021[3]). The frequency and scope of inspections, monitoring and reporting could also be reduced for those SMEs with a more successful environmental record.
- **Enhance financial support to SME greening, particularly in the context of the COVID-19 pandemic.** Despite some positive developments observed in this regard, financial support for SME greening remains uneven across the region. WBT governments could step up greening efforts by offering direct subsidies to SMEs to introduce environmentally friendly technologies or fiscal measures such as favourable tax policies and exemptions on import charges for investments in green equipment. For example, the Netherlands has been operating two tax reduction schemes to promote the purchase of new environmental technologies: the Arbitrary Depreciation of Environmental Investments (VAMIL) allows accelerated depreciation of newly purchased environmental technologies listed by the government; the Environmental Investment Allowance (MIA) allows a partial write-off of an investment in environmental technology against tax (OECD, 2018[19]).

In addition, policy makers could also develop programmes that would allow loans to be converted into grants when the expected environmental performance is demonstrated. For instance, North Macedonia's Development Bank's credit line "KOVID3" offers SMEs the possibility to apply for a 30% grant if they plan to implement projects related to the green economy. In this regard, banks could also require an environmental checklist for loan approval, and insurers may demand a statement of environmental risk identification and control. Moreover, banks and insurers can offer better loan or insurance policy conditions to businesses with green credentials (OECD, 2021[12]).

- **Introduce green public procurement measures to impose a direct supply chain pressure on environmentally friendly goods and services.** Introducing green public procurement measures would boost the demand for resource-efficient, durable, recyclable, repairable products, and promote new business models based on offering functionalities and services instead of selling products. By using their purchasing power to choose goods and services with a lower environmental impact, WBT public authorities can help drive down the costs of such purchases and make them more affordable (OECD, 2021[3]). To reach SMEs to enter the public market, green public procurement needs to be designed to address certain barriers that may limit their participation (such as dividing contracts into lots by default, encouraging larger firms to form partnerships with smaller suppliers and increasing access to relevant information on green purchasing policy) (see Dimension 5b on public procurement). Green public procurement can be used as a tool to further promote and implement SMEs' green practices, as done by Denmark (Box 11.7).

Box 11.7. The Danish model of green public procurement

As part of Denmark's 2018 Circular Economy Strategy, several initiatives have been developed to promote green purchasing:

- **The Forum on Sustainable Procurement** – a national network which is a knowledge-sharing forum where procurers from both public and private organisations can remain up-to-date on best practices, methods and tools for green procurement, through a website, newsletters and various events.
- **The Partnership for Green Public Procurement** – a collaboration between frontrunner municipalities, regions and other public organisations that are committed to making extra efforts in partnership with other organisations to reduce their environmental impact from their procurement actions and drive the market in a greener direction.

These two initiatives appointed a joint secretariat for procurement to ensure co-ordination. Soon after, an additional task force on green procurement was developed to focus on the circular economy and has expanded to aim – in addition to public institutions – at private enterprises, including SMEs. Moreover, the Ministry of Environment has established an annual event on green purchasing, called Green Procurement Week.

One of the main initiatives developed by the task force was the creation of an online portal called "The Responsible Procurer", where procurers can find green criteria ready to copy and paste into tender documents for a number of product areas and total cost of ownership tools for selected product areas.

The Danish government is set to prepare a number of new total cost and life-cycle tools and will incorporate costs or revenues from waste management and resale into existing and new tools.

Sources: Ministry of Environment of Denmark (2022[20]); OECD (2020[8]).

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Notes

[1] In this regard, energy taxes, including emission trading schemes (ETS) could be one of the main policy instruments to reduce energy consumption and associated carbon emissions.

[2] EUR 10 million will be financed by the government and the rest by private investments.

[3] Energy service companies offer services for implementing and financing energy efficiency projects, including energy auditing, design and engineering, equipment procurement, construction, installation, commissioning, measurement and verification of energy and cost savings, operations and maintenance, facility management, and energy services.

[4] The project “Energy Efficiency Network in Industry of BiH”, conducted in 2021, has promoted energy efficiency measures and created networks among different enterprises. As part of the project, energy audits were conducted in 16 enterprises and best practice examples were shared with all participants.

[5] An environmental management system (EMS) is a framework that helps an enterprise achieve its environmental goals through consistent review, evaluation and improvement of its environmental performance. The most widely used EMS are the ISO 14001 or the Eco-Management and Audit Scheme in the European Union.

[6] An ETS – or cap-and-trade program – is managed by a governing jurisdiction that sets a limit or a cap on the total level of covered GHG emissions – including CO_2. The allowances to emit are distributed to liable entities (direct emission sources or others) that must redeem allowances for every emitted ton of CO_2, with the possibility to buy additional allowances or sell unused ones (World Bank, n.d.[22])

12 Internationalisation of SMEs (Dimension 10) in the Western Balkans and Turkey

This chapter provides a thorough assessment of small and medium-sized enterprise (SME) internationalisation policies across the Western Balkans and Turkey region. It begins with an explanation of the assessment framework and a comparison with the last cycle's scores. The chapter then presents the key findings on the regional level. It then analyses the three sub-dimensions of Dimension 10: The chapter assesses 1) export promotion activities across the region and the economy's export environment, identifying the main deterrents for exports; 2) economies' efforts to integrate SMEs into global value chains and create linkages between SMEs and multinational enterprises; 3) policies promoting the use of e-commerce across the region.Each sub-dimension concludes with a set of targeted recommendations and presents applicable good practice examples for further guidance.

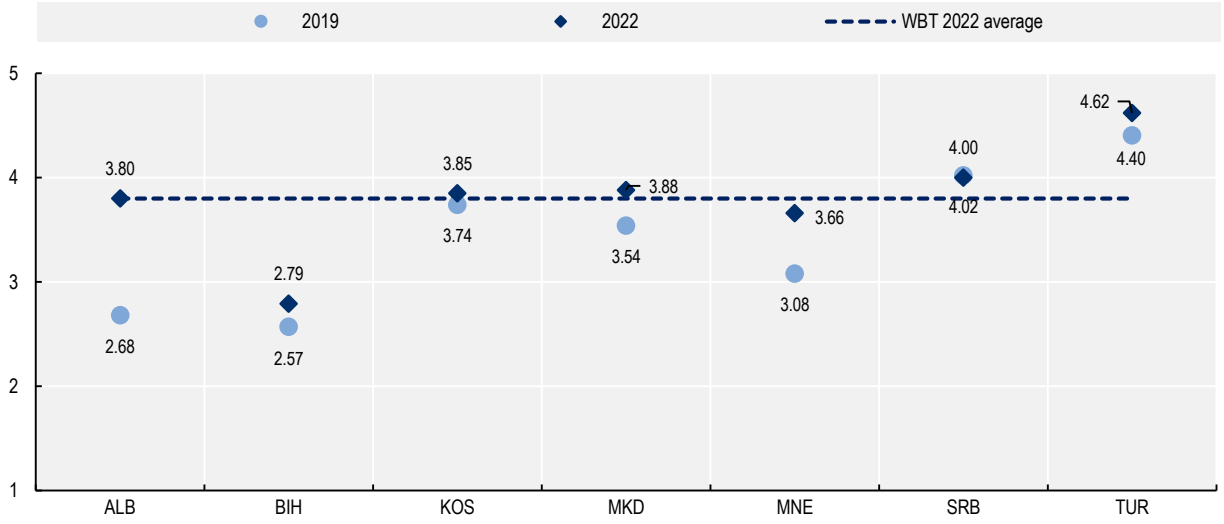
Key findings

- **Export promotion is highlighted in all of the SME-specific strategic documents in the Western Balkans and Turkey region.** All economies have included broad support for increasing the volume of exports, as well as for improving their complexity and sophistication by shifting to higher value-added activities.
- **With the exception of Montenegro, all WBT economies have export promotion agencies, although with varying mandates.** While Montenegro is the only economy where export promotion is directly under the purview of the Directorate of Competitiveness Enhancement in the Ministry of Economic Development, there are several economies where SME development agencies are responsible for programme implementation in relation to internationalisation. KOSGEB in Turkey and KIESA in Kosovo have far-reaching mandates to govern broad SME support, not only in the area of export promotion.
- **Centralised export promotion portals are not prevalent across the region.** In many economies, the governments inform SMEs about available export support through government portals or various project websites, causing a fragmentation of information sources.
- **All WBT economies included support for SME integration into global value chains through increased SME-foreign direct investment linkages and indirect exports.** The governments aim for increased SME participation in global value chains (GVCs) through fostering SME-multinational enterprise (MNE) linkages and integrating local SMEs into supplier networks of domestically operating MNEs. Almost all economies introduced either supplier development programmes to improve the supplier quality within the economy or instruments to better connect domestic SMEs with potential investors and MNEs.
- **Four of the assessed economies have advanced considerably in the area of cluster formation and development.** The governments of Albania, Bosnia and Herzegovina, Kosovo, and Montenegro have implemented cluster development programmes and intensified their institutional support for industrial groupings by boosting financial and non-financial incentives for SMEs with cluster potential.
- **While the majority of economies have a basic legal framework that governs e-commerce, the regulatory infrastructure is largely lacking across the region.** A few economies have improved the harmonisation of their legal environment in line with to EU directives and further strengthened consumer protection and cybersecurity; however, Bosnia and Herzegovina and Montenegro have neither a proper legal framework governing the adoption of e-commerce nor an entity overseeing it.
- **Despite underdeveloped legal structures, almost all assessed economies have introduced e-commerce initiatives since the last assessment cycle.** The Western Balkans and Turkey (WBT) region have advanced in programme implementation in the area of promoting e-commerce, which is largely due to new government initiatives, which prioritise digitalisation and provide support for SMEs to digitalise their activities and integrate into online sales channels.

Comparison with the 2019 assessment scores

With the exception of Serbia, all economies have improved their scores since the last assessment cycle. Due to the adoption of new strategic documents promoting SME development focused on export promotion and integration into GVCs, many economies saw a boost in their scores. The economies in the region have overall improved in programme implementation, introducing new support services and projects with the goal of increasing the export capacity of SMEs. Furthermore, there were considerable advancements across the region in promoting cluster formation and development and improving the suppliers' base. While many economies advanced in the area of adopting and promoting e-commerce practices, there remains room for improvement in developing a sound legislative environment (Figure 12.1).

Figure 12.1 Overall scores for Dimension 10 (2019 and 2022)



Notes: WBT: Western Balkans and Turkey. Despite the introduction of questions and expanded questions to better gauge the actual state of play and monitor new trends in respective policy areas, scores for 2022 remain largely comparable to those for 2019. For a detailed overview of policy changes and to compare performance over time, the reader should focus on the narrative parts of the report. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Implementation of the SME Policy Index's 2019 recommendations

Table 12.1 summarises progress on the key recommendations for this dimension since the previous assessment.

Table 12.1 Implementation of the SME Policy Index's 2019 recommendations for Dimension 10 in the Western Balkans and Turkey

Regional 2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Regional progress status
Increase the human and financial capacity of export promotion agencies to provide more effective support to SMEs	Progress has been made in boosting numbers of employees in export and investment promotion agencies across the region. AIDA in Albania and KIESA in Kosovo added new staff, reinforcing their respective agencies' capacities. In Albania, Bosnia and Herzegovina – at both the state level and in the Federation of Bosnia and Herzegovina, and Kosovo, agencies faced reductions in some of their budget lines as the funds were directed to mitigate the effects of the COVID-19 pandemic. The number of employees and the agencies' budgets vary considerably across the region.	Moderate
Boost export promotion agencies' efforts to monitor their programmes comprehensively, and assess their impact transparently	The efforts to monitor export promotion programmes across the region are uneven, albeit having improved since the last assessment cycle. Albania, Kosovo, Montenegro and Turkey have all reinforced their monitoring and evaluation of export promotion schemes. Albania committed to making adjustments in programme design based on received feedback, Kosovo further advanced its monitoring and transparency efforts digitalising export promotion services, and Montenegro set key performance indicators to assess the effectiveness of strategic initiatives. However, monitoring and evaluation remain weak in most economies, as they lack independent reviews and measurable targets.	Moderate
Intensify efforts to raise awareness among SMEs of the opportunities associated with participating in global value chains	Incomplete information about foreign markets has been a long-standing challenge in the Western Balkans and Turkey region; however, some economies have undertaken sound initiatives to raise SMEs' awareness about opportunities to integrate into global value chains (GVCs). Most notably, North Macedonia has introduced the Macedonian Suppliers Business Portal, an initiative to promote local SME suppliers on a global scale, which also provides comprehensive information on SME participation in GVCs. Kosovo's Matching Grants Programme also serves an informational role for SMEs aiming to further integrate into GVCs and provides adequate training. In Bosnia and Herzegovina, Republika Srpska launched a Suppliers Database project, which facilitates finding business partners for domestic and foreign companies. Nevertheless, portals where SMEs could learn about GVC opportunities are not evenly widespread across the region.	Moderate
Implement programmes to enhance supplier quality of SMEs	Almost all economies strive to enhance the quality of domestic suppliers, having included it in their strategic documents. Serbia and Turkey have made the most noteworthy progress in implementing supplier development programmes, while Albania, North Macedonia and Republika Srpska have intensified their efforts to increase the connectivity of domestic SMEs by introducing business-to-business matchmaking platforms or a suppliers directory.	Strong
Design cluster development programmes carefully	In all Western Balkans and Turkey economies, industrial clustering is mentioned and encouraged in strategic documents. Albania, Bosnia and Herzegovina, Kosovo and Montenegro have all advanced in their cluster formation and development efforts by establishing cluster development programmes. According to the Global Competitiveness Report, the state of cluster development is best perceived in Turkey and Serbia, due to their institutional and strategic frameworks, which are conducive to SME groupings.	Strong
Develop and strengthen formal support mechanisms to encourage SME uptake of e-commerce	While e-commerce is promoted in all Western Balkans and Turkey economies, only a few economies have a legal infrastructure in place to support it. Albania, Kosovo, North Macedonia, Serbia and Turkey all have a varying degree of a regulatory framework for the promotion and e-commerce; Bosnia and Herzegovina and Montenegro do not have an operational legal structure to govern e-commerce, which hinders any efforts to increase the SMEs' adoption and uptake of digital trade practices that have proven to be particularly beneficial during the COVID-19 pandemic.	Limited
Establish mechanisms to periodically evaluate and update regulatory frameworks	Albania, Montenegro and Turkey have reinforced their evaluation mechanisms for internationalisation strategies by setting measurable targets in strategic documents, including various stakeholders in the policy design process and inviting an independent institution to perform a regulatory and programme review. Turkey also introduced a formalised evaluation system based on SME feedback collection during the support programmes' implementation. Nevertheless, performance-based impact assessments are still not prevalent across the region.	Moderate

Introduction

The Western Balkans and Turkey economies all rely on international trade as the driver for economic growth. Given SMEs' contribution to the region's output and employment, their importance cannot be overlooked. An environment that is conducive to business and foreign expansion is crucial for SMEs to embark on internationalisation activities. However, SMEs in the region still face numerous obstacles in their efforts to export and integrate into GVCs. Administrative hurdles, lack of export capacity, hindered access to finance and a low-quality narrow export base can all contribute to hampered internationalisation and increased inwardness of businesses, especially in the post-COVID recovery period. Due to their smaller size and more limited resources, SMEs are more prone to rely on the government for support in expanding beyond their local consumer base.

To promote an export-oriented strategic focus among domestic SMEs, as well as help them integrate into GVCs and adopt e-commerce practices, the governments have an array of effective trade facilitation policies at their disposal. They can also leverage the export and investment promotion agencies, whose mandate allows them to provide more targeted technical assistance, combined with grants and subsidies. Recognising that insufficient export readiness, low quality of the supplier base and suboptimal absorption capacities are the main obstacles to internationalisation in the WBT region, the government can play an important role in facilitating SMEs' integration into global markets through a well-targeted, comprehensive policy mix of financial and non-financial support.

COVID-19 exacerbated existing challenges, while presenting SMEs with new ones, such as increasing the tendency of in-shoring in the global economy, multiple trade restrictions imposed worldwide and supply chain blockages. Now, more than ever, reinforcing trade facilitation measures and consistent support for SME internationalisation can provide a lifeline for SMEs struggling with the aftermath of the COVID-19 pandemic. Furthermore, the pandemic has demonstrated the importance of digitalisation and its contribution to growth and development. At the time of impeded access to traditional sales channels, e-commerce has proven a successful alternative, with 25% of surveyed[1] SMEs shopping using online channels and 30% of SMEs using them to sell their goods and services in 2021 (Balkan Barometer, 2021[1]).

The majority of the assessed economies are small and open, therefore their reliance on government programmes, which allow them to export, join GVCs and engage in cross-border e-commerce, is significant. Consequently, removing administrative barriers to exports and investments within the economy, as well as providing extensive capacity building for SMEs while encouraging the public and the private sectors to digitalise their operations, is vital for the Western Balkans and Turkey to become better integrated into the global economy and increase their value added to the global trade system.

Assessment framework

Structure

The assessment framework for this dimension has three sub-dimensions (Figure 12.2):

- Sub-dimension 10.1: Export promotion assesses governments' support to SMEs for export promotion, examines whether governments have operational export promotion programmes in place that target SMEs and considers the provision of services to help SMEs penetrate international markets.
- Sub-dimension 10.2: Integration of SMEs into global value chains evaluates governments' support for SMEs wanting to integrate into global value chains, as well as programmes to promote linkages with larger exporting domestic firms or MNEs.

- Sub-dimension 10.3: Promoting the use of e-commerce examines government promotion of the use of e-commerce by SMEs. It considers the prevalence of legal frameworks to secure payments and consumer protection on line, and further analyses the supports in place to facilitate SME uptake of e-commerce.

All sub-dimensions divided the assessment into three thematic blocks: 1) planning and design (30% of the total score); 2) implementation (50% of the total score); and 3) monitoring and evaluation (20% of the total score).

Compared to the 2019 assessment, small adjustments have been made to the framework to enhance the importance of digital aspects of policies and measures, which in the context of internationalisation of SMEs relate specifically to developing digital tools by export promotion and investment agencies and facilitating access to information through centralised export-specific portals. A few additional questions were added to ensure that the questionnaire captures a wider range of relevant policies that contribute to the integration of SMEs into GVCs, including policies that aim at GVC linkages, supplier quality, industrial clustering, employee exchange and mobility from foreign firms to domestic SMEs, and the attraction of foreign direct investment (FDI) with strong linkage potential. The assessment takes into consideration COVID-19 response measures, although no evaluation has been made in this regard.

Figure 12.2 Assessment framework for Dimension 10: Internationalisation of SMEs in the Western Balkans and Turkey

Internationalisation of SMEs								
Outcome indicators Exports as a share of GDP Share of exports by enterprise size class SMEs' share in exports								
Sub-dimension 10.1: Export promotion			**Sub-dimension 10.2:** Integration of SMEs into global value chains			**Sub-dimension 10.3:** Promoting the use of e-commerce		
Thematic block 1: Planning and design	**Thematic block 2:** Implementation	**Thematic block 3:** Monitoring and evaluation	**Thematic block 1:** Planning and design	**Thematic block 2:** Implementation	**Thematic block 3:** Monitoring and evaluation	**Thematic block 1:** Planning and design	**Thematic block 2:** Implementation	**Thematic block 3:** Monitoring and evaluation
Quantitative indicators Budget of export promotion agencies			**Quantitative indicators** Global Competitiveness Index: Local supplier quality Global Competitiveness Index: State of cluster development			**Quantitative indicators** Percentage of individuals purchasing on line (in the last 12 months) Percentage of SMEs selling on line (in the past 12 months)		

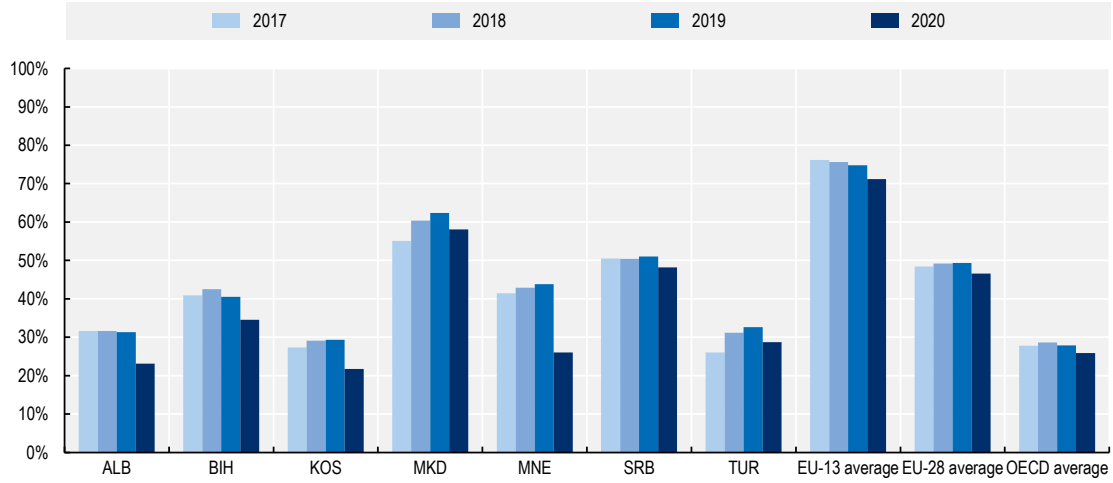
Analysis

Performance in internationalisation of SMEs

Outcome indicators are vital in analysing the effects of adopted policies, providing valuable insights for policy makers to assess the effectiveness and efficiency of existing measures and the potential need for new ones. The outcome indicators for this dimension demonstrate the export performance of SMEs and the economy as a whole in the WBT region.

This section begins by comparing the exports of the WBT region (expressed as a percentage of gross domestic product [GDP]) with those of the European Union (EU) and OECD member countries (Figure 12.3). As was the case in the last assessment cycle, North Macedonia has the highest rate of exports as a percentage of GDP, amounting to 58.1% in 2020. Kosovo had the lowest, amounting to 21.7% in 2020. All economies in the WBT region, as well the EU and the OECD, experienced a drop in exports in 2020 as a result of the COVID-19 pandemic. The biggest decrease, however, can be observed in Montenegro, which experienced a 17.8 percentage point contraction.

Figure 12.3 Exports from the Western Balkans and Turkey as a percentage of GDP (2017-2020)

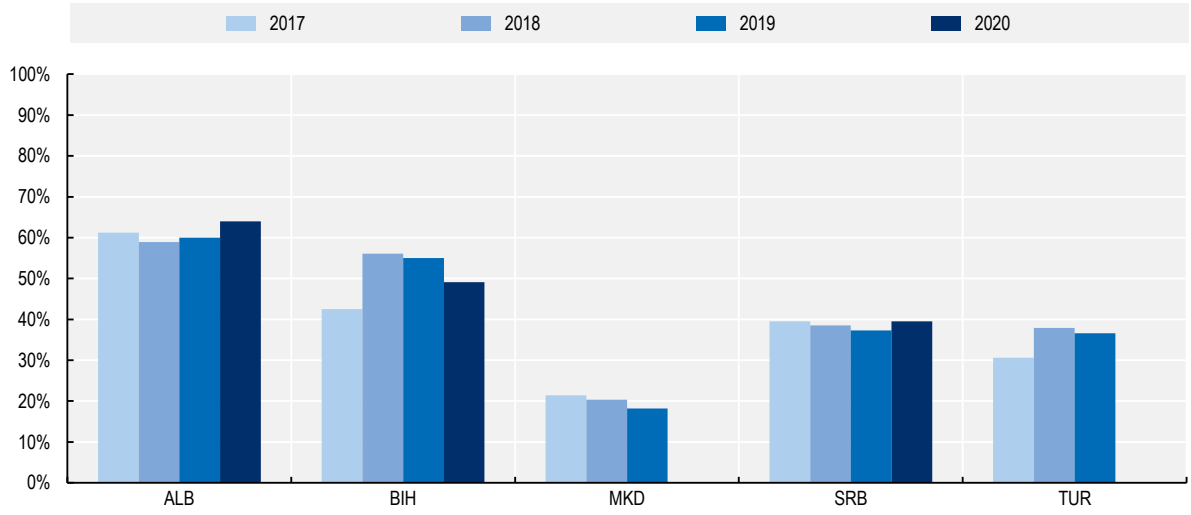


Notes: OECD and EU averages are calculated as simple averages. EU-13: Bulgaria, Croatia, Cyprus,* the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic and Slovenia.
* Footnote by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus. Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the "Cyprus" issue.
Footnote by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.
Source: World Bank (n.d.[2]).

StatLink https://stat.link/oif4xa

SMEs' share of exports reached a relative plateau during the assessment period (Figure 12.4). With the exception of Albania and Serbia, it slightly decreased across the region, with less SMEs exporting goods and services in 2020. Out of all the Western Balkans and Turkey economies, Albania enjoyed the highest share of SMEs in the economy's exports, at 64% in 2020. With the adoption of new support measures to promote exports among SMEs and increase their export capacity, as well as a rebound in international trade following the post-COVID recovery period, SMEs' share of exports is bound for an increase in 2021 and 2022.

Figure 12.4 SMEs' share of exports in the Western Balkans and Turkey (2017-2020)



Notes: Data for Kosovo and Montenegro were unavailable for this assessment. Data for North Macedonia and Turkey for 2020 were unavailable. Small and medium-sized enterprises (SMEs) are defined as businesses with fewer than 250 employees. 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 averaging the data of the Federation of Bosnia and Herzegovina and Republika Srpska.
Source: Data provided by Western Balkans and Turkey statistical offices.

StatLink https://stat.link/fai7d6

Export promotion (Sub-dimension 10.1)

Export-oriented policies, facilitating foreign market access for SMEs, which oftentimes struggle with lower competitiveness, incomplete information about foreign markets and a lack of export capacity, are necessary for the government to ensure that SMEs do not face additional barriers hindering their internationalisation. In the WBT region, SMEs contribute to 65% of the value added in the assessed economies and that contribution cannot be overlooked (OECD et al., 2019[3]). Therefore, to boost SME productivity and encourage foreign expansion, the governments and their respective export promotion agencies need to provide support, which acknowledges SMEs' needs, capabilities and limitations.

This sub-dimension looks at the export promotion programmes for SMEs with the potential for internationalisation. It evaluates the design of financial and non-financial support schemes and their consistency with domestic strategies, while also assessing their implementation and effectiveness. This section also looks at the monitoring and evaluations systems in place to analyse the extent to which the export promotion strategies and support schemes are monitored.

With the exception of Kosovo, for which the government is still revising key strategic documents, all economies in the region have improved their performance since the previous assessment cycle (Table 12.2). Despite the COVID-19 pandemic, which strongly impacted SMEs' operations and has taken a toll on export promotion activities across the region, overall implementation has improved. Monitoring and evaluation has also improved, but remains weak for export promotion, lacking independent reviews and measurable targets in key strategic documents.

Table 12.2 Scores for Sub-dimension 10.1: Export promotion

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	4.86	4.13	3.95	5.00	4.65	4.65	5.00	**4.61**
Implementation	3.81	4.20	3.95	4.58	3.88	4.37	4.93	**4.24**
Monitoring and evaluation	3.67	3.07	3.67	3.67	3.22	3.67	4.56	**3.65**
Weighted average	**4.09**	**3.96**	**3.89**	**4.52**	**3.98**	**4.31**	**4.88**	**4.23**

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

Export promotion is highlighted in strategic documents across the region

All assessed economies have highlighted the importance of export promotion in their strategic frameworks (Table 12.3). As SMEs represent the majority of all companies in the WBT region, most export promotion measures cater to them and are included in SME-specific strategies. Only a few economies, such as North Macedonia and Turkey, have more general documents relating to exports which are not SME-specific. In the majority of economies, increasing the volume of SME exports, as well as their complexity and value added, are among the key targets in SME-specific strategy pillars.

As a part of a variety programmes, all WBT economies provide SMEs with financial support for their internationalisation efforts. This support ranges from trade financing, export credits and grants to subsidies for trade fair participation and business-to-business (B2B) matchmaking. All economies also have non-financial support for SMEs available, such as capacity-building activities, training and technical assistance. However, that support varies in effectiveness across the region.

Table 12.3 Relevant national strategies governing export promotion in the Western Balkans and Turkey

Economy	National strategy
Albania	Business Investment Development Strategy (2021-2027)
Bosnia and Herzegovina	Federation of Bosnia and Herzegovina: Development Strategy of the FBiH (2021-2027) Republika Srpska: SME Development Strategy (2021-2027) – Industry Development Strategy (2021-2027)
Kosovo	National Development Strategy (2016-2021)[1]
Montenegro	Strategy of SME Development (2018-2022) Programmes for Improving Competitiveness 2020, 2021 and 2022
North Macedonia	Strategy for Export Promotion (2022-2026) SME Strategy (2018-2023)
Serbia	SME Development Strategy (2015-2020)[2]
Turkey	Ministry of Economics Strategic Plan (2018-2022) Eleventh Development Plan KOSGEB Strategic Plan (2019-2023) 2023 Turkey Export Strategy and Action Plan

Notes: Kosovo's National Development Strategy (2016-2021) expired in 2021; while it is still being used as a governing document, a new revised strategy is underway in 2022. Serbia's SME Development Strategy (2015-2020) expired in 2020 and has been implemented relatively successfully. A new strategy is being drafted at the time of writing.

Kosovo, Montenegro, North Macedonia, Serbia and Turkey are especially advanced in complementing financial support with non-financial assistance in the area of export promotion. This policy mix is particularly important for shifting to higher value-added exports and diversifying the export base, which are priorities for all of the assessed economies. By facilitating access to finance, which increases SMEs' financial capacity to develop and scale up their operations, companies can invest more in innovative products and solutions, which in turn is facilitated by access to training and capacity building that is provided in all of the

assessed economies, although with varying degree of effectiveness and accessibility. Albania recognised the importance of institutional support in improving the export readiness of SMEs and is a prime example of reinforcing institutional capacity to provide more technical assistance to SMEs aiming to export. The Albanian Investment Development Agency (AIDA), the body responsible for export and investment promotion, added a new training division to its structure to enhance its export capacity-building activities. The addition of a dedicated department responsible solely for training demonstrates a structured, systematic approach to provide technical assistance to SMEs, which can now rely on regular training modules, as opposed to *ad hoc*, project-based support.

Sources of information about available export promotion support remain fragmented

While all of the assessed economies inform SMEs about available export promotion support through official channels, dedicated, centralised portals are not prevalent across the region, resulting in information asymmetry. This is particularly relevant for SMEs, as they often lack resources to engage in a lengthy search for information on available government support programmes that would be the most suited for their needs. Fragmentation of information sources may result in lower uptake of offered programmes and generates higher transaction costs and resource inefficiencies among SMEs, which already struggle with higher barriers to enter foreign markets (OECD, 2021[4]). Seventeen per cent of surveyed[2] SMEs in the Western Balkans quote the inability to find a foreign partner as a deterrent to exporting (Balkan Barometer, 2021[1]). While some economies, such as Albania, Bosnia and Herzegovina, and North Macedonia, directly offer some extent of assistance in finding export destinations, the information services on foreign markets and market access remain insufficient.

To remedy this issue, North Macedonia launched a separate export promotion portal for domestic SMEs (Box 12.1). The portal provides a B2B matchmaking platform, detailed export guidance, market analysis and information on relevant export policies. It also allows SMEs to learn about domestic and international trade fairs and apply to participate. Kosovo has also made considerable advancements in the area, digitalising export promotion services and enabling SMEs to apply for support on line.

Despite these initiatives, incomplete information about foreign markets still poses a challenge for SMEs across the region. Clear and easily accessible information is necessary for businesses, especially SMEs, to identify, apply and benefit from government support programmes. This is particularly true in the era of the COVID-19 pandemic (ITC, 2020[5]), during which many SMEs became particularly vulnerable and relied purely on available government support.

Box 12.1 Invest North Macedonia export portal

Invest North Macedonia is an investment and export promotion agency, co-ordinated by the government of North Macedonia. It has a comprehensive portal containing relevant export support measures, as well as a broad array of domestic and foreign market information. The website offers multiple export guides and handbooks, which aim to assist small and medium-sized enterprises (SMEs) at every stage of development, whether they aim to start exporting or expand their international market penetration. SMEs can readily assess their export potential and readiness using one of the resources on the website. The portal also serves as an online marketplace for domestic companies, which can post their offer on the export portal to increase their exposure and visibility. They can then be found through a built-in search engine, after defining search criteria. A business-to-business matchmaking portal is also available through the portal, which helps create linkages between potential export and investment partners. Apart from educational and informational support, SMEs can also fill out an application to participate in international trade fairs through the website, significantly reducing the administrative burden.

Enabling SMEs access to comprehensive educational and informational resources about accessing foreign markets significantly contributes to facilitating and improving the export readiness of Macedonian SMEs. As SMEs quote lack of skills and capacity as the main deterrents to exporting, digitalising access to resources is a vital step forward to increasing exports and their quality. Assisting SMEs in their search for a foreign partner, as well as creating an online database of domestic suppliers, plays a major role in trade facilitation and removes any potential intermediaries in the process, thus further reducing any administrative burdens and costs.

As the majority of Western Balkans and Turkey economies do not have a dedicated online portal, Invest North Macedonia's website solely dedicated to export promotion serves as a good practice example for the region. Its broad scope of digital tools and informational resources helps both domestic SMEs in their internationalisation efforts, as well as potential investors looking for SME suppliers in North Macedonia. The Western Balkans and Turkey could also benefit from a region-wide export promotion portal, which could highlight opportunities for SMEs to connect with potential buyers, as well as promote the region as a sound investment destination.

Source: https://investnorthmacedonia.gov.mk.

Many economies exceeded their programme implementation targets, with most export promotion services' uptake rising

At the time of writing, all Western Balkans and Turkey economies provide both financial and non-financial export assistance to SMEs (with the exception of Albania, due to the ongoing redesigning of support schemes). The most prevalent programmes include grants for trade fair participation (Bosnia and Herzegovina, Kosovo, Montenegro, Serbia, and Turkey), advisory services (Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, Serbia, and Turkey) and B2B matchmaking (Albania, Bosnia and Herzegovina, and Kosovo). Export promotion programmes across the region have largely been implemented, despite the onset of the COVID-19 pandemic, which has affected programme implementation across the board. In fact, many economies have reached or even exceeded their targets, which points to a relevance and appeal of introduced programmes for SMEs. For example, the International Market Support Programme in Turkey supported 653 SMEs, which is considerably more than other export promotion programmes offered by the Small and Medium-sized Enterprises Development Organisation (KOSGEB). In addition, the project's funding covers 70% of the funding available for export promotion activities and SME integration into GVCs (OECD, 2021[6]). Furthermore, Bosnia and Herzegovina's export promotion programmes, including assistance in achieving quality standards, marketing and digitalisation of operations, also enjoyed a relatively high uptake of 391 in 2020. A similar trend of increased uptake of support programmes can be observed in Kosovo and Serbia.

Nevertheless, the situation in the region remains heterogeneous and export promotion support remained largely underused in some economies. This was the case of Montenegro, where in 2020, only 2 companies received support for modernisation of production processes, compared to 11 in 2019. Only 1 received support for the development of circular economy activities, 44 for small-scale investments and 55 for the digital transformation of business operations, which were new budget lines introduced in the Programme for Improving Competitiveness 2020. In Albania, AIDA's operations were halted in 2020 and 2021 due to the redirection of funds to COVID-19 relief resulting in reduced use, postponed and cancelled programmes, as well as the support scheme redesign process.

SMEs across the region also have access to a range of projects backed by international development partners. The projects usually entail financial support, such as loans and grants or technical assistance, such as mentoring and advisory services. Oftentimes, it is a combination of both, as blending financial and non-financial services proves to be the most effective in stimulating SMEs' development. A good example

of this mixed approach is the Matching Grants Programme in Kosovo, implemented through the Competitiveness and Export Readiness Project with a EUR 14.3 million loan from the World Bank. It combines technical assistance in certification and standardisation with grants for equipment procurement. To date, 200 SMEs have benefited from this programme in Kosovo. Another successful project is in the process of being implemented in Bosnia and Herzegovina, Montenegro, and Serbia. The Danube Transnational Programme is a financing instrument of Interreg,[3] in line with EU Cohesion Policy. One of its priorities is to enhance innovation and SME skills development and boost technology transfers. Though not explicitly focused on export promotion, the project's priorities are aligned with making SMEs in the region more competitive and their development more sustainable.

Some of the assessed economies have also implemented export promotion projects within the scope of the Europe Enterprise Network, which assists SMEs in the Western Balkans and Turkey to expand on a global scale and boost their internationalisation potential.

Monitoring has moderately advanced across the region, though with an outstanding challenge of performance-based evaluation

Although most economies have improved their monitoring and evaluation mechanisms, room for improvement remains. Proper review of export promotion programmes have been a long-standing challenge in the WBT region. However, advancements can be observed, especially in Albania, Kosovo, Montenegro and Turkey. In Turkey, this progress entails formalising the process of feedback collection from support beneficiaries, while in Albania the government started taking into account a set of recommendations prepared post-evaluation by relevant institutions in future policy design. Digitalising export promotion applications in Kosovo also had a direct impact on enhancing transparency and the monitoring of provided support. In Montenegro, the government is using clearly defined performance indicators to assess the effectiveness of strategic documents and obligates all co-financing beneficiaries to submit all documentation relating to the application of funds and the effects of implementation of co-financed activities.

Despite improvements in the overall monitoring and evaluation of export promotion programmes, the region falls short in introducing an independent review of its support initiatives. While in almost all economies SME support programmes are subject to an audit, an evaluation from an independent institution is lacking. Independent evaluation of the implemented schemes, as well as their effectiveness and cost-efficiency in improving SMEs' efforts to internationalise, is crucial in ensuring adequate budget allocation and increasing transparency.

Another factor weakening the monitoring mechanisms is the absence of quantifiable, measurable targets in strategic documents. Albania, Montenegro, Serbia and Turkey all included a degree of measurable goals in their SME strategies; however, this is not a common practice across the region.

The way forward for export promotion

- **Establish dedicated centralised export promotion portals.** Dedicated portals containing data on all available export promotion support and applicable policies need to be established and regularly updated. To increase the uptake of export promotion initiatives by SMEs, there is a need to raise awareness about potential opportunities in foreign markets as well as provide training on the expansion process. SMEs should have easy access to information about prospective export destinations and market reports with a comprehensive analysis of foreign markets, as well as barriers to entry and trade facilitation measures.
- **Continue boosting monitoring and evaluation for export promotion programmes and reinforce data collection mechanisms.** On top of monitoring the satisfaction of SMEs benefiting from government support schemes, the governments should define and monitor quantifiable

targets as well as introduce performance-based monitoring and evaluation, which would give them insight into the effectiveness, value-added and cost-efficiency of introduced projects. See Box 12.2for a good practice example from Georgia. For more information on data that WBT governments could consider collecting in this area, please see Annex C.

Box 12.2. SME support programme monitoring and evaluation in Georgia

The Georgian government agency Enterprise Georgia (EG) is the main co-ordinator of programmes and policies to support small and medium-sized enterprise (SME) sector development in the economy. In 2020, EG structured its pilot monitoring and evaluation framework by developing a success indicators catalogue to assess the financial and economic impact of its support programmes. The goal was to measure the impact on beneficiaries, as well as their feedback after participating in the programme. EG selected a representative sample of beneficiaries of various forms of support to evaluate their impact using 35 indicators. The indicators were divided into medium-term impact-level ones, which capture the programmes' results, and department-level ones, which evaluate specific outcomes and activities of the initiatives.

The assessment is based on a robust data collection system, both from external sources and the beneficiaries, capturing their financial indicators, economic and operational performance, and general feedback on EG's activities. The results of the evaluation are thoroughly quantified and indicate how much of EG's support translates into beneficiaries' additional turnover, contribution to gross domestic product and annual tax revenue, showcasing the effectiveness of provided support. In the period to come, EG plans to further develop the methodology and apply it to the entire portfolio of its SME support services.

SME support programmes are rarely evaluated from the angle of performance and the impact they have on beneficiaries across the Western Balkans and Turkey. While they are often assessed based on the satisfaction of the beneficiaries and their uptake and popularity, detailed impact assessments are not prevalent across the region. Strengthening data collection mechanisms should be the first step in reinforcing monitoring and evaluation of SME support initiatives. Developing a catalogue of success indicators to effectively assess the impact of government programmes targeting SMEs follows as a next step in ensuring efficient and effective support.

Source : Enterprise Georgia (2022[7]).

Integration of SMEs into global value chains (Sub-dimension 10.2)

SME integration into GVCs is one of the key drivers of growth in small, open economies. It can help SMEs engage in indirect exports, as well as benefit from knowledge and technology transfers by collaborating with MNEs. The WBT region has long been motivated to shift to more export-led growth, as well as increase the value added of the regional output. Further integration of SMEs into GVCs is a vital element of increasing the complexity of the exports, as well as generating more value added within the economy.

This sub-dimension looks at the policies adopted by the WBT governments to foment linkages between MNEs and SMEs with the goal of increasing SME participation in GVCs. It assesses the economies' strategic frameworks for improving supplier quality, cluster development and stimulating SME-MNE linkages, while also evaluating their implementation. The sub-dimension also analyses the governments' mechanisms for monitoring and evaluation of introduced policies and programmes.

Since the last assessment cycle, all economies have improved SMEs' integration into GVCs (Table 12.4). The most significant advancement can be observed in Albania, due to its adoption of comprehensive strategic documents, which set out a framework for a successful integration into GVCs. Across the region, monitoring and evaluation have considerably improved, but remain underdeveloped in most economies.

Table 12.4 Scores for Sub-dimension 10.2: Integration of SMEs into global value chains in the Western Balkans and Turkey

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	3.72	2.52	3.89	4.67	4.28	4.00	4.11	**3.88**
Implementation	3.87	1.55	3.97	3.26	3.26	4.28	4.79	**3.57**
Monitoring and evaluation	3.00	1.89	3.00	1.67	3.33	3.00	3.00	**2.70**
Weighted average	**3.65**	**1.91**	**3.75**	**3.36**	**3.58**	**3.94**	**4.23**	**3.49**

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

The majority of the assessed economies promote enhanced linkages between multinational enterprises and SMEs

In the WBT region, SMEs often struggle with accessing GVCs through direct exports due to hindered market access or lower capacity to export. Leveraging MNEs which have already established operations in the region and facilitating the investment framework to attract new enterprises to the economies can facilitate GVC integration for SMEs.

GVC participation allows SMEs to capture a larger customer base, as well as benefit from knowledge and technology transfers stemming from increased collaboration with larger enterprises. To successfully integrate and move up the value chains, SMEs need to increase their productivity and competitiveness. GVC integration can be done either by becoming a supplier for MNEs operating in the domestic market exporting their outputs, direct exporting or outward FDI (Zhenwei, Lui and Steenbergen, 2021[8]). To promote increased economic integration, the government can place its efforts on attracting export-oriented FDI by providing a conducive regulatory environment and investment incentives.

Integrating SMEs into GVCs is included in all national strategies governing SME internationalisation across the region, although approaches range from promoting SME-MNE linkages and domestic suppliers base development to cluster formation and FDI attraction. The most prevalent approach outlined in strategic documents is to place an emphasis on boosting competitiveness by improving both the products and services quality of domestic SME suppliers, as well as their production facilities and in-house processes to streamline operations and increase productivity. Serbia and Turkey introduced their own programmes aimed at improving the quality of the supplier base in order for domestic SMEs to integrate in the suppliers' network of larger enterprises. This approach is beneficial for both sides of the linkages:. SMEs benefit from knowledge and technology transfers, while also increasing their output and productivity. MNEs, on the other hand, reduce their operational and transaction costs by sourcing directly from the local market. However, to become suppliers of MNEs, SMEs need to adhere to the quality requirements and international standards of larger enterprises, which often pose a challenge, especially for SMEs with limited economies of scale.

A few economies in the region have undertaken efforts to upgrade the domestic supplier base by assisting SMEs in adhering to international standards. For instance, the Development Agency of Serbia implemented the Supplier Development Programme, which aims to boost SME participation and inclusion into GVCs by assisting SMEs with equipment procurement and providing capacity building to upgrade their operations. Similarly, Turkey has introduced the Global Supply Chain Entry Support Programme, which grants support for machinery and software procurement, training, consultancy services, and certification and standardisation for SMEs. Both programmes demonstrate the commitment to upgrading the supplier base

in the economies and making them more competitive on a global scale. On the regional level of the Western Balkans six, an inter-agency initiative – the Regional Supplier Development Programme – was established, assisting SMEs in building their capabilities and export readiness to better integrate into GVCs.

However, SMEs in the WBT region still face multiple obstacles even after having formed a linkage with an MNE. The enterprises identify skills shortages, institutional changes, frequent regulatory modifications, customs wait times, unfair competition and lack of transparency in regulations (Ilahi et al., 2019[9]). Introducing capacity-building programmes, as well as intensified policy efforts to facilitate customs procedures, are crucial for creating and strengthening MNE-SME linkages and attracting export-oriented FDI.

At the time of writing, the majority of GVC linkages formed in the Western Balkans region stem from lower value manufacturing and services (OECD, 2019[10]). Services were particularly affected by the COVID-19 pandemic, especially given the region's reliance on tourism. The COVID-19 pandemic has demonstrated the need to shift to higher value activities in order to move up the GVCs, increase the value added of the regional output and attract high-quality FDI profiles.

Recognising that, the role of investment promotion agencies as vessels for attracting investors, job creation and overall productivity growth has been highlighted (OECD, 2018[11]). All economies in the region have dedicated investment promotion agencies; however, mandates and effectiveness vary. In Bosnia and Herzegovina, Montenegro, and North Macedonia, the investment promotion agencies do not provide financial support to SMEs and serve a more informational purpose. KIESA in Kosovo, KOSGEB in Turkey AIDA in Albania and the Development Agency of Serbia on the other hand, have broad mandates that go beyond export and investment promotion, also including broad support for SMEs. Consequently, the number of employees and the agencies' budget vary considerably across the region; however, many of agencies are understaffed and underfunded, with much of their resources having been redirected towards the mitigation of the effects of the COVID-19 pandemic in 2020. Some progress can be observed in boosting the staff and budgets of respective agencies, for instant KIESA has significantly increased its budget since the last assessment cycle, while AIDA has increased its staff from 28 to 38.

Advancements can be observed in cluster formation

Western Balkans and Turkey economies have placed considerable emphasis on industrial clustering. Special economic zones (SEZs)[4] have long been used as tool for knowledge and technology transfers and attracting investment. Industrial clusters are a type of SEZ, which is primarily export-oriented and can serve as an export processing zone or a cluster offering investment incentives (OECD, 2017[12]). By clustering, SMEs can significantly improve their economies of scale, consequently capturing a wider market share. Higher returns, in turn, boost productivity, resulting in stimulated growth (Foghani, Mahadi and Rosmini, 2017[13]). Furthermore, clusters contribute to an environment conducive to productivity growth, by increasing the presence of interconnected, specialised suppliers workers, service providers and firms in related industries. It can result in lower market entry costs for SMEs and sharing the exposure burden and minimising potential risks. Clustering often brings with it a sector-specific infrastructure, provides access to better intermediate inputs and enlarges the pool of workers with similar skills, thus boosting productivity and specialisation and attracting further entrepreneurial activity and forming larger business networks.

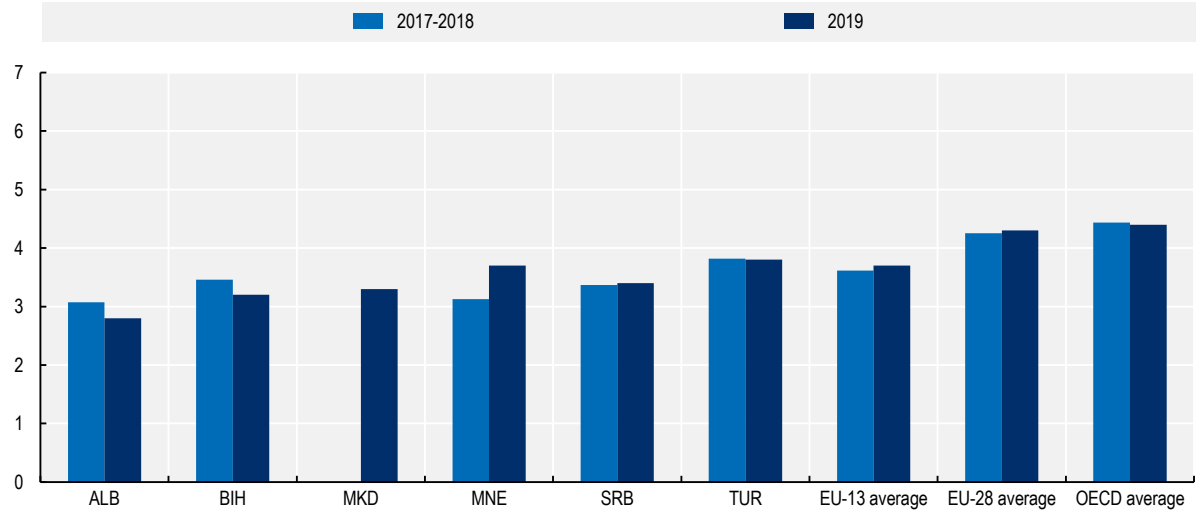
In this assessment cycle, all economies have included a degree of cluster support in their national strategies to encourage industrial grouping. Albania, Bosnia and Herzegovina, Kosovo, and Montenegro have all made considerable progress in incentivising cluster formation and development. Clusters in the region consist of intertwined companies and relevant institutions, ranging from business associations to academia. On many occasions, an international partner provides technical and/or financial assistance in forming the cluster, such as GIZ, the European Union or the United Nations Industrial Development Organisation.

Heterogenous stakeholders can be of great importance when selecting industries with clustering potential. Governments across the Western Balkans have conducted multiple sectorial studies to explore clustering

potential within the economies, such as Kosovo, which has intensified its efforts in cluster formation, exploring clustering potential in the wood processing industry, plastics and furniture sectors by conducting various sectorial studies. The government adopted an approach of first identifying clustering opportunities and functional groupings, then providing grants and subsidies to encourage the technology and knowledge transfers within the industrial cluster. Kosovo has already formed clusters in the wood and metal processing sectors. In Bosnia and Herzegovina, at the entity level, Republika Srpska, with the co-operation of the Ministry of Agriculture, introduced new initiatives on cluster formation and development, especially in the strategic agro-food sector. The ministry is also in the process of preparing the Agricultural Cluster Development Programme (2022-2026).

As illustrated by Figure 12.5, cluster development is best perceived in Turkey and Serbia. With Turkey's developed institutional environment, consisting of 26 regional development agencies and investment support offices, the economy is well positioned as one of the leaders in cluster development in the region. Serbia, with its network of SEZs, also possesses a sound institutional and physical infrastructure to encourage knowledge transfers and form productive clusters, which are export-oriented and drive growth through the attraction of FDI.

Figure 12.5 State of cluster development in the Western Balkans and Turkey(2017-2019)



Notes: Survey question: "In your country, how widespread are well-developed and deep clusters (geographic concentrations of firms, suppliers, producers of related products and services, and specialised institutions in a particular field)?" [1 = non-existent; 7 = widespread in many fields]. 2017-18 data for North Macedonia are not available. Data for Kosovo are not available.
Source: World Economic Forum (2019[14]).

StatLink https://stat.link/ob6rt0

Monitoring and evaluation of the impact and effectiveness of policies promoting SME GVC integration are lacking across the region

One of the outstanding challenges in the region is the lack of monitoring and evaluation of the impact of programmes encouraging SMEs' inclusion in the GVCs. While monitoring mechanisms are in place for specific programmes across the region and oftentimes evaluated based on the beneficiaries' feedback, their effectiveness, and especially cost-effectiveness, is rarely accounted for. Lack of performance-based evaluation can hinder the governments' efforts to provide targeted, efficient and needs-based support for SME integration into GVCs.

What often impedes monitoring and evaluation of SMEs' GVC activities is the lack of measurable, quantified goals in key strategic documents. Some economies, like Bosnia and Herzegovina or North Macedonia, set specific targets regarding SMEs' GVC participation, although no measurable indicators are provided. Others, like Montenegro or Serbia, set targets on the number of SMEs to become suppliers or collaborators of large enterprises in a given time frame. While it is an understandable proxy to measure the effectiveness of GVC programmes, shifting attention to performance-based evaluation of the programme's impact might prove more effective.

Feedback gathered from SME beneficiaries is a valuable indicator of their satisfaction and the popularity of the programme. However, they show little benefit in actually measuring its impact on their performance in the medium and long term. SMEs are not required to provide information on the changes in productivity, efficiency gains or skills upgrading, all of which contribute to SMEs moving up the value chains. While gains from GVC integration are difficult to quantify, given their complexity and governance structures (World Bank Group et al., 2017[15]), only some governments, like Serbia and Turkey, gather data on SME integration or participation in GVCs. Nevertheless, regular and systematic impact assessments of integration of domestic SME in GVC is lacking across the region.

The way forward for integration of SMEs into global value chains

- **Intensify efforts to provide far-reaching policies aiming to improve the productivity of SMEs and to broaden the economies' supplier base.** The governments should boost their efforts to enhance the supplier base in the economy to match the inflowing FDI. To do so, the governments should place emphasis on capacity building in the area of compliance with international standards, management, innovation, managerial capabilities and upgrading production facilities.
- **Reinforce the capabilities of investment promotion agencies to ensure they can execute their mandates.** Ensuring stronger co-ordination (including joint programming, co-ordination committies, etc.) between investment promotion agencies and government bodies responsible for SME policies can result in more effective attraction of quality FDI and promotion of FDI-SME linkages. This applies particularly to agencies with broader mandates that include far-reaching SME support. Some economies have already advanced in boosting the capacity of their agencies (Albania, Kosovo); however, all economies should ensure that budgets and staffing are adequate to the targets set by the agencies and the roles with which they were entrusted. In addition to improved administrative capabilities, the agencies should ensure they possess and utilise suitable digital tools to develop high-quality investor targeting schemes and after-care services.
- **Enhance performance-based monitoring and data collection for policies promoting SME integration into global value chains.** The governments and respective investment promotion agencies should place their focus on monitoring the performance of the beneficiaries of support schemes aiming to integrate SMEs into GVCs. It is of particular importance to reinforce data collection mechanisms for potential FDI-SME linkages, as well as indirect exports, which can serve as proxies to SME integration into GVCs. In addition, a framework to measure the performance of SMEs after taking up provided initiatives could give valuable insight into both positive and negative effects of selected policies, which will later demonstrate their viability both for the beneficiaries, as well as for the governments' efficient allocation of resources. For more information on data that WBT governments could consider collecting in this area, please see Annex C.

Promoting the use of e-commerce (Sub-dimension 10.3)

Adoption and promotion of e-commerce play a crucial role in SME internationalisation, which has been clearly demonstrated by the onset of the COVID-19 pandemic, as most commercial activity was moved on line. However, in order for SMEs to adopt the digital sales channel, they need to have the capacity and capability to do so. Therefore, the governments should ensure that they provide SMEs with a proper digital

infrastructure, which can include a legal framework, digital skills acquisition and digitalisation of government services.

This chapter assesses the governments' policies to facilitate access to and the adoption of e-commerce practices, while looking at the regulatory infrastructure, initiatives aiming to boost the uptake of digital sales, and assessing the monitoring and evaluation systems in place for e-commerce.

With the exception of Bosnia and Herzegovina, all economies have improved their scores under the e-commerce sub-dimension (Table 12.5). Programme implementation has improved across the board, as many economies have introduced new initiatives promoting the use of the online sales channel and informing SMEs about potential opportunities in e-commerce. However, most of the assessed economies lack a dedicated institution to oversee e-commerce activities, thus limiting the scope of monitoring and evaluation.

Table 12.5 Scores for Sub-dimension 3: Promoting the use of e-commerce in the Western Balkans and Turkey

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	3.67	2.48	3.67	3.67	3.22	3.67	5.00	**3.62**
Implementation	3.00	1.33	4.00	3.00	3.00	3.00	4.75	**3.15**
Monitoring and evaluation	3.67	1.00	4.33	3.67	2.33	3.00	5.00	**3.29**
Weighted average	**3.33**	**1.61**	**3.97**	**3.33**	**2.93**	**3.20**	**4.88**	**3.32**

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

Legal and institutional frameworks for the adoption and promotion of e-commerce among SMEs are largely lacking in the region

Across the region, the COVID-19 pandemic has highlighted the importance of digitalisation of operations for SMEs locally, as well as the role that cross-border e-commerce can play in SMEs' foreign expansion. Within the Western Balkan region, Bosnia and Herzegovina and Serbia have the highest percentage of SMEs using the e-commerce channel for sales, 18% and 27% respectively (Eurostat, 2022[16])[5]. Out of surveyed SMEs across the Western Balkans (excluding Turkey), 30% used the Internet for selling goods and services in 2021 (Balkan Barometer, 2021[1]), compared to 26% in 2019 (Balkan Barometer, 2021[1]). This increase likely captures the effects of the COVID-19 pandemic on SME integration into the online distribution channel. A similar trend can be observed among the general population, where the personal use of e-commerce for purchases online has been consistently increasing since 2019, averaging to approximately 33%[6] in 2021, which is a 9 percentage point increase from 24% in 2019 (Eurostat, 2022[17]; OECD, 2020[18]).

The pandemic tested the governments' digitalisation levels and adaptability. While some advancements in overall digitalisation can be observed since the last assessment cycle, such as establishments of online government services platforms, for example e-Kosova, e-commerce regulation and facilitation still remains a lower priority for the governments in the WBT region. Few economies in the region benefit from a developed legal framework for e-commerce adoption among SMEs.

Some economies have strengthened their general legislative framework for e-commerce, like Albania, North Macedonia, Serbia and Turkey, which certainly helped in responding to the COVID-19 crisis.

Advancements can be observed in establishing, reinforcing and harmonising e-commerce legislation with EU directives. For instance, Albania has adopted a number of laws and strategic documents to regulate and promote e-commerce and e-payments, such as the Law on Payment Services, Albania's Digital Agenda (2015-2020), and the Business and Investment Development Strategy (2021-2027). The government set an ambitious 50% target of businesses using ICT for e-commerce purposes,

demonstrating an increased commitment to boosting the online sales channel. North Macedonia has also advanced in prioritising e-commerce in its legislation and ensuring its alignment with EU directives. The Law on Consumer Protection, which is currently under government review, will be fully aligned with EU standards, as well as CEFTA provisions. The law is an extension of the broader Law on Safety of Goods and includes provisions on e-commerce and e-payments. Serbia also enjoys a fairly well-developed e-commerce legislation, adopting a new Law on Trade and amendments to the Law on E-commerce, going as far as to regulate definitions of an online store dropshipping and mystery shopper practices. Other assessed economies, however, do not have a legal system in place for the promotion of e-commerce, which remains largely under-regulated (OECD, 2020[18]; 2021[19]).

The COVID-19 pandemic played a significant role in exposing the shortcomings of the legal frameworks across the region. As the pandemic considerably accelerated the shift towards e-commerce, some economies were left behind, due to a poorly developed or non-existent legal infrastructure. Without a legal and institutional environment supporting digitalisation and e-commerce, the economies were not able to successfully transition to online sales channels or to other internationalisation activities, which had to be moved on line due to ongoing social distancing measures. As some of the changes warranted by the COVID-19 crisis are poised to remain permanent, such as online shopping or remote work, economies without a proper infrastructure to support it will get left behind (OECD, 2020[18]). This is particularly relevant for SMEs, which are more likely to have limited resources and restricted access to technology. As a result, the digital gap within economies and within the region has become more tangible, as most support programme activities moved on line, excluding the less-connected SMEs.

In spite of deficient legal environments for e-commerce, the economies have progressed in programme implementation with varying levels of effectiveness

Despite the absence of a strong institutional and legislative framework for e-commerce, many economies in the region have made considerable progress in implementing digitalisation initatives. While not all of them had a clear e-commerce focus, all of them focus on broadly defined digitalisation, which entails moving SME operations on line, acquiring digital skills, procuring hardware and software, and digitalising government services for citizens and businesses. There is a broad consesnsus that connectivity is a first step for domestic SMEs to integrate into the cross-border online sales channel. Hence the importance of acquiring digital skills for enterprises, especially SMEs, which have a higher propensity to fall far on the spectrum of the digital divide, and enhancing trust in digital processes are key fundamentals in eventually adopting e-commerce practices among SMEs.

To advance on this agenda, the governments in the region have implemented numerous financial and non-financial support programmes aiming to increase digitalisation levels within the economy and assist SMEs. For instance in Turkey, the Virtual Trade Academy, co-ordinated by the Ministry of Trade, grants SMEs training opportunities in the area of search engine optimisation, e-commerce, global online marketing, social media marketing, cybersecurity and managing a digital sales channel. Kosovo has also been amplifying its efforts to digitalise SMEs' operations and assist them in adopting e-commerce practices through the Market Access and Business Digitalisation Services for Kosovo Companies (ACCESS) government programme. Furthermore, additional financial support for digitalisation is provided to women- and minority-owned SMEs in Kosovo via the Digital Empowerment Initiative. Similarly, Albania is implementing the Digital Jobs Albania with a focus on women entrepreneurship and digital skills development for the self-employed. Montenegro, North Macedonia and Serbia also provide financial support for SMEs with a broader digitalisation focus.

The effectiveness of implemented e-commerce programmes vary across the region. The promotion of e-commerce has been particularly successful in Turkey, where the goal of a 10% ratio of e-commerce in the retail market by 2023 was exceeded to reach 15.7% in 2020 (Ministry of Trade, 2021[20]). Programmes implemented in Serbia contributed to an increase in e-commerce usage among consumers, not necessarily

to SME adoption of online sales practices. In Kosovo, despite the World Bank-supported initiative introduced in 2018 that has been mostly successful in increasing the economy's connectivity, increasing the number of people, businesses and public institutions with high-speed Internet access, the uptake of e-commerce has actually decreased. Similarly, in Montenegro, despite introducing co-financing schemes allowing SMEs to hire an external consultant to oversee the implementation of digital and e-commerce practices and boosting the budget for SME digitalisation, uptake remains low. Albania, on the other hand, has progressed in increasing the adoption of e-commerce within the economy, with 20% of surveyed Albanian companies either starting or increasing online business activity during the COVID-19 pandemic (World Bank, 2020[21]).

The varied effectiveness of e-commerce programmes partially stems from the lack of centralised information sources about e-commerce opportunities, insufficient institutional oversight and regulatory uncertainties caused by incomplete legal frameworks across the Western Balkans. Consumers and SMEs alike have limited opportunities to learn about the available options, as well as the regulation governing online sales (OECD, 2021[22]). In addition, the lack of dedicated institutions responsible for e-commerce adoption might also contribute to oftentimes suboptimal uptake of digitalisation and e-commerce initiatives. Nevertheless, overall progress in programme implementation can be observed across the region, which shows promise for increasing SME digitalisation and boosting cross-border e-commerce.

While data collection mechanisms have improved in the majority of economies, monitoring and evaluation leave room for improvement

Data collection mechanisms have improved across the region, as more economies have started keeping track of their SMEs' e-commerce activities, which naturally intensified during the COVID-19 pandemic. For example, in North Macedonia, the Association for E-Commerce makes noteworthy efforts in collecting data on e-commerce in the economy and prepares comprehensive reports and analysis. In Turkey, as a part of e-commerce information platform registering all e-commerce activity in the economy, the government collects data on a variety of categories of e-commerce activities, including the number of businesses engaging in e-commerce in the economy, the distribution of businesses with online sales channel activity by province and e-commerce volume by payment method, among others. Strategic documents in Montenegro also envision creating a database to keep track of companies using e-commerce in their operations.

However, even with these advancements, e-commerce programmes are not accompanied by relevant institutional and policy measures, which would guarantee their effective supervision. That, in turn, can lead to insufficient customer protection, further decreasing the already weak general trust in e-payments and cybersecurity, which is a vital element of boosting demand for e-commerce sales in the first place. To increase the digital fluency among the population and thus boost the uptake of e-commerce practices by SMEs attempting to meet the demand created by a technologically savvy population, some governments chose to engage in awareness-raising campaigns about consumer online protection. Serbia, for example, is advising the public on online consumer rights and protection mechanisms, which a good first step to boost trust in digital operations. Nevertheless, despite efforts in improving e-commerce regulation and the populations' awareness, weak monitoring mechanisms without dedicated institutions providing oversight are prevalent across the region. In most economies, e-commerce is within the purview of relevant ministries, with only Turkey establishing a dedicated E-Commerce Directorate within the Ministry of Trade. Development agencies with broad mandates, including investment, export promotion and overall SME support, such as KIESA in Kosovo or AIDA in Albania, also offer services related to digitalisation and e-commerce; however, due to their broad range of support, monitoring and impact assessment of these services is limited.

The way forward for promoting the use of e-commerce

- **Further reinforce the legislative framework for the promotion of e-commerce to increase the uptake of digital practices among SMEs.** Aligning legal frameworks on e-commerce with the EU E-Commerce Directive, which ensures transparency for online service providers, regulates commercial communication and electronic contracts, is a good step to start building digital trust. Capacity building on integrating a payment system, transactions and security will improve the region's perception and uptake of e-commerce, particularly among SMEs, as they face greater barriers than bigger firms. Having e-commerce programmes overseen by a dedicated institution or agency that is co-ordinating e-commerce policy would streamline communication and standardise processes on a national level, while also ensuring proper monitoring and evaluation.

Box 12.3 E-commerce regulatory framework toolkit

International organisations have agreed on a consensus about good practices in designing laws governing e-commerce, resulting in a set of rules for policy makers to follow. The focus is consumer protection and transaction security for both the seller and the buyer. The rules are based on a set of guidelines designed by the OECD and the United Nations.

1. E-commerce regulation should follow the rules of fair business and advertising. Any deviation from good business practices or fair advertising should be regulated and punishable by civil law.
2. Transparency is vital in building consumers' and businesses' trust in e-commerce. Any e-commerce regulation should obligate businesses to disclose the features of sold goods and services and transaction conditions in order to increase consumer protection.
3. E-payments should be secure and regulated by the government, which should ensure a traceable, transparent and easy to use payment mechanism.
4. The government should have safeguards in place to minimise risks and ensure that e-commerce transactions are secure.
5. The scope of products and services sold on line should be regulated to comply with health and safety requirements, sanitary and phytosanitary (SPS) regulations, and technical standards. The government should minimise the occurrence of the informal market on line by introducing secure payment systems.

Notes: E-commerce regulation should allow for an effective dispute resolution by relevant authorities. Both sellers and buyers should have easy access to dispute resolution mechanisms, which would not add additional costs onto the affected parties.
Source: OECD (2018[23]; 2016[24]); UNCTAD (2015[25]).

- **Strengthten monitoring and evaluation mechanisms, while also including impact assessment studies of e-commerce programmes.** The first step in providing a better control mechanism for e-commerce is to assign a dedicated institution to grant proper oversight over e-commerce programmes and policies. With the exception of Turkey, where e-commerce is governed by a dedicated directorate within the Ministry of Trade, there are no government-appointed institutions in the region, which would be responsible solely for the adoption of e-commerce practices. For more information on data that WBT governments could consider collecting in this area, please see Annex C.

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Notes

[1] The assessment conducted by the Balkan Barometer does not cover Turkey.

[2] The assessment conducted by the Balkan Barometer does not cover Turkey.

[3] European Territorial Cooperation.

[4] This report uses the World Bank's classification of special economic zones (SEZ), which defines six different types of zones ranging from free trade zones, which focus largely on trade facilitation, to export-processing zones, which seek to boost exports, and enterprise zones, targeting broader regional development. For the purpose of this report, industrial and technology parks are not considered as SEZs as they do not require provision of a specific regulatory framework and/or incentives regime restricted to the enterprises operating on the pre-defined zone territory.

[5] Date is not available for Albania, Kosovo and Montenegro.

[6] Due to the unavailability of data, the percentage does not include data for Kosovo for 2021.

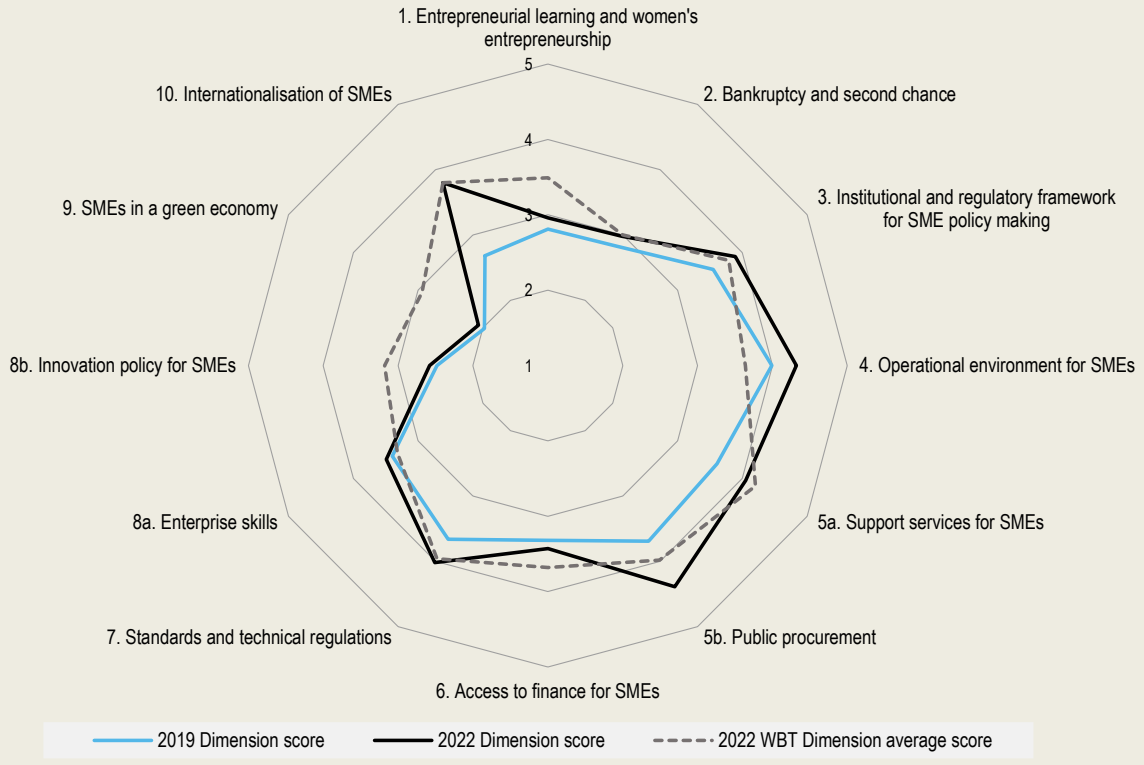
Part II Small Business Act Assessment: Western Balkans and Turkey Economy Profiles

13 Albania: Economy Profile

This chapter covers the progress made by Albania in implementing the Small Business Act (SBA) for Europe over the period 2019-21. It starts with an overview of Albania's economic context, business environment and status of its EU accession process. It then provides key facts about small and medium-sized enterprises (SMEs) in the Albanian economy, shedding light on the characteristics of the SME sector. It finally assesses progress made in the 12 thematic policy dimensions relating to the SBA during the reference period and suggests targeted policy recommendations.

Key findings

Figure 13.1. Small Business Act scores for Albania (2019 and 2022)



Note: WBT: Western Balkans and Turkey.

Albania has made good progress in implementing the Small Business Act (SBA) since the publication of the previous report – the *SME Policy Index: Western Balkans and Turkey 2019* (Figure 13.1). The economy continues to provide an environment conducive to business and is receptive to the needs of small and medium-sized enterprises (SMEs). Albania has achieved its highest average scores in the following areas: institutional and regulatory framework for SME policy making; operational environment for SMEs; public procurement; standards and technical regulations; and internationalisation of SMEs, where it also outperforms the Western Balkans and Turkey (WBT) average.

Main achievements

- **Albania's operational environment for SMEs remains the most advanced in the region.** The government has continued implementing digital reforms under a whole-of-government approach and made progress in both increasing the availability of digital government services and streamlining them to better fit users' needs. Albania is the only WBT economy that has streamlined company registration and licensing under its one-stop-shop (the National Business Centre, NBC) and introduced digital distribution of licensing officials, which speeds up the process, increases transparency and lowers administrative burdens and costs for SMEs.
- **By adopting the new Business Development and Investment Strategy (2021-2027), Albania is expected to considerably advance in providing SME support**, particularly in improving the business environment, but also in adapting business support services (BSSs) to

SMEs' needs. While assistance programmes for SMEs are in the process of being redesigned by the Albanian Investment and Development Agency (AIDA), the Business Development and Investment Strategy (2021-2027) ensures a strong strategic framework for the provision of both public and private support services for SMEs.

- **Important progress has been made in the area of public procurement** by increasingly aligning its regulatory framework with EU requirements, adopting key strategic documents, in particular, actions concerning SMEs' access and developments with regard to e-procurement. The new Public Procurement Law (PPL) contains provisions that are, to a very large extent, harmonised with the 2014 EU Directives and the first comprehensive National Public Procurement Strategy (2020-2023), adopted in November 2020, foresees measures and activities aimed at increasing the participation of SMEs in the public procurement market.
- **EU alignment and implementation support for SMEs in technical regulations and standards was expanded.** Albania continued to align its quality infrastructure with the EU *acquis* in key areas such as metrology and is developing a roadmap to identify remaining unharmonised technical regulations. At the same time, Albania also strengthened the staff capacities of its quality infrastructure institutions and expanded a support programme for SMEs who seek certification according to European or international standards. Overall, these activities will improve the access for SMEs that need to certify their products, services or processes to conform to European standards and regulations.
- **Creating an ecosystem conducive to start-ups and innovation has become a priority for Albania.** The start-up ecosystem has seen a significant boost, resulting in the adoption of a dedicated innovation Start-up Law in 2022, which envisages a state-budget allocation in support of the innovation ecosystem. Numerous private-sector-backed initiatives have been set up, providing acceleration programmes for high-potential start-ups, technical assistance, mentoring and training on investor relations, with some offering the possibility for small-scale monetary awards.
- **Albania has made considerable progress supporting SME internationalisation.** By developing export support services, the government has advanced in creating an enabling environment that enhances export sophistication and innovation while also boosting export competitiveness. With a number of new support programmes implemented, additional advancements are expected regarding SME integration into global value chains (GVCs). Furthermore, cluster formation and development has steadily been progressing since the last assessment cycle. Through newly introduced programmes and extensive stakeholder consultations (with business associations and academia), the government established a wood cluster to facilitate technology and knowledge transfer within the industry.

The way forward

- **Embed entrepreneurship as a key competence in both the formal and non-formal education systems.** Strong leadership should be provided through a multi-stakeholder partnership, guiding concrete government-led actions with a committed budget supporting curriculum reform, embedding practical entrepreneurial learning, developing teacher guidance and taking action to expand pre- and in-service teacher training. Monitoring and evaluation are required to track efficacy and impact.
- **Develop insolvency prevention policy measures, including a fully-fledged early warning system,** as SMEs tend to underestimate the importance of maintaining a sound financial status and avoiding risky decisions. If appropriate corrective actions are not taken in time, firms may be more prone to financial distress and later insolvency, particularly in the aftermath of the COVID-19 pandemic. Albania could build on its already well-developed advisory support

services provided by AIDA to extend its offer of programmes to SMEs at risk of financial distress.

- **Ensure the effective realisation and monitoring of green measures, which is crucial for encouraging Albanian SMEs' greening transition**. Limited progress was achieved in implementing the environmental policies included in the previous Business and Investment Development Strategy (2014-2020), in part due to poor co-ordination between relevant institutions and limited allocated funds. It is important that a government body takes the lead in establishing a network of actors engaged in implementing and monitoring measures to encourage SMEs to improve their environmental performance. This task could be entrusted to AIDA, which is already in charge of SME policy implementation, or to a specific working group, which would involve all relevant institutions and business association representatives.
- **Increase financial support schemes for SMEs.** Revive financial support provided by AIDA to further facilitate access to finance for those enterprises needing support the most. Such financial schemes should be a blend of government funds and those provided by the international development co-operation partners and designed to increase financial inclusion without crowding out private-sector providers. As part of this approach, consider extending the lifetime of the sovereign guarantee funds to provide a scalable and sustainable tool to encourage lending to SMEs. Such a guarantee scheme should include a transparent, multi-stakeholder governance structure, coupled with strong risk management and capacity building for implementing financial institutions and regular monitoring and evaluation.
- **Create a conducive business environment for SME digitalisation and e-commerce adoption.** The uptake of e-commerce practices is lagging behind Albania's regional peers, despite progress in strengthening the legal framework. The Business Development and Investment Strategy (2021-2027) foresees tangible support for SME digitalisation; however, the Albanian government has yet to introduce policies fostering a conducive environment for digitalisation and e-commerce, hindering the adoption of the digital sales channel for SMEs.

Economic context and role of SMEs

Economic overview

Albania is a small upper-middle-income economy with a population of 2.84 million in 2020 (World Bank, 2022[1]). In light of the challenges posed by the pandemic, Albania's per capita gross domestic product (GDP) by purchasing power parity stood below 2018 levels in 2020 at USD 13 192 (in constant 2017 international dollars), leaving the economy the second-lowest ranking in the WBT region, above Kosovo (World Bank, 2022[1]). The distribution of GDP across economic sectors has not changed significantly in the past years, with services representing 48.4% of GDP in 2020. Industry, including construction, represented 20.2% of GDP, albeit a 7% decrease in real terms since 2019. Despite a significant decline over the past decade, agriculture remains a very important sector in Albania compared to neighbouring economies, representing 19.1% of GDP (INSTAT, 2021[2]). The agricultural and services sectors have the highest share of total employment in the economy, representing together almost 80% of the working population in 2020 (INSTAT, 2021[2]). In 2020, SMEs represented 99.8% of all enterprises and employed 81.9% of the working population in Albania. These small enterprises, mostly from the accommodation and food services as well as trade sectors, were hit the most during the pandemic (European Commission, 2021[3]).

The earthquake that hit Albania in 2019 and its subsequent state of emergency, coupled with the start of the COVID-19 pandemic in 2020, had a strong impact on Albania's GDP. Global lockdowns caused significant losses for sectors like manufacturing and tourism, which have become one of Albania's most important economy sectors. Nevertheless, in the second half of 2020, fast and determined responses from the government and the central bank managed to soften the negative impacts of the pandemic and helped maintain the macroeconomic and financial-sector stability (European Commission, 2021[3]). For instance, the central bank temporarily deferred loan instalments in the period of March-August 2020 and continued with the implementation of relaxed provisioning and loan restructuring as far as mid-2021 (Box 13.1).

Albania rebounded with an 8.3% GDP growth in 2021, which can be attributed to both domestic and foreign demand increases (Table 13.1). Economic recovery was fuelled by the rise of exports of goods and services in 2021, which exceeded their pre-crisis level and increased by 36% compared to 2020, driven by the strong recovery of tourism and by the continuing rebound of merchandise exports. Real sector recovery was also driven by government consumption (+7.6% compared to 2020), followed by exceeded investment (+3.8%) and household consumption (+3.3%). Economic growth will have a positive effect on decreasing the poverty rate, which is likely to resume its downward trend and could reach the 2019 level of 20.3% (World Bank, 2022[1]). While net foreign direct investment (FDI) inflows recorded a 9.5% year-on-year growth in 2021, their nominal value remained slightly below pre-crisis levels (European Commission, 2022[4]). Like all WBT economies, with the exception of Turkey, Albania's general government balance decreased as a result of the pandemic to -4.5% of GDP in 2021, albeit having increased by 2 percentage points compared to 2020. Inflation increased to 2% in 2021 compared to 1.6% in 2020 and continued to increase by 4.4% year on year in the first quarter of 2022, driven by strong demand and surging food prices, aggravated by the impact of the invasion of Ukraine (European Commission, 2022[4]).

Table 13.1. Albania: Main macroeconomic indicators (2016-21)

Indicator	Unit of measurement	2016	2017	2018	2019	2020	2021
GDP growth[1]	% year-on-year	3.3	3.8	4.0	2.1	-3.5	8.3
National GDP[2]	EUR billion	10 521	11 548	13 444	13 660	13 205	..
GDP per capita growth[2]	% year-on-year	3.5	3.9	4.3	2.5	-3.4	..
Inflation[1]	% average	1.3	2.0	2.0	1.4	1.6	2.0
Government balance[1]	% of GDP	-1.8	-2.0	-1.6	-1.9	-6.7	-4.5
Current account balance[1]	% of GDP	-7.6	-7.5	-6.8	-7.9	-8.9	-7.9
Exchange rate ALL/EUR[1]	Value	137.36	134.14	127.58	123.01	123.77	122.45
Exports of goods and services[1]	% of GDP	29	31.6	31.6	31.3	23.1	31.4
Imports of goods and services[1]	% of GDP	45.9	46.7	45.4	45.0	37.9	45.0
Net FDI[1]	% of GDP	8.7	8.6	8.0	7.5	6.7	6.6
External debt stocks[2]	% of gross national income (GNI)	70.7	75.1	65.2	62.9	74.2	..
International reserves of the National Bank[1]	EUR million	2 945	2 996	3 399	3 360	3 942	4 972
Gross international reserves[1]	Ratio of 12 months imports of goods and services moving average	7.2	6.7	7	6.5	9.6	8.8
Unemployment[1]	% of total active population	15.6	14.1	12.8	12.0	12.2	12.1

Sources: 1. European Commission (2022[4]); 2. World Bank (2022[1]).

The recovery of the Albanian economy will also depend on the government's ability to handle the recent developments in the labour market. While unemployment in Albania had been steadily decreasing since 2015, having reached its greatest low in over three decades in 2019 at 11.5%, the pandemic led unemployment to jump again to 13.3% in 2019 (World Bank, 2021[5]). The labour market has been steadily recovering as the unemployment rate (aged 15-64 years) dropped to 11.6% in the third quarter of 2021, lower than in the same periods in 2019 and 2020. Nevertheless, the recovery of the labour market came to a halt, with the unemployment rate rising slightly to 11.9% in the fourth quarter of 2021. The size of the inactive population strongly decreased in 2021 (-6.21% year-on-year), and the 1.3% recovery of the female participation rate helped decrease the gender gap by 1.9 percentage points (European Commission, 2021[3]). Youth unemployment remains a structural problem in Albania, and the younger population has been one of the most impacted as their rate of unemployment increased to 37.7% in 2021, which is 5.4 percentage points more than in June 2020 (World Bank, 2021[6]). Reintegration of the younger population has been undertaken at a slow pace, as data shows that their participation levels have been the same for two consecutive quarters in 2021, and the percentage has not moved significantly since 2020, when the COVID-19 pandemic was in its full swing. Moreover, Albania will need to address its high emigration rate (the highest in OECD countries and of all Western Balkan Six economies with 1 million Albanians living abroad) and subsequent human capital flight, in particular among the young population (OECD, 2022[7]).

Box 13.1. Albania's COVID-19 recovery programme

In terms of the economic impact, Albania, where tourism contributes more to GDP and employment than on average in the WBT economies (21.2% of GDP in 2019 compared to 14.94% WBT average), was hit especially hard by the pandemic-related domestic lockdowns and international travel

restrictions. Domestic restrictions to contain the COVID-19 pandemic led to a 47% decrease in tourists' arrival between 2019 and 2020, while the unemployment rate rose to 12.2% in 2020.

As part of its recovery, the Albanian government, with the support of international development co-operation partners, has put in place fiscal, monetary and other measures (amounting to 4% of GDP) to support the healthcare system, enterprises and households affected by confinement measures. As part of its recovery, Albania adopted three financial plans and additional measures to mitigate COVID-19 pandemic effects:

- **First financial plan:** Albania introduced a EUR 52 million support package to small businesses and the unemployed during the COVID-19 pandemic. The package included permanent erasure of late payment interest for active debtors, families or small businesses with a financial effect of up to EUR 121 million. The government also provided a sovereign guarantee for companies which had difficulties paying salaries to their employees. For businesses that had ceased activities during the COVID-19 period, Albania provided rescheduling of income taxes (EUR 118 million) and postponement of balance sheets submissions to the National Business Centre. During its first financial plan, Albania also provided EUR 20 million for medical equipment and materials for medical staff, EUR 16 million for humanitarian operations and EUR 8 million as a reserve fund to the Council of Ministers for any unforeseen emergency.
- **Second financial plan:** Albania provided a series of EUR 323 to employees and laid-off employees under specific conditions as part of the second financial plan. To combat the effects of COVID-19 on businesses, Albania provided a state guarantee of EUR 138 million for tourism, garment industry and manufacturing businesses, provided as a risk-sharing mechanism between the government and banks. Additionally, postponement of payment for tax on profits instalments for almost all enterprises was adopted.
- **Third financial plan:** Albania made provisions for the minimum wage (EUR 1 million) for public transport workers who resumed work one month later than others. To help businesses, the government implemented an employment promotion programme to cover a part of the reemployment cost for businesses. Some 0.8% of GDP was allocated towards COVID-19-related spending, including treatment, wage increases for healthcare workers and an increase in social assistance payments.
- **Additional measures:** Albania postponed rent payments for the most vulnerable groups, including students, individuals with rental contracts and low-income persons who have a notarial lease contract. The government also implemented salary reductions for high officials and created a financial anti-COVID-19 fund.

The COVID-19 pandemic had a significant negative impact on Albania with its governmental financial measures providing much needed immediate assistance, albeit short-term. The medium to long-term economic and social impact of the pandemic will largely depend on pre-existing socio-economic vulnerabilities and policy resilience.

Sources: OECD (2021[8]; 2020[9]); European Commission (2020[10]; 2020[11]); Gjevori (2020[12]).

Business environment trends

Although many businesses were able to generate profit during the first part of 2020, there were significant contractions in the volume of sales in most sectors in 2020, which have affected the profit margins of SMEs. The drop in sales led to an increased reliance on external financing through loans, which have been used mostly for covering expenses. For about 80% of registered companies, the debt level rose to approximately 50% of their capital (CM Albania, 2021[13]). The ability of the central bank and the

government to react quickly and appropriately reduced the impact on the labour market and preserved macroeconomic and financial-sector stability. The 2021 Economic Reform Programme (ERP) estimates that with the recovery of services such as tourism and increased levels of public investments, real growth rate is expected to grow to 4% on average in 2022-24 (Box 13.2). These conditions should impact unemployment which is estimated to gradually fall to 9.4% in the same period, although this scenario does not yet take into account the impact of the Russian invasion of Ukraine (European Commission, 2021[14]).

Despite the difficult circumstances surrounding the COVID-19 pandemic, significant reforms continued to be implemented that improved the business environment in Albania. In particular, progress has been achieved in increasing digital government services and streamlining them to better fit users' needs. Albania also remains the leader in the region when it comes to the number of procedures and costs associated to business registration and licensing procedures, both of which are available on line and supervised by the National Business Centre. In this regard, Albania continues to be a very open economy for investment, according to the OECD FDI Regulatory Restrictiveness Index. Its score remained 0.057 in 2020, lower than the OECD average of 0.063, indicating that the economy has low barriers to trade and maintains only a handful of restrictions, notably in the fisheries, air and transport sectors (OECD, 2020[15]).

However, the potential of the Albanian business environment remains hindered by several structural weaknesses, in particular the lack of know-how, low financial literacy and a high degree of informality, all of which are obstructing the access to financing in the private sector (European Commission, 2021[14]). Corruption continues to be a hurdle for businesses in the region, as data shows that more than 36% of companies experienced at least one bribe payment request in 2020, which is significantly more than the Europe and Central Asia average of 8.7% (OECD, 2021[16]). Consequently, Albania's score in Transparency International's Corruption Perception Index has continuously deteriorated since 2016, decreasing from a score of 39 to 35 (out of a possible 100) in 2021. As of the same year, it remains in 110th place out of a total of 180 ranked economies, the lowest in the WBT region along with Bosnia and Herzegovina (Transparency International, 2022[17]). High tax rates and access to electricity additionally represent the most frequent obstacles for firms, pointing to structural reforms on the fiscal side and energy infrastructure (CM Albania, 2021[13]). Moreover, the low quality of education resulting from the low and poorly targeted budget allocated to education adds to the inability of economic upgrading and diversification of the economy. Similarly, the continued education of employees in companies is limited, while low-skilled positions remain at the core of the Albanian labour market.

Box 13.2. Economic Reform Programmes

Since 2015, EU accession candidates have been obliged to produce annual ERPs that outline clear policy reform objectives and policies necessary for participation in the economic policy co-ordination procedures of the European Union. The ERPs aim to produce concrete reforms that foster medium and long-term economic growth, achieve macroeconomic and fiscal stability and boost economic competitiveness. Since their initial launch, ERP agendas have been required to include structural reform objectives in key fundamental areas:

- public finance management
- energy and transport markets
- sectoral development
- business environment and reduction of the informal economy
- trade-related reform
- education and skills

- employment and labour markets
- social inclusion, poverty reduction and equal opportunities.

In addition to these essential fields, and as the objectives of EU policies continue to evolve to include cross-cutting sustainable sectors, the structural reform agendas of ERPs have embraced new commitments to progressive policy reforms since the last assessment that also cover:

- green transition
- digital transformation
- research, development and innovation
- economic integration reforms
- agriculture, industry and services
- healthcare systems.

Once submitted by the governments, ERPs are assessed by the European Commission and European Central Bank, opening the door for a multilateral policy dialogue with enlargement candidates to gauge their progress and priority areas on their path to accession. Discussions and assistance on policy reforms take place through a high-level meeting between member states, EU institutions and enlargement economies, through which participants adopt joint conclusions that include economy-specific guidance for policy reform agendas.

The findings of the *SME Policy Index 2022* provide an extensive technical understanding of the progress made on business sector-related policy reforms that are key to the ERPs of the EU accession candidates at both the regional and economy-specific levels. The SBA delves into the specific barriers to progress in ten policy areas essential to applying the larger objectives of the ERPs, like boosting competitiveness and economic growth to SMEs in the region.

Source: European Commission (2021[3]).

EU accession process

Albania's path to EU accession began in June 2006, when the government signed the Stabilisation and Association Agreement (SAA), which provided the foundations for establishing a free trade area, as well as the identification of common political and economic objectives between Albania and the European Union. The SAA entered into force in April 2009, and Albania submitted their formal application for joining the European Union that same year. The European Commission recommended that Albania be considered as an EU candidate in 2012 while instructing the government on the necessary measures to be designed and implemented in areas such as judicial and public administration. In 2014, Albania was given the EU candidate status, allowing for progressive trade liberalisation and mutual duty-free access for most goods. The European Union has become the main trade partner of Albania, with 63% of its total trade in goods conducted with EU countries in 2020 (European Commission, 2021[3]). In March 2020, the European Union opened accession negotiations with Albania, and in May 2021, the European Commission informed the Council that Albania had met the remaining condition to be fulfilled prior to holding the first Inter-Governmental Conference of accession negotiations (European Commission, 2022[18]).

According to the European Union's 2021 enlargement report, Albania has made significant steps in the accession process and is the first Western Balkan economy that has signed co-operation agreements with all justice and home affairs agencies of the European Union. The report shows that Albania is moderately prepared in the area of enterprise and industrial policy that help encourage a hospitable environment for SMEs. Some progress was achieved in endorsing the Investment Policy Reform Action Plan that focuses

on maintaining and stimulating investments in sectors such as tourism, enhancing education on entrepreneurship and supporting business incubation. Certain developments have also been made on further aligning late payments with the EU *acquis* and implementing the triple-helix action plan. Nevertheless, efforts to improve the business environment have been of a rather limited impact (European Commission, 2021[3]). In this regard, Albania would need to focus on the following (European Commission, 2021[3]):

- address the main challenges to the business environment, notably reducing regulatory burden, enhancing participation in the available funding programmes for businesses and ensuring the full functioning of the Albanian Investment Development Agency
- accelerate the full alignment of national legislation with the *acquis* on late payments
- accelerate the adoption of the Unified Investment Law and the next Business Investment Development Strategy to address challenges to competitiveness and growth as stressed in the joint recommendations of the ERPs of 2019 and 2020.

The findings and recommendations published in the *SME Policy Index 2022* can help provide the monitoring and guidance needed for Albania to meet the requirements related to several critical chapters of the *acquis* and ultimately further its negotiations for accession to the European Union.

EU financial support

The European Union is the largest provider of financial assistance to Albania. Under the Instrument for Pre-accession Assistance II (IPA II), Albania received a total of EUR 758 million during the period 2014-20. These funds were used to support investments, capacity building and reforms in sectors of: Rule of Law, Democracy and Governance, Competitiveness and Innovation, Agriculture and Rural Development, Transport, Environment, Education, Employment and the Social sectors. The indicative bilateral envelope for Albania under IPA 2021 amounts to EUR 70.4 million, which is dedicated to adopting and implementing political, institutional, legal, administrative, social and economic reforms to bring Albania to better align with the EU rules, standards, policies and practices (European Commision, 2021[19]). Following the November 2019 earthquake, the European Union has provided grant financing of EUR 115 million, which has been translated into two programmes: the EU4Schools supporting reconstructing and rehabilitating education facilities damaged by the earthquake and the EU4Culture supporting the rehabilitation of the cultural heritage sites gravely damaged by the earthquake, as well as related economic activities to support the tourism related to these sites (European Commission, 2022[20]).

The European Union has also been instrumental in financially supporting Albania in the wake of COVID-19. Some EUR 50.65 million was reprogrammed from the IPA 2019 and 2020 envelopes to ensure urgent medical supplies and support for the mitigation of the socio-economic impact of the crisis. A further EUR 180 million loan in Macro-Financial Assistance was approved. Albania and other Western Balkan economies have also been recipients of the European Union's regional economic reactivation package of EUR 455 million. Moreover, in December 2020, the European Commission adopted a EUR 70 million package to help WB economies gain access to COVID-19 vaccines.

In 2020, the European Union pledged EUR 9 billion for the Western Balkans as part of a new economic and investment plan to support sustainable connectivity, human capital, competitiveness and inclusive growth, and the twin green and digital transitions. In addition to infrastructural funding for Albania's railroad routes connecting coasts in the region and the rehabilitation of hydropower plants to increase the export of electricity from clean energy, Albanian SMEs will also be able to benefit from the scheme's increased funding to the Western Balkans Guarantee Facility (European Commission, 2020[21]).

Furthermore, Albania participates with IPA support in the EU transnational co-operation programmes Erasmus+, Creative Europe (Culture and Media strands), Employment and Social Innovation, Customs 2020, Fiscalis 2020, Competitiveness of Enterprises and Small and Medium-Sized Enterprises Programme

(COSME), Justice, Europe for Citizens and EU Fundamental Rights Agency (European Commission, 2022[20]). In 2022, Albania signed the Horizon Europe Association Agreement, which aims to reduce climate change, helps to achieve the United Nations Sustainable Development Goals and boosts the European Union's competitiveness and growth. The signed agreement will allow researchers, innovators and research entities established in Albania to participate in the European Union's EUR 95.5 billion programme on equal terms with entities from the EU member states. This will enable them to develop projects and technologies and conduct research and innovation activities that will contribute to tackling global challenges (European Commission, 2022[22]).

SMEs in the domestic economy

Albania's 2002 Law on Small and Medium Enterprises, which defines SMEs according to their number of employees, annual turnover and balance sheet, was amended in 2008 to align it with the European Union's definition in terms of employee numbers (Table 13.2). While a new Law for the Development of Micro, Small and Medium Enterprises was adopted in 2022 to revise the definition and categorisation of such enterprises, the financial requirements included in the definition have not been amended. Moreover, it is important to note that the Albanian Institute of Statistics, unlike the European Union, defines company size based on the number of people employed, which is different from the number of employees. The term "employed" refers to people who work at the company regardless of whether they are paid or not, thus including employees, owners and unpaid family members (INSTAT, 2020[23]).

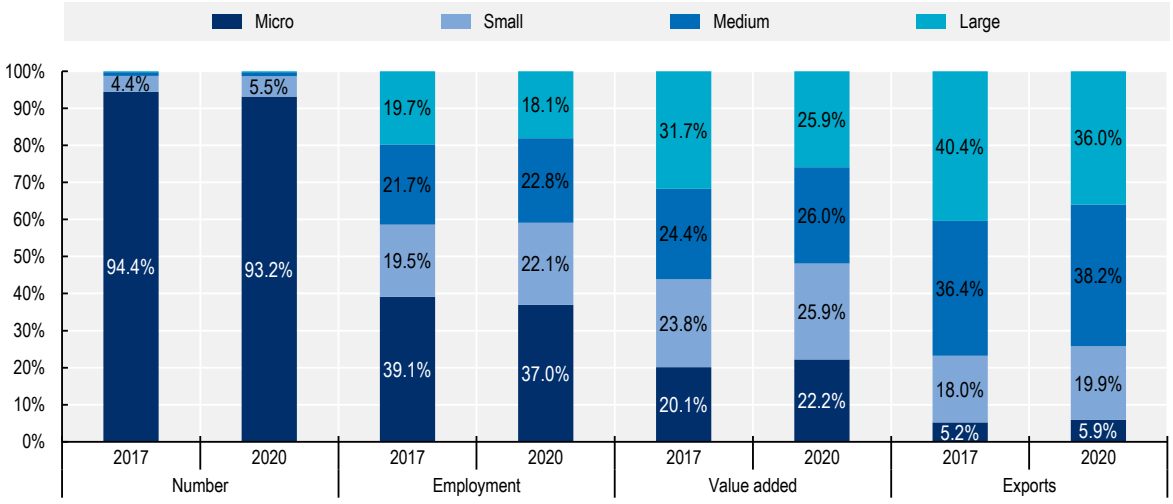
Table 13.2. Definition of micro, small and medium-sized enterprises in Albania

	EU definition	Albania definition
Micro	< 10 employees = EUR 2 million turnover or balance sheet	≤ 10 employees = ALL 10 million (EUR 82 600) turnover and/or balance sheet
Small	< 50 employees = EUR 10 million turnover or balance sheet	< 50 employees = ALL 50 million (EUR 413 125) turnover and/or balance sheet
Medium-sized	250 employees = EUR 50 million turnover = EUR 43 million balance sheet	< 250 employees = ALL 250 million (EUR 2 065 625) turnover and/or balance sheet

Note: ALL = Albanian lek.
Source: Republic of Albania (2002[24]).

In 2020, Albania's 102 405 micro, small and medium-sized enterprises (MSMEs) represented 99.8% of all enterprises in the economy. While the number of MSMEs decreased by 4.7 percentage points between 2017 and 2020, they still represent the same share of all enterprises. The breakdown of Albanian enterprises by size was 93.2% microenterprises, 5.5% small enterprises, 1.1% medium enterprises and 0.2% large enterprises in 2020 (INSTAT, 2020[25]). Their contribution to employment in the business sector slightly increased by 3.2 percentage points as compared to 2017, with microenterprises generating the most employment in 2020. MSMEs enjoyed the highest share of exports in the region, accounting to 64% in 2020, a 4.6% increase since 2017 (Figure 13.2). The role of women in Albania's business environment has shrunk in the past few years. The number of women-owned enterprises has been rising until 2017. Since then, it has taken a sharp downturn in 2018 when it decreased by 12% on a yearly basis. It only improved by 0.8% in 2020 compared to 2019 (reaching 25.5%), but the number is still well below 2016 levels (INSTAT, 2020[26]).

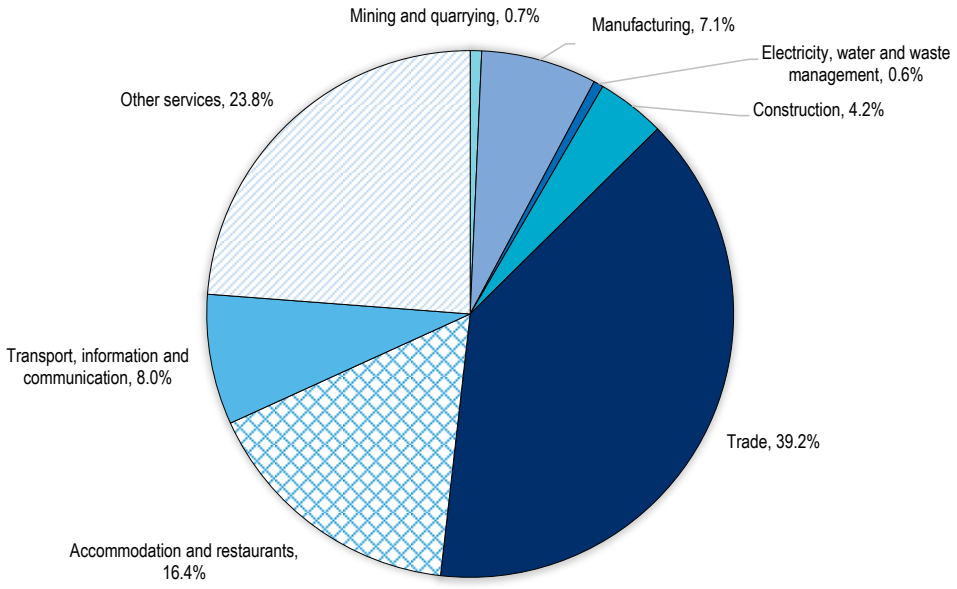
Figure 13.2. Business demography indicators in Albania (2017 and 2020)



Source: INSTAT (2020[25]).

While INSTAT's list of economic activities was updated in 2020, hence making the comparison with previous years more difficult, Albania's distribution of SMEs among sectors remained similar. Data for 2020 shows that the largest share of SMEs is in the trade sector (39%), followed by the newly introduced category of accommodation and restaurants (16.4%) and transport, information and communication (8%) (Figure 13.3).

Figure 13.3. Sectoral distribution of SMEs in Albania by sector (2020)



Source: INSTAT (2020[25]).

The largest share of Albanian enterprises is located in Tirana (36% in 2020). Despite the region's dominance, growth has been stagnating over the past years (42% in 2013 and 33.2% in 2016). Regions like Berat, Dibër and Korçë have seen an increase in their number of enterprises in the period 2017-20 (Table 13.3).

Table 13.3. Number of registered companies in Albania by enterprise size and district (2020)

District	Enterprise size, by employment				Share of total number of enterprises	
	0-9	10-49	50+	Total	2017	2020
Berat	9 096	232	49	9 379	5.10%	5.64%
Dibër	7 946	132	25	8 103	4.34%	4.87%
Durrës	21 800	887	228	23 166	14.69%	13.92%
Elbasan	7 138	1 095	292	7 506	4.57%	4.51%
Fier	8 978	345	93	9 363	5.70%	5.63%
Gjirokastër	9 885	134	34	10 439	6.30%	6.27%
Korçë	16 487	171	53	16 785	8.89%	10.09%
Kukës	2 809	238	63	2 914	1.65%	1.75%
Lezhë	3 712	124	28	3 825	2.35%	2.30%
Shkodër	3 612	207	50	3 701	2.08%	2.22%
Tirana	55 315	250	80	60 001	36.75%	36.06%
Vlorë	10 577	321	95	11 204	7.59%	6.73%
Albania	157 355	4 136	1 090	166 386	100.00%	100.00%

Source: INSTAT (2021[27]).

Assessment

Description of the assessment process

The Small Business Act (SBA) assessment cycle was virtually launched on 7 July 2021, when the OECD team shared the electronic assessment material, comprised of questionnaires and statistical sheets, accompanied by explanatory documents.

Following the virtual launch, the Ministry of Finance and Economy, which acts as the SBA Co-ordinator nominated by the European Commission, distributed the link to the assessment material to the appropriate ministries and government agencies and the statistical sheets to the Institute of Statistics of Albania (INSTAT). These institutions compiled the data and documentation between July and September 2021 and completed the questionnaires. Each policy dimension was given a self-assessed score accompanied by a justification. The OECD team received the completed questionnaires and statistical data sheets on 6 October 2021 and then began an independent review.

The OECD reviewed the inputs and requested additional information on certain elements from the Ministry of Finance and Economy. For several dimensions, virtual consultation meetings with key dimension stakeholders were organised from end-October to mid-November 2021. The meetings aimed to close any remaining information gaps in the questionnaires.

A virtual preliminary findings meeting with Albania was held on 6 December 2021 to present and discuss the preliminary *SME Policy Index 2022* assessment findings and initial recommendations for Albania. At the same time, it served as an opportunity to seek the views of a broad range of policy stakeholders on how SMEs are affected by current policies and to gauge what more can be done across different policy areas to improve SMEs' performance and competitiveness in Albania, particularly in the post-COVID-19 context.

The meeting allowed the OECD to validate the preliminary assessment findings. The draft SME Policy Index publication and the Economy Profile of Albania were made available to the Government of Albania for their review and feedback in March 2022.

Scoring approach

Each policy dimension and its constituent parts are assigned a numerical score ranging from 1 to 5 according to the level of policy development and implementation, so that performance can be compared across economies and over time. Level 1 is the weakest and Level 5 the strongest, indicating a level of development commensurate with OECD good practice (Table 13.4). For further details on the SME Policy Index methodology and how the scores are calculated, as well as changes in the last assessment cycle, please refer to Annex A.

Table 13.4. Description of score levels

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

Entrepreneurial learning and women entrepreneurship (Dimension 1)

Introduction

Entrepreneurial learning raises learners' skills and develops the mindsets needed to change their lives and the world around them through entrepreneurial action for social and economic impact. It is the basis for empowering learners to know they can generate the creative ideas needed in the 21st century.

Women's entrepreneurship should be prioritised to support women's economic and social empowerment and drive improved stability and social and economic growth. It can also enable closing gender gaps in the workforce, supported by equality and gender impact analysis of policies affecting family care and social protection.

Albania's scored 2.96 in this cycle, an improvement compared to 2019, when the economy scored 2.81 (Table 13.5). The score in entrepreneurial learning has fallen across the different thematic blocks of this dimension as there has been a sharper focus on entrepreneurship as a key competence across this assessment, and this has resulted in a lower score for this economy across the themes of learning, assessment and teacher training due to a lack of explicit focus on the key competence approach. This is accompanied by continued challenges in monitoring and evaluation. In women's entrepreneurship, Albania's scores have improved with the launch of the new Business Development and Investment Strategy (2021-2027) and an overall increase in implementation.

Table 13.5. Albania's scores for Dimension 1: Entrepreneurial learning and women's entrepreneurship

Dimension	Sub-dimension	Thematic block	Albania	WBT average
Dimension 1: Entrepreneurial learning and women's entrepreneurship	Sub-dimension 1.1: Entrepreneurial learning	Planning and design	2.62	3.43
		Implementation	2.82	3.51
		Monitoring and evaluation	1.22	2.73
		Weighted average	**2.44**	**3.33**
	Sub-dimension 1.2: Women's entrepreneurship	Planning and design	3.80	3.97
		Implementation	4.02	3.83
		Monitoring and evaluation	3.00	3.11
		Weighted average	**3.75**	**3.73**
Albania's overall score for Dimension 1			**2.96**	**3.49**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Partner approaches and monitoring and evaluation require further work in both entrepreneurial learning and women's entrepreneurship. Practical implementation of entrepreneurial learning as a cross-cutting key competence in the curriculum is an ongoing challenge. Organisations such as Junior Achievement are providing significant support to efforts in curriculum and teacher training, but more work needs to be done to support teachers in practically embedding entrepreneurial learning into their teaching contexts. Higher education sees a diverse range of extracurricular and career actions, but these are not integrated into the core curriculum outside those subjects traditionally associated with entrepreneurship.

A different approach to women's entrepreneurship has been taken for the current phase of the Business Development and Investment Strategy (2021-2027) (Government of Albania, 2021[28]). It has moved from including a separate action plan to including specific percentage targets within actions focused on the general population. This will now require an enhanced focus on the evaluation of progress and impact. While progress has been made during the assessment period in women's entrepreneurship (Table 13.6), it should be viewed in light of the negative impact of the COVID-19 pandemic on women's economic empowerment and the overall 5% decline in the percentage share of women as chief executive officers (CEOs) and as business owners and a 23% drop in the share of women registering new patents between 2016 and 2020.

Table 13.6. Albania's implementation of the SME Policy Index 2019 recommendations for Dimension 1

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Establish a joined-up approach to lifelong entrepreneurial learning	This has not yet been achieved, and limited progress has been made during the assessment period. There remains the need to make entrepreneurial learning more explicit across policy and co-ordinate a coherent approach across government areas.	Limited
Undertake further professional development of teachers to implement an entrepreneurship key competence approach	There are ongoing challenges with skills mismatches; however, there has been a strong effort to undertake teacher professional development supported by international development co-operation partners' funding and resulting in high numbers of teachers receiving in-service training on entrepreneurship education from Junior Achievement.	Moderate
Restart the Advisory Group on Women Entrepreneurs to increase women's participation in the labour market and reduce the gender gap	Women's entrepreneurship is now an explicit topic within the Integrated Policy Management Group (GMIP), an inter-ministerial working group that discusses and proposes policies within the competitiveness dimension. However, this could be strengthened through the formal representation of stakeholders as full members.	Moderate
Strengthen dialogue with non-governmental organisations (NGOs) for women's entrepreneurship	Strong and fully engaged stakeholders are driving forward women's entrepreneurship in Albania. Dialogue takes place through the Integrated Management Policy Group, but this is ad hoc, and considering the importance of women's economic empowerment, this channel could be improved.	Moderate

Entrepreneurial learning is included in new policy, but there are few actions, and it is not supported through a national policy partnership approach

Entrepreneurial learning is included in policy documents at the national level in Albania, where entrepreneurship as a key competence continues to be included as one of the seven key competences within the Albanian education and training system. The primary driver is the National Education Strategy (2021-2026) (Government of Albania, 2021[29]), adopted at the end of 2021, supported by the Business Development and Investment Strategy (2021-2027). The commitments made within the new National Education Strategy (2021-2026) have significantly increased the budget for education (Republic of Albania Council of Ministers, 2021[30]) though it remains significantly below the OECD average.[1] European Commission reports (European Commission, 2021[3]) have placed emphasis on the importance of entrepreneurial skills and ongoing between skills and education. However, this new strategy commits to just two actions linked to entrepreneurial learning on pre-service teacher training and higher education science, technology, engineering and mathematics (STEM) programmes to match labour market skills needs.[2] Though the Business Development and Investment Strategy (2021-2027) highlights the ongoing challenge of practical implementation of the competence across curriculum areas, actions targeting students only relate to linking higher education to the entrepreneurial and innovation ecosystem in Albania. The evaluation of the previous strategy (UNICEF Albania, 2019[31]) did not reference entrepreneurship as a key competence, although it highlighted the challenges of practical resources, a structured orientation

towards a competency-based curriculum and the need for a better infrastructure to support quality teaching and learning.

Entrepreneurial learning remains under-developed in terms of co-ordination, curriculum and assessment

No overview mechanism exists for the actions being taken across different strategies, and evaluation of the process and impact of implementing entrepreneurial learning as a key competence through the different mechanisms across education and training is lacking. As a multi-stakeholder policy-partnership approach supporting entrepreneurial learning is also still lacking, this creates ongoing challenges of co-ordination of actions across government ministries, associated agencies and with the external stakeholders involved in the work. To build understanding of and coherence in this policy area, entrepreneurial learning could be included as the specific responsibility of a formal national policy-partnership body to take the co-ordination role, including for the development of system-level monitoring and evaluation mechanisms.

Entrepreneurship is included as a key competence in the curriculum, but this is not yet fully implemented and is not aligned to EntreComp Entrepreneurship is one of the key competences identified in Albania's pre-university law (Government of Albania, 2014[32]), explicitly mentioned within the key competence for life, entrepreneurship and the environment. In primary and lower secondary education, entrepreneurship is included in the Citizenship subject from grades 1-8, and in upper secondary, it is taught in the Economy subject in the 12th grade. The Junior Achievement programme is widespread in upper secondary school and integrated into the curriculum as a practical entrepreneurial experience, which delivers on the curriculum's requirements.[3] In vocational education and training, there is a compulsory Basics of Entrepreneurship module,[4] which includes a two-hour class on e-entrepreneurship.

At the university level, there is not yet extensive inclusion of the entrepreneurship key competence into the curriculum. The National Education Strategy (2021-2026) has included a commitment to increase interdisciplinary STEM programmes, while EU-funded projects also support educator training. An example of the European Union for Innovation series of masterclasses on creating an entrepreneurial university[5] informs and inspires teachers on how to encourage an entrepreneurial mindset among their students and connect them to the wider entrepreneurial ecosystem. For students, an innovative programme called English-Entrepreneurship-Employability (3E) was launched in 2021 by Junior Achievement to create a forum for university students to engage in English-language debate clubs and develop their critical thinking, problem solving, creativity, confidence and communication skills.[6] Work remains to enable learner access to entrepreneurship competence development across higher education courses, though access via extracurricular activities and careers services is evidenced. The Business Development and Investment Strategy (2021-2027) focuses on the importance of higher education, with actions on adapting university curricula, introducing actions such as hackathons and strengthening the pathway to start-ups.

Entrepreneurship is defined as a cross-cutting key competence, and it is expected to be part of the learning objectives of all subjects, but ensuring its development as a key competence within wider curriculum areas remains a key task. Where it is already included in specific subjects, the materials used demonstrate a strong focus on the economic perspective of entrepreneurship. Practical entrepreneurial experiences are not yet accessible to all students via the core curriculum. Projects are used in lower secondary education alongside extracurricular activities such as school fairs, while Junior Achievement is the major provider in primary and secondary alongside the social-innovation-based Upshift[7] programme from the United Nations Children's Fund (UNICEF) in upper secondary. Vocational education and training (VET) students participate in a compulsory long-term apprenticeship in a business environment, but the entrepreneurial competences development from this experience is not explicit, and EU reports have highlighted the ongoing challenge of matching competence development to labour market needs (European Commission, 2021[3]). The assessment of learning outcomes is not well-evidenced and is limited in scope; it is also not in line with the broader key competence development illustrated through EntreComp. EntreComp itself has

not been used yet at the system level, though there is limited evidence of its inclusion within training approaches delivered as part of masterclasses in the EU for Innovation programme.

Training on the entrepreneurship key competence at the level of pre-service teacher training is lacking

While there is provision of in-service teacher training for schools and VET educators through Junior Achievement, there is no training on the entrepreneurship key competence at the level of pre-service teacher training. Junior Achievement is a significant actor at the national level, leading practical entrepreneurial experiences, providing teacher guidance and delivering significant teacher training to schools. In 2019-20, Junior Achievement training reached 800 teachers involved in delivering the Citizenship and Economics subjects.[8] More broadly, Junior Achievement, supported by the Albanian American Development Foundation, plans to train 14 000 teachers by 2023 across primary and secondary education on entrepreneurial competences and economic education.[9] For pre-service teacher training, the new National Education Strategy (2021-2026) has placed a specific emphasis on this area of work, calling for the harmonisation of pre-service teacher training with the requirements of the pre-university education curriculum.[10] This is an important step and can provide the forum through which the skills of aspiring teachers can be future-proofed. This investment in pre- and in-service teacher training highlights the importance of tracking its impact on teaching and the learning experience of students.

Women's entrepreneurship is evidenced through national policy with a visible shift from targeted actions to mainstreamed actions

The Business Development and Investment Strategy (2021-2027) is the main policy vehicle for the provision of business support services in Albania. Within this strategy, there is clear integration of women's entrepreneurship as a target within mainstream actions. This includes target ratios for the women beneficiaries in the outputs of key actions across entrepreneurship support,[11] SME funding and graduate placements. These actions are generic in nature but with specific targets, budgets and quantified impact attached to each.

However, there is a less explicit emphasis on actions tailored to women's entrepreneurship in comparison to the previous Business and Investment Development Strategy (2014-2020), which included a separate and dedicated Women's Entrepreneurship Action Plan, which had a stronger focus on the development of women's entrepreneurship through the development of new policy documents, training programmes and funding programmes to increase and support women-led companies. There has been no visible monitoring of the Women's Entrepreneurship Action Plan attached to the Business and Investment Development Strategy (2014-2020) since 2017, however, coinciding with the dissolution of the Women's Entrepreneurship Advisory Group.

Mainstreaming actions to address all types of entrepreneurs requires a stronger focus on monitoring and evaluation, including gender-disaggregated data

There is no clear rationale for discontinuing the specific action plan on women's entrepreneurship attached to the Business and Investment Development Strategy (2014-2020), nor for the change towards mainstreamed actions within the new strategy. There is a real risk that if actions are not supported by comprehensive monitoring and evaluation, understanding of the progress of and impact on women's entrepreneurship might be lost. Previous annual reports from the Albanian Investment Development Agency (AIDA) presented only limited gender-disaggregated data, such as numbers of women participating in government-financed training, with limited insight into the results and impact on women's entrepreneurship programmes.[12] National-level statistics provide insights into the number of women business owners, self-employed women, companies with women CEOs, and the share of patents registered by women. These statistics have remained static or decreased in the past four years, with a 5% drop in the share of women CEOs and women business owners in Albania from 2016 to 2020.[13]

The new Business Development and Investment Strategy (2021-2027) includes an increased budget allocation to AIDA for monitoring and analysis, which can support the need for more co-ordination of different data sources alongside more depth into the impact of women's entrepreneurship support on the growth of women entrepreneurs and their businesses. Co-ordination of this policy area occurs through the GMIP, an inter-ministerial working group that discusses and proposes policies within the competitiveness dimension and within which women's entrepreneurship is now a specific topic. The membership of this group could be extended to include gender-based representation and non-government members to integrate women's networks more closely as part of a national coalition approach.

Awareness-raising and practical support to women-led start-ups and businesses are provided by stakeholders from the women's entrepreneurship ecosystem

Progress can be seen in awareness-raising and dialogue between different organisations working in women's entrepreneurship, particularly in terms of networking. An example is the Women Founders Network Albania (WFNA),[14] an informal national network. The Women's Economic Chamber and the Women's Entrepreneur Committee of the National Chamber of Crafts are actively driving forward women's entrepreneurship through events, workshops and business coaching. There are examples of excellent practices, such as RisiAlbania, Digital Jobs Albania and the Women in Business[15] programme, that focus on women's entrepreneurship, including promoting green, digital and online entrepreneurship. Another example is Idea Challenge Albania, starting with 2 000 start-up ideas (prioritising women participants – 53% in 2021) and offering training and mentoring to develop the ideas towards pitching for the Idea Grant Scheme managed by the Ministry of Finance and Economy and supported through international development co-operation partners' funding.[16] There are also programmes to specifically target and support women-led businesses that have been impacted by the COVID-19 pandemic.[17]

The way forward for Dimension 1

- **Establish a national partnership for entrepreneurial learning or identify a relevant multi-stakeholder partnership body to take lead responsibility and co-ordinate and guide implementation, monitoring and evaluation of 1) entrepreneurial learning across all levels of education and training; and 2) women's entrepreneurship**. For entrepreneurial learning, this could mean including entrepreneurial learning as a specific topic addressed within a partnership supporting the National Education Strategy (2021-2026) or as a thematic group attached to the inter-ministerial Integrated Policy Management Group. For women's entrepreneurship, it is recommended that there is full membership of stakeholders from gender-based organisations in an existing government working group, such as the Integrated Policy Management Group (or an attached thematic group), or in a complementary structure for government and non-governmental stakeholders. Box 13.3. presents a relevant good practice example from Montenegro.

Box 13.3. Building a national policy partnership in Montenegro

Montenegro has successfully brought together and sustained a multi-stakeholder policy partnership that drives co-ordination and the development of entrepreneurial lifelong learning. The partnership has gradually increased the focus on this policy area, resulting in progress in the practical implementation of entrepreneurial learning at all levels of lifelong learning.

The consistent partnership between government ministries and key national stakeholders was linked to the design and implementation of national strategies. The relevance and importance of participation were clear to each partner organisation and closely aligned to their organisational objectives, with a named representative from each partner. The partnership was initially informal, and organisations

worked together to place the focus on increasing the profile of entrepreneurial lifelong learning at the policy level and gaining recognition for their partnership approach. This finally resulted in formal recognition by the government in 2021 as a working group of the National Council for Competitiveness led by the Ministry of Economy.

This example demonstrates the value of bringing actors together to drive a specific policy area forward and how formal recognition can strengthen and make this work more visible. A wide range of actors are working in this area, and this can be the opportunity to bring them together, link work to the different strategies that focus on actions supporting entrepreneurial lifelong learning, enhance the work of all partners in this field and gain further recognition of a partnership approach at the national and government levels.

Sources: Government of Montenegro (2020[33]) and McCallum et al. (2018[34]).

- **Prioritise the harmonisation of university teacher training programmes with training content** to support teacher awareness and knowledge of how to embed entrepreneurship key competence into teaching and learning and ensure it is underpinned by EntreComp. Box 13.4. presents a relevant good practice example from the United Kingdom.

Box 13.4. Matching initial and continuing teacher education to the needs of the new Curriculum for Wales (United Kingdom)

In the United Kingdom, the University of Wales Trinity Saint David has successfully integrated the development of the entrepreneurship key competence into pre-service teacher training programmes and a new Education Doctorate supporting continuing professional development for experienced educators. Participant feedback shows that those who participate in the programme go on to use EntreComp to underpin their own teaching or wider teacher training initiatives, such as head-teacher training for the new curriculum led by Wales' National Academy for Educational Leadership.

The approach taken first places explicit focus on teachers' professional and entrepreneurial competences, using learning outcomes from EntreComp, to build an understanding of the relevance of this key competence. The courses developed also introduce knowledge and practical application of the entrepreneurship key competence for learners across diverse subject areas and with cross-curricular relevance. The university has embraced the EntreComp framework as a guide for this work, matching it with the new Curriculum for Wales, which emphasises four purposes of learning, including supporting learners in becoming "enterprising, creative contributors, ready to play a full part in life and work."[1] Participants in the Education Doctorate have gone on to use EntreComp to underpin wider teacher training initiatives, such as head-teacher training for the new curriculum led by Wales' National Academy for Educational Leadership.

Albania is prioritising the harmonisation of teacher training with the needs of the curriculum. This should include a strong focus on the seven Albanian key competences and prioritise an expansion of how the entrepreneurship key competence is embedded into the wider curriculum. This example illustrates how the design, delivery and assessment of pre-service and in-service teacher training courses can be matched to the needs of the new national curriculum framework.

1. For more information on the Curriculum for Wales, see https://hwb.gov.wales/curriculum-for-wales (accessed on 20 January 2022).
Sources: Welsh Government (2021[35]); European Commission (2021[36]); McCallum et al. (2018, pp. 54-55[34]).

- **Create national teacher guidance on how to integrate the development of entrepreneurship as a cross-curricular key competence into all curriculum areas.** This should be aligned with EntreComp and be relevant across all levels of compulsory education. It could also be part of wider key competence guidance for teachers.
- **Strengthen transparency and visibility on the progress and support of actions for women's entrepreneurship through annual progress and impact reports** providing quantitative data and results, alongside qualitative analysis of the progress of actions supporting women's entrepreneurship and their impact on women entrepreneurs and their businesses. Doing so could assemble existing statistics (e.g. collated through Business Development and Investment Strategy [2021-2027]), innovative practices and wider insights from government and non-governmental sources.

Bankruptcy and second chance for SMEs (Dimension 2)

Introduction

Firms enter and exit the market as a natural part of the business cycle, and policies can ensure that such transitions occur in a smooth and organised manner. Well-developed insolvency procedures and regimes can protect both debtors and creditors, striking the right balance between both parties, for example. This is particularly relevant for smaller firms as they lack resources compared to bigger firms. Therefore, governments need to make sure that bankruptcy proceedings are efficient, ease reorganisation procedures (instead of bankruptcies) and ensure that those starting again have the same opportunities in the market they had the first time.

In Albania, similarly to other Western Balkan economies where SMEs represent a large part of the economy, effective liquidation and discharge procedures can allow entrepreneurs to reintegrate into the market. This was particularly relevant in the context of the COVID-19 pandemic when a number of firms faced financial difficulties or were at risk of financial distress, particularly in the tourism sector (OECD, 2021[16]).

Albania's overall performance under bankruptcy and second chance has slightly increased since the previous assessment from 2.83 in 2019 to 2.98. Progress is mainly due to improvements in insolvency prevention, where Albania became the top performer in the region with a score of 3.10 (Table 13.7).

Table 13.7. Albania's scores for Dimension 2: Bankruptcy and second chance

Dimension	Sub-dimension	Thematic block	Albania	WBT average
Dimension 2: Bankruptcy and second chance	Sub-dimension 2.1: Preventive measures		**3.10**	**2.74**
	Sub-dimension 2.2: Bankruptcy procedures	Design and implementation	3.80	3.47
		Performance, monitoring and evaluation	2.40	3.23
		Weighted average	**3.24**	**3.38**
	Sub-dimension 2.3: Promoting second chance		**2.00**	**1.96**
Albania's overall score for Dimension 2			**2.98**	**3.03**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Albania has advanced somewhat since the 2019 assessment, primarily due to the introduction of new insolvency prevention regulation on accelerated extrajudicial reorganisation agreements in February 2021. In addition, the economy continued to work on insolvency prevention by introducing new support measures to SMEs (e.g. business advisory and mentoring services to improve SME financial management) during the COVID-19 pandemic. Services, however, have not been provided to SMEs in financial difficulties facing imminent insolvency. A fully-fledged early warning system, as a basis for fostering a financially healthy ecosystem for SMEs and helping potentially distressed SMEs in the post-COVID-19 context, is still missing (Table 13.8).

The Insolvency Law (No. 110), enacted in 2016, provides for three main options: 1) an expedited reorganisation of a debtor facing imminent insolvency via a hybrid procedure (Articles 122 and 123); 2) an insolvency procedure in which a reorganisation plan for the survival of a debtor can be voted (Articles 15 and 16); and 3) filing a debtor for bankruptcy liquidation. Despite positive changes in the legislative

framework regarding "accelerated extrajudicial reorganisation agreements", which enhanced potential bankruptcy prevention, shortened, simplified reorganisation proceedings for SMEs and debt discharge rules are still lacking in the legal framework on bankruptcy proceedings. Moreover, second-chance programmes for SMEs are nascent, limiting the reintegration of honest entrepreneurs[18] into the economy and possibilities to change the current cultural stigma linked to entrepreneurial failure.

Table 13.8. Albania's implementation of the SME Policy Index 2019 recommendations for Dimension 2

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Develop a fully-fledged early warning system	An early warning system is still missing. The government provides advisory and mentoring services to SMEs regarding their long-term sustainable growth through AIDA, but these services indirectly target the prevention of bankruptcies.	Limited
Introduce short-cut bankruptcy proceedings for SMEs and entrepreneurs	No simplification measures, such as fast-track procedures or reorganisation processes, have been implemented or planned during the assessment period. Moreover, automatic debt discharge mechanisms for companies in liquidation are still lacking, extending the time for potential reintegration into the economy.	No progress
Allow the automatic discharge of entrepreneurs after liquidation	Since the last assessment, no changes in the debt discharge mechanism have been observed; it is still not automatic. The existing discharge mechanism for entrepreneurs provides a five-year period. Once completed, if the discharge is not revoked, the bankruptcy is closed.	No progress
Implement and enhance the by-law on out-of-court restructuring agreements for financially distressed debtors	The newly introduced accelerated extrajudicial reorganisation agreement is a positive step; however, some deficiencies are yet to be addressed, such as clarifying creditors' enforcement rights and the automatic stay during the plan's implementation period.	Moderate
Improve and further develop the articles regulating the activities of the National Bankruptcy Agency	No improvements in the National Bankruptcy Agency (NBA) activities were recorded during the assessment period. Moreover, the NBA's website has not been operational since July 2021.	No progress

The insolvency legislative framework has seen certain improvements

Albania's insolvency legal framework is based on the 2016 Insolvency Act (No. 110), which does not implement the United Nations Commission on International Trade Law (UNCITRAL) insolvency model law (UNCITRAL, n.d.[37]) or the EU model for cross-border insolvency (European Parliament and the Council of the European Union, 2015[38]). It does contain chapters on the access of foreign representatives to the Albanian courts, the recognition of foreign insolvency proceedings and relief and co-operation with foreign courts and foreign representatives (EBRD, 2021[39]). The law provides a solid legal framework for formal court bankruptcy liquidation and allows for two reorganisation procedures (expedited and regular). However, aspects to streamline the processes, such as fast-track reorganisation/liquidation or the digitalisation of the insolvency procedures to shorten the proceeding and better monitor and evaluate the protection of debtor's and creditors' rights in insolvency proceedings are missing in the insolvency framework.

The expedited insolvency reorganisation can only be initiated by the debtor and starts as an out-of-court settlement between the debtor and its creditors, which is then filed and confirmed by the court. Although it aims to enable the debtor to overcome a situation of imminent insolvency, there are no provisions governing new potential financing. The process requires the support of the creditors that represents 30% or more of the total claims included in the plan, followed by the confirmation of the plan under the supervision of the court.

The regular reorganisation procedure may be initiated by the debtor, under a certain number of restrictions, or by the creditors. If the latter initiates the process, as an automatic consequence, the debtor's right to manage and dispose of its assets is then vested in the insolvency practitioner (EBRD, 2021[39]). The

insolvency practitioner, jointly with the debtor (where the debtor remains in possession), may borrow new loans for the continuation of the business. The law clearly enumerates the priority orders of the creditors following the plan's adoption; however, it does not provide clear rules regarding which plan to select in case of multiple options.

Insolvency data are published on the official website of the Albanian National Bankruptcy Agency (NBA), but the website has not been accessible since July 2021 (EBRD, 2021[39]). Even though the statistics gathered do not differentiate between bankruptcy liquidations and reorganisations, they clearly show a decrease in the number of cases since 2017 (see Table 13.9). In addition, the Albanian Tax Administration publishes the list of subjects for which bankruptcy liquidation procedures are initiated (Albanian Tax Administration, n.d.[40]).

Table 13.9. Number of insolvency proceedings in Albania, 2016-20

	Pending cases from previous years	New cases	Closed cases
2016	31	53	42
2017	45	25	35
2018	34	10	6
2019	20	8	2
2020	22	5	2

Source: Information provided by the Albanian NBA during the assessment period.

Some progress has been made regarding insolvency prevention measures

In terms of preventive measures, Albania has made progress since the last assessment, mainly due to the introduction of new insolvency prevention regulation on accelerated extrajudicial reorganisation agreements in February 2021 (Government of Albania, 2021[41]). The procedure is entirely voluntary and extrajudicial if the debtor is in a situation of imminent insolvency.[19] It starts with multilateral talks between the debtor and its creditors and the election of a board of creditors if there are more than ten creditors and is approved if a majority of the creditors holding 75% of the whole debt agrees. Although this enhances bankruptcy prevention, the plan becomes binding only for the creditors who have signed the agreement, leaving a legal gap for creditors that are not in favour, did not vote for the plan or who are secured and have enforcement rights over the debtor's property, as their situations are not clearly regulated. Consequently, the latter (e.g. the secured creditor) could claim its debt at any time, making the implementation of the plan impossible, as the assets needed for the completion of a restructuring agreement will not be there anymore. In addition, the lack of automatic stay for the period of the implementation of the plan threatens its successful completion and does not provide incentives for creditors to participate in the agreement.

An early warning system remains absent in Albania. During the reporting period, however, solvent SMEs have been offered a range of advisory and mentoring services, which aimed to increase their competitiveness and improve their financial management, thus indirectly contributing to preventing their insolvency. Moreover, some tax deferral options were also offered to financially distressed companies during 2020 to mitigate the effects of the COVID-19 pandemic.

The new law on the development of SMEs, adopted in April 2022, foresees the implementation of targeted trainings for SMEs, depending on the activity sectors, stage of development and the experience of firms in their actual markets, under the supervision of AIDA. This initiative is expected to contribute to the prevention of bankruptcies.

Second-chance programmes for failed entrepreneurs are still lacking

Similarly to the previous assessment findings, Albania does not promote second chance, which would encourage or ensure the possibility of reintegration of honest entrepreneurs into the economy. The Business Development and Investment Strategy (2021-2027) highlights the importance of second-chance policies (Government of Albania, 2021[28]). However, no concrete measures have been included in the strategy's action plan, and no such measures have been planned. Furthermore, the legal framework does not distinguish honest from fraudulent bankruptcies, nor does it define clearly honest entrepreneurs.

The way forward for Dimension 2

- **Develop insolvency prevention policy measures, including a fully-fledged early warning system,** as SMEs tend to underestimate the importance of maintaining a sound financial status and avoiding risky decisions (see Box 13.5.). If no appropriate corrective actions are taken on time, this may initially lead to financial distress and later insolvency, particularly in the aftermath of the COVID-19 pandemic. Albania could build on its already well-developed advisory support services provided by AIDA to extend its offer of programmes to SMEs at risk of financial distress. In addition, the EU Directive 1023/2019 (European Parliament and the Council of the European Union, 2019[42]), which introduces debtors' access to information on early warning tools, could serve as a basis for the economy.

Box 13.5. Early warning systems in the European Union

Early warning tools may include different instruments: alert mechanisms when the debtor has not made certain types of payments; advisory services provided by public or private organisations; and incentives under national law for third parties with relevant information about the debtor, such as accountants, tax and social security authorities, to flag to the debtor a negative development.

In the European Union, there are two competing models for early warning systems:

1. **Self-assessment tool:** Creating tools for SMEs and entrepreneurs to anonymously assess their economic situation. The self-test tool can be a simple software application on a public website. SMEs and entrepreneurs have only to enter basic financial data about their business. The application will produce a preliminary diagnostic with recommendations for remediation actions, like searching for a specific business advisory or mentoring support service. The application conducts a financial ratios diagnostic analysis. The quality of the diagnostic analysis depends on the quantity and quality of the data intake by the entrepreneur.

   This model is useful as a quick financial health check and should be complemented with a business advisory support service by a public institution or access to a commercial or professional association.
2. **Intervention mechanism:** This includes a series of steps to remedy the distress situation under external supervision. The mechanism is based on an early warning signal triggered for the SME, identification of problematic areas causing financial distress and reporting to company management with recommendations to take remedial measures. The process to remedy the identified issues then follows through a series of interventions by different actors, aiming to avoid company insolvency. The process can include:
   - A company bookkeeper or external auditor spots an observation that may lead to financial distress. The early warning mechanism can be built on an obligation of the bookkeeper or auditor to inform the company's management of the issue.

- If management does not take action to remedy the situation, there may be subsequent communications with the board or even at the shareholders' meeting.
- If there is no adequate reaction of the enterprise organs, the mechanism can prompt the intervention of outside bodies, such as special mediation or even trigger a special preventive measure court procedure.
- Finally, if there is no intervention, the system may provide for creditors' actions related to the use of alternative dispute resolution.

Public creditors can play a significant role in an early warning system as they can identify a delay in tax and social security payments – a warning that enterprises are experiencing financial difficulties. Information on late payments should be carefully used together with diagnostic analysis, as companies tend to only pay public debt to avoid early warning detection mechanisms.

Source: IMF (2021[35]).

- **Streamline liquidation processes by introducing digital tools.** Digitalising the liquidation process would enhance transparency, save time and the costs of currently lengthy liquidations, anticipate potential conflicts between the creditors' committee and protect creditors' rights as claims are recovered from the best market price reached during a competitive bidding procedure. This could be achieved by introducing e-auctions and automatic e-distributions mechanisms, such as in the North Macedonia example (see Box 13.6.).

Box 13.6. The digitalisation of bankruptcy liquidation procedures

Sale of assets from bankruptcy estate on e-auction, North Macedonia solution

The 2015 amendment of the Insolvency Act in North Macedonia introduced the option of e-auction sales of assets from bankruptcy estates. Following seven years of implementation of e-auction sales, evidence shows that the amount of time taken by bankruptcy liquidation procedures has decreased, and creditors' claims have been recovered at the best market rates.[1] The main sale principles are defined in Articles 98-100 and Articles 189-196 as follows:

- The sale of the assets from the bankruptcy is done through e-auctions with public bidding.
- Parties interested in participating in e-auctions are required to pay a 10% bond/deposit of the book value of the asset. They then receive a Participant ID with which to bid. The ID is anonymous.
- The e-auction starts at a previously announced time and finishes in 30 minutes. All participants are automatically and electronically informed of the results of the auction.
- Two additional e-auction rounds can take place for any unsold assets. The process must be completed within 90 days of the decision on the sale of assets from the bankruptcy estate.
- The parties in the e-auctions have the right of appeal, which is resolved by a bankruptcy judge within three days of filing the appeal in court and is final.
- The shares of publicly traded companies from the estate are sold on the stock exchange.
- The initial price of an asset for bidding is not announced, and the auction starts from zero price.

- A proposal for the partial distribution of proceeds from the sale of assets may be submitted within eight days, upon completion of the e-sale, to the Board of Creditors to approve the costs of the procedure and distribution to creditors.
- There is an option for appeal on advance partial e-auctions and on final distribution to a bankruptcy judge, which is resolved by the judge within three days of filing the appeal in court and is final.
- Distribution of proceeds takes place within eight days upon announcement of the final distribution plan.
- Unsold assets are distributed in kind to creditors.

1. The time to resolve insolvency decreased from 1.8 years in 2016 to 1.5 years in 2020. The recovery rate increased from 44.6 cents on the dollar in 2016 to 48 cents on the dollar in 2020.
Source: Ministry of Economy of North Macedonia (2022[43]).

- **Further amend the regulation on accelerated extrajudicial reorganisation agreements.** In the current regulation, as discussed above, the reached agreement is binding only to the parties who have signed it before a public notary but implies that it has no effect on the other parties.[20] Therefore, the legal framework would need to clearly indicate the estate of these other parties. Moreover, the law could be further enhanced by clarifying the maximum term of the restructuring agreement, providing automatic stay during its implementation to guarantee its completion and clearly indicating that there will be an interruption in the statute of limitations for the other parties' claims.
- **Improve formal bankruptcy reorganisation proceedings**. Under the current Insolvency Law (Article 96), reorganisation plans can be submitted by the debtor, the bankruptcy administrator and creditors that hold 20% of total claims. This could potentially lead to the submission of multiple reorganisation plans, with no clear provision on which plan should prevail, potentially prolonging the reorganisation proceeding. Therefore, introducing an automatic rule that selects the plan with the highest recovery of claims of the lowest payment rank would help reach a wider group of debtors and enhance the efficiency of the reorganisation process.
- **Promote second chance to honest entrepreneurs**. The economy should promote a second chance as an option for honest entrepreneurs to have a fresh start and reduce the cultural stigma related to business failure. The legal framework should provide automatic debt discharge to honest entrepreneurs. The policy should be widely promoted through public awareness campaigns promoting a fresh start following bankruptcy.

Institutional and regulatory framework for SME policy making (Dimension 3)

Introduction

A strong institutional and regulatory framework is the basis for SME policy making. SMEs are often disproportionately affected by regulatory changes and pay a higher price for legislative compliance, given their limited resources compared to larger companies. Policy makers should therefore consider the unique needs of SMEs when designing policies that impact the private sector, especially given the importance of SMEs for the economy in terms of employment, value added and business demographics.

For an economy like Albania, where SMEs represent a significantly higher share of value added (74.1%) and employment (82.9%) than in the European Union, it is particularly important to "think small first" when designing and implementing policies. The COVID-19 pandemic affected Albanian SMEs, most severely in the tourism sector, where 75% of businesses were forced to halt their activities. SMEs in Albania continue to suffer from a high level of administrative burdens as well as from unfair competition stemming from the informal economy (European Commission, 2021[44]).

Albania's performance in this dimension has improved since the last assessment (when it was 3.55), primarily driven by improvements to the guidelines for conducting regulatory impact analysis (RIA) and public-private consultations (PPCs) (Table 13.10).

Table 13.10. Albania's scores for Dimension 3: Institutional and regulatory framework for SME policy making

Dimension	Sub-dimension	Thematic block	Albania	WBT average
Dimension 3: Institutional and regulatory framework for SME policy making	Sub-dimension 3.1: Institutional framework	Planning and design	4.30	4.28
		Implementation	4.20	3.96
		Monitoring and evaluation	4.10	3.81
		Weighted average	**4.21**	**4.03**
	Sub-dimension 3.2: Legislative simplification and regulatory impact analysis (RIA)	Planning and design	3.60	3.84
		Implementation	3.40	3.47
		Monitoring and evaluation	2.55	2.95
		Weighted average	**3.29**	**3.48**
	Sub-dimension 3.3: Public-private consultations (PPCs)	Frequency and transparency of PPCs	3.90	4.00
		Private sector involvement in PPCs	4.20	3.92
		Monitoring and evaluation	4.15	3.10
		Weighted average	**4.07**	**3.79**
Albania's overall score for Dimension 3			**3.89**	**3.79**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Albania ensured continuity in the implementation of its SME policy framework through the adoption of a new Business Development and Investment Strategy (2021-2027). Efforts have been made to improve the use of RIA and PPCs, but more can be done, particularly in strengthening the quality control function for RIA, as has been done for PPCs (Table 13.11).

Table 13.11. Albania's implementation of the SME Policy Index's 2019 recommendations for Dimension 3

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Enhance the institutional capacity of institutions responsible for SME policies	Overall institutional capacity for understanding the needs of SMEs and translating them into SME policy making has been increased. The Albanian Investment Development Agency (AIDA) was restructured in 2019 with the goal of expanding its presence at the local level. As part of this restructuring, AIDA's total number of staff has increased, giving it additional resources to realise these goals.	Strong
Systematically conduct regulatory review and simplification processes in co-operation with businesses	There is currently no agenda for legislative simplification and reforms to reduce the administrative burden. Nevertheless, the government is drafting a work plan for measures to improve the business environment and investment climate in Albania. Consultations and feedback from businesses helped the government identify the priority areas this work plan will be based on.	Moderate
Ensure regular monitoring of SME policy measures	Albania's main SME policy document, the Business Investment Development Strategy (2014-2020), was regularly monitored, and the results of this monitoring were fed into the guidance for designing the new Business Development and Investment Strategy (2021-2027), which also contains a strong framework for monitoring progress and identifying potential challenges along the way. Monitoring and evaluation of PPCs has substantially improved since the last assessment.	Strong
Enhance the quality of the PPC process	Monitoring and evaluation of PPCs has been strengthened, allowing the government to better measure the quality and consistency of consultations. Inter-institutional co-ordination to ensure the consistent use of PPCs has been strengthened. These mechanisms should allow the government to better focus its efforts to raise the quality of PPCs and improve stakeholder engagement.	Strong

The SME policy framework has been further developed, and implementation has continued, but there is no comprehensive framework for combating informality

Albania completed the implementation of its Business Investment Development Strategy (2014-2020) since the previous assessment. Monitoring and evaluation of the Business Investment Development Strategy (2014-2020) was conducted through three monitoring reports, which showed an overall implementation rate of 75%. Results from this monitoring were integrated into the new Business Development and Investment Strategy (2021-2027), and namely identified challenges in the division of competencies, regularity of reporting and definition of measures, which the new Business Development and Investment Strategy (2021-2027) aims to address.

The new Business Development and Investment Strategy (2021-2027) was developed in consultation with stakeholders and focuses on three specific objectives: 1) attracting investment and internationalisation; 2) SME development; and 3) human capital development. Monitoring and evaluation is planned through annual reporting as well as the creation of a mid-term implementation report, which should take stock of the strategy's course and address any challenges towards the middle of the strategy's implementation timeline.

AIDA, the implementing agency for SME policies, underwent a restructuring in 2019. New structures and units were created, with the goal of expanding AIDA's co-operation and co-ordination with municipalities,

to be closer to businesses at the local level. Consequently, AIDA has increased its staff (from 29 to 39 employees) to meet the needs of this expansion.

The informal economy remains a structural challenge in Albania, representing around one-third of GDP according to the latest estimates (European Commission, 2021[3]). The government has been running an inter-institutional campaign against the informal economy for years. As a result of this campaign, the government has identified key sectors the most at risk of informal activity, namely retail trade, wholesale trade, tourism and hospitality, and construction. Another key reform undertaken since January 2021 is fiscalisation, through which the government made it mandatory for businesses to file electronic invoices to improve the accuracy and reliability of data the tax administration has access to. While these are welcome steps, Albania lacks a comprehensive strategy for tackling informality, which would allow it to address structural and sector-specific issues (European Commission, 2021[14]).

Efforts to simplify business legislation and improve the business environment have continued but lack an overall systematic approach

Albania has continued efforts to improve the business environment since the previous assessment, mainly by focusing on increasing the availability of digital government services (see Dimension 4 on operational environment for SMEs) and reforms to combat informality, such as fiscalisation.

Although the new Business Development and Investment Strategy (2021-2027) takes stock of the state of the business environment and progress made in improving it, it does not contain measures to simplify legislation and lessen administrative burdens for SMEs, which are often cited as key barriers for businesses in Albania. Considering the high level of administrative burdens for businesses in Albania and its effect on the informal economy, a more ambitious framework for simplifying legislation and improving the business environment would be welcome (European Commission, 2021[45]). In early 2022, the government began drafting a work plan for improving the business environment and investment climate based on priority areas identified through consultations with businesses, such as tax legislation, banking regulation, bankruptcy, education, e-commerce and others.

The government's General Analytical Programme of Drafts, which lists primary and secondary legislation that the government plans to amend or introduce, informs businesses and other stakeholders of upcoming legislative changes. Since January 2021, it also includes a list of PPCs to be conducted.

The methodology for RIA has been strengthened and updated, but quality control and monitoring and evaluation could be further improved

Conducting RIA has been made mandatory for primary legislation since January 2019. The new RIA methodology includes mandatory consideration of economic and financial aspects, along with the impact on businesses in general. However, SME-specific impacts are not mandatory for consideration, lessening the ability of the government to measure the potential impact of legislation on SMEs, which have fewer resources to adapt to compliance costs compared to larger firms.

Quality of RIA is overseen by the RIA Unit within the Council of Ministers, which provides written feedback on line ministries' RIA drafts. However, while entrusting a centre-of-government institution to perform this quality control function is an encouraging step forward, more could be done to ensure the effectiveness of this control. Specifically, the RIA Unit has little leverage to give weight to its feedback, which is not binding and is often not taken into account by line ministries (OECD, 2021[46]).

There is room to improve the quality of RIA conducted, mainly in identifying options and alternatives to proposed policies (OECD, 2021[46]). The use of RIA across the public administration is not monitored in Albania, meaning that it is difficult to measure the overall level of quality in different areas and different ministries and identify challenges and solutions.

The framework for conducting, monitoring and evaluating PPCs was strengthened, showing room for improvement in PPC quality and consistency

In January 2021, Albania strengthened its regulatory framework for conducting PPCs through the adoption of the Guideline on the Public Consultation Process (Box 13.7). This regulation strengthens the requirements for PPC consistency, informing stakeholders and reporting on PPCs. The Regulatory and Compliance Department of the Office of the Prime Minister was entrusted with ensuring that line ministries report on the PPCs they conduct (both for individual consultations and as a whole over a period of time) and the Department for the Development of Good Governance, also within the Office of the Prime Minister, prepares an annual report on the overall progress in the quality of PPCs conducted in Albania (OECD, 2021[46]).

Box 13.7. Albania's monitoring reports for public-private consultations

As part of its new regulatory framework for conducting public-private consultations (PPCs), introduced in January 2021, Albania strengthened the guidelines for reporting and monitoring and evaluation of PPCs conducted by all line ministries, as well as the overall PPC process, which is monitored by the Council of Ministers.

Since this reform, each ministry publishes reports on the consultations it has held on a six-month or yearly basis. The reports are accessible on the central online consultation portal (https://konsultimipublik.gov.al/Raporte2021), greatly increasing their accessibility to interested stakeholders.

The Council of Ministers also produces an aggregate report of the public consultation process, looking at consultations conducted by all ministries on a six-month basis. Going beyond simply reporting on the implementation of the regulatory framework for consultations by ministries, this reporting contains analytical indicators, such as participation in consultations, institutions' response rate to public comments and the duration of consultations.

This allows the government to not only monitor the fulfilment of ministries' obligations to host consultations, but also the quality of the consultation process as a whole.

Source: Albanian Council of Ministers (2021[47]). For more information, see: https://konsultimipublik.gov.al/Raporte2021.

These reports are available on the public consultation portal (https://konsultimipublik.gov.al), which the government uses to centralise access to PPCs from various line ministries. The introduction of regular, comprehensive reporting is a strong step and has allowed the government to measure deficiencies in the quality and consistency of PPCs. In terms of both quality and consistency, both significantly increased from 2018 to 2020, but recently the regularity of PPCs and their quality (measured through indicators created for the purposes of the report) seem to have plateaued, with a slight decrease in the first half of 2021 (Council of Ministers, 2021[47]). In terms of measuring stakeholder participation in PPCs, the reports allow measuring total engagement through indicators on the number of participants and the responsiveness of institutions to comments and suggestions from stakeholders. However, the existing indicators do not allow the government to identify which types of stakeholders are engaged and thus to measure if businesses and SMEs are adequately included in PPCs.

The way forward for Dimension 3

- **Develop a programme for legislative simplification and reducing administrative burdens.** Given the high level of administrative burdens, Albania should look to develop a programme for legislative simplification and reducing administrative burdens on businesses. Focus could also be placed on reducing the parafiscal burden on SMEs. Examples of regional good practice in this regard can be taken from Montenegro and North Macedonia, which recently introduced registers of parafiscal charges that companies are required to pay, with the goal of eliminating and rationalising them where possible.
- **Strengthen quality control of regulatory impact analysis**. The quality control function of the RIA Unit of the Council of Ministers could be reinforced by making the unit's feedback on RIA produced by line ministries binding or at least mandatory for consideration (in which case the line ministry must justify why it cannot implement the RIA Unit's recommendations). This would serve to reinforce the quality control function of the RIA Unit and allow it to fulfil it effectively, and contribute to raising the quality of RIA.
- **Introduce monitoring and evaluation of the use of regulatory impact analysis**. The RIA Unit or another centre-of-government institution could begin to conduct regular, publicly available reporting on the use of RIA and its adherence to quality standards. This would allow the government to identify where to concentrate efforts to improve capacities for conducting effective RIA and to hold different line ministries to account. Good practice in this area can be taken from Montenegro, where the Ministry of Finance and Social Welfare conducts regular reporting on the state of RIA (Box 13.8.).

Box 13.8. Montenegro's reports on the quality application of regulatory impact assessment

Making full use of its quality control function, the Ministry of Finance and Social Welfare of Montenegro publishes regular reports on the state of the RIA process in Montenegro and progress made in improving its quality.

As in some other economies in the WBT region, these reports contain a statistical aggregation of all RIAs conducted as a share of all primary and secondary legislation adopted and the degree to which they meet the requirements for conducting RIA by line ministries. However, what makes Montenegro's reports stand out is that the RIAs conducted are then divided into categories, showing what share of RIAs was satisfactory in terms of quality in the areas of problem definition, goal definition, options definition, impact assessment, fiscal impact assessment, consultation with stakeholders, and monitoring and evaluation. This kind of analysis allows the Ministry of Finance to measure the progress made in these different areas compared to previous years.

In its latest report, the ministry identified that 68% of RIAs conducted in 2020 were "done with quality" versus 61% in 2019, showing a slight improvement in overall quality. More specifically, the areas with the greatest room for improvement were options definition, impact assessment, fiscal impact assessment, consultations with stakeholders, and monitoring and evaluation. This allows the government to focus its efforts on building capacity for conducting useful and effective RIA in these areas.

The other WBT economies would benefit from making their reports on the use of RIA more analytical, as the key to effective use of RIA as a policy-making tool lies beyond respect for formal requirements, requiring regular measurement of policy makers' ability to conduct detailed, evidence-based analysis in several areas.

Source: Montenegrin Ministry of Finance and Social Welfare (2021[48]).

Operational environment for SMEs (Dimension 4)

Introduction

From registering a company and obtaining a business licence to filing and paying taxes, SMEs interact with public institutions, physically or digitally, at all stages of their development. The operational environment in which SMEs must navigate is determined by the ease of using digital services, the number of procedures and the costs associated with their interactions with the government. Complex requirements imposed on businesses have adverse impacts on SMEs' ability to operate, take advantage of market opportunities efficiently and grow.

For an economy like Albania, where businesses were heavily impacted by the COVID-19 pandemic and where SMEs play an important role in the economy, increasing the availability of digital services for SMEs, including business registration and licensing, as well as improving the efficiency of administrative procedures, including tax compliance procedures, will be key to improving the operational environment by saving time and resources.

Albania's performance in delivering digital government, company registration and business licensing services has increased since the last assessment (when it was 3.99), making Albania the regional leader in this regard, especially when it comes to monitoring and evaluation of digital government services (Table 13.12).

Table 13.12. Albania's scores for Dimension 4: Operational environment for SMEs

Dimension	Sub-dimension	Thematic block	Albania	WBT average
Dimension 4: Operational environment for SMEs	Sub-dimension 4.1: Digital government services for SMEs	Planning and design	4.70	4.28
		Implementation	3.91	3.33
		Monitoring and evaluation	3.80	2.48
		Weighted average	**4.12**	**3.40**
	Sub-dimension 4.2: Company registration	Planning and design	4.90	4.42
		Performance	4.50	3.93
		Monitoring and evaluation	4.80	4.06
		Weighted average	**4.78**	**4.18**
	Sub-dimension 4.3: Business licensing	License procedures	4.55	3.88
		Monitoring and streamlining of license system	4.37	3.73
		Weighted average	**4.46**	**3.80**
	Sub-dimension 4.4: Tax compliance procedures for SMEs	SME tax compliance and simplification procedures	No scores	
		Monitoring and evaluation of SME-specific tax measures		
Albania's overall score for Dimension 4			**4.32**	**3.64**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Albania has continued implementing digital government reforms under a whole-of-government approach, made possible by the leading role of the National Agency for Information Society (NAIS). Progress has been made in increasing the availability of digital government services and streamlining them to better fit users' needs. Progress has also been made in increasing the availability of open government data and the

interoperability of government data for more efficient digital services. The company registration and business licensing frameworks, supervised by the National Business Centre (NBC), are well designed in Albania and in line with international best practices. Online registration is fully operational, and reforms are ongoing to further digitalise other services related to company registration. Solid co-ordination between the NBC and institutions responsible for issuing licences is established, and Albania is the only WBT economy that has introduced digital distribution of licensing officials. Albania has also continued to streamline licensing procedures. The taxation of unincorporated businesses in Albania differs from the approach taken in most other economies around the world, as unincorporated businesses are subject to the corporate income tax (CIT). Social security contributions (SSCs) are levied on the minimum wage rather than actual earnings. SMEs benefit from a simplified CIT regime under which they pay very little tax (Table 13.13).

Table 13.13. Albania's implementation of the SME Policy Index's 2019 recommendations for Dimension 4

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Continue efforts to improve open government data	Albania has launched an open data portal and has adopted its National Open Government Partnership Action Plan (2020-2022), which aims to further increase the availability of open data and promote its use.	Strong
Regularly monitor and evaluate tax simplification measures	SMEs face a relatively high increase in their tax burden when they grow into the standard corporate income tax (CIT) regime, with its 15% tax rate, even more after the 2020 CIT rate reduction for small businesses.	Limited

The implementation of digitalisation reforms has advanced, supported by a solid framework for inter-institutional co-ordination

Albania has continued the implementation of its Digital Agenda (2015-2020) and consequently advanced the development of digital government services. Out of the Digital Agenda Action Plan's activities, 67.8% (or 156 out of 230) have been fully implemented, with 29 in progress as of December 2020. More specifically, related to the agenda's priority of developing digital government services, around 65% (or 75 out of 115) of planned activities had been fully implemented by December 2020 (NAIS, 2020[49]). Following consultation with stakeholders, the Action Plan's duration was extended until 2022 to ensure its full implementation, as well as the implementation of new and updated activities.

NAIS was reorganised in 2017 and provides a strong pillar for horizontal governance of digital transformation efforts across Albania's various line ministries and institutions. Through indirect management of line ministries' technical and information and communications technology (ICT) staff, who fall under the Agency's organisational chart, NAIS supports line ministries in managing digital services and the associated ICT tools. NAIS also ensures the delivery of digital services according to common standards and ensures inter-institutional co-ordination and monitoring and evaluation of digital government reforms (OECD, 2021[16]). This co-ordinated approach also ensures that public services are not only digitalised but re-engineered when necessary to better suit users' needs. With this in mind, the Agency for the Delivery of Integrated Services, whose goal is to improve the accessibility of public services (assisting citizens with applying for services on line) and streamline existing procedures, has made efforts to standardise administrative procedures and improve the overall user experience with public services[21] (OECD, 2021[46]).

NAIS monitors the use of the e-Albania portal by both citizens and businesses. Statistics on the most popular services and user satisfaction are fed back to inform the continuous development of services on the portal. Feedback channels also exist, allowing users to comment at their own initiative on their experience using digital services. Some of the key statistics on the portal's use and the services available

are available as open data on the government's open data portal. However, there is room for improvement in ensuring SME-specific data collection.

The rollout of digital services has advanced but has not yet improved business satisfaction with digital services

The rollout of digital government services in Albania has advanced since the previous assessment. The number of digital services for businesses that can be completed fully on line through the e-Albania portal (https://e-albania.al) increased from 293 in 2018 to 373 as of 2020. As of 2021, 95% of all administrative services had been made available on line,[22] at differing levels of digital maturity (OECD, 2021[46]). Consequently, Albania's ranking in the United Nations E-Government Development Index rose from 74th to 59th from 2018 to 2020, and its score in the UN Online Service Index increased from 0.73 to 0.84 over the same period.

However, despite these improvements in the availability of digital services, according to the latest Balkan Business Barometer survey, businesses' satisfaction with digital services is declining. In 2019, 70% of respondents expressed satisfaction with digital services, whereas, in 2021, this share had decreased to 54% (nevertheless, it remains above the regional average satisfaction rate of 39%)[23] (Regional Cooperation Council, 2021[50]). Moreover, citizens are, in general, more satisfied with digital public services than businesses (OECD, 2021[46]). This may indicate that despite the increased availability of digital services, there is still room for improvement in designing services to suit the needs of businesses.

The enablers of digital services, such as interoperability and open data, have been strengthened

Albania has further strengthened the key enablers for delivering digital services since the last assessment. Interoperability of government data has advanced, with 55 registers and databases from different institutions interconnected through the Government Interoperability Platform, up from 48 in 2019. This interconnectedness allows for around 66% of all forms to be pre-filled, thanks to the exchange of data between institutions (up from around 60% in 2019), further saving time for businesses.

The legal framework for the use of e-signatures and its partial alignment with the eIDAS regulation[24] has been in place since 2015, ensuring the legal equivalency of electronic signatures and traditional signatures and their use for digital services requiring a high level of security. The government plans to fully align the legal framework with the eIDAS regulation in 2022. However, despite the framework being in place, and the increase in the number of services using e-signature, there is room for improvement in promoting the use of e-signature by businesses (OECD, 2021[46]).

Albania adopted an Open Government Partnership National Action Plan (2020-2022), focusing on anti-corruption, access to justice, fiscal transparency and digital governance. The digital governance component includes measures to expand digital government services and the open data portal and to improve the delivery of integrated public services through the Agency for the Delivery of Integrated Services.

Since the previous assessment, Albania has launched an open data portal (http://opendata.gov.al), which currently allows access to 436 datasets as of 2022 (there were 101 in 2020) (Government of Albania, 2021[51]). Criteria for publishing open data (to ensure that it is reusable) are established, and the government monitors the use of the open data portal to identify which datasets are the most popular. While the National Open Government Partnership Action Plan aims to further expand the amount of open data available through the portal and to promote its use among citizens, measures to promote the use of open data by businesses for the creation of innovative products are absent (Government of Albania, 2020[52]).

Company registration is well designed, and digitisation reforms are underway

Entrepreneurs can register their companies through the NBC, which operates as a one-stop-shop in its 35 physical offices or on line, according to the "silent-is-consent" principle.[25] When applying at the NBC for company registration, entrepreneurs receive a single tax identification number and are simultaneously registered with the tax authorities, social insurance and labour inspectorate, highlighting strong interoperability in this area. Online registration has been fully operational since 2016 and is free of charge on the e-Albania portal.

Albania remains one of the frontrunners in the WBT region in terms of the time and procedures needed to start a business. Registration with the NBC is finalised in 24 hours and the full process to start a business takes 4.5 days and 5 procedures on average (World Bank, 2020[53]).

As part of ongoing digitalising reforms undertaken by NAIS and the NBC, since January 2020, some processes pertaining to company registration are only available on line, such as services for registering physical persons or for the suspension and reactivation of activity by legal entities. Full digitalisation of other services related to company registration is ongoing.

Monitoring and evaluation mechanisms are in place for company registration in Albania. Data on the company register is publicly available on NBC's portal. Moreover, regular online surveys are conducted on the e-Albania portal to evaluate the quality of services provided on line, including those offered by the NBC.[26]

Information and application for business licences are centralised on line, and reforms to further reduce administrative barriers are ongoing

Albania is the only WBT economy that has streamlined company registration and licensing under its one-stop-shop (the NBC),[27] which speeds up processes, increases transparency, and lowers administrative burdens and costs for SMEs. Information and application for business licensing are centralised on an e-licence portal (https://qkb.gov.al/home), overseen by the NBC. The NBC receives business licences and submits them to the relevant authorities as needed (Box 13.9). It plays the role of a co-ordination body and is in charge of interoperability and exchange of data between public institutions. Since 2020, licensing requests can only be submitted on line, and all services are free of charge.

Box 13.9. Business licensing granting process in Albania

Categories of licences

There are three categories of permits and licences for businesses in Albania:

- The first category uses the applicant's self-declaration alone to evaluate whether the criteria are fulfilled.
- In the second category, the decision to grant a licence is based on self-declaration and documentary proof provided by the applicant.
- The third category of licences, in addition to the requirements of the second category, evaluates the fulfilment of the criteria using either an inspection, test, contest, interview, hearing or any other evaluation method.

The NBC is responsible for granting licences from Categories 1 and 2, and the relevant ministries along with the NBC are responsible for granting licences falling under Category 3.

Electronic distribution and nomination of licensing officers

For all permit and licence requests (in person before 2020 and on line), the electronic system checks the documents and assigns the application randomly to an officer. Businesses can trace their application's status on NBC's website using their case number.

Overall, a digital system that randomly selects officials responsible for granting licences to businesses enhances the transparency of the business licence procedure. It helps monitor and evaluate officials' compliance with their mandate, as well as distribute the workload equally among licence officers, allowing the administration to respond faster to requests.

Source: AIDA (n.d.[54]).

Around half of businesses in Albania (52%) considered the lack of availability and accessibility of relevant information a small or no obstacle at all, and 53% did not consider the lack of digitalised process for application and of approval of licences to be an obstacle (Regional Cooperation Council, 2021[50]). While satisfaction with licences and permits is much higher in Albania than in the rest of the Western Balkans, it is lower than for other digital services and has been declining since 2019 (OECD, 2021[46]). The number of procedures, requirements, paperwork, and cost for obtaining business licences are considered a small or no obstacle at all for 46% of businesses in Albania (Regional Cooperation Council, 2021[50]). According to the latest data, 7 days were required to obtain an import licence, 11 for an operating licence and 36 for a construction permit, all three of which are lower than the WBT averages (11, 24 and 72 days, respectively) (World Bank, 2019[55]).

Since the last assessment, Albania has undertaken a deregulation reform in the licensing sector to further facilitate and improve the business climate by reducing administrative barriers. In the framework of this reform, a group of experts, headed by the deputy prime minister, has reviewed all licenses and permits for a two-year period (2018-19) issued by state institutions. As part of their recommendations, the group has proposed to remove 22 licences to further reduce unnecessary burdens on companies. In line with these recommendations, 12 licences had been removed as of 2021 and further streamlining is ongoing.

Tax-related measures to mitigate the impact of the COVID-19 crisis and support the economic recovery were particularly targeted at SMEs

The mandatory threshold to register for value-added tax (VAT) was increased from ALL 2 million (approximately EUR 16 500) to ALL 10 million (EUR 83 000) (Albanian Parliament, 2020[56]). In addition, CIT filing and payment were deferred for SMEs and for businesses in sectors that were particularly hard-hit by the crisis. The tax rate for SMEs subject to the simplified CIT regime decreased from 5% to 0%. Overall, these tax measures aimed at supporting cash flow for businesses, in particular SMEs, and they are broadly aligned with the measures taken in countries around the world, except for the reduction in the CIT rate, which has not been widely implemented.

Unincorporated businesses are subject to CIT and SSCs that are levied on the minimum wage

The taxation of unincorporated businesses in Albania differs from the approach taken in most other economies around the world. Unincorporated and incorporated businesses are subject to the CIT (referred to as the "profit tax"). This practice is uncommon, as economies usually tax the business income of unincorporated businesses under the personal income tax (PIT).

SSCs for the self-employed are not levied on their actual earnings but on the minimum wage or a multiple of it. Self-employed workers pay a 23% SSC rate levied on the minimum wage and a 3.4% rate on twice the minimum wage for health contributions (IBFD, 2021[57]). While self-employed entrepreneurs are less

incentivised to under-declare their income as SSCs are not levied on actual earnings, the SSC design results in a high effective tax burden for self-employed workers who earn below the minimum wage, such as start-ups with low turnover. In addition, as SSCs are only levied on (a multiple of) the minimum wage, self-employed entrepreneurs will receive low benefits in the future. Once the tax administration is confident that it can avoid widespread non-compliance among the self-employed, the SSC base could be changed to actual earnings. This measure will increase the SSCs' burden, but self-employed entrepreneurs would benefit from enhanced social protection and higher benefits in the future. Alternatively, self-employed business income could be taxed under the PIT at a progressive PIT rate schedule, in particular, if social benefits for the self-employed were to be paid partly out of general tax revenues rather than only from SSCs.

CIT incentives are available to SMEs and large businesses

The standard CIT rate in Albania in 2021 was 15%. Businesses that develop software and those that operate in the automotive industry benefit from a reduced CIT rate of 5% (IBFD, 2021[58]). In addition, CIT losses can be carried forward up to three years, which is the shortest period among economies in the region, except for North Macedonia, which has the same period. As young and innovative SMEs might have low profits and make large investments, a short period to carry forward losses could reduce risk-taking and investment by these types of SMEs.

SMEs benefit from a simplified corporate income tax regime under which they pay very little CIT liabilities

SMEs with an annual turnover of less than ALL 14 million (EUR 116 000) can benefit from a simplified CIT regime. While the regime incentivises businesses to formalise, it also creates hurdles for businesses to grow into the regular CIT regime. In Albania, SMEs with annual turnover below ALL 8 million (EUR 66 300) are exempt from paying CIT, i.e. they benefit from a 0% CIT rate. This threshold was ALL 5 million (EUR 41 500) before the COVID-19 crisis and has been raised to support the economic recovery. In addition, SMEs with annual turnover between ALL 8 million (EUR 66 000) and ALL 14 million (EUR 116 000) that benefited from a reduced CIT rate of 5% before the COVID-19 crisis now enjoy a 0% CIT rate, too (Albanian Parliament, 2020[56]). SMEs under this regime face a high increase in tax burden when entering the standard CIT regime, which does not incentivise them to grow. Moreover, as small corporations barely pay CIT, the tax administration might be tempted to reduce its efforts in auditing these businesses as it foregoes little CIT revenues, which further incentivises businesses to stay within the simplified CIT regime rather than grow into the regular regime. Albania should prioritise the simplification of tax administration procedures over CIT exemptions to reduce the incentive for businesses to remain under the simplified CIT regime.

Contrary to most other economies in the region, the tax system does not create tax-induced incentives for SMEs to incorporate

The tax system does not create tax-induced incentives for SMEs to incorporate, as the tax burden on both types of businesses remains low. Unincorporated SMEs that earn more than the minimum wage pay relatively low SSCs (as they are levied on the minimum wage). In addition, these SMEs pay low CIT liabilities, as they are subject to the generous simplified CIT regime, rather than paying the PIT on their business earnings, as is the case in most other economies. Therefore, the tax burden of unincorporated businesses is relatively low. The tax burden is also low for corporations. A withholding tax of 8% applies to distributed dividends that are paid out of profits net of the CIT, which is levied at a rate of 0%, 5% or 15% depending on business profits (IBFD, 2021[58]). There might be scope to further increase the dividend withholding tax as part of broader tax reform.

No special rules apply to gig workers. They can be taxed under the same rules that apply to employees if their income is earned in the form of wages (i.e. the progressive PIT rate schedule applies). They can be

taxed under the same rules that apply to self-employed workers if they have a business status. Finally, a 15% withholding tax applies to gig workers' income that is earned in the form of service payments (General Directorate of Taxes, 1998[59]). The tax treatment of gig workers is favourable, in particular, if they benefit from the 0% CIT rate, i.e. if they fall under the simplified CIT regime. On the other hand, a gig worker with a small activity (e.g. a couple of hours per week) might face a high effective SSC burden as SSCs are not levied on actual earnings but on the minimum wage.

Voluntary registration for VAT is not allowed for all SMEs, and there are no VAT simplification measures targeted at SMEs

It is compulsory for businesses with an annual turnover exceeding ALL 10 million (EUR 83 000) to register for VAT (the threshold was ALL 2 million (EUR 17 000) up to 2020). Voluntary registration for VAT is allowed only for businesses with an annual turnover exceeding ALL 5 million (EUR 41 500). In 2021, the standard VAT rate was 20%, and the reduced VAT rate was 6% (IBFD, 2021[58]). SMEs that do not qualify for the VAT registration are induced to find ways to avoid having to pay VAT on their inputs, for instance, by purchasing inputs from the informal economy. Albania could evaluate whether it wants to introduce additional measures to facilitate VAT compliance for SMEs, such as simplified input tax credit calculation schemes or cash accounting for VAT purposes. Measures to further improve the functioning of the VAT refund system are also warranted.

Several simplifications of tax administration procedures apply to SMEs

Businesses subject to the simplified CIT regime and that have annual turnover below ALL 8 million (EUR 66 000) are required to file an annual simplified CIT return. Businesses within the simplified CIT regime but with turnover above ALL 8 million (EUR 66 000) are required to complete the simplified CIT return and to provide detailed financial statements. Overall, businesses with an annual turnover of up to ALL 30 million (EUR 250 000) benefit from simplified bookkeeping rules. In addition, while employers pay SSCs on behalf of their employees on a monthly basis, the self-employed pay SSCs on a quarterly basis. Finally, e-filing is mandatory for CIT and VAT purposes; online tax payment is not mandatory.

The way forward for Dimension 4

- **Promote the use of e-signature by SMEs**. Promoting the usefulness of e-signatures among businesses should help increase its uptake and encourage more businesses to use digital services. The government and NAIS should also look to reduce the costs and technological barriers to the adoption of e-signature (such as the necessary hardware). This could be done by adopting mobile solutions, such as e-signature via mobile through cloud technology.
- **Introduce SME-specific monitoring and evaluation of the performance of digital services**. Even though Albania has the most developed monitoring and evaluation system for digital services in the region, its usefulness for SMEs could be further developed by ensuring that the data collected are disaggregated by enterprise size class, allowing NAIS and the government to see if SMEs encounter any particular challenges in using digital services compared to larger companies, as well as gain insight into the services most frequently used by SMEs.
- **Promote the reuse of open government data by SMEs**. Thanks to the growing availability of open government data in Albania, there is much potential to promote its reuse by SMEs for the creation of innovative products and services. Measures to encourage this reuse should be developed and adopted, possibly in the next Open Government Partnership Action Plan. These measures should be based on consultations with stakeholders to help identify the most useful data in this regard and increase its availability if necessary.

- **Evaluate the tax burdens faced by SMEs**, for instance, by using business tax returns to design a coherent simplified corporate income tax regime that incentivises businesses to operate in the formal economy and SMEs to grow into the regular CIT regime. The economy could evaluate tax return records to identify whether businesses bunch around the ALL 85 million (EUR 704 000) and ALL 14 million (EUR 116 000) thresholds. This would be an indication of the distortive impact of the very low tax rates for SMEs under the simplified CIT regime.
- **Monitor the tax burden for young and innovative SMEs** to assess whether introducing a longer right to carry forward losses would help them to innovate, take risks and grow.
- **Develop a strategy to ease tax administration procedures for SMEs** by first assessing remaining hurdles for SMEs, especially for VAT purposes, for instance, through business surveys.

Support services for SMEs (Dimension 5a)

Introduction

SMEs are more prone than larger companies to suffer from a lack of managerial and technical skills, suboptimal technology, limited access to markets and information, and a lacking entrepreneurial skillset, which can hinder their growth. Business support services (BSSs) provided or supported by the government – ranging from general information and advice to training, mentoring and technical services – seek to address these challenges, thus providing a tool to boost SME productivity. While the COVID-19 pandemic had negative effects on the provision of BSSs across the globe, particularly those involving direct contact with SMEs, it also provided an opportunity to reduce the cost of participation for SMEs by moving part of the activities on line.

SMEs struggling with boosting their productivity and competitiveness are common in small, open economies like Albania. BSS accessibility and reliability are vital components in stimulating SME growth and development. Implementing a comprehensive policy mix of financial and non-financial support is the most effective approach in economies like Albania, where both access to finance and technical assistance still pose a challenge, particularly following the COVID-19 pandemic.

Albania has considerably improved in the public and private provision of BSSs since the last assessment cycle, scoring a total of 4.05, compared to 3.61 in 2019 (Table 13.14). Due to the adoption of new strategic documents and their implementation, Albania improved its scores across all sub-dimensions and thematic blocks, showing the most significant improvement in the region.

Table 13.14. Albania's scores for Dimension 5a: Support services for SMEs

Dimension	Sub-dimension	Thematic block	Albania	WBT average
Dimension 5a: Support services for SMEs	Sub-dimension 5a.1: BSSs provided by the government	Planning and design	4.43	4.17
		Implementation	3.43	4.24
		Monitoring and evaluation	4.11	3.88
		Weighted average	**3.86**	**4.15**
	Sub-dimension 5a.2: Government initiatives to stimulate private BSSs	Planning and design	5.00	4.63
		Implementation	3.80	4.21
		Monitoring and evaluation	4.20	3.84
		Weighted average	**4.24**	**4.26**
Albania's overall score for Dimension 5a			**4.05**	**4.20**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

By adopting the new Business Development and Investment Strategy (2021-2027) (Government of Albania, 2021[28]), Albania significantly advanced in providing SME support, particularly in improving the business environment, but also in adapting BSSs to SMEs' needs. At the time of assessment, the government was redesigning support schemes for SMEs with a strategic framework to simplify and digitalise the application process, which had proved cumbersome in the previous cycle (Table 13.15). The government made moderate progress on implementing a quality assurance mechanism for privately provided BSSs, although it outlined its plan to introduce an accreditation system for private-sector consultants. Due to the redesigning of support funds, there are currently no co-financing schemes offered by Albania.

Table 13.15. Albania's implementation of the SME Policy Index 2019 recommendations for Dimension 5a

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Simplify the procedures for applying for BSSs and increase their attractiveness	At the time of assessment, the government was redesigning existing support schemes for SMEs. Previous programmes were characterised by cumbersome application procedures, which served as a deterrent for SMEs aiming to benefit from AIDA's support. It is not yet clear whether the new schemes will have simplified application processes that do not require an in-person meeting at AIDA's office.	Limited
Complement co-financing schemes with free BSSs	AIDA's services are free of charge, including access to databases of private-sector consultants. However, co-financing schemes are no longer available.	Moderate
Conduct regular training needs analyses (TNAs) to better develop and adapt BSSs to SMEs' actual skills needs	There has been considerable progress in the area of conducting TNAs among SMEs, as well as their demand for specific BSSs in light of the COVID-19 pandemic. The government conducted two studies on the impact that the COVID-19 pandemic had on SMEs and their related needs. In addition, Albania collaborated with international development co-operation partners to conduct various assessments on the SME landscape in the economy.	Strong
Introduce a quality assurance mechanism, such as an accreditation system, for private-sector consultants and trainers delivering co-financed support	Some progress has been made in the area of accreditation, as the concept of certifying private-sector consultants and making government support contingent on using their services has been included in the new Decision of the Council of Ministers. There are also plans to introduce a quality assurance system.	Moderate

Albania has enhanced its legal framework for SME support and facilitated access to information on available BSSs

The Business Development and Investment Strategy (2021-2027) is the main strategic document regulating BSS provision in Albania. The strategy supersedes the Business and Investment Development Strategy (2014-2020), which was 75% implemented[28] (Government of Albania, 2021[28]). In addition, Albania adopted a new SME law in April 2022. The new law establishes an advisory council for SMEs and adds new forms of financial support available to SMEs. Since a weakened legal environment has been identified as the main challenge for improving the business environment in Albania, the new legal and strategic framework for the provision of support services for SMEs is a welcome development. The government included relevant stakeholders in the strategy's drafting process, which has not been a consistent practice in previous strategies (World Bank, 2021[60]).

In the Business Development and Investment Strategy (2021-2027), the government aims to improve the business environment and attract investment, increase the competitiveness of SMEs through development and information technology, and reduce administrative barriers for SMEs. One of the specific targets of the Strategy (Government of Albania, 2021[28]) is to increase the density of start-ups in the economy from 88 to 132.[29] While start-up density is not a common proxy for the level of innovation and entrepreneurship in an economy, it can measure entrepreneurship levels and incentives in an economy.[30]

By nature, start-ups, particularly in a digitalised economy, are easier to create and more difficult to maintain. The Business Development and Investment Strategy (2021-2027) envisages intensified BSSs, both financial and non-financial, to ensure long-term start-up survival and target achievement. It does not, however, propose a measure to monitor the start-up ecosystem long term. Nevertheless, the strategy provides a sound strategic framework for a comprehensive policy mix, including financial support, such as state guarantees, and enhanced non-financial support focused on training. In addition, Albania adopted a law on the support and development of start-ups in March 2022, which sets an official legal definition for start-ups and envisions new support schemes.

To improve information asymmetry and facilitate access to information, the government launched the Access to Finance portal in 2021. The new portal serves as a one-stop-shop to assist Albanian SMEs in their expansion and development efforts by taking advantage of financial support granted by the Albanian

government. In order to use the portal, each SME needs to create its profile, listing its products and services. At the time of assessment, the portal had 965 SMEs registered. As lack of entrepreneurial know-how and difficulties accessing finance have been quoted as the main obstacles for SMEs in Albania, the portal serves as a sound, well-targeted tool to eliminate such hurdles (European Commission, 2021[44]).

The government has amplified AIDA's role as a BSS provider, expanding its training and monitoring mandate

In the Business Development and Investment Strategy (2021-2027), the government envisages expanding the role of AIDA as a government BSS provider, amplifying its structure to add a new training division in 2021. This constitutes a significant change since the last assessment cycle, during which AIDA did not directly provide training to SMEs. The Business Development and Investment Strategy (2021-2027) provides a framework for SMEs to take advantage of training in the area of e-commerce and digitalisation, as well as gain entrepreneurial skills and knowledge. Apart from AIDA, both the Union of Chambers of Commerce and Industry of Albania and the Chamber of Commerce and Industry of Tirana provide support services for SMEs, offering services ranging from vocational training, workshops and conferences to certificates of origin support and intellectual property protection assistance.

Since the last assessment cycle, the government has intensified its efforts in training needs analysis. The Directorate of Investment of AIDA conducted two studies on the impact of the COVID-19 pandemic and the needs of SMEs associated with the negative effects it had on the business climate. The results show the fragility of Albanian SMEs in light of the pandemic and provided insight into specific BSS needs and expectations from the government, which were mainly focused on financial support. The analysis included 200 SMEs nationwide and across sectors. In November 2019, AIDA also conducted a study on SME training needs and the innovation ecosystem in Albania. The World Bank, the European Bank for Reconstruction and Development (EBRD) and the German Gesellschaft für Internationale Zusammenarbeit (GIZ) also conducted assessments of the SME landscape in collaboration with the government, assessing existing BSSs and their impact. Albania follows good practices in matching the demand and supply of support services for SMEs, which shows progress over the last assessment cycle.

AIDA's role has also been amplified in the area of monitoring. There has been a significant advancement in the monitoring of BSS projects; since the last assessment cycle, the government introduced a draft law that would require all central government and local self-government units to submit annual reports for all financial support schemes and public service support for MSMEs to AIDA. AIDA's annual reports are now available to the public, which constitutes a significant change since the last assessment cycle and contributes to enhancing the government's transparency. There is also a solid mechanism for SMEs to provide feedback on the BSSs received from AIDA. Beneficiaries can submit satisfaction surveys after benefiting from support services and participate in interviews conducted by BSS providers.

Seeking to improve BSS coverage, AIDA is redesigning its support schemes while the government collaborates with international partners

One of the main changes since the last assessment cycle is AIDA's plan to redesign grant support schemes for SMEs. The Competition Fund, Innovation Fund, Start-up Fund and Creative Economy Fund are due to be combined into one comprehensive fund for SMEs to support them in their development and internationalisation efforts. The new fund is envisioned to be more flexible in terms of funding opportunities and goals, as it will include an increased number and value of project grants.

Furthermore, the Business Development and Investment Strategy (2021-27) provides a roadmap for restructuring the grant application process by moving it entirely on line. With the previous support schemes, SMEs had to arrange an in-person meeting at AIDA's offices in Tirana, making it prohibitive for smaller companies, both in terms of time and resources. It is a welcome development, given that two-thirds of Albanian SMEs are not located in Tirana. Despite the cumbersome application process, in 2019, 120 SMEs

applied for funding from AIDA's support funds, which is 58% more than in 2018. Some 94 SMEs benefited from all 4 support funds in 2019, constituting a 66% increase over 2018 (AIDA, 2019[61]). The consolidated fund had not been implemented at the time of assessment; however, there is a pressing need to increase its institutional capacity to provide broader, more comprehensive support for SMEs (European Commission, 2021[44]).

On top of government-provided support, Albania collaborates with a range of international development co-operation partners to provide SMEs with additional technical assistance. The EBRD supports Albanian SMEs through projects relating to innovation, youth and women entrepreneurship, green growth and digitalisation. The projects focus on advisory services for SMEs. In addition, with the collaboration of the Swiss Agency for Development and Co-operation, the Ministry of Finance and Economy is implementing the RisiAlbania project, which provides training, consulting and advisory services for Albanian companies.

Private provision of BSSs is blended with government-provided services, although co-financing schemes have been discontinued

Though there are no explicit targets set for the private provision of support services for SMEs, the government acknowledges the importance of a well-developed private sector and the necessity for private-sector consultants to assist SMEs in their expansion efforts. The government does not provide any co-financing mechanisms for SMEs, which constitutes a change since the last assessment cycle, during which SMEs had access to co-financing schemes through the aforementioned funds provided by AIDA. These schemes would allow SMEs to use the services of private consultants. It is unclear whether AIDA plans to reintroduce co-financing private support services for BSSs, despite introducing a dedicated budget line for SME support, amounting to ALL 105 million (approximately EUR 870 000). Providing SMEs with access to co-financed services of private-sector consultants encourages a diverse and sustainable market of private BSS providers. Government-regulated co-financing of consultancies from accredited providers can help to ensure fair competition on the market, benefiting SMEs.

To assist SMEs in accessing the services of private-sector providers, AIDA's website has a dedicated section where SMEs can access information on BSSs available to them and the requirements to benefit from support services. Furthermore, AIDA has a document containing information on private-sector consultants, which is available free of charge. In order to ensure the highest quality of private BSSs, the government is working on an accreditation requirement for private-sector consultants, which is foreseen in the presidential decree published following the adoption of the new SME law.

The way forward for Dimension 5a

- **Further streamline and upgrade the procedures for applying for business support services.** While the Business Development and Investment Strategy (2021-2027) envisions digitalising the application process, in order to further facilitate access to programmes and finance, AIDA might consider strengthening its collaboration with local chambers of commerce and business associations outside of Tirana. Co-ordinating information exchange between the central AIDA office and other relevant state bodies, such as the tax office or local municipalities, could help SMEs in their application process by reducing the administrative burden they face.
- **Establish a searchable database of training and support available to SMEs** and their employees on the AIDA website and signpost to wider support and training programmes from government and non-government sources. This resource could also be promoted to relevant wider platforms and networks, such as AlbaniaTech, and networks for women's entrepreneurship, so they, too, actively signpost to AIDA information from their online portals.

Public procurement (Dimension 5b)

Introduction

Easing access to and increasing the participation of SMEs in public procurement can boost competition by ensuring equal treatment and open access, thus promoting inclusive growth. Policy makers should therefore take into account the unique needs of SMEs when designing policies, as SMEs are disproportionally affected by complex procedures and often discouraged by the effort needed to take part in these procedures, given the uncertain outcome.

Like elsewhere across the globe, the COVID-19 pandemic had an impact on public procurement in Albania. The government introduced a series of measures and legislative changes related to public procurement contracts awarded due to the pandemic (OECD, 2021[46]). In the first half of 2020, many procurement projects were cancelled or reoriented, resulting in a large number of procedures in the second half of the year compared to the first half of the year (PPA, 2020[62]). There was also a significant increase in public expenditure for the reconstruction process following the 2019 earthquake (see below) and the COVID-19 pandemic (PPA, 2020[62]).

Albania received an overall score of 4.39 for this dimension (Table 13.16). This is a significant improvement compared to 2019, when its score stood at 3.69. This progress is mainly due to improvements in public procurement legislation, in particular, regarding increasing SME participation, the adoption of strategic documents related to public procurement and actions concerning SME access and developments with regard to e-procurement (the electronic submission of tenders and complaints is now available to SMEs).

Table 13.16. Albania's scores for Dimension 5b: Public procurement

Dimension	Thematic block	Albania	WBT average
Dimension 5b: Public procurement	Planning and design	4.56	4.16
	Implementation	4.72	4.15
	Monitoring and evaluation	3.32	3.27
Albania's overall score for Dimension 5b		**4.39**	**3.98**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

A first comprehensive National Public Procurement Strategy (2020-2023) (Public Procurement Agency, 2020[63]) was adopted in November 2020 and foresees measures and activities in the field of public procurement, concessions and public-private partnerships, and defence and security procurements. One of its goals is to increase the participation of SMEs in the public procurement market. The legal framework has been substantially improved with the adoption of the new Public Procurement Law (PPL) (Public Procurement Agency, 2020[64]), implementing regulations and a comprehensive set of operational tools such as new standard bidding documents (Table 13.17). In the aftermath of an earthquake that hit north-western Albania in November 2019 and caused numerous casualties and considerable damage, the government adopted Normative Act No. 9, "On Addressing the Consequences of Natural Disasters". Provisions adopted to facilitate the reconstruction process in affected areas are based on the principle of transparency and competitiveness but set a relatively short timeframe for submitting tenders and very short timeframes for submitting appeals.

Table 13.17. Albania's implementation of the SME Policy Index's 2019 recommendations for Dimension 5b

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Further align national legislation with EU rules and international good practice	There has been much progress in the field of public procurement since the last assessment: – The government adopted a new comprehensive strategy covering public procurement to increase the participation of SMEs in public procurement. – The new Public Procurement Law has been adopted, harmonising public procurement rules with the EU Public Procurement Directive, with a few exceptions, and addressing most of the recommendations made in the previous assessment, except for limitations on subcontracting.	Strong
Improve the monitoring and evaluation of SME participation in public procurement	The Public Procurement Agency's (PPA) annual reports do not contain any specific information about SMEs. This should improve in the future as the National Public Procurement Strategy (2020-2023) provides for specific activities related to the participation of SMEs. In particular, the PPA has been working with experts from the World Bank on a methodology to measure SME participation in public procurement (PPA, 2020[62]).	Limited
Constantly monitor and analyse the obstacles faced by SMEs in accessing public procurement markets.	The PPA organises training and provides other support to economic operators. The electronic public procurement system has been improved – additional functionalities concerning the e-appeals function have been implemented, and contract management will be added soon. The PPA supports the implementation of the PPL by issuing instructions, recommendations, manuals and other guidance documents for contracting authorities and economic operators on different issues. The PPA is preparing a new instruction for economic operators on how to prepare and submit bids: – More actions dedicated to SMEs are planned to be adopted under the National Public Procurement Strategy (2020-2023). A strategy is in force to enforce the Law on Late Payment. There will be more support in the future as the strategy provides for specific activities related to SME participation.	Moderate

The public procurement market has increased recently, but there is relatively low competition for higher-value contracts

While the market for public contracts in Albania remains relatively small (EUR 1.75 billion in 2020) (PPA, 2020[62]), it has nevertheless doubled compared to the previous period (EUR 908 million in 2019). The average number of tenders in public procurement above the ALL 800 000 (approximately EUR 6 600) threshold amounted to 2.57 in 2020 (2.37 in 2019 and 3.05 in 2018) (PPA, 2020[62]). There was much more competition in small value contracts (11.6 tenders on average in 2020) and international restricted procedures applied in the context of the reconstruction process (23.38 bids in 2020) (PPA, 2020[62]). The share of contracts awarded to foreign companies is very low: 0.2% of contracts were awarded to foreign contracts in 2020 (0.1% in 2019); the value of such contracts amounted to 0.4% of the total public procurement market in 2020 (compared to 0.23% in 2019).[31] No information is available on the share of contracts awarded to SMEs.

The regulatory framework has improved considerably to comply with EU requirements

The new PPL contains provisions that are, to a very large extent, harmonised with the 2014 EU Public Procurement Directive and Utilities Procurement Directive. There are, though, a few provisions that are not fully compliant or are contradictory to the *acquis*, including, for example, limitations concerning the maximum share of the awarded contract, which may be subject to subcontracting (a maximum of 50% of the contract value) or an additional ground for mandatory exclusion of economic operators.

The public procurement provisions have various solutions in favour of SMEs. The new provisions do not allow contracting authorities to request that a group of economic operators (consortia) assume a specific legal form to submit a tender or request to participate in a public procurement procedure. A requirement concerning a specific organisational form may only be imposed on the winning bidder if it is necessary for the proper performance of the contract. However, implementing regulations imposes additional obligations and requires the submission, together with a tender, of a co-operation agreement regulating the co-operation of the members of such a group. The new PPL also provides for other instruments supporting the participation of SMEs in public procurement procedures: introduces a standard form of self-declaration that includes most of the relevant information on the economic operator that is used as preliminary proof of fulfilment of provisions on exclusion and criteria for qualification (selection) and allows economic operators to use the same form in subsequent procedures if the information is still relevant; prohibits contracting authorities from requesting documents from economic operators that are available in a state database or which the contracting authority already has in its possession.

To increase the participation of SMEs, the new public procurement rules also promote the division of procurement into lots. Contracting authorities are required to justify why procurement above a certain threshold has not been divided into lots (this is not obligatory in the case of utilities contracts). Implementing rules go even further because they explicitly require dividing procurement into lots whenever possible.[32]

Other provisions of the PPL can, however, create barriers to access to the public procurement market. A bid security (at 2% of the estimated value of procurement)[33] is obligatory for contracting authorities in all public procurement procedures above the low monetary thresholds.[34] This was optional under the previous law, allowed in the case of procedures for contracts above high thresholds. Bid securities are forfeited if the winning tenderer decides not to sign the contract.[35] This is understandable since the role of the bid security is to ensure that the bid is serious and binding for the bidder. However, the PPL obliges the contracting authority to exclude for one year[36] from all subsequent procedures conducted by the same contracting authority any bidder who withdraws from signing the contract. This seems to be a disproportionally harsh penalty considering that concerned bidders also lose their bid security. Additionally, bidders who decline to sign a contract more than five times in the same year can be disqualified from participating in all public procurement procedures based on a decision of the PPA for a period ranging from three months to three years.[37] This disqualification from all procedures concerned, with no possibility for contracting authorities to undertake a case-by-case individual assessment after the disqualification took place and to decide on their own whether such bidders should be admitted or not to a given procedure, is not consistent with the Court of Justice of the European Union's case-law (OECD, 2021[46]).

The PPL has a number of provisions related to sustainable procurement (as provided in the EU Public Procurement Directive) and allowing or even requiring environmental or social considerations to be taken into account in describing the object of procurement, defining qualification or award criteria, or contract performance conditions. Contracting authorities are obliged to apply the requirements provided by the environmental, social and labour legislation as well as by the provisions of international agreements and conventions, ratified in accordance with the national Constitution.[38]

In principle, the PPL provides for free choice between the lowest price and the price-quality ratio,[39] and the PPL has no recommendation or obligation to use the price-quality ratio except in the consulting services procedure. However, a preference for price quality is clearly expressed in the implementing rules.[40] Accordingly, the price-only criterion can be used in the case of works, goods or services, which have simple specifications, well-known technical standards and are easily available on the market.

The institutional set-up allows for functions that promote transparency and competition in public procurement

The PPA is the central administrative body for public procurement matters (PPA, n.d.[65]). Its tasks include preparing drafts of implementing regulations related to public procurement, promoting and organising

training for public procurement officials, issuing the Public Notifications Bulletin containing public procurement notices, preparing standard tender documents, providing advice and technical assistance to contracting authorities as requested, and monitoring the application of public procurement provisions. The PPA also provides advice to any interested person submitting a request for information or support, either by post or by email, including SMEs. The e-procurement system (EPS, n.d.[66]) enables electronic processing of public procurement and concession procedures, including the publication of contract notices, downloading and uploading of tender documentation and tender submissions, and e-archiving. In terms of the benefits it has brought to the public procurement system, the EPS has increased transparency, eased access, simplified procedures, lowered transaction costs, and improved data collection and monitoring. Since 2021 submission of invoices by electronic means is mandatory for all types of contracts. Also, a new module on contract management has been prepared and will be operational soon.

Although the National Public Procurement Strategy (2020-2023) promotes SME participation in public procurement, this information is not currently collected, processed or published in the PPA's annual reports on the functioning of public procurement in Albania. Collecting information on contracts awarded to SMEs should not be problematic, as such information should be included in the notices about awarded contracts (as required under the 2014 EU Procurement Directive).

Economic operators' rights are protected by an independent review institution and procedures.

Economic operators are entitled to challenge contracting authorities' decisions to the Public Procurement Commission (PPC). Appeals should be submitted simultaneously to the PPC and the contracting authority in accordance with relevant forms and together with the payment of an appeal fee.[41] The contracting authority should handle the appeal first. The PPC only becomes involved once a decision is adopted by the contracting authority. Time limits for seeking a review of a contracting authority's decision are equal to those required by the provisions of the Remedies Directives above PPL high thresholds (ten days) and are shorter for procurement below those thresholds (seven days). Appeals concerning contracts valued less than the low monetary thresholds must be submitted within two days of the publication of the award notice in the electronic procurement system and are reviewed by the administrative court.

The PPC must conclude its review with a decision adopted within 30 days of receiving information or documentation from the contracting authority (entity) in the case of procurement above the high monetary threshold and 20 days below this threshold. The PPC is allowed to adopt various types of rulings, including invalidation of illegally concluded contracts.[42] Following a declarative ruling by the PPC, aggrieved economic operators may also seek court damages.[43]

At the end of 2021, the PPC started to operate the new electronic system (E-complaints), enabling the electronic submission of appeals. All appeals are now submitted electronically through the unique government platform e-Albania (Government of Albania, n.d.[67]). In addition to the launch of the E-complaints system, the PPC's new website has also been launched (PPC, n.d.[68]), which enables full access to three public registers: the Register of Complaints, the Register of Decisions and the History of Decisions.

The way forward for Dimension 5b

- **Amend certain provisions of the Public Procurement Law to align with EU standards.** The Albanian authorities should modify provisions of the PPL related to the mandatory disqualification of economic operators from participation in public procurement procedures on the basis of decisions of the PPA. For more information on EU standards in this regard, see Box 13.10.

Box 13.10. Automatic exclusion of economic operators in the European Union

The European Union's public provisions, as interpreted by the Court of Justice of the European Union, allow the exclusion of an economic operator due to "grave professional misconduct". However, national procurement rules cannot allow the automatic exclusion of an economic operator (C-465/11 "Forposta and ABC Direct Contact"). The Court of Justice of the European Union defines the concept of "grave misconduct" as conduct that denotes a wrongful intent or negligence of certain gravity on the part of the economic operator. Any incorrect, imprecise or defective performance of a contract or a part of thereof could potentially demonstrate the limited professional competence of the economic operator concerned but does not automatically amount to grave misconduct. To determine whether grave misconduct exists, a specific and individual assessment of the economic operator's conduct must, in principle, be carried out.

In the past, **Romania** operated a central registry that contained information on both the positive and the negative contract performance of economic operators. After the completion of each contract, contracting authorities issued a document with information on how the economic operator had fulfilled its contractual obligations, which could be positive or negative depending on whether or not the economic operator had properly performed the contract. The document was issued to the contractor, and a copy was placed in the procurement file. A further copy was sent to the National Authority for Regulating and Monitoring Public Procurement (NARMP). The NARMP received copies of all positive and negative documents relating to contract performance from all contracting authorities across the country. The NARMP created a database containing this information, which was not posted on line. During a procurement procedure, contracting authorities could ask the NARMP for information related to one or more participating economic operators. Following such a request, the NARMP sent that contracting authority all of the available documents (both "positive" and "negative") without any comments or suggestions. The final decision – whether to exclude the economic operator or not – remained the responsibility of the contracting authority. The contracting authority could also contact other contracting authorities to obtain more information or evidence regarding cases where the tenderer concerned failed to fulfil its contractual obligations.

The PPL provides for disqualification from procurement procedures on the basis of a decision of the PPA, which can result in the de facto "automatic" exclusion of economic operators, a practice that is not aligned with EU rules. If the Albanian government wants to insist that the PPA play a role in verifying the reliability of economic operators, it is possible to do so in a way that complies with EU standards, as presented above.

Source: OECD (2016[69]).

- **Monitor SME participation in public procurement procedures**. This task should be entrusted to the PPA, which could also collect and process information about the barriers the SMEs encounter in accessing public procurement procedures. In particular, the PPA's annual reports on the functioning of the public procurement system should include information about the share of contracts awarded to SMEs in terms of both value and number. To obtain this information, provisions and requirements concerning contract award notices published by contracting authorities should be modified and information about the economic operators, in particular, whether they belong to the SME sector, should be included.

Access to finance for SMEs (Dimension 6)

Introduction

Access to finance is critical for economic growth and inclusive development, allowing companies to expand their operations and invest to gain in efficiency and productivity. However, the availability and affordability of credit are typically strongly correlated with firm size, meaning that the smaller the company, the more difficult it is to access funding. Targeted policy measures are therefore required to encourage and complement private-sector provision of financing without crowding it out.

In Albania, like elsewhere across the world, the COVID-19 pandemic suddenly increased pressure on firm finances, especially for smaller firms that do not have large financial buffers, and put access to credit to a sudden halt, requiring a swift, short-term targeted policy response to shore up firm finances, without losing sight of more long-term measures to provide sustainable financing opportunities for small businesses.

Albania has made limited progress in facilitating access to finance for SMEs since the last assessment, positioned among the lower half of WBT economies in this dimension. Nevertheless, its score has somewhat improved, at 3.43 in 2022, compared to 3.32 in 2019 (Table 13.18). This is largely due to ongoing efforts to strengthen the legal framework and the deepening of financial intermediation, while the discontinuation of financial support schemes has negatively impacted Albania's overall score.

Table 13.18. Albania's scores for Dimension 6: Access to finance for SMEs

Dimension	Sub-dimension	Thematic block	Albania	WBT average
Dimension 6: Access to finance for SMEs	Sub-dimension 6.1: Legal and regulatory framework	Creditor rights	4.00	4.27
		Registers	4.60	4.63
		Credit information bureaux	4.00	4.37
		Banking regulations	4.00	4.09
		Stock market	2.00	3.23
		Weighted average	**3.86**	**4.20**
	Sub-dimension 6.2: Bank finance	Bank lending practices and conditions	3.00	3.23
		Credit guarantee schemes	2.80	2.61
		Weighted average	**2.92**	**2.98**
	Sub-dimension 6.3: Non-bank finance	Microfinance institutions	4.90	3.37
		Leasing	2.40	3.24
		Factoring	2.90	2.71
		Weighted average	**3.38**	**3.09**
	Sub-dimension 6.4: Venture capital	Legal framework	2.00	2.73
		Design and implementation of government activities	1.80	2.57
		Monitoring and evaluation	1.00	1.47
		Weighted average	**1.71**	**2.40**
	Sub-dimension 6.5: Financial literacy	Planning, design and implementation	2.40	2.83
		Monitoring and evaluation	1.00	1.19
		Weighted average	**2.12**	**2.50**
Albania's overall score for Dimension 6			**3.43**	**3.68**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Financial stability and trust in the banking sector have increased, thanks to continuing alignment with core Basel principles and ongoing efforts to strengthen creditors' securities. However, little progress has been made to improve the robustness and comprehensiveness of credit information, thereby continuing to limit access to finance, particularly for smaller enterprises. Several steps have been made to tackle informality, and the authorities' "fiscalisation" programme, along with measures to encourage online banking, is expected to increase financial inclusion and level the playing field in the medium term. Support measures to ease access to finance have been limited, as all funding allocated to AIDA was repurposed to soften the impact of the COVID-19 pandemic. However, two dedicated COVID-19 sovereign guarantee funds, even if not exclusively focused on SMEs, have somewhat supported lending. In contrast, the uptake of alternative sources of finance remains subdued, especially for factoring, while efforts to boost equity-based finance remain at an early stage. Financial literacy remains low, but steps are underway to prepare Albania's first Strategy for Financial Education.

Table 13.19 provides an overview of the main actions undertaken in response to the key recommendations made in the previous assessment.

Table 13.19. Albania's implementation of the SME Policy Index's 2019 recommendations for Dimension 6

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Increase efforts to reduce informality among micro, small and medium-sized enterprises, which is considered a key obstacle for SME access to finance	Informality continues to remain a major obstacle to access to finance and financial inclusion more broadly. As part of the authorities' "fiscalisation" measures, steps have been undertaken to introduce digital payment services, aimed at increasing the taxpayer base. Amid the COVID-19 pandemic, the Bank of Albania has further introduced measures to encourage online transactions, thereby digitalising banking services and increasing reach.	Moderate
Increase awareness of alternative financial instruments to increase the uptake of non-bank financing	No progress has been made in raising awareness about non-bank finance, evident in the continuously decreasing volumes of factoring. AIDA's new digital platform, however, provides an opportunity to disseminate more information on alternative financial instruments.	Limited
Improve the reliability and accessibility of registers for securities over immovable and movable assets	Information on the cadastre has moved on line and is now accessible via the e-Albania platform. Concerns over the reliability and accuracy of data remain, however.	Moderate
Broaden the available credit information	No progress has been made on this front. An initiative by the Albanian Bank Association to establish a private credit bureau to include such data has been abandoned amidst legal obstacles, while data from retail and utility providers continue to be excluded from the credit registry.	No progress

A solid regulatory framework is increasingly building confidence in the financial sector, though some concerns over the effectiveness of implementation remain

The legal and regulatory framework of the Albanian financial system has been strengthened since the last assessment, increasing the stability of and trust in the local financial market as regulation is gradually aligned with the *acquis* and EU practices. Progress has been made in aligning legislation to Basel II and Basel III requirements, notably by introducing amendments to the liquidity coverage ratio and macroprudential framework. Legislation to improve bank recovery, resolution and supervision has also been put forward, and additional legislative changes on the leverage ratio of banks and the net stable funding ratio of banks will enter into force in 2022. The legislative framework does not envisage exceptions for SME lending; however, Albania has a system in place to allow exceptions for systemically important banks. Steps have also been initiated to strengthen investor securities, aimed at addressing shortcomings in the enforcement of creditor rights. The Bankruptcy Agency is now fully operational, and accompanying

legislation for the Bankruptcy Law was completed. However, the adoption of the new unified Law on Investments, which would complete the set of measures envisaged, has been pending since 2020, thereby delaying the expected improvements of legal securities of investors.

Limited progress has been made with regard to strengthening credit information. The cadastre has now moved on line onto the new centralised governmental service platform, e-Albania.[44] Nevertheless, concerns over the reliability of the data remain amid continued disputed historic claims, non-unified registration across regions and illegal construction. Similarly, use of the registration system for security rights over movable assets remains limited due to excessive paperwork, and movable assets are rarely accepted as collateral. Albania's credit registry covers around 50% of the adult population. While data include information from non-bank financial institutions, information from retail and utility providers is not collected. Plans initiated by the Albanian Association of Banks to establish a private credit information bureau to increase data coverage have been abandoned amid legal barriers.

Progress has been made in increasing access to capital market finance. In May 2020, Albania adopted a dedicated Law on Capital Markets and five implementation regulations, developed with support from the World Bank. The law aims to strengthen the integrity of capital market operations in Albania and regulates institutional investors, bringing legislation partially into alignment with the *acquis*. However, capital markets remain small as the Albanian Stock Exchange, a private entity established in 2017, continues to operate with government bonds only, while the public stock exchange is suspended and does not offer finance opportunities to businesses, neither SMEs nor corporates.

Financial intermediation is increasing, but informality continues to impede access to finance for smaller businesses

Bank lending dominates Albania's financial sector. Between 2018 and 2021, the number of operative banks decreased from 16 to 12, following some mergers and the revocation of a small bank's license. As a result, the role and weight of domestic banks have increased, accounting for over 30% of assets in early 2021, which has positively affected SME lending. Financial intermediation of the private sector has increased, standing at 37.8% of GDP in 2020, partially owing to a lower GDP denominator (European Commission, 2021[3]). Credit grew strongly in 2019, a trend that was maintained throughout the COVID-19 recession, supported by large-scale liquidity injections and crisis-mitigation actions by the Central Bank of Albania. As a result, the already historically low key interest rate was lowered to 0.5%, and the Bank of Albania committed to providing unlimited liquidity to the local market, coupled with a credit moratorium and relaxed loan restructuring provisions. Implementation of the non-performing loans resolution strategy has somewhat stagnated during the pandemic; however, overall, the level of impaired loans has further declined since the previous assessment, from above 13% in 2018 to 7.9% in early 2021, thereby significantly increasing trust in and the stability of the sector (European Commission, 2021[3]). While the continuous fall in non-performing loans is a positive development, data remain influenced by mandatory write-offs and restructuring. Focus needs to shift to the full implementation of the non-performing loans resolution strategy.

Several steps have also been taken to tackle the persistently high level of business informality, which continues to significantly impede access to finance. As part of its "fiscalisation" efforts, the Albanian government introduced electronic payments for invoices in 2021 to expand the taxpayer base. Measures introduced by the Bank of Albania to reduce direct contact during the pandemic, including a waiver on online banking fees and encouraging bank transfers for COVID-19 economic assistance measures, greatly complemented these efforts. These measures are expected to facilitate the digitalisation of financial-sector transactions, boosting financial inclusion and helping to level the playing field among enterprises.

Several SME funds were put in place in 2018 to support SME access to finance, aimed to increase their competitiveness and innovation capacity by means of co-financing grants, operated by AIDA. The absorption capacity of these funds has increased to over 90%, and in 2019, almost 100 SMEs benefited

from these programmes, receiving nearly ALL 67 million (approximately EUR 550 000). However, in 2020, these programmes were effectively paused as all allocated funding was repurposed to soften the impact of the COVID-19 pandemic. At the time of writing, operations remain on hold, but for 2022, a budget of ALL 150 million (approximately EUR 1.25 million) has been tentatively allocated, which should enable AIDA to revitalise some of its support. AIDA has also launched a new digital platform[45] aimed at informing firms of the available financing opportunities. Furthermore, a number of guarantee funds have been operating in Albania, aimed at easing access to finance. Notably, these include the Albanian Agribusiness Support Facility, funded by the Albanian government and the EBRD, the Albanian-Italian Programme for the Development of Albanian SMEs, and the KfW-supported Rural Credit Guarantee Fund, which received additional funding in 2020 and includes a dedicated "green window". However, the uptake of these schemes has been limited, reportedly amid narrowly defined eligibility, lack of technical assistance to support beneficiaries and lengthy pay-out procedures. Two additional sovereign guarantee funds were launched in response to the COVID-19 pandemic, providing guarantees of ALL 26 billion (approximately EUR 200 million, or around 1% of GDP) to support salary expenses and working capital, but without a dedicated focus on SMEs. Until March 2021, 850 such guarantees had been provided.

Alternative sources of finance remain under-developed

Non-bank financial instruments accounted for a mere 3.8% of total financial-sector assets in 2020. Even though microfinance, leasing and factoring are available and backed by a solid legal framework, penetration, albeit increasing, remains low. Microfinance, including savings and loan associations, has almost doubled since 2017 and accounts for most of non-bank finance (74% of the non-banking financial institution credit portfolio), followed by leasing (25%) (BOA, 2021[70]). Amendments to the Law on Granting Licenses for Non-bank Financial Institutions and regulations on Risk Management in the Activity of Non-Bank Financial Institutions, introduced in July 2019, have added new requirements to factoring institutions and strengthened regulation. However, uptake remains minimal to date, indicating limited awareness about this type of finance.

Venture capital equally remains non-existent, and business angel support is rudimentary, although some initial steps are under preparation to create an environment conducive to venture capital and start-up finance. A dedicated Law on Support and Development of Start-ups was adopted in March 2022, and there are plans to develop more comprehensive support to establish crowdfunding, business angel investment support and venture capital going forward. The new Law on Collective Investments, which entered into force in 2020, is an important, yet insufficient, step to regulate alternative investment instruments. Albania, alongside Bosnia and Herzegovina, is the only eligible economy not having received any investments under the Western Balkans Enterprise Development and Innovation Facility's Enterprise Innovation Fund, suggesting limited absorption capacity and investment readiness of local start-ups. AIDA, also serving as Albania's Innovation Fund, has, however, provided some financial support to early-stage companies.

Efforts are underway to develop a more strategic approach to tackle low levels of financial literacy

Financial literacy remains low, as evidenced by the periodical national Survey on Financial Literacy conducted by the Bank of Albania in 2019, resulting in limited financial inclusion and a lack of awareness about finance opportunities. Initial steps have been taken to prepare Albania's first National Strategy for Financial Education, supported by the World Bank, and the Bank of Albania has run a number of initiatives, including together with the Albanian Banking Association, to raise financial awareness. Some training on financial literacy for SMEs and farmers is also offered by private entities, for instance, the Sparkasse Foundation, but overall, actions remain uncoordinated and ad hoc. While AIDA's newly established access to finance platform explains financial terminology to some extent, it falls short of providing comprehensive information on financial literacy.

The way forward for Dimension 6

- **Strengthen capacity to guarantee creditor securities.** Swiftly adopt the forthcoming unified Law on Investments and continue the implementation of the Bankruptcy Law. This should be coupled with ongoing improvements to the cadastre to ensure that data are reliable and accurate, and that collateral can be accessed and used, which is also envisaged as part of the non-performing loans resolution strategy.
- **Increase financial support schemes for SMEs.** Revive financial support provided by AIDA to further facilitate access to finance for those enterprises needing support the most. Such financial schemes should be a blend of government funds and those provided by the international development co-operation partners and designed to increase financial inclusion without crowding out private-sector providers. As part of this approach, consider extending the lifetime of the sovereign guarantee funds to provide a scalable and sustainable tool to encourage lending to SMEs. Such a guarantee scheme should include a transparent, multi-stakeholder governance structure, coupled with strong risk management and capacity building for implementing financial institutions and regular monitoring and evaluation (see Box 13.11).

Box 13.11. Common principles of state credit guarantee schemes

In response to the COVID-19 pandemic, many governments have established state credit guarantee schemes to help address urging liquidity problems and support recovery. If well designed, these public schemes can be an effective, sustainable crisis response measure, particularly when they leverage the private-sector financial system. The mechanism allows for quick deployment while keeping budget implications relatively low, especially compared with other tools such as subsidised lending and grants.

In 2015, the World Bank established a set of common principles to guide the structure, mandate and governance of sovereign credit guarantee funds, around four main pillars:

1. **Legal and regulatory framework**: Ensure legal and regulatory independence and promote private-sector participation.
2. **Corporate governance and risk management**: Clearly define the mandate and establish sound corporate governance structures, including an independent board, internal control frameworks and risk management framework.
3. **Operational framework**: Clearly define eligibility criteria and ensure the approach balances outreach, additionality and financial sustainability, and establish transparent, risk-based pricing.
4. **Monitoring and evaluation**: Set stringent reporting requirements and conduct regular external audit, and systematically conduct performance and impact assessments.

Source: World Bank (2015[71]).

- **Increase awareness about non-bank financial instruments to support their uptake**. The promotion of alternative sources of finance should be an integral part of the Strategy for Financial Education and should be implemented in conjunction with private-sector stakeholders. While AIDA's new access to finance platform already offers some explanation of financial terminology, it could be further leveraged as a tool to disseminate information on the opportunities of non-bank financial instruments.
- **Swiftly complete the Strategy for Financial Education and develop an action plan for implementing it.** The strategy should be informed by a mapping of existing initiatives, both private and public, and include lessons learnt. To ensure effective implementation, an action plan for implementation should clearly set out the roles and responsibilities of the various implementation bodies as well as key performance indicators and should be accompanied by a dedicated budget for implementing the activities.

Standards and technical regulations (Dimension 7)

Introduction

Access to the European Single Market is conditional upon compliance with EU regulations and directives, which, due to the New Approach Directives, also increasingly rely on conformity to European standards. While standards and technical regulations can enable trade by defining (minimum) criteria for products and processes, they may also represent a barrier to trade, particularly for SMEs. To lower these barriers, WBT economies need to have a national quality infrastructure (QI) system that is accessible and supportive of SMEs. At the same time, the recognition of economy's procedures and institutions by the relevant EU QI bodies and associations requires a high level of alignment of its regulations with the *acquis*.

With 74% of its exports going to the European Union, Albania is the WBT economy with the second-highest reliance on the European Union as an export market behind North Macedonia. Harmonisation of technical regulation and other elements of QI such as standardisation, accreditation and conformity assessment with the *acquis* and procedures are therefore essential for the competitiveness of the Albanian economy. As access to the European Single Market presents a big opportunity for SMEs, lowering their information barriers about the technical requirements of accessing the European Single Market and helping them to meet these requirements is key for Albania.

Albania has increased its score on Dimension 7 from 3.64 to 4.02 (Table 13.20), which is one of the biggest increases in the region. More importantly, its performance has improved in all three sub-dimensions and demonstrates that progress has been occurring in different areas. Overall, Albania now ranks slightly above the WBT average and third after Serbia and Turkey.

Table 13.20. Albania's scores for Dimension 7: Standards and technical regulations

Dimension	Sub-dimension	Thematic block	Albania	WBT average
Dimension 7: Standards and technical regulations	Sub-dimension 7.1: Overall co-ordination and general measures		**3.89**	**3.90**
	Sub-dimension 7.2: Harmonisation with the EU *acquis*	Technical regulations	4.64	4.38
		Standards	3.40	3.77
		Accreditation	4.33	3.89
		Conformity assessment	4.24	4.22
		Metrology	5.00	4.13
		Market surveillance	3.40	3.96
		Weighted average	**4.17**	**4.06**
	Sub-dimension 7.3: SME access to standardisation	Awareness-raising and information	4.07	3.88
		SME participation in developing standards	3.00	3.21
		Financial support to SMEs	3.40	3.57
		Weighted average	**3.49**	**3.55**
Albania's overall score for Dimension 7			**4.02**	**3.96**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Albania is continuing the alignment of its horizontal and sectoral legislation with the *acquis* and has also made progress in implementing QI services. Most notably, the scope of Albania's multilateral agreement with the European Co-operation for Accreditation (EA) was extended by the field of "certification of persons". Certificates related to the standardised personal qualifications from accredited Albanian conformity assessment bodies are now recognised by the 49 EA member states. This lowers barriers, as firms no longer need to seek conformity assessment abroad if they want their certificate to be recognised in other European markets. Albania's accreditation services are now recognised in four fields: testing, certification of persons, management system certification and inspection. A key development in QI legislation was the adoption of a new Metrology Law in October 2020. Furthermore, institutional staff numbers have increased substantially in accreditation and market surveillance and have remained stable in metrology and standardisation (Table 13.21).

While the Directorate of Standardisation (DPS) did not introduce any new awareness-raising channels, activities in existing formats such as in-person seminars, with a particular focus on female entrepreneurs, and social media continued between 2019 and 2021. Both the posting activity and the traffic on its social media platforms increased during the assessment period according to the directorate's annual reports (General Directorate of Standardisation, 2019[72]; 2020[73]).

Table 13.21. Albania's implementation of the SME Policy Index's 2019 recommendations for Dimension 7

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Increase the coverage of the European co-operation for Accreditation's multilateral agreement	The European Co-operation for Accreditation's multilateral agreement coverage was extended to certification of persons. Certifications from national conformity assessment bodies related to standardised personal qualifications are now recognised in the 49 European co-operation for Accreditation's member states.	Moderate
Seek additional channels to raise awareness of the benefits of standards among SMEs	The Directorate for Standardisation held meetings in various cities throughout Albania in 2019 and 2020, with a particular focus on female entrepreneurs. Furthermore, the posting frequency and the traffic on its social media increased.	Moderate

Harmonisation of legislation is ongoing and first steps to centralise export-related information have been introduced

As in all WBT economies, Albania's National Plan for EU Integration, and more specifically the provisions in the chapter on the free movement of goods, are the main strategic guidelines steering the economy's harmonisation process with the *acquis*. To plan the harmonisation of the remaining unaligned legislation in the area of the free movement of goods, the government is currently developing a seven-year road map for the harmonised areas in co-operation with GIZ. A draft of this road map has already been prepared and includes an analysis of existing progress in legislative harmonisation and implementation, an identification of gaps in harmonisation with the *acquis* at legal and administrative level. Medium-term (2023-2025) and long-term (2026-2030) action plans are deduced from this analysis. The document is still expected to be finalised during 2022. For the non-harmonised areas ("old approach legislation"), an additional strategy document is being prepared.

Regarding the central information provision for exporters, the National Trade Facilitation Committee's website has a so-called "Export Helpdesk", which provides links to the European Union's Export Helpdesk and to the preferential trade agreement with the European Union. Unfortunately, this website lacks links to information about key horizontal and sectoral legislation, conformity assessment bodies, and the standardisation process. As the website appears to be intended to function as a single information source

for exporters, it should be supplemented with this additional information. SMEs that aim to export often do not know what regulations and procedures they need to comply with to export to the European Single Market, so providing this information directly on the Export Helpdesk's website would broaden access to this information.

Albanian QI legislation is mostly aligned with the acquis*, except for the newest Market Surveillance Regulation*

Albania's legislative framework is mostly aligned with the horizontal *acquis* on QI except in the area of market surveillance, where transposition of EU Regulation 1020/2019 is outstanding. Harmonisation of national law with Regulation 1020/2019 is important, as this regulation specifies new procedures for market surveillance, and particularly for the online market (e-commerce). As this market is growing rapidly, legislative alignment is important. Furthermore, numerous new technical regulations have been adopted; for example, for electrical equipment, non-automatic weighing instruments and electromagnetics.

In standardisation, the adoption rate of European standards continues to be high, with 93% of CEN/CENELEC (European Committee for Standardisation/European Committee for Electrotechnical Standardisation) being adopted by the DPS. The DPS adopted 1 136 international standards in 2020 and 2 236 in 2019 (General Directorate of Standardisation, 2019[72]; 2020[73]). Furthermore, the Council of Ministers has adopted changes to the national Standardisation Law to fully transpose EU Regulation 1025/2012. The DPS still has 15 employees, which has remained stable over the past three years. Given the size of its economy and compared to the other Western Balkan economies, this is a low figure and additional staff would be welcome, as the increasing amount of national and international standards requires sufficient human resources.

The development in accreditation was positive, as the scope of accreditation activities recognised by the EA has increased by one field ("certification of persons"), for a total of four fields. In addition, the General Directorate of Accreditation (DPA) increased its number of staff by 50%, from 14 to 21. Furthermore, in addition to its already digitised application procedures, the DPA also offered remote assessments to maintain its operations during the pandemic. The DPA will also seek multilateral agreements with the EA in the areas of calibration (metrology) and medical examination.

The number of conformity assessment bodies accredited by the DPA increased by 35% over the assessment period (from 69 to 93), which is the second-largest increase in the region after Kosovo. A full list of conformity assessment bodies is available on the DPA's website.

In metrology, new legislation was adopted in October 2020 to assure the free movement of measuring instruments, which are subject to CE marking, and to promulgate the use of international measurement standards (Government of Montenegro, 2020[33]). Furthermore, the General Directorate of Metrology (DPM) is currently preparing an application for a multilateral agreement with the EA in the area of calibration. Becoming an EA multilateral agreement signatory in this field would lower certification barriers, as certificates from national calibration laboratories would be recognised by the 49 EA members. In terms of staff, the DPM's number of staff remains largely unchanged, at 103 employees (104 in the previous assessment).

While market surveillance legislation is aligned with the previous *acquis* (768/2008), it is not yet aligned with EU Regulation 1020/2019. As market surveillance regulation has changed at the European level, also due to an increasing online market, WBT economies need to align their legislation and surveillance systems with these changes to continue to assure their firms access to the European Single Market. The State Market Inspectorate carried out 819 inspections between October 2020 and October 2021, which is slightly lower than during the previous period (1 151). There was a Consumer Protection and Market Surveillance Strategy, but it expired in 2020 and has not yet been renewed. The State Market Inspectorate publishes its annual work plans as well as information about dangerous products on its website.

There are basic awareness-raising activities about standards but no SME-specific incentives for participation in standard development

The DPS is raising awareness about standards and their benefits through various social media accounts as well as through a regularly updated news section on its website. In addition, it held various meetings in different Albanian cities in 2019 and early 2020 on the benefits of standards, with a particular focus on female entrepreneurs. A local language catalogue of all Albanian standards is available. However, there are no practical guides on the implementation process for standards or case studies of successful examples.

While there are no SME-specific incentives to increase the participation of SMEs in technical committees, the DPS provides a 50% discount on the price of standards for technical committee members. The DPS also promoted participation in technical committees during various meetings in different Albanian cities (see above). Firms can comment on standards as part of the regular public enquiry process.

Except for the discount described above, there are no financial measures or price reductions to help SMEs purchase standards. However, the Albanian Development Agency's Competitiveness Fund supports up to 70% of expenses for implementing standards and had a budget of ALL 38 million (or about EUR 315 000) in 2019 compared to ALL 18 million (approximately EUR 149 390) in the previous year (Albanian Investment Development Agency, 2019[74]). The number of SMEs supported by this programme rose from 15 in 2018 to 33 in 2019 (the latest data available). While the maximum amount a firm can request is quite high (EUR 10 000), the programme's total budget is comparatively small, and an increase would allow more firms to benefit from it.

The way forward for Dimension 7

- **Provide information about quality infrastructure regulation and support on a single website and improve interlinkages between institutions.** The DPS and the Albanian Development Agency have a lot of information and attractive support measures for SMEs in place, but the information is not interlinked between institutions and is hence hard to find. Similarly, the Export Helpdesk could be further developed as a central information hub by providing links to relevant legislation and to the sites of the Albanian QI institutions so that exporters interested in certification can quickly obtain the necessary information. A best practice example in this regard continues to be the Serbian Ministry of Economy's Sector for Quality and Product Safety website (Box 13.12).
- **Extend the scope of European Co-operation for Accreditation's multilateral agreements in accreditation.** Signing additional multilateral agreements in accreditation fields covered by the DPA is important so that firms certified by the DPA in these areas do not need to seek certification abroad. Seeking certification in a foreign economy is always more costly for firms and therefore represents a barrier for SMEs seeking to get certified. The DPA has announced that it plans to apply for the EA-MLA in calibration (metrology) and medical examination. It should prioritise the recognition process in these areas and continue to monitor whether the market demands accreditation services in further areas.

Box 13.12. Quality infrastructure-related legislation, standards, news and support programmes in one place: Serbia's information portal TEHNIS

In most of the economies in the WBT region, information on export requirements and compliance mechanisms, where available, are fragmented. There are no dedicated websites containing all the necessary information and guidance for SMEs to navigate through the regulations and standards requirements. Equally, SMEs often lack information on the support schemes that are available to them. A well designed and comprehensive pool of information would therefore benefit SMEs, which often do not have the time, resources or personnel capacity to gather information from various sources, institutions and websites. This represents another barrier for SMEs to access international markets and upgrade their production.

Serbia's TEHNIS website is a good practice example that stands out in the region. TEHNIS was developed by the Ministry of Economy (Sector of Quality and Product Safety) to establish a single enquiry point for technical legislation in Serbia. It provides information on all elements of QI and guides SMEs in meeting product requirements and regulations.

Legislation on TEHNIS is presented thematically, providing information about the respective directives, e.g. in the field of machinery, as well as corresponding guidelines on how to comply with the requirements. The TEHNIS database also contains registers of valid technical regulations, draft technical regulations, designated and authorised conformity assessment bodies, recognised foreign certificates as well as a list of QI-related government projects. SMEs can also find contact information for all the relevant QI institutions, brochures and latest news. Overall, this means basic QI information from regulations over lists of conformity assessment bodies until financial support programmes are all available on one website.

While the Albanian Ministry of Economy has already recognised the need for such a website by creating an Export Helpdesk, this website is missing regulatory information and more general information about QI. Grouping this information together in one place would strongly reduce the search costs for Albanian firms that are interested in exporting to the European Union.

Source: Ministry of Economy of Serbia (2021[75]).

Enterprise skills (Dimension 8a)

Introduction

SMEs, the cornerstone of job creation, provide a significant share of employment, with two out of three employed people working for an SME, acting as an engine for social development and economic growth. Yet to drive growth and reduce the tendency for start-ups to result in lower-paying jobs, SMEs need to invest in skills, digitalisation and innovation to boost productivity and higher paid employment. However, they lack the capacity of larger enterprises to invest in training for founders and the workforce. They can be supported by relevant government-financed training, however, to close skills gaps and upskill the workforce. This is emphasised when it comes to greening businesses, for example, where environmental sustainability cannot be achieved within SMEs, as the potential is limited by lack of awareness and skills as well as the additional costs involved. Supporting SMEs through developing enterprise skills can create far-reaching impacts for families, local communities and countries.

Skills gaps are widening in Albania, with an ongoing impact on society and the economy following the 2019 earthquake and the COVID-19 pandemic (World Bank, 2021[60]). There is a gap between Albania and the wider Western Balkan region, bringing actions to support enterprise skills into sharp focus (World Bank, 2021[60]). Key economic indicators highlight the challenges, with 10.2% of SME value lost in 2019-20 in Albania and the proportion of people employed in high-skilled occupations in Albania increasingly lower than the Western Balkan average (World Bank, 2021[60]).

Albania's score in enterprise skills (Table 13.22) has improved since the last assessment (when it scored 3.40), particularly across the blocks related to implementation and monitoring and evaluation. This reflects a phase of transition towards full implementation of the Business Development and Investment Strategy (2021-2027), with new actions aiming to drive improvement across skills intelligence to support planning and design, and further improve monitoring and evaluation.

Table 13.22. Albania's scores for Dimension 8a: Enterprise skills

Dimension	Thematic block	Albania	WBT average
Dimension 8a: Enterprise skills	Planning and design	2.17	2.86
	Implementation	4.21	3.85
	Monitoring and evaluation	3.67	2.67
Albania's overall score for Dimension 8a		**3.49**	**3.32**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

There has been an increase in the breadth of support and training available to SMEs in start-up support and skills development opportunities. These developments have primarily come via initiatives funded by international development co-operation partners and are focused on addressing the growing skills gap. At the government level, there is a lack of co-ordination of initiatives and an ongoing need to develop a more information-rich portal supporting this policy area. Little progress has been made on system-level tools to help develop the high-quality skills intelligence needed to drive targeted and effective actions forward. The new Business Development and Investment Strategy (2021-2027) (Government of Albania, 2021[28]) offers a set of actions that begin to address these challenges, working alongside international development co-operation partners' actions that should be embedded in the entrepreneurial ecosystem (Table 13.23).

Table 13.23. Albania's implementation of the SME Policy Index 2019 recommendations for Dimension 8a

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Maximise the value of overall skills intelligence by establishing a dedicated and fully resourced co-ordinating body	Progress has not been made in establishing a co-ordinating body, but a budget is now allocated to take this forward in the next phase of development, which will be led by a dedicated body in AIDA. This commitment is set out in the new Business Development and Investment Strategy (2021-2027).	Limited
Expand training needs analyses (TNAs) to identify the specific management training needs of SME owners	Training needs analyses were not implemented during this assessment period. However, there is an explicit commitment to conduct TNAs in the Business Development and Investment Strategy (2021-2027).	Limited
Expand training provision in order to ensure adequate supplies of skills in the labour market	There has been an expansion of SME support and training provision through programmes such as EU for Innovation, RisiAlbania, ProSEED, Digital Jobs Albania, the Women in Business programme and the EBRD Advice for Small Business programme. However, there is a need to co-ordinate this expansion, which could be a role for AIDA.	Moderate
Encourage co-operation between education and businesses through easy access to information	There are online portals such as AlbaniaTech, Challenge Fund and Duapune, but these serve diverse purposes and signposting towards the different support and trainings available through these and wider non-governmental sources still needs to be implemented. From a co-operation perspective, the emerging work on sector skills committees led by RisiAlbania is also initiating and building collaboration between education and business.	Limited

Albania has allocated a budget to develop and implement a national skills intelligence framework

Closing the gap between SME needs and the skills provided by lifelong learning, particularly within compulsory education and training, is key to lowering unemployment rates and increasing the growth and innovation of SMEs within the entrepreneurship ecosystem of Albania. Skills intelligence is vital to this, and the process of developing and implementing a system-level skills intelligence framework is now beginning, as a commitment in the new Business Development and Investment Strategy (2021-2027) (Government of Albania, 2021[28]). The previous Business and Investment Development Strategy (2014-2020) included this commitment, but there was no attached budget. The new Business Development and Investment Strategy (2021-2027) identifies a budget that will support the creation of a dedicated co-ordination body within the Albanian Investment Development Agency to undertake regular TNAs[46] and collect intelligence on SME-specific training needs. This will allow AIDA and the Ministry of Finance and Economy[47] to match training provision with the requirements of SMEs, using gender-sensitive data and data relevant to specific themes, such as digital skills. It will be important to ensure that the new lead body for skills intelligence maps and brings together all existing data sources and identifies the need to create improved or new sources of data within an integrated gender-sensitivity check on new developments.

Sector skills committees are being established by RisiAlbania's[48] Enhancing Youth Employment programme (Government of Albania, 2021[76]) as a commitment of the National Employment and Skills Strategy (Government of Albania, 2019[77]). They represent a mechanism through which industry can work alongside education and training actors to ensure the system delivers the knowledge and skills needed by industry. These groups can also be stakeholders in developing a skills intelligence framework. The development process will also support preparation for the Smart Specialisation Strategy development that is at an early stage and has not yet begun the Entrepreneurial Discovery Process.[49]

A diverse range of training is available, including government-financed support and training programmes

The Business Development and Investment Strategy (2021-2027) has also allocated a budget towards a new sector in AIDA to lead on SME training, supporting the design and implementation of new SME training

provision to build on the training and finance programmes already established on start-ups, competitiveness, the creative economy and innovation/technology.

Other providers are active in delivering programmes addressing a range of topics, including digitalisation, the circular economy, sustainability, investment readiness, supply chains and internationalisation. These come through different programmes, such as EU for Innovation, RisiAlbania, ProSEED, Digital Jobs Albania, the Women in Business programme and the EBRD Advice for Small Business programme.

Examples of excellent practice include RisiAlbania, which focuses on women's entrepreneurship, including promoting green, digital and online entrepreneurship. Women's entrepreneurship networks[50] are also important for providing tailored support to women at different stages of SME start-up and growth, such as the Women Founders Network Albania, the Women's Economic Chamber and the Women's Entrepreneur Committee of the National Chamber of Crafts, who deliver workshops and business coaching.

Considering the significant skills mismatch challenge in Albania, training programmes could be more comprehensively mapped, monitored and evaluated at the system level. Doing so would ensure that the relevance and impact of training are fully understood and that new programmes are refined to focus on areas with the most impact on enterprise growth and employment.

Information and guidance on enterprise skills are available but fragmented

The information and guidance available to SMEs to guide them towards available training is available but fragmented. A dedicated section on AIDA's website and social pages provides information about training opportunities for SMEs. However, the information is limited, with information shared via social media but no availability of a web-based searchable database of training or support and no access to a registration point.

Beyond this, there are non-government-led online information and advice platforms that provide good access to SME advice, training and support. The challenge can be to ensure the sustainability of such online portals, as many are linked to international development co-operation partners' funding, which can be time-limited.

AlbanianTech is the most developed example[51] and was set up to drive forward the entrepreneurial ecosystem in Albania, offering a platform that brings together organisations and the support offered, entrepreneur success stories and an overview of active start-ups. It offers a comprehensive way in for entrepreneurs seeking inspiration or insights into how they can become or develop as an innovative SME, including news and opportunities linked to a wide range of government and non-governmental sources.

In a more specific area, the Challenge Fund was launched in 2021 as a platform to address the challenge of access to finance for early-stage companies as well as start-up support organisations important to developing the entrepreneurial ecosystem (see Dimension 8b. Innovation policy for SMEs). It offers a competitive financing facility where successful applicants receive funding and capacity building to scale up their innovative businesses, and has been financed through a mix of sources[52] from international development co-operation partners led by the EU for Innovation programme. This action is highlighted in the ERP, which includes a target to increase the percentage of SMEs benefiting from access to finance from 0% to 10% by the end of 2023.

The way forward for Dimension 8a

- **Design and implement a comprehensive approach to SME skills intelligence.** This should ensure high-quality implementation of the commitments outlined in the Business Development and Investment Strategy (2021-2027), led by AIDA in co-ordination with all relevant government and external stakeholders, e.g. skills forecasting by the National Employment and Skills Agency. This will support high-quality SME skills intelligence that can guide future monitoring and evaluation related to SME skills at all levels; inform the smart specialisation

process; and support alignment of education and training to the needs of the labour market. Box 13.13 presents a relevant good practice example from Kosovo.

Box 13.13. Statistical barometers used to strengthen the skills agenda in Kosovo

In Kosovo, a set of statistical barometers has been developed to strengthen the skills agenda and establish a national approach to skills intelligence. The three barometers so far established are: 1) the Labour Market Barometer, which collates information and analysis from 12 institutional data sources; 2) the VET Barometer, which collates 200+ variables from 20 VET schools; and 3) the Skills Barometer, launched in December 2021, which will collect 3–5-year forecasts of skills needs from businesses in Kosovo to inform government and other institutions.

The challenge in Kosovo has been to ensure sustainability for the work initiated through funding from international development co-operation partners. The Labour Market Barometer is a portal collecting information, resources and data on current and future skills needs for the labour market and creates strong collaboration between diverse partner institutions relevant to the skills agenda. The system is now managed by the Employment Agency, after a two-stage development phase supported by the United Nations Development Programme (UNDP) and Aligning Education and Training with Labour Market Needs (ALLED2), a project of the Austrian Development Agency. ALLED2 developed the Skills Barometer in co-operation with the Kosovo Chamber of Commerce (KCC), and commitment is now finalised between KCC, the Ministry of Education and the National Council for VET to conduct the barometer every three years. The VET Barometer grew from pilot research into the provision across VET schools in the economy and now offers online information and analysis based on systematic data collection that can be transferred to relevant national agencies.

This example shows a pathway to shaping a national skills intelligence framework at the system level based on the need to support evidence-based policy making using robust information on skills mismatch and future skills needs. The actions stemmed from initiatives funded by the international development co-operation partners towards sustainable action led by a partnership of public and private sector institutions and offers a channel to assemble and present available government statistics.

Note: See https://sitp.rks-gov.net/ for a list of the national institutional databases used to create the Labour Market Barometer.
Sources: Government of Kosovo (n.d.[78]); ALLED^2 (n.d.[79]; 2021[80]).

- **Prioritise efforts to establish sector skills committees**, as outlined in the National Employment and Skills Strategy, as a pathway to support greater understanding of labour market skills needs and encourage co-operation between education and business. These committees can support and inform the development of the skills intelligence framework and be a channel to enhance the engagement of SMEs in the smart specialisation development process.

Innovation policy for SMEs (Dimension 8b)

Introduction

Supporting innovation and building a knowledge economy is increasingly becoming a priority for the WBT region, and globally. Recognising the link between innovation and productivity and its contribution to higher value-added economic output and competitiveness, many governments have started to emphasise the creation of an environment conducive to innovation and knowledge development. However, equal attention must also be given to enhancing innovation capacity at the firm level.

Albania's small but open economy can further leverage inter-regional and international co-operation in progressing its innovation agenda, creating regional innovation systems, and encouraging cross-border co-operation to boost research and development (R&D).

Albania has made limited progress in promoting SME innovation and has only marginally increased its performance in Dimension 8b, from 2.48 in 2019 to 2.58 in 2022 (Table 13.24). Improvements have been made in enhancing the innovation framework and government institutional support services for innovative SMEs. In a regional comparison, Albania continues to rank ahead of only Bosnia and Herzegovina and Kosovo.

Table 13.24. Albania's scores for Dimension 8b: Innovation policy for SMEs

Dimension	Sub-dimension	Thematic block	Albania	WBT average
Dimension 8b: Innovation for SMEs	Sub-dimension 8b.1: Policy framework for innovation	Strategic approach	3.72	3.81
		Implementation of innovation policy	2.60	3.31
		Co-ordination of innovation policy	2.60	3.30
		Weighted average	**2.94**	**3.46**
	Sub-dimension 8b.2: Government institutional support services for innovative SMEs	Incubators and accelerators	2.04	3.27
		Technology extension services for established SMEs	2.33	2.14
		Weighted average	**2.16**	**2.82**
	Sub-dimension 8b.3: Government financial support services for innovative SMEs	Direct financial support	3.09	3.81
		Indirect financial support	1.80	2.26
		Weighted average	**2.57**	**3.19**
	Sub-dimension 8b.4: SMEs and research institution collaboration and technology transfer	Innovation voucher schemes and co-operative grants	2.00	2.85
		Institutional infrastructure for business-academia co-operation	2.36	2.99
		Intellectual property rights	2.72	3.05
		Weighted average	**2.29**	**2.95**
Albania's overall score for Dimension 8b			**2.58**	**3.18**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Overall, Albania's innovation capacity remains low, though the lack of statistical data makes an assessment of the economy's overall innovation performance somewhat challenging. While several steps are underway to strengthen Albania's innovation policy framework, implementation is hindered by limited funding and the large number of implementation bodies. Since the last assessment, the creation of an innovation ecosystem has gained momentum, but the focus is predominately on start-ups. Financial support to encourage innovation has been scarce, as funding normally available under AIDA's Innovation Fund and Start-up Fund was reallocated to support crisis-mitigation measures in 2020 and 2021. Nevertheless, AIDA has tentatively been allocated some budget for 2022, which would allow the agency to resume its funding activities. Little progress has been made in stimulating collaboration between academia and industry, and key policy objectives, such as the establishment of technology transfer offices, have not yet been met. In contrast, some progress has been made to improve legislation to protect intellectual property, and efforts have been made to increase awareness about the importance of intellectual property protection.

Table 13.25 provides an overview of the specific actions undertaken in response to the key recommendations made for this dimension in the previous assessment.

Table 13.25. Albania's implementation of the SME Policy Index's 2019 recommendations for Dimension 8b

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Create well-designed, properly funded and reliable financing instruments	No progress has been made. Despite increased funding and improved performance of AIDA's finance schemes since the last assessment, all funding has been paused and redirected to emergency COVID-19 measures. For 2022, a budget allocation of ALL 150 million (approximately EUR 1.25 million) is tentatively planned for AIDA's operations.	Limited
Improve the co-ordination of innovation policies	Three line ministries and a large number of implementing agencies share responsibility for implementing innovation policy, somewhat resulting in a lack of ownership, overlapping support measures and ineffective budget allocation. A working group has been established under the auspices of the Integrated Policy Management Group, but its role and focus remain unclear.	Limited
Further advance collaboration between businesses and academia	Little progress has been made to stimulate co-operation between businesses and the scientific research community, though some universities are increasingly introducing initiatives to foster entrepreneurship and efforts have been made to raise awareness about intellectual property protection.	Moderate

Efforts are underway to expand Albania's innovation policy framework, though shortcomings in co-ordination and funding limit its implementation

The National Strategy for Scientific Research, Technology, and Innovation (2017-2022) is Albania's overarching policy framework for innovation. A mid-term evaluation conducted in 2019 suggests that implementation is somewhat lagging and that significant funding is required for it to be executed effectively. In addition, Albania's new Business Development and Investment Strategy (2021-2027) puts a strong emphasis on SME innovation and links between industry and academia to spur economic growth. Albania has also made some progress in developing a Smart Specialisation Strategy. A road map has been completed, and the Entrepreneurial Discovery Process, in line with the European Commission's Joint Research Centre methodology, is expected to commence in 2022. In addition, dedicated innovation start-up legislation was adopted in March 2022.

Co-ordination of the innovation policy framework continues to be a major obstacle for effective implementation. There are now three line ministries and three agencies (AIDA, the National Agency for

Scientific Research and Innovation [NASRI] and the NAIS) that share responsibility for policy implementation, which has led to an unclear definition of competencies, a lack of ownership, overlapping support measures and ineffective budget allocation. Even though a dedicated working group has been established under the auspices of the formal co-ordination body – the Integrated Policy Management Group – which is in charge of co-ordinating policy more broadly, its role and impact remain unclear.

NASRI and AIDA, which also hosts an Innovation Fund, continue to be Albania's main implementation channels for innovation policy. NASRI has received some government funding to support scientific research activities, but funding schemes offered by AIDA have been suspended since the onset of the COVID-19 pandemic, thereby limiting its implementation force.

While Albania's statistical office INSTAT has expanded the collection of data related to business innovation, further efforts are needed to produce comprehensive and reliable statistical information in line with Eurostat's methodology, with a view to participating in the European Innovation Scoreboard.[53]

Creating an ecosystem conducive to start-ups and innovation has become a priority for Albania

Progress has been made in developing an ecosystem supportive of innovation and start-up activity. Under the framework of the EU for Innovation projects, implemented between 2018 and 2021 with the support of the European Union, GIZ and Sweden in the amount of EUR 7.5 million, the start-up ecosystem has seen a significant boost, resulting in the adoption of a dedicated Law on Support and Development of Start-ups in 2022, which envisages a state-budget allocation in support of the innovation ecosystem. Numerous private-sector-backed initiatives have been set up, providing acceleration programmes for high-potential start-ups, technical assistance, mentoring and training on investor relations, with some offering the possibility for small-scale monetary awards. Some examples include the UpLiftAlbania acceleration programme, Growpreneur and the flexible start-up Support Programme, which has an explicit focus on providing incubation opportunities for start-ups outside of Tirana. The project ended in early 2022, but a successor programme is already planned, which, even though it is dependent on support from international development co-operation partners, will ensure the continuity of these efforts. In addition, NAIS established "TechSpace" in 2019, an initiative to develop start-ups dedicated to training on technology, innovation and entrepreneurship activities, as well as mentoring start-ups in the field of ICT.

Despite this progress, these efforts primarily focus on business incubation services, while support to more mature SMEs seeking innovations remains highly limited. Technology audits previously offered by AIDA have not been available recently.

Financial support for innovation remains limited

In 2018, the government set up a number of co-financing grant programmes managed by AIDA, including the Innovation Fund and the Start-up Fund, and allocated a total of ALL 73 million (approximately EUR 600 000) to these financial schemes in 2019. This constitutes a significant increase compared to 2018, albeit from very low levels. Absorption capacity was over 90%, and 26 companies benefited from a grant from the Innovation Fund during that year, offering co-financing grants to support innovation audits or investments in technological equipment. In addition, 19 micro and small enterprises benefited from a grant from the Start-up Fund for a combined total of ALL 24 million (approximately EUR 200 000). However, all AIDA's finance programmes were halted in 2020 as funding was repurposed to emergency measures in response to the COVID-19 pandemic and have not fully resumed at the time of writing. ALL 150 million (approximately EUR 1.25 million) in funding has been tentatively allocated for 2022, which would be an important signal, increasing reliability and providing longer-term investment opportunities for SMEs. The new Start-up Law envisages further state-budget support for start-ups, to be managed by the Ministry for the Protection of Entrepreneurship. Some funding for innovation activities is also available via the Challenge Fund, part of the EU for Innovation project and funded by the international development co-

operation partners, which has launched four calls for innovative start-ups and innovation service providers, including incubators, as described above.

As in the previous assessment, indirect financial support is equally limited, though the Albanian tax regime envisages some VAT reduction for companies involved in software production. There is, however, no direct focus on SMEs.

Limited outreach and exchange between businesses and academia remain a key obstacle to building a knowledge economy

Collaboration between the business community and scientific research institutes remains nascent amid limited funding and incentives for stakeholders. Expenditure on R&D, even if increasing, remained chronically low at 0.3% of GDP in 2020, far below the government's target of 1% of GDP by 2022 (European Commission, 2021[3]). Financial incentives to spur business-academia collaboration remain largely non-existent. Under the framework of the National Programme for Research and Development, NASRI provides some financial support to consortia between research institutes and businesses. These are, however, small in scale and do not resemble innovation vouchers or competitive-operation grants in design. Nevertheless, some initial steps have been taken to stimulate exchange between the private sector and academia. Several agreements have been signed with universities under the TechSpace initiative to support joint research. Equally, in 2021, with support under the EU for Innovation project, Albania's five leading universities established Tirana.Inc at the University of Tirana, whose aim is to foster entrepreneurship and innovation among university students by providing training, working space and advice. In the long term, these initiatives may increase exchange and collaboration between businesses and the research community.

There are still no technology transfer offices operational in Albania, despite an explicit commitment in the National Industrial Property Strategy (2016-2020). Plans to establish a science and technology park have also not developed further since the last assessment.

Lastly, progress has been made in aligning intellectual property rights to the *acquis,* and a new Law on Trade Secrets was adopted in July 2021. In line with the National Industrial Property Strategy (2016-2020), several awareness-raising and outreach activities, in collaboration with the Albanian Chamber of Commerce and several universities, have been organised. In addition, patent application fees were reduced for young researchers to incentivise scientific research among youth. However, the impact of these efforts is yet to be seen, and continuing shortages in the legal framework for intellectual property in defining the ownership of intellectual property produced through publicly funded research continue to impede commercialisation opportunities.

The way forward for Dimension 8b

- **Complete steps to strengthen the strategic framework for innovation.** The new Start-up Law is expected to further strengthen the strategic framework and implementation capacity. Development of the Smart Specialisation Strategy should continue to be pursued swiftly, while plans should be initiated to develop a complementary innovation strategy to succeed the current one when it expires at the end of 2022. Within this context, a thorough performance evaluation of the Strategy for Scientific Research, Technology and Innovation (2017-2022) should be conducted to identify current bottlenecks, including the complexity of policy co-ordination.
- **Further strengthen data collection to support evidence-based policy making.** Despite some improvements, the current lack of statistical data limits the extent to which innovation policy implementation can be effectively monitored and evaluated. It also prevents Albania from participating in key international initiatives, such as the European Innovation Scoreboard. Continuous participation in the EC-OECD's STIP Compass Database,54 for instance, could help

to develop statistical data collection in line with international best practice methodology and with expert guidance.

- **Boost financial support to encourage investments in innovation and research.** Full resumption of AIDA's financial support programmes for SMEs and reaching pre-pandemic operational capacity levels should be a priority. As activities resume, effective monitoring mechanisms should be introduced to enable timely adjustments to programming, where needed. In addition, financial resources should be allocated in a balanced and well co-ordinated manner to AIDA and NASRI and the Ministry for the Protection of Entrepreneurship, thereby maximising complementarity and impact.
- **Continue building momentum to create an ecosystem conducive to innovation.** Efforts should focus on institutional support beyond start-ups and incubation services, including assistance to more mature early-stage companies, technology transfer facilities, and a science and technology park that stimulates collaboration between businesses and academia and provides facilities to more mature enterprises seeking innovations.

SMEs in a green economy (Dimension 9)

Introduction

Since SMEs, on aggregate, have a significant environmental footprint (small firms account for 50% of greenhouse gas [GHG] emissions in the world (ITC, 2021[81])), it is essential that the governments of the WBT region include them in their environmental considerations to achieve the net-zero goal for GHG emissions. On the one hand, like any other economic entity, SMEs face the consequences of environmental degradation, which can generate specific challenges for their survival and growth. On the other hand, and more importantly, SMEs can be a source of innovation and solutions to develop the technologies needed to address environmental challenges. New green markets, such as the circular economy, can also create new business opportunities for SMEs. Even without moving into new markets, SMEs can potentially improve the performance of their business by realising efficiency gains and cost reductions by greening their products, services, and processes. In this regard, tailored policies, incentives and instruments are necessary to enable them to participate in the green transition, as SMEs face a number of barriers (financial, informational, etc.) in their greening efforts, and more so than large firms (OECD, 2021[82]).

For a small, tourism-dependent economy like Albania, boosting economic growth that does not come at an environmental cost is particularly pertinent, particularly in the post-COVID-19 context. The pandemic has put additional pressure on Albanian SMEs and their greening efforts, primarily due to issues with liquidity maintenance and access to finance. Well-co-ordinated and targeted financial and technical support will be required to help Albanian SMEs overcome challenges in adopting sustainable practices.

Albania has slightly improved its performance in this dimension since the 2019 assessment (rising to 2.07 from 1.98 in 2019) but remains among the lowest performers in the WBT region (Table 13.26). In order to fully implement the related SBA principle (enabling SMEs to turn environmental challenges into opportunities), Albania will need to ensure the effective realisation of greening measures and scale up its incentives and instruments to encourage greener practices among SMEs.

Table 13.26. Albania's scores for Dimension 9: SMEs in a green economy

Dimension	Sub-dimension	Thematic block	Albania	WBT average
Dimension 9: SMEs in a green economy	Sub-dimension 9.1: Framework for environmental policies targeting SMEs	Planning and design	3.82	3.87
		Implementation	2.00	2.81
		Monitoring and evaluation	1.75	2.47
		Weighted average	**2.50**	**3.06**
	Sub-dimension 9.2: Incentives and instruments for SME greening	Planning and design	1.90	3.06
		Implementation	1.90	3.02
		Monitoring and evaluation	1.00	2.12
		Weighted average	**1.72**	**2.85**
Albania's overall score for Dimension 9			**2.07**	**2.94**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Environmental policies targeting SMEs are included in Albania's newest SME strategy, the Business Development and Investment Strategy (2021-2027) (Government of Albania, 2021[28]), and aim to boost

the circular economy and eco-innovation. Limited progress was achieved in implementing the greening measures included in the previous Business and Investment Development Strategy (2014-2020), in part due to poor co-ordination between relevant institutions and limited allocated funds. Incentives and instruments to encourage SMEs to engage in greener practices remain scarce in Albania. Access to green finance is also limited, and regulatory instruments are non-existent. On a positive note, information-based tools, and in particular, awareness-raising activities, have been scaled up since the last assessment (Table 13.27).

Table 13.27. Albania's implementation of the SME Policy Index 2019 recommendations for Dimension 9

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Ensure the effective implementation of the planned SME greening measures	Overall, SME greening measures planned in the SME strategy have not been translated into concrete actions. While monitoring reports on the SME strategy are available, only limited information is obtainable on green targets.	Limited
Step up efforts to raise awareness of the benefits of greening activities among SMEs, such as cost savings and increased productivity	Awareness-raising activities have been conducted through different campaigns with the support of international partners. Some capacity-building workshops with local governments and the private sector have also been undertaken. Moreover, the annual competition "Green Ideas" awards small-scale green development ideas. Awareness-raising activities are part of the new SME strategy for the upcoming period.	Moderate
Use efforts to promote and support innovation to also target eco-innovation	While efforts to support eco-innovation have been limited in the assessment period, eco-innovation should be promoted and supported as part of the new SME strategy (through capacity building, partnerships among businesses and increased access to finance).	Limited

The framework for environmental policies targeting SMEs is well designed

Green policies targeting SMEs are included in the new SME strategy – the Business Development and Investment Strategy (2021-2027) – as part of the "green and digital transformation" pillar. In addition to promoting the circular economy (Box 13.14), the strategy is expected to provide a stronger push for eco-innovation in the post-COVID-19 economic recovery. In particular, specific awareness-raising and capacity-building activities are planned to be conducted to promote green investments (through various promotional tools, marketing campaigns and virtual events). The newly adopted Start-up Law and the related measures are expected to facilitate peer-to-peer learning and the development of products and services that contribute to a green and circular economy.

Moreover, the Integrated Waste Management Strategies Policy Document and National Plan (2020-2035) should also accelerate the green and circular transition (Box 13.14). Although it does not target SMEs specifically, it serves as a mechanism to link all actors and operators involved in waste management with the objective of meeting the United Nations' Sustainable Development Goals in this regard.

Box 13.14. SMEs and the circular economy in Albania

SMEs play a role in achieving objectives regarding the circular economy, both by making their business operations more circular and by contributing to the innovation that can strengthen circularity across economies. As the circular economy is gaining momentum in Albania, SMEs, which represent the largest share of enterprises in the economy, should lead the way in the transition from a linear to a circular economy.

While there is no specific policy framework for the circular economy in Albania, the new Business Development and Investment Strategy (2021-2027) has a specific focus on the circular transition. In particular, the strategy encourages companies to increasingly make changes in their supply chains as a response to consumer and governmental demand for more sustainable and circular products and services. Trainings and educational programmes are planned to upscale skills development in this regard.

Moreover, the Integrated Waste Management Strategies Policy Document and National Plan (2020-2035) foresee a gradual transition from a linear to a circular economy by encouraging waste diversion through waste reuse, recycling and efficient use of natural resources.

So far, the circular economy has not been the focus of financial and non-financial incentives to support SMEs in their greening efforts. Promotion of circular economy concepts has remained limited in the assessment period. Nevertheless, improved access to green finance envisaged by the new Business Development and Investment Strategy (2021-2027) could boost the circular transition.

Sources: OECD (2021[83]) and European Commission (2021[36]).

While business associations are involved in the development of green policies, poor co-ordination of measures and budgets hampers proper implementation

The Ministry of Tourism and Environment, the Ministry of Finance and Economy along with the National Agency of Environment are involved in the conception and implementation of environmental policies targeting SMEs. The private sector has been consulted in developing new strategies, mainly through the Union of Chambers of Commerce and Industry of Albania, which has been part of roundtable discussions on all policies regarding the environment. Moreover, different research centres and universities (such as Polis University and the University of Tirana) also participate in consultations.

Overall, implementation of the green measures included in the previous Business and Investment Development Strategy (2014-2020) has remained limited, apart from certain awareness-raising activities (see below). As highlighted in its evaluation report, inaccurate division of competencies across institutions has hampered proper implementation and timely monitoring of SME policies and corresponding funds. This statement is also valid for greening measures. While a Sectoral Steering Committee on Environment, Climate and Waste Management was established in 2019 to co-ordinate the work of line ministries and offer technical support on Chapter 27 of EU accession negotiations (on Environment and Climate Change), it does not target SMEs specifically and was not engaged in the implementation of Business and Investment Development Strategy (2014-2020) measures. Moreover, Albania's Economic Reform Programme (2022-2024) does not foresee any measures to address the private sector's green transition. No substantial budget, funded either from the government or international funds, has been mobilised for implementing greening measures.

While monitoring and evaluation mechanisms are envisaged under the Business Development and Investment Strategy (2021-2027), they lack specific indicators to measure green targets.

Limited financial incentives are available for SME greening, including as part of post-COVID-19 economic recovery programmes

Since the last assessment, Albania has not established national mechanisms to provide financial incentives and instruments to encourage SME greening. Only a few guarantee funds operating in Albania cover green investments, such as the Albanian Agribusiness Support Facility and the KfW-supported Rural Credit Guarantee Fund with its dedicated "green window", for which it received additional funding in 2020. The Albanian-Italian Programme for the Development of Albanian SMEs was being revised at the time of writing and should cover blue economy[55] and green start-ups in the upcoming period. However, the uptake

of these schemes has been reportedly limited. Some financial support programmes funded by international development co-operation partners are available to SMEs. The EBRD has provided a EUR 10 million loan to ProCredit Bank Albania to support companies affected by the COVID-19 pandemic in investing in modern technology and energy efficiency projects. Access to green finance is planned to be further improved with the Business Development and Investment Strategy (2021-2027), in particular as part of boosting the start-up ecosystem.

While limited progress has been achieved at the national level, the municipality of Tirana is providing financial support for 2020-22 to new green businesses based on eco-friendly business models or existing businesses that aspire to develop green products or services. The total amount of the fund is EUR 307 000, and each beneficiary will be supported with direct grants of EUR 4 200, with an aid intensity of 80% of eligible costs. In 2020, 26 SMEs and entrepreneurs benefited from this support.

Information-based tools are available to SMEs to engage in greener practices, but other non-financial tools remain scarce

Some campaigns and capacity-building workshops have been organised to address the barriers related to SMEs' lack of awareness of green opportunities and obligations stemming from the economy's commitment to reaching the net-zero goal. For instance, awareness-raising campaigns have been organised with the support of the Food and Agriculture Organisation to present green practices in the Agriculture, Forestry and Other Land Use sector. Workshops have also been organised as part of the revision process of the Nationally Determined Contribution (for 2021-30), in which the private sector was presented with the foreseen measures on how to adapt their technologies to lower GHG emissions.

In addition, for ten years now, the annual Green Businesses award competition has been organised to raise awareness and encourage SME eco-innovation. It aims to serve as an incubator for small-scale green development ideas, using local resources and reviving the traditions of production and community-based markets in an environmentally friendly way.[56]

Environmental certification, such as international Environmental Management Standards, is promoted by the General Directorate of Accreditation through specific brochures. Moreover, the recognition of green best practices through eco-labelling is legislated in Albania.[57] While the legislation requests the Ministry of Tourism and Environment to adopt guidelines on the criteria for granting eco-labels for each product or product group, only one guideline on textiles has been developed to date. A certification body responsible for delivering eco-labels is yet to be established in Albania.

As in the previous assessment, regulatory instruments and green public procurement policies that would incentivise SMEs to adopt greener practices remain non-existent in Albania.

The way forward for Dimension 9

- **Ensure the effective implementation and monitoring of SME greening measures through cross-sectoral co-ordination.** Although environmental policies specifically designed for SMEs were part of the previous SME strategy and are again included in the revised version for 2021-2027, the stated objectives have not been transformed fully into concrete actions through regular implementation. It is important that a government body takes the lead in establishing a network of actors engaged in implementing and monitoring measures to encourage SMEs to improve their environmental performance. This task could be entrusted to AIDA, which is already in charge of SME policy implementation, or to a specific working group, which would involve all relevant institutions and business association representatives.
- **Enhance financial support for SME greening.** So far, no financial incentives have been offered to SMEs to increase their environmental performance. The government is therefore recommended to roll out new financial instruments that support SMEs in undertaking small-

scale energy efficiency investments or projects in line with the circular economy. For example, the scope of the local programme established by the municipality of Tirana could be widened at the national level or replicated in other local municipalities. In addition, as AIDA revitalises some of its grant support schemes to increase the competitiveness and innovation capacity of SMEs (see Dimension 6 on access to finance), a specific amount of total financing could be dedicated to green projects (to support energy audits or investments in green technological equipment.)

Albania could also offer direct subsidies to SMEs to introduce environmentally friendly technologies or fiscal measures such as favourable tax policies and exemptions on import charges for investments in green equipment. For example, the Netherlands has been operating two tax reduction schemes to promote the purchase of new environmental technologies: the Arbitrary Depreciation of Environmental Investments allows accelerated depreciation of newly purchased environmental technologies listed by the government, and the Environmental Investment Allowance allows a partial write-off of an investment in environmental technology against tax[58] (OECD, 2018[84]).

- **Consider introducing regulatory instruments into the SME greening policy mix.** First, Albania could envisage the introduction of performance standards, such as requirements for material recycling and solid waste management regulations, along with the Integrated Waste Management Strategies Policy Document and National Plan, which were recently adopted. For instance, the Fit for 55[59] proposals by the European Commission, designed to help member states reduce emissions by at least 55% by 2030, include performance standards for the building and transportation sectors, among others, which are of relevance to SMEs (European Commission, 2021[85]).

  Second, the government could introduce special regimes for low-environmental risk installations, the vast majority of which relate to SMEs, particularly those that have adopted environmental management systems. This would involve a shift from permitting requirements to standardised regulatory requirements, where activities that remain under certain thresholds are exempted from notification or face simplified and more standardised requirements for this. For instance, some economies use “general binding rules”, which ensure standard conditions specific to a type of activity or a sector, either with obligatory notification of environmental authorities before engaging in an activity (such as in the Netherlands) or without such a requirement (such as in the United Kingdom) (OECD, 2021[82]). The frequency and scope of inspections, monitoring and reporting, could also be reduced for those SMEs with a more successful environmental record.

Internationalisation of SMEs (Dimension 10)

Introduction

Expansion into foreign markets and SME internationalisation are key factors in boosting SME productivity and competitiveness on a global scale. Smaller economies in the region often struggle with competing internationally or even accessing foreign markets, often due to a lack of technical assistance or resources. Supporting export promotion, sustainable integration into global value chains (GVCs) and opening digital sales channels need to be supported through concrete policy actions and enhanced governmental support. With such support, SMEs can broaden their reach, improve productivity, and introduce innovative practices.

Albania is a small, open economy whose exports are primarily low-complexity products (OECD, 2019[86]). SMEs in the economy still struggle with productivity; therefore, the government's efforts to increase the private sector's capacity and competitiveness are particularly important to support SME internationalisation efforts. To successfully integrate into GVCs, Albania should transition to a more knowledge-based economy and shift to higher value-added exports. Focusing on providing a mix of financial and non-financial assistance for SMEs would boost their internationalisation and productivity, particularly in light of the COVID-19 pandemic.

Albania saw the most significant improvement under Dimension 10 in this assessment cycle, positioning itself as one of the leading economies in the region, particularly in export promotion. With the adoption of the new Business Development and Investment Strategy (2021-2027), which provides measurable, realistic targets on SME internationalisation, Albania set a strategic framework for supporting SME efforts in foreign market expansion and GVC integration. The economy's overall score improved from 2.68 in 2019 to 3.80 in this assessment cycle (Table 13.28), demonstrating Albania's commitment to developing and implementing policies supporting SME internationalisation. The most visible advancements can be observed in GVC integration and promoting the adoption of e-commerce, yet the uptake of provided support measures is lagging.

Table 13.28. Albania's scores for Dimension 10: Internationalisation of SMEs

Dimension	Sub-dimension	Thematic block	Albania	WBT average
Dimension 10: Internationalisation of SMEs	Sub-dimension 10.1: Export promotion	Planning and design	4.86	4.61
		Implementation	3.81	4.24
		Monitoring and evaluation	3.67	3.65
		Weighted average	**4.09**	**4.23**
	Sub-dimension 10.2: Integration of SMEs into global value chains	Planning and design	3.72	3.88
		Implementation	3.87	3.57
		Monitoring and evaluation	3.00	2.70
		Weighted average	**3.65**	**3.49**
	Sub-dimension 10.3: Promoting the use of e-commerce	Planning and design	3.67	3.62
		Implementation	3.00	3.15
		Monitoring and evaluation	3.67	3.29
		Weighted average	**3.33**	**3.32**
Albania's overall score for Dimension 10			**3.80**	**3.80**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Albania has made considerable progress in supporting SME internationalisation. The newly adopted Business Development and Investment Strategy (2021-2027) addresses the implementation of the previous cycle's recommendations (Table 13.29), such as intensified support for industrial clustering and SME integration into GVCs. Furthermore, information on available financial support is centralised on AIDA's website, which now also offers a business-to-business (B2B) platform to link SMEs with multinational enterprises (MNEs) to foment the creation of productive linkages. With Albania's Digital Agenda (2015-2020) extension until 2022 and the Business Development and Investment Strategy (2021-2027), the government advanced in reinforcing its strategic framework for promoting e-commerce practices among SMEs and the general public. Nevertheless, room for improvement remains, particularly regarding the uptake of e-commerce.

Table 13.29. Albania's implementation of the SME Policy Index 2019 recommendations for Dimension 10

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Centralise information on exiting efforts to boost SME exports by leveraging the government's networking capacity	AIDA's website offers relevant information on SME support programmes in foreign market expansion and a centralised B2B platform, which allows potential investors or larger enterprises to look for SME suppliers based on their area and region of operations. AIDA has advanced in leveraging its platform to improve information asymmetry and provide a centralised source of information for all companies and foreign investors.	Strong
Develop a holistic approach to supporting SME integration into global value chains through programmes that promote supplier development and cluster linkages for SMEs	The new Business Development and Investment Strategy (2021-2027) is a step in the right direction, outlining an export strategy and emphasising SME global value chains integration and SME linkages with MNEs. Since the last assessment cycle, despite a halt in operations, AIDA has launched multiple initiatives to achieve the strategic target of higher GVC participation.	Strong
Ensure a sound legal and operational environment to support e-commerce	Albania has made visible progress in harmonising its legal framework for e-commerce and has included provisions on digitalisation in its leading strategic documents. However, details on implementation are lacking.	Moderate

Progress has been made in improving the export environment, with further actions to be taken during 2022

Export promotion in Albania is included in the newly adopted Business Development and Investment Strategy (2021-2027) (Government of Albania, 2021[28]). Though the government included export targets in the document and outlined a plan to design an export strategy, the document itself was not finalised at the time of the assessment – it is set to be adopted in November 2022. The export strategy will aim to remove export barriers for SMEs, intensify capacity-building activities and develop digitalised solutions to support SME internationalisation. The government body responsible for the design and implementation is the Ministry of Finance and Economy, which the National Committee for Trade Facilitation will assist. AIDA has been tasked with its implementation.

To support SMEs in their export promotion efforts, the Business Development and Investment Strategy (2021-2027) aims to provide strategic direction to increase and diversify exports and their destinations to better integrate into GVCs. The government strives to create an enabling environment that enhances export sophistication and innovation through developing export support services that improve SMEs' competitiveness.

Export diversification and sophistication are apt targets for the government, given the low complexity of Albania's export base. The economy's exports heavily rely on goods with limited technological content and value added, including garments and leather products (in which it has a competitive advantage), as well

as minerals, metals and agro-food products[60] (OECD, 2019[86]). The Business Development and Investment Strategy (2021-2027) envisages identifying key drivers of competitive advantage by conducting intensified sectoral and market assessments.

Increasing SMEs' capacities to export will be crucial in shifting to a more sophisticated export base: 60% of Albanian SMEs claim they do not have export capabilities, and 54% do not express plans or desires to export (Regional Cooperation Council, 2021[50]). While the Business Development and Investment Strategy (2021-2027) envisions increased capacity-building activities to boost SMEs' export capabilities, SMEs' lack of will to export is a more difficult problem to navigate, one not mentioned in strategic documents. In order to further shift to a more export-oriented economy, increasing SMEs' export capabilities should go hand-in-hand with incentivising exports in the first place.

The Business Development and Investment Strategy (2021-2027) is linked to a broader SME law adopted in April 2022. It envisages new measures to facilitate access to finance for SMEs offered by AIDA for export promotion and a new state guarantee instrument. Another new provision includes establishing an Advisory Council for SMEs, which would deal with measures to increase tangible support for the internationalisation of SMEs, as well as broader technical assistance.

With limited capacity, AIDA is redesigning its SME support schemes and conducts regular monitoring and evaluation of its export support programmes

AIDA enjoys a broad mandate whose support for SMEs ranges from technical assistance, capacity-building activities and customer support to providing information on foreign markets and potential importers and exporters, customs assistance, trade participation and market research. However, its limited resources can hinder the execution of AIDA's mandate, despite its relatively high human resources capacity.

The economy has a monitoring system in place for its export promotion support programmes, particularly the grant schemes, which have been monitored and evaluated annually following implementation by AIDA. The Ministry of Finance and Economy and AIDA conduct a thorough evaluation at the beginning of each year, which aims to assess the efficiency and effectiveness of internationalisation projects launched. While AIDA's operations in 2020 were halted as the agency's financing was directed to mitigating the effects of the COVID-19 pandemic, its support for SMEs aiming to export, subsided, as AIDA focused on background work with the Ministry of Finance to redesign the grant schemes to be offered in 2022, including the Competition Fund aiming to support companies to access foreign markets by providing the necessary financial assistance for export promotion activities. The results of the annual reports and evaluations performed in previous years have been used to redesign the schemes and combine work streams, including internationalisation, into one comprehensive support fund.

Albania has intensified its efforts to upgrade its position in GVCs; however, AIDA's limitations might hamper future efforts in developing MNE-SME linkages

SME integration into GVCs is also governed by the Business Development and Investment Strategy (2021-2027), although, as is the case with export promotion, the regulatory framework has not been finalised. The strategy emphasises upgrading local SMEs' capacities in line with the needs of export-oriented investors and increasing Albania's appeal as an investment destination. The government aims to design and implement a dedicated support scheme that provides grants to consortia and higher education institutions for collaborative projects to increase the capacity of SMEs to participate in GVCs. However, designing the schemes is still underway, with the implementation intended to take place in 2024-2027.

For a small, open economy like Albania, sustainable growth will have to be export-led. Attracting export-oriented FDI and improving the capacities of local SMEs that could become their suppliers and integrate into GVCs is key to boosting productivity and, therefore, improving competitiveness. As one of the first contact points and main interlocutors of potential investors, AIDA is the main actor in attracting and retaining FDI.

Although the government took action to reinforce AIDA, expanding its mandate and increasing the number of staff in 2020 (OECD, 2021[16]), its limited resources may reduce its capacity to attract and support inward investments and encourage linkages between domestic suppliers and foreign MNEs established in Albania. Furthermore, despite successfully implementing the e-Albania initiative, which digitalised many government services and facilitated access to support programmes, the agency itself still falls short in developing digitalised solutions and tools to bring down information barriers and facilitate the collaboration of foreign-based MNEs with domestic SMEs.

On the other hand, the government has made progress in introducing new programmes related to SME integration into GVCs. The United Nations Industrial Development Organisation (UNIDO) is co-ordinating the Country Programme for Inclusive and Sustainable Industrial Development in Albania (2020-2024), which comprises 20 projects structured around industrial competitiveness, market access, entrepreneurship development and green growth. UNIDOS's support will oscillate between the industrial modernisation of export-oriented industries and the upgrading of agro-food value chains (UNIDO, 2020[87]). In addition, the Albanian government, together with the Swiss Agency for Development and Co-operation, launched the RisiAlbania project, including an initiative to facilitate GVC participation through a global Good Agricultural Practices certification[61] programme for Albanian agricultural exports.

In addition, Albania has made considerable progress in cluster formation and development. Since the last assessment cycle, after conducting comprehensive studies on clustering potential and surveys among SMEs, the government formed a wood cluster to facilitate technology and knowledge transfer within the industry. The cluster was formed in collaboration with GIZ with the main goal of facilitating GVC integration and boosting the companies' participation in international development projects. The project is an example of Albania's close co-operation with business associations and academia, as well as a whole-of-government approach, which has been at the core of establishing the cluster, together with GIZ's technical assistance in cluster development (GIZ, 2021[88]).

Albania has strengthened the regulatory framework for e-commerce but lags its regional peers in digitalisation and the uptake of e-commerce

Since the previous assessment, the government has adopted a number of laws and legislations to regulate e-commerce and e-payments. The recently adopted Business Development and Investment Strategy (2021-2027) constitutes the main strategic framework for promoting e-commerce and innovation. The government also adopted a new Law on Payment Services that includes dedicated regulations on facilitating e-commerce for SMEs.

Another strategic framework adopted by the government, Albania's Digital Agenda (2015-2020), has been extended to 2022. Through the Digital Agenda, the government aims to promote e-commerce and the digitalisation of business processes among SMEs. The Digital Agenda (2015-2020) foresees introducing widely available broadband infrastructure to enable companies to access a variety of online services, including e-commerce.

The government set a 50% target of businesses using ICT for e-commerce purposes, which is an ambitious goal, given remaining low levels of digitalisation (Ministry of Innovation and Public Administration, 2015[89]). Nevertheless, to achieve the target, the government plans to launch two new online portals in 2022. One is an informational website providing insight into the procedures necessary for companies to adopt e-commerce and e-business solutions. It will include information on relevant legislation and available support programmes, a digital self-assessment tool, a detailed guide on the decision-making process and possible costs for the company, as well as case studies of local SMEs that managed to adopt e-commerce and e-payments into their business operations. Another one is a B2B match-making portal that aims to connect relevant suppliers with potential customers domestically and abroad. As envisioned in the Business Investment and Development Strategy (2021-2027), the Albanian Union of Chambers of Commerce and Industry are tasked with its implementation, with the support from the EBRD.

In addition, since the last assessment cycle, the government has launched initiatives with an objective to stimulate digitalisation processes and e-commerce uptake, such as Digital Jobs Albania,[62] which aims to grant improved access to online work opportunities. The joint project of the Albanian government and the World Bank entails three months of training on digitalisation and information technology skills for women entrepreneurs to facilitate their access to jobs on line.

Also, in collaboration with the World Bank, Albania conducted a thorough assessment of its ICT sector and e-commerce uptake, which showed that during the COVID-19 pandemic, almost 20% of surveyed Albanian firms had either started or increased online business activity (World Bank, 2020[90]). This demonstrates progress since the last assessment cycle, during which Albania was the furthest behind in e-commerce activities in the WBT region.

In terms of digitalisation and uptake of e-commerce practices, Albania still lags behind its regional peers, both by business and consumers. While in the Western Balkan region, 14% of the population reports purchasing goods on line, in Albania, that percentage is 7% (World Bank, 2020[90]). Despite progress in strengthening the legal framework for e-commerce, the Albanian government has yet to introduce policies fostering a conducive environment for digitalisation and e-commerce. However, to create a more enabling environment for e-commerce, in 2020, as envisaged in the Business Development and Investment Strategy (2021-2027), the government mobilised a dedicated budget to promote e-commerce, amounting to ALL 47 801 100 (approximately EUR 397 000). This constitutes an increased commitment to digitalisation initiatives, given that in 2019, no budget was allocated for this purpose.

The way forward for Dimension 10

- **Improve the digital infrastructure for export promotion and to attract export-oriented foreign direct investment.** Establishing and developing online platforms to assist Albanian companies in their online activities and information search is crucial to boosting exports and increasing competitiveness. AIDA should place a stronger emphasis on developing digital tools and solutions to facilitate exports and encourage FDI-SME linkages while also improving its investment facilitation and after-care services. The new B2B platform, co-ordinated by the Albanian Union of Chambers of Commerce and the EBRD, is a step in the right direction in using digital tools to foment SME-MNE linkages. However, to fully utilise its potential, AIDA needs to place a strategic focus on adopting digital practices in executing its export promotion and investment support mandate. Practices on investment promotion in a digital economy across the OECD can be consulted in *Investment Promotion and the Digital Economy: A Comparative Analysis of Investment Promotion Practices Across the OECD* (OECD, 2021[91]) (see also Box 13.15).

Box 13.15. Digitalising export promotion support: Lessons from Costa Rica

ProComer is a trade promotion agency in Costa Rica, often ranked as the best export promotion agency in the world. Apart from containing a broad array of information on trade facilitation, export statistics and market studies, it also offers various digital tools at SMEs' disposal. The digital tools include training on export readiness, one-stop shops for customs facilitation, as well as company registration. The online training and capacity building aims to assist SMEs in their export capacity, inform them about relevant regulations and policies domestically and internationally, and help them increase the value added of their export offer. Digitalising the entire export promotion system in Costa Rica significantly streamlines the process while also reducing the cost by up to 90% (ProComer, 2021[92]).

By digitalising a large majority of export promotion activities, especially capacity building and support services for SMEs, ProComer facilitated access to available programmes and became more inclusive

to microenterprises and SMEs with limited resources, as all of ProComer's digital tools are provided free of charge. As Costa Rica enjoys a high level of digital connectivity, digitalising export promotion services increased the outreach of ProComer, which can now cater to a higher number of SMEs located across the economy. Furthermore, when the COVID-19 pandemic halted or moved all commercial activity on line, Costa Rican SMEs were not left without export support during such challenging times. On the contrary, they had access to a variety of support programmes and information available through the ProComer portal.

Albania has already made considerable effort to improve the digital structure for export promotion and GVCs integration, creating a conducive environment for fomenting SME-FDI linkages. The new B2B platform is a welcome development and a step in the right direction in further expanding AIDA's digital capabilities. However, in order to effectively implement its mandate, AIDA needs to strengthen its strategic orientation towards fully digitalising export support for SMEs, as well as its investment facilitation activity, which could lead to creating new SME-FDI linkages and strengthening existing ones. Such linkages translate into increased labour productivity and employment, further stimulating growth and development within the economy (OECD, 2018[93]).

Source: ProComer (2021[92]).

- **Create a conducive business environment for SME digitalisation and e-commerce uptake.** Ensure that the regulatory framework and tax legislation are harmonised and clearly define the scope of e-commerce and e-payments. Tax legislation and implementation procedures need to further clarify the treatment of online sellers and online marketplaces, domestically and internationally. In addition, the regulatory environment needs to be made more conducive to online innovation and payments, which includes the full implementation of the new Law on Payment Services and its effective monitoring. The government should ensure that both SMEs and consumers trust e-commerce and e-payment systems by intensifying transparency efforts in legislation and programme implementation.
- **Ensure effective implementation of the Business Development and Investment Strategy (2021-2027) in the context of the internationalisation of SMEs through proper monitoring and evaluation**. The strategy provides an ample strategic framework for SME internationalisation; therefore, its proper and effective implementation will be of high importance to achieving the strategic targets. Albania should emphasise strengthening its monitoring of target achievement while remaining vigilant about SMEs programme and training needs, which should be regularly assessed. Leveraging AIDA's monitoring and evaluation mechanisms, the government should ensure the well-targeted plans and measures presented in the Business Development and Investment Strategy (2021-2027) are executed effectively and efficiently.

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Notes

[1] According to INSTAT (Albania's Institute of Statistics), the Albanian government spent the equivalent of 3.4% of GDP on education in 2020. See www.instat.gov.al/media/8988/albania-in-figures-2020.pdf for statistical information and a report from UNICEF outlining the cost of underinvestment in education at https://www.unicef.org/albania/media/451/file/The%20Cost%20of%20Underinvestment%20in%20Education%20and%20ways%20to%20reduce%20it.pdf.

2. See Action A2.1.1 under the objective for teachers, and Action C3.3.1 under the objective on links with the labour market in the National Education Strategy (2021-2023).

3. The new Junior Achievement programme is an entrepreneurship and economics focussed programme. It includes elective modules, including Business Ethics, Success Skills, Be Entrepreneurial and Personal Finance. For more information, see https://junior-albania.org/.

4. To see a handbook used to support this course, see www.akafp.gov.al/wp-content/uploads/2021/04/Material-Mesimor-Bazat-e-Sipermarrjes-Kl-12-Temat-1-181.pdf.

5. As part of its mission to strengthen the innovation ecosystem in Albania, the EU for Innovation project, in co-operation with the Amsterdam Centre for Entrepreneurship (ACE) and the University of Amsterdam organised a series of masterclasses on how to become an "Entrepreneurial University". This was launched in January 2020 and ran for five months, targeting Albanian researchers, academics and management-level professionals in universities. The three classes were based on three levels of science-based entrepreneurship: Explore & Inspire; Pursue & Educate; and Launch & Grow, as developed by ACE and the University of Amsterdam. There was a final pitching event, during which the participants in teams presented their University Entrepreneurship action plans to an experts panel. For more information, see https://euforinnovation.al/masterclass/.

6. For more information, see https://junior-albania.org/sq/3e-english-entrepreneurship-employability-launching-event/.

7. For more information, see https://upshift.al/.

8. The training delivered by Junior Achievement included these modules: Business Ethics; Be Entrepreneurial; Success Skills; Basic Economic Concept on High School Curricula; Concepts and Principles of Entrepreneurship and Business Management; Development and Evaluation of Entrepreneurship Competences in High Schools; and Leader for a Day.

9. No additional information is currently available on this intervention.

10. See Action A2.1.1 in the National Education Strategy (2021-2026).

11. Relevant targets that include a percentage for women are:

    Entrepreneurship support: Targets 250 participants in training programmes per annum with at least 40% women; 30 grants awarded per annum with at least 40% to women; and 100 new businesses registered by participants per annum, including at least 40% by women, alongside 3 500+ new jobs created by these businesses.

    SME funding: Foreseen to have 60 beneficiaries of the Single SME Development Fund per annum with a 30% share of women entrepreneurs or women-led businesses; the launch of a credit guarantee scheme; and amendment of the legal framework creating conducive conditions for venture capital, business angels and crowdfunding.

    Graduate placements: 150 beneficiaries, of which at least 40% should be women.

12. AIDA's previous annual reports can be consulted at:

    2020: https://www.aida.gov.al/images/PDF/Raport%20vjetor%202020.pdf

    2019: https://www.aida.gov.al/images/PDF/Raport-vjetor-2019.pdf.

13. The share of companies with women CEOs dropped from 26.8% in 2016 to 25.5% in 2020, while the share of women business owners also dropped from 26.8% in 2016 to 25.5% in 2020 (Source: Albanian Business Register, data provided by the Albanian government during the assessment process). The share of self-employed women remained stable (25.7% in 2016 to 25.8% in 2020),

while the share of women with registered patents dropped significantly from 42% in 2016 to 32.6% in 2020 (Source: General Directorate of Industrial Property, data provided by the Albanian government during the assessment process).

14. Hosted through Facebook at https://m.facebook.com/womenfoundersalbania/?locale2=en_US.

15. Women in Business, funded by the EBRD, provides diagnostic services, advisory services, ongoing business coaching, mentoring and networking, as well as entrepreneurial skills development workshops series and visibility events with women-led businesses. For more information, see https://www.ebrdwomeninbusiness.com/.

16. For more information, see https://idea.cefe.net/about-us/

17. See the "Recovery and capacity building of 70 women entrepreneurs after the damage of COVID-19" programme implemented by the National Association of Professional Business and Craft Women at http://www.shgpaz.al/.

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

19. For more details on imminent insolvency, see Article 123 of the Insolvency Law.

20. Other parties refer to the creditors who have not signed the agreement, did not vote for the plan or who are secured and have enforcement rights over the debtor's property.

21. For instance, in 2019 and 2020, ADISA launched a large-scale re-engineering exercise along with government agencies, which resulted in 70 "to-be" maps of re-engineered processes that were developed and implemented (OECD, 2021[46]).

22. As of December 2020, based on government data collected for the *Competitiveness in South East Europe 2021*: *A Policy Outlook* publication, 1 021 online public service applications were working (out of around 1 400 services in total). In 2020, while 373 e-services enabled the entire administrative procedure to be completed on line, 648 only enabled application submission, while the actual document or licence needed to be picked up by the citizen or business over the counter.

23. Based on the combined share of "completely satisfied" and "tend to be satisfied" responses to the Balkan Business Barometer survey's question: Could you please tell me how satisfied are you with each of the following in your place of living – Digital services currently provided to business by public administration?

24. Regulation (EU) No. 910/2014 on electronic identification and trust services for electronic transactions in the internal market, or the eIDAS regulation, establishes the European framework for electronic trust services and the use of e-ID. For more information, see: https://digital-strategy.ec.europa.eu/en/policies/eidas-regulation.

25. If the NBC fails to answer a request within a prescribed time frame as detailed in the relevant legislation, consent to the request is automatically conferred.

26. According to the latest data available, the NBC's services were given a score of 8.6 out of 10 by users (AIDA, n.d.[54]).

27. The NBC was established by Law No. 131/2015 of 26 November 2015, by the merger of the National Registration Centre and the National Licensing Centre.

28. The government fully implemented 19 activities, partially realised 21 actions and halted the implementation of 6 due to the COVID-19 pandemic.

29. Measured in start-ups per million inhabitants.

30. More common innovation proxies include a government's R&D expenditure or intellectual property counts, such as patent and trademark applications (Jensen and Webster, 2009[94]).

31. It should be noted that this share refers to all contracts published in the e-procurement system, including contracts of very modest values, which are normally not of interest to foreign bidders.

32. Decision of the Council of Ministers, No. 285, dated 19 May 2021, in the approval of public procurement rules, Article 42 (1).

33. PPL, Article 83.

34. In case of utilities contracts (in the water, energy, transport and postal services sectors), bid security is mandatory above high financial thresholds.

35. PPL, Article 83 (3).

36. PPL, Article 76 (3) point dh.

37. PPL, Article 78 (1) point c.

38. PPL, Article 3.

39. PPL, Article 87 (2).

40. DCM, Article 54 (6).

41. It currently amounts to 0.5% of the so-called limit fund for a given procurement procedure. There is no upper limit on the fee.

42. PPL, Article 118.

43. PPL, Article 118 (3), point c.

44. See https://e-albania.al.

45. See https://aida-smefinance.gov.al.

46. No training need analyses have been carried out since 2017.

47. The Sector for Business Promotion is the specific unit involved from the Ministry of Finance and Economy.

48. See https://www.risialbania.al/?lang=en. So far, the Sector Skills Committee for Tourism has been established as a pilot by RisiAlbania.

49. The Entrepreneurial Discovery Process (EDP) is planned to start in 2022 and be completed by the first trimester of 2023. Preliminary priorities identified thus far include: agriculture; tourism/agritourism; water and energy; and transversal sectors, including ICT and administrative and support services activities. These priorities may change following the completion of the qualitative phase and the EDP.

    Recent skills and qualification needs analysis is foreseen, including consideration of the first steps necessary to properly address priority sectors. There is a 2017 Skills Needs Analysis. Analyses for specific sectors are being carried out in the information technology and tourism sectors.

50. For more information, see:

    Women Founders Network Albania: https://www.facebook.com/womenfoundersalbania/

    Women's Economic Chamber of Albania: https://weca.al/en/

    Women's Entrepreneur Committee of the National Chamber of Crafts: https://www.dhkz.org.al/index.php/en/.

51. For more information, see https://albaniatech.org/.

52. For more information, see https://challengefund.euforinnovation.al/about-the-challenge-fund/.

53. The annual European Innovation Scoreboard (EIS) provides a comparative assessment of research and innovation performance of the countries of the European Union and its regional neighbours. It allows policy makers to assess the relative strengths and weaknesses of national research and innovation systems, track progress, and identify priority areas to boost innovation performance. See the regional chapter on Innovation for SMEs (Dimension 8b) for further information.

54. STIP stands for science, technology and innovation policy. For more information on the EC-OECD STIP Compass, see https://stip.oecd.org/stip/.

55. According to the World Bank, the blue economy is the "sustainable use of ocean resources for economic growth, improved livelihoods, and jobs while preserving the health of ocean ecosystem".

56. The non-governmental organisation, Partners Albania, organises the competition. For more information on the winning ideas for the 2021 competition, see https://partnersalbania.org/News/winners-of-the-green-businesses-2021-national-competition/.

57. The Regulation EC No. 66/2010 on EU Ecolabel has been transposed in the Albanian legislation.

58. For more information, see https://english.rvo.nl/subsidies-programmes/mia-and-vamil.

59. The European Commission has launched the first tranche of its Fit for 55% measures that will support Europe's climate policy framework and put the European Union on track for a 55% reduction in carbon emissions by 2030 and net-zero emissions by 2050. The interconnected proposals cover areas of climate, land use, energy, transport and taxation to bring them into line with the targets agreed in the European Climate Law. For instance, proposed targets by 2030 include: a 55% reduction of emissions from cars; a 50% reduction of emissions from vans; a 3% renovation of the total floor area of all public buildings annually; and a benchmark of 49% of renewables in buildings. More information is available at https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal/delivering-european-green-deal_en.

60. Minerals include crude petroleum and chromium ore; metals include raw iron bars and ferroalloy; and agro-food exports comprise mainly vegetables, perfumed plants and processed fish.

61. The Good Agricultural Practices certificate is a voluntary certification programme that allows an independent party to evaluate food safety practices within a company. GAP identifies best practices in farming, packaging and storage.

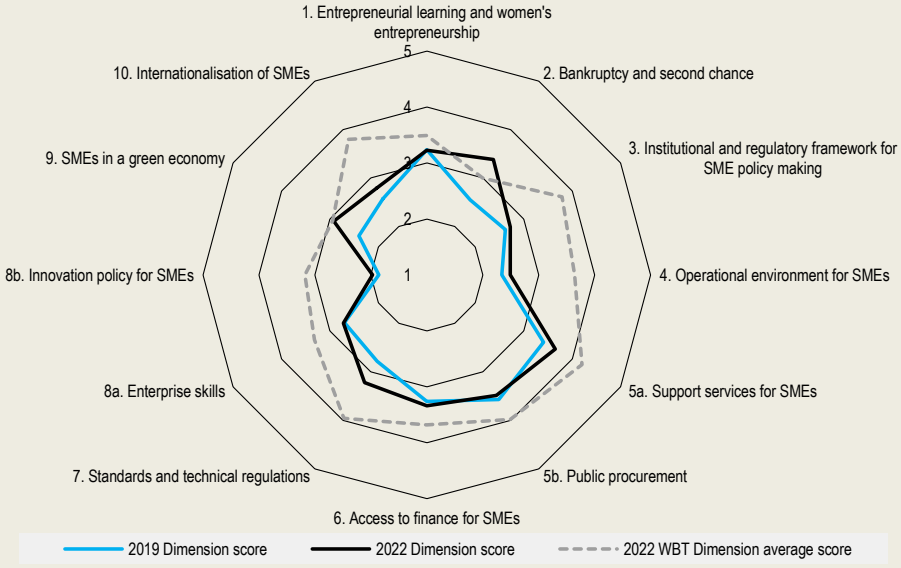
62. For more information, see https://www.digitaljobsalbania.com/.

14 Bosnia and Herzegovina: Economy Profile

This chapter covers the progress made by Bosnia and Herzegovina in implementing the Small Business Act (SBA) for Europe over the period 2019-21. It starts with an overview of Bosnia and Herzegovina's economic context, business environment and status of its EU accession process. It then provides key facts about small and medium-sized enterprises (SMEs) in the economy, shedding light on the characteristics of the SME sector. It finally assesses progress made in the 12 thematic policy dimensions relating to the SBA during the reference period and suggests targeted policy recommendations.

Key findings

Figure 14.1. Small Business Act scores for Bosnia and Herzegovina (2019 and 2022)



Note: WBT: Western Balkans and Turkey

Bosnia and Herzegovina (BiH) has made certain progress in implementing the SBA since the publication of the previous report – the *SME Policy Index: Western Balkans and Turkey 2019*. The economy has achieved its highest average scores in the following areas: bankruptcy and second chance for small and medium-sized enterprises (SMEs), support services for SMEs, standards and technical regulations and SMEs in a green economy. However, the progress has been rather incremental, and the economy still needs to step up its efforts to build an environment conducive to business across a number of areas.

Main achievements

- **The insolvency framework has been harmonised across the entities in Bosnia and Herzegovina.** Following a series of reforms in each entity, the regulatory framework was harmonised in 2021 for the first time across the entire territory in line with the United Nations Commission on International Trade Law (UNCITRAL) Legislative Guide on Insolvency Law. The overall legal framework's main novelty is the introduction of pre-insolvency proceedings as preventive financial and operational restructuring based on an imminent insolvency threat. Overall, this important upgrade to the legislative process could be viewed as a major achievement in terms of the coherence of the insolvency framework within the economy.
- **Key developments were undertaken to optimise procedures to start a business**. While the Federation of Bosnia and Herzegovina (FBiH) has adopted the long-awaited adjustments to its administrative laws as a legal basis for establishing a one-stop-shop for company registration in 2021, Republika Srpska (RS) established a single portal and payment slip system to enable e-registration. Moreover, applicants from Bosnia and Herzegovina have access to clear information on all licences and permits through online entity-level registers and streamlining reforms are ongoing to simplify licensing procedures in Republika Srpska.
- **SMEs have access to a wide range of public business support services (BSSs)**. In both entities, informational and educational workshops, trainings, tailored mentoring and advisory

services in the area of management, sales and marketing are available to SMEs, in addition to facilitated access to incubators and business accelerators. Private BSSs have received more government incentives across entities with support ranging from co-financing to providing access to a reinforced network of private-sector consultants.

- **Some progress has been made regarding access to finance.** Progress has been made in aligning regulations to EU standards, triggering harmonisation across entities, and the banking sector has weathered the economic downturn caused by the COVID-19 pandemic relatively well amid strengthened resilience prior to the pandemic. The establishment of dedicated COVID-19 sovereign credit guarantee schemes, complementing the existing public Guarantee Fund in Republika Srpska, have further helped soften the impact on lending. Legislative reforms have somewhat strengthened the framework for non-bank financial instruments, though limited data collection continues to hamper effective monitoring of non-bank financial institutions' activity.
- **The access to standardisation and accreditation services in Bosnia and Herzegovina slightly improved compared to the last assessment**, which helps to lower export barriers for SMEs whose products, processes and services need to conform with European standards and regulations. More specifically, the national standards body, the Institute for Standardisation of Bosnia and Herzegovina (ISBIH), expanded its outreach activities through additional webinars during the COVID-19 pandemic, and the number of adopted standards translated into local language also increased. Altogether, while still lagging behind most of the WBT economies in the alignment of their quality infrastructure system and regulations, Bosnia and Herzegovina has expanded the access of these services to SMEs.
- **Environmental policies targeting SMEs are gaining momentum**. Green measures targeting SMEs are included in Republika Srpska's Strategy for Development of SMEs (2021-2027) and the Development Strategy of the Federation of Bosnia and Herzegovina (2021-2027), which both include ambitious sets of measures with corresponding budgets and activities. Business associations have slowly been involved in developing and implementing green measures, as well as promoting environmental management systems. Both entities' environmental protection funds increasingly target smaller enterprises, facilitating their green access to finance, and additional financial instruments are planned under the recently adopted strategies.

The way forward

- **Embed entrepreneurship as a key competence across all education systems.** The EU-funded Education for Employment programme offers opportunities to consider how to best develop key areas such as key competence-based curriculum, practical entrepreneurial experience and teacher competences. This can highlight the practical steps needed to improve the quality and frequency of entrepreneurial learning for learners in schools across the economy.
- **Improve and simplify the institutional and regulatory framework for SMEs**. Further efforts could be made at all levels of governance to ensure that the regulatory environment is responsive to the needs of SMEs. Both entities should introduce regular quality control of regulatory impact assessments to ensure their consistency and proper examination of potential impacts of policies on SMEs. All levels of governance could do more to ensure the quality, consistency and effective SME participation in public-private consultations.
- **Enhance digital government services for SMEs.** Digital government services throughout Bosnia and Herzegovina remain underdeveloped compared to other regional economies, and the implementation of the Strategic Framework for Public Administration Reform (2018-2022) was delayed. Disagreements and lack of alignment between the state level and the entities

regarding the legal framework for electronic signatures lead to businesses experiencing additional hurdles for its use throughout the economy.

- **Reinforce the monitoring and evaluation mechanism of support programmes for SMEs across all levels of government.** Both entities have monitoring mechanisms in place for publicly provided BSSs. However, while they both report on the implementation of their strategies and action plans using publicly available reports, systematic monitoring based on performance indicators is lacking. Moreover, there is no evidence that the results of evaluations have a direct impact on service provision.
- **Improve public procurement legislation, in particular by implementing missing provisions from the EU Public Procurement Directives**, adopt new multi-year strategic documents (and related action plans) and finalise the establishment of electronic procurement tools. The administrative burden of participating in public procurement should be reduced, in particular by simplifying provisions for economic operators to prove their compliance with exclusion and qualification (selection) criteria. Bosnia and Herzegovina also needs to introduce anti-corruption mechanisms into the public procurement legislation, in particular regarding conflicts of interest, and reduce the frequency of application of non-transparent and non-competitive procurement procedures (direct award procedures).
- **Develop a state-wide quality infrastructure strategy or roadmap to improve inter-institutional co-operation and reduce inter-regional differences in the alignment with European legislation and standards**. As the responsibilities of the implementation of technical regulation, accreditation and standardisation are mainly devolved to the entities in Bosnia and Herzegovina, companies in different parts of the economy may be subject to different laws and may be dealing with different quality infrastructure bodies. A strategy that clarifies central and local responsibilities in quality infrastructure and plans activities to align practices within Bosnia and Herzegovina would be an important step to further improve its quality infrastructure system and its accessibility for SMEs.
- **Increase the scale of financial incentives to foster innovation**. To ensure the success of the SME innovation action plans, a sufficient budget should be allocated to design meaningful and co-ordinated financial support schemes. These schemes should be designed in consultation with the private sector and build on lessons learnt from existing initiatives funded by international development co-operation partners and should include regular monitoring and evaluation practices. Funding needs and sources should also be identified when preparing the Smart Specialisation Strategy.
- **Develop a legal framework for the adoption and promotion of e-commerce.** Bosnia and Herzegovina does not have a legal framework governing e-commerce across all three levels of government. Without a well-developed legal framework and incentives for SMEs to increase e-commerce uptake and build capacity in this area, Bosnia and Herzegovina faces lagging behind in their efforts on digitalisation. Having a dedicated institution governing e-commerce legislation and support programmes would greatly facilitate the adoption of the digital sales channel for SMEs, further developing their capacity and streamlining their operations.

Economic context and role of SMEs

Economic overview

Bosnia and Herzegovina is a small upper-middle-income economy with a population of roughly 3.28 million as of 2021. Its gross domestic product (GDP) purchasing parity power in current USD stood at 15 623 in 2020, having shrunk by only USD 105 since 2019, despite the challenges posed by the COVID-19 pandemic (World Bank, 2022[1]). While Bosnia and Herzegovina's production and export base is diverse in comparison to the region, services continue to account for the largest share of the economy, contributing 55.7% to GDP and 50.3% of employment, while industry accounts for 23.9% of GDP and 31.7% of employment. Bosnia's main services sector is trade, followed by business services, transport and construction and, albeit being hampered by the COVID-19 pandemic (Box 14.1), a growing tourism sector for which overnight stays increased by 78% in the first 11 months of 2021 compared to the previous year. Production of raw materials such as steel, coal, iron ore, lead, zinc and aluminium, as well as wood, is the economy's highest portion of industry and industrial exports. While agriculture represents only 6.2% of GDP, the economy's 1.6 million hectares of arable land accounts for the highest contributions to employment in the region at 18%, showing the potential of the labour reallocation from the agricultural sector as a way to boost productivity gains in the economy.

Economic growth in Bosnia and Herzegovina has diversified over the last decade, with export as a share of GDP growing to 44.1% in 2021 due to growth in machinery and power exports, as well as higher service exports, including construction and tourism (Table 14.1). Increases in exports along with surges in private consumption, which stood at 76% in 2019, and public consumption, representing 19.5% in 2019, have led to steady improvements in the current account deficit, decreasing from 9% of GDP in 2011 to 2.8% in 2019, increasing by only 1% in 2020 in light of the pandemic and further decreasing in 2021 (Table 14.1). Bosnia and Herzegovina witnessed one of the lowest contractions of GDP in the Western Balkans and Turkey (WBT) region, after Turkey and Serbia, at only -3.2% for 2020 (Table 14.1). The economy rebounded with a 7.1% GDP growth in 2021, raised from an expected 3.4% growth earlier in the year, fuelled by increased exports and household consumption, and is expected to increase between 3.3% and 3.9% in 2022 and another 3% in 2023, depending on political stability in the coming years (IMF, 2022[2]; European Commission, 2022[3]; EBRD, 2021[4]). Real sector recovery was also driven by rising investments, which increased by 16.2% year on year, while private consumption increased by 3.9%, contributing 3.8% and 2.4% to overall growth, respectively.

Bosnia and Herzegovina has slowly been increasing infrastructure projects aimed at green priorities. Notably, transitioning away from coal has started, but concerns remain about environmental sustainability. One of the three public-owned power utilities in the economy has agreed with the miners' union on a restructuring plan, but there are concerns regarding Bosnia and Herzegovina's compliance with Energy Community *acquis* regarding environmental standards.[1] Although public spending on infrastructural improvements has contributed to growing public debt, the deficit remains the third lowest in the region. While public investment in the economy is relatively high, the contribution of private investment to GDP has been stagnant at below 20% over the last decade and remains the lowest recipient of foreign direct investment (FDI) in the region, accounting for 2% of GDP between 2015 and 2019. The largest share of FDI inflows went into the non-tradable sector, including financial services, wholesale and retail trade, energy, and real estate, while export-oriented FDI went mainly to raw materials with limited value added.

Monetary and fiscal developments in the economy saw stable post-pandemic outcomes, with a slight 2% increase in inflation for 2021 and a decline in non-performing loans and an increase in bank deposits at 5.7% and 10.1%, respectively, in 2021. Tax revenues were also a part of Bosnia and Herzegovina's post-pandemic recovery, recording a collection of indirect taxes 21.5% higher in 2021 than the previous year, primarily due to value-added tax (VAT) revenues. Like all WBT economies, with the exception of Turkey, Bosnia and Herzegovina's general government balance decreased as a result of the pandemic but remained the second-highest in the region at -5.3% of GDP in 2020, albeit having declined by 7 percentage

points from 2.2% of GDP in 2019. The economy also holds the second-lowest public debt ratio in the region at 35.5% of GDP in 2021, decreasing from 36.6% in 2020 but increasing slightly in Q4 2021 due to an increase in long-term foreign debt. Although the annual consumer price index in Bosnia and Herzegovina saw a decrease of 1.1% in 2020, consumer prices increased by 2.4% year on year in Q3 of 2021, 5.3% in Q4 2021, to 7% and 8.1% in January and February 2022 respectively, due to higher costs for transport and rising prices for food and non-alcoholic beverages.

Table 14.1. Bosnia and Herzegovina: Main macroeconomic indicators (2016-21)

Indicator	Unit of measurement	2016	2017	2018	2019	2020	2021
GDP growth[1]	% year-on-year	3.4	3.0	3.3	2.8	-3.2	7.1
National GDP[2]	EUR billion	15	16	17.9	17.9	17.7	
GDP per capita growth[2]	% year-on-year	4.5	4.2	4.6	3.5	-2.6	..
Inflation[1]	% average	-1.1	1.3	1.4	0.6	-1.1	2.0
Government balance[1]	% of GDP	1.2	2.5	2.1	1.9	-5.3	..
Current account balance[1]	% of GDP	-4.8	-4.8	-3.3	-2.8	-3.8	-2.1
Exchange rate BAM/EUR[1]	Value	1.96	1.96	1.96	1.96	1.96	1.96
Exports of goods and services[1]	% of GDP	35	40.9	42.6	40.6	34.5	44.1
Imports of goods and services[1]	% of GDP	51	57.1	57.3	55.2	48.5	56.4
Net FDI[1]	% of GDP	1.8	2.3	2.9	1.5	1.7	2.1
External debt stocks[2]	% of gross national income (GNI)	68.7	72.7	66.1	65.5	72.1	
International reserves of the National Bank[1]	EUR million	4 884	5 398	5 943	6 441	7 091	8 359
Gross international reserves[1]	Ratio of 12 months imports of goods and services moving average	7.2	7.1	7.3	7.8	10	9.3
Unemployment[1]	% of total active population	25.4	20.5	18.4	15.7	15.9	17.4

Sources: 1. European Commission (2022[5]); 2. World Bank (2022[6]).

Unemployment in Bosnia and Herzegovina has been steadily decreasing since 2015, with particular improvements in the manufacturing, tourism and trade sectors, but remains significant at 17.4% in 2021. The COVID-19 pandemic exacerbated labour market challenges by aggravating already high proportions of informality, with the International Labour Organisation (ILO) estimates putting the informal sector at 30.5% of total employment, as well as low employment of youth, women and low skilled workers (ILO, 2019[7]). Despite efforts to raise the region's consistently low rates of labour force participation, youth unemployment rose to 37.7% in 2021, up 5.4 percentage points from June 2020, significantly higher than the EU average of 16.8% and further worsening youth employment prospects (European Commission, 2022[3]; Eurostat, 2021[8]). Meanwhile, the ILO Labour Force Survey indicated that the youth unemployment rate of those ages 15-24 stood at 37.8% in Q3, compared to 34.5% the previous year and remains significantly higher than the EU average of 16.8% (Eurostat, 2021[8]). Addressing bottlenecks causing persistent long-term unemployment, such as enhancing formal labour market participation, especially for women, and reducing skills mismatches for youth, will be a key part of longstanding institutional reforms. Moreover, Bosnia and Herzegovina will need to address its high emigration rate (at 20%, it is the third highest of the Western Balkans Six economies for emigration to OECD countries), which leads to deficiencies of human capital in the labour market.

Box 14.1. COVID-19 in Bosnia and Herzegovina

Bosnia and Herzegovina was adversely affected by the COVID-19 pandemic and the lockdown measures taken in response to it. GDP contracted by 3.2% in 2020, and while this contraction was less severe than in other regional economies, such as Montenegro, for instance, due to its high reliance on tourism, it has still produced negative economic consequences and necessitated policy responses from all levels of government.

As part of its recovery, Bosnia and Herzegovina provided several economic support packages to mitigate the impact of COVID-19, the first having been launched in March 2020 with the last having been presented in April 2021. The sum of the combined economic support packages totalled approximately EUR 65 million with specific provisions at both the state and entity levels:

- **Subsidies**: With the aim to provide assistance for workers and businesses during the pandemic, both entities provided subsidy contributions. Businesses in the Federation of Bosnia and Herzegovina were entitled to subsidies in the amount of BAM 245 (approximately EUR 120) per person until one month after the state of emergency was abolished. In Republika Srpska, approximately EUR 29 million was allocated to cover minimal salary, contributions and taxes through the Compensation Fund, which sources funds through voluntary contributions, the RS budget and tax revenues under special laws and donations. On 7 April 2020, the Federation of Bosnia and Herzegovina also announced the allocation of a total of BAM 7 million (~EUR 3.5 million) to the Federal Civil Protection Administration and the Federal Civil Protection Headquarters. The Federation of Bosnia and Herzegovina allocated around EUR 50 million to support the tourism and catering sectors, purchase and export of market surpluses, and support for the export-oriented agricultural production, measures in the field of road, railway and air transport, support to companies in the field of energy, mining and industry for maintaining current liquidity, working capital and completion of investments started before the pandemic, and support to the health sector.
- **Tax measures**: The obligation to make advanced payments on corporate income tax for businesses and self-employers was abolished during the pandemic, while lease amounts were decreased by 50% for business premises managed by the FBiH Office of Joint Affairs. Corporate income tax liabilities in Republika Srpska were postponed until June 2020. All borrowers from the Republika Srpska Investment-Development Bank (IRBRS) were granted three-month repayment moratoriums, and deadlines for filing tax returns and salary specifications were extended to June 2020 in both entities. In Republika Srpska, the taxes were covered by the government for those subjects who were the most affected by the crisis (merchants, caterers and small entrepreneurs).
- **Loans:** The RS Ministry of Agriculture has also allocated BAM 2.2 million (~EUR 1.1 million) in loans to encourage agricultural output for small producers. Support for the tourism sector was also announced by Republika Srpska. Starting from 15 June 2020, citizens benefited from a BAM 100 (around EUR 50) voucher that can be used to co-finance accommodation costs at any destination in Republika Srpska, provided that the stay lasts a minimum of three nights. All borrowers from the IRBRS are granted a three-month repayment moratorium.
- **Credit lines:** The FBiH Development Bank established a Guarantee Fund with total reserves of around EUR 50 million. In June 2020, released the first injection of funds under the Programme of Economic Stabilisation of the Federation of Bosnia and Herzegovina (2020-2021) of around EUR 50 million to provide guarantees to commercial banks for loans destined to companies whose activities are characterised as those in the strategic development sectors. Republika Srpska announced the establishment of the Fund for Economy Aid, which became

operational in May 2020. Namely, together with the European Bank for Reconstruction and Development and the Guarantee Fund of Republika Srpska, BAM 50 million (~EUR 25 million) was provided as a guarantee for loans (ranging from BAM 5 000 or around EUR 2 500 to BAM 500 000 or around EUR 250 000), which business entities will be able to obtain through commercial banks. In June 2020, the Minister of Finance of Republika Srpska held a meeting with the representatives from the banking sector and micro-credit institutions, during which the Guarantee Programme to support the economic recovery and its Guarantee Fund were presented.

Although numerous short-term economic support measures helped mitigate immediate economic damage, structural issues primarily with regard to the public health sector, employment, social protection and private-sector support were exacerbated by the pandemic and remain in need of reforms.

Sources: OECD (2021[9]; 2021[10]); European Commission (2021[11]).

Business environment trends

Bosnia and Herzegovina has made strong progress in improving the framework for bankruptcy proceedings by aligning and strengthening the regulatory framework throughout its entire territory, ensuring that firms may exit the market more efficiently and with less risk for creditors and debtors. Efforts to harmonise banking regulations with the EU *acquis* at the level of both entities have been recognised by the European Commission. Some progress was also seen regarding business registration procedures. The Register of Business Entities and Natural Persons and the Federation of Bosnia and Herzegovina's clearing system have been upgraded since the last assessment, further aligning the business environment with EU standards. Republika Srpska also finalised the fourth phase of its e-registration project in May 2021, reducing the time and costs of business procedures by opening digital registration options (Directorate for Economic Planning, 2021[12]). Meanwhile, although the informal labour market remains significant, some progress was made in improving the degree of registration in the workforce through better labour market controls. The economy also made some efforts at the entity level to proceed with the implementation of electronic registrations of businesses and to facilitate foreign investment, continuing to be one of the most open economies for investment according to the OECD FDI Regulatory Restrictiveness Index. Its score remained 0.037 in 2020, significantly lower than the OECD average of 0.063, indicating that the economy has low barriers to trade and maintains only a handful of restrictions, notably in the media, radio and broadcasting sectors (OECD, 2020[13]).

Despite these achievements, Bosnia and Herzegovina's business environment still has several key impediments and obstacles to business development which are acknowledged in the economy's latest Economic Reform Programme (ERP) (Box 14.2). Overall, the economy's business environment continues to be hampered by numerous and lengthy regulatory procedures, political discord, a lack of co-operation and diverging rules between entities, complicating the operation of companies. Businesses are required to navigate through multiple registration processes, increasing the costs of establishing a company and protecting incumbent companies from competition. The economy's judicial branch remains a difficult barrier for businesses to function, particularly weak contract enforcement, problematic commercial dispute settlement, a large court case backlog, complicated real estate procedures and unreliable property rights.

Furthermore, corruption remains a hurdle for businesses across the WBT region, and Bosnia and Herzegovina has made little progress in its anti-corruption efforts. The poor functioning of the judicial system undermines a fair business environment, particularly when it comes to selective and non-transparent prosecution and judicial follow-up of corruption cases which negatively affects business operators and investors (European Commission, 2021[14]). Consequently, Bosnia and Herzegovina's score in Transparency International's Corruption Perception Index has continuously deteriorated since 2013,

decreasing from a score of 42 to 35 (out of a possible 100) in 2021. As of the same year, it remains in 110th place out of a total of 180 ranked economies, the lowest in the WBT region along with Albania (Transparency International, 2022[15]).

Box 14.2. Economic Reform Programmes

Since 2015, EU accession candidates have been obliged to produce annual ERPs that outline clear policy reform objectives and policies necessary for participation in the economic policy co-ordination procedures of the European Union. The ERPs aim to produce concrete reforms that foster medium and long-term economic growth, achieve macroeconomic and fiscal stability and boost economic competitiveness. Since their initial launch, ERP agendas have been required to include structural reform objectives in key fundamental areas:

- public finance management
- energy and transport markets
- sectoral development
- business environment and reduction of the informal economy
- trade-related reform
- education and skills
- employment and labour markets
- social inclusion, poverty reduction and equal opportunities

In addition to these essential fields, and as the objectives of EU policies continue to evolve to include cross-cutting sustainable sectors, the structural reform agendas of ERPs have embraced new commitments to progressive policy reforms since the last assessment that also cover:

- green transition
- digital transformation
- research, development and innovation
- economic integration reforms
- agriculture, industry and services
- healthcare systems.

Once submitted by the governments, ERP programmes are assessed by the European Commission and European Central Bank, opening the door for a multilateral policy dialogue with enlargement candidates to gauge their progress and priority areas on their path to accession. Discussions and assistance on policy reforms take place through a high-level meeting between member states, EU institutions and enlargement economies, through which participants adopt joint conclusions that include economy-specific guidance for policy reform agendas.

The findings of the *SME Policy Index 2022* provide an extensive technical understanding of the progress made on business sector-related policy reforms that are key to the ERPs of the EU accession candidates at both the regional and economy-specific levels. The SBA delves into the specific barriers to progress in ten policy areas that are essential to applying the larger objectives of the ERP programmes like boosting competitiveness and economic growth to SMEs in the region.

Source: European Commission (2021[11]).

EU accession process

Five years after the recognition of Bosnia and Herzegovina as a potential candidate for EU membership at the Thessaloniki European Council Summit in 2003, the economy signed its Stabilisation and Association Agreement (SAA) with the European Union in 2008, which entered into force in 2015, establishing a free trade area and closer political dialogue with the European Union. Shortly afterwards, Bosnia and Herzegovina became the last WBT economy to have applied for EU accession, having been granted potential candidacy status in 2016 (OECD, 2021[9]). After the self-assessment questionnaire, provided to all potential EU accession candidates, was sent to Bosnia and Herzegovina, the economy returned the finalised answers to the European Commission in 2018. The European Commission Opinion of May 2019 established 14 key priorities in the areas of democracy, institutional functionality, the rule of law, fundamental rights and public administration reform that Bosnia and Herzegovina needs to implement in order for the Commission to recommend the opening of EU accession negotiations (European Commission, 2019[16]). Bosnia and Herzegovina has made some recent progress in the 14 key priorities, namely by holding municipal elections in Mostar in 2020, holding the Stabilisation and Association Parliamentary Committee in 2021 and starting discussions on constitutional and electoral reforms and public administration reform (European Commission, 2021[14]).

While chapters on EU accession are not open for the economy as the negotiation procedures have not yet commenced, the status of Bosnia and Herzegovina's implementation of each criterion is still assessed on an annual basis. However, the economy remains in the early stages for 14 of 33 assessed *acquis* chapters, with no progress on preparations having been made since the 2020 EC report. Positively, between the 2019 and 2020 reports, the economy did advance to "some level of preparation" in the areas of social policy and employment and transport policy while moving forward to 'moderately prepared' in the area of financial services (European Commission, 2021[14]).

According to the European Commission's 2021 enlargement report for Bosnia and Herzegovina, the economy remains at an early stage of preparation on enterprise and industrial policies that help encourage a hospitable environment for SMEs. Since the last enlargement report, Bosnia and Herzegovina has only made limited progress in aligning its industrial policy with that of the European Union. Although the Federation of Bosnia and Herzegovina, Republika Srpska and the Brcko District have each adopted new industrial development strategies for the period 2021-27, the economy continues to lack coherence between development strategies as well as a state-level monitoring body to promote consistency among policies that concern industrial competitiveness (European Commission, 2021[14]). In this regard, Bosnia and Herzegovina should concentrate on:

- simplifying and harmonising business registration in both entities in order to reduce the administrative burden on entrepreneurs by centralising company registration and licensing under one-stop-shops and by broadening online registration
- updating the industrial policy strategies and action plans at various levels of government, ensuring co-ordination and involvement of industrial enterprises in policy formulation and implementation
- assessing the needs of businesses, particularly SMEs, when it comes to modernising skills and adopting strategic guidelines for harmonisation of SMEs and entrepreneurship support.

Further progress towards opening negotiations will strongly depend on the political commitment of authorities at all levels to co-operate on implementing harmonised policies toward European integration, which continues to be hampered by unconstructive internal political disputes (European Commission, 2021[14]). Meanwhile, Bosnia and Herzegovina will be unable to open accession negotiations until the 14 key priorities are implemented. The findings and recommendations published in the *SME Policy Index 2022* can help provide the monitoring and guidance needed for Bosnia and Herzegovina to meet the requirements related to the harmonisation of enterprise and industrial policy with the *acquis*.

EU financial support

The European Union remains the largest provider of financial assistance to Bosnia and Herzegovina, helping the economy realise its reform processes and endeavours that bring it closer to the *acquis*. The European Union's financial support to the economy and the region has been provided through both temporary support such as COVID-19 assistance packages as well as long-term investment programmes and funds through the Instrument for Pre-accession Assistance (IPA), European Investment Bank loans, Western Balkans Investment Framework grants and more.

In addition to a total of EUR 1.9 billion provided to Bosnia and Herzegovina by the European Union between 2007 and 2020 under the Instrument for Pre-accession Assistance I and II, the European Union is providing additional financing to Bosnia and Herzegovina as part of EUR 14.2 billion allocated to the Western Balkans Six economies under IPA III for the period 2021-27 to upgrade environmental management systems, improve transport systems by promoting environmentally friendly transport modes, and provide technical assistance for the management, monitoring, evaluation, information and control of IPA-related activities (European Commission, 2021[17]).

In 2020, the European Union pledged EUR 9 billion for the Western Balkans as part of a new economic and investment plan to support sustainable connectivity, human capital, competitiveness and inclusive growth, and the twin green and digital transition. One of the most ambitious projects remains the Bosnian section of Corridor Vc, supported by the European Investment Bank with over EUR 1 billion in financing to date. This important Pan-European Corridor will link Bosnia and Herzegovina with Hungary, eastern Croatia and the Adriatic Sea, as well as shortening the commutes of 1.5 million people. In addition, the economic and investment plan foresees investments into a Trans-Balkan Electricity Transmission Corridor that will provide electricity transmission to Bosnia and Herzegovina, and a gas interconnection with Croatia will facilitate energy supply diversification. Local SMEs will also be able to benefit from the scheme's increased funding to the Western Balkans Guarantee Facility (European Commission, 2020[18]). The European Investment Fund has also played a key role in financing the business landscape in Bosnia and Herzegovina, having invested EUR 860 million to support businesses since the start of its operations, sustaining around 100 000 jobs (EIB, 2022[19]).

The European Union has played a key role in financially supporting Bosnia and Herzegovina in the wake of COVID-19. The European Commission allocated EUR 250 million of its EUR 3 billion Macro-Financial Assistance (MFA) package for enlargement and neighbourhood partners that aims to help them limit the economic fallout of the COVID-19 pandemic. Bosnia and Herzegovina received the first MFA payment of EUR 125 million in October 2021, upon signing of a memorandum of understanding outlining measures to improve economic governance, financial sector stability, transparency, better functioning of the labour market and the fight against corruption. The disbursement of the second payment will be conditional on the implementation of these reforms (European Commission, 2021[20]). The economy has also been the recipient of EUR 330 million of the European Union's Team Europe EUR 3.3 billion COVID-19 support to the region (European Commission, 2021[21]).

Bosnia and Herzegovina joined the European Union's Competitiveness of Enterprises and Small and Medium-Sized Enterprises Programme (COSME) in 2016, under which it benefits from support for entrepreneurship and entrepreneurial culture, access to finance for SMEs and access to markets (European Commission, 2021[22]). Bosnia and Herzegovina is part of the Horizon 2020 programme, allowing it access to the programme's budget of nearly EUR 80 billion to help develop projects and technologies and conduct research and activities that will contribute to tackling global challenges. Its participation in the SMEs portion of Horizon 2020 has been rather low (European Commission, 2021[23]). In 2022, the economy signed an additional Association Agreement to the Horizon Europe programme, promoting closer research and innovation co-operation with the European Union.

SMEs in the domestic economy

The classification of SMEs in Bosnia and Herzegovina varies throughout the economy, with each entity providing its own definition under two pieces of legislation. Both entities define SMEs under the Law on Accounting and Auditing, which defines enterprises by the number of employees for purposes of accounting and financial reporting, in addition to the Law on Fostering Small Business Development in the Federation of Bosnia and Herzegovina (Table 14.2) and the Law on SME Development in Republika Srpska (Table 14.3). The categories conform to the EU standard definition of SMEs by employee size, with the exception of microenterprises under the Law on Accounting and Auditing in the Federation of Bosnia and Herzegovina, Republika Srpska and the Brcko District, but diverge on the other criteria concerning annual income and assets.

In October 2019, Republika Srpska amended its Law on SME Development by substantially increasing the turnover and balance sheet thresholds. The thresholds increased from a maximum BAM 1 million turnover and BAM 2 million balance sheet total for small enterprises to a common threshold of BAM 19.55 million. For medium enterprises, the threshold was raised from a maximum of BAM 4 million to BAM 97.79 million for turnover and from BAM 8 million to BAM 84 million for balance sheet total (Table 14.2).

Table 14.2. Definition of micro, small and medium-sized enterprises in the Federation of Bosnia and Herzegovina

.	EU definition	Law on Accounting and Auditing	Law on Fostering Small Business Development
Micro	< 10 employees = EUR 2 million turnover or balance sheet	No definition in place	< 10 employees ≤ BAM 400 000 (~EUR 204 000) turnover and/or balance sheet
Small	< 50 employees = EUR 10 million turnover or balance sheet	< 50 employees < BAM 1 million (~EUR 0.51 million) circulating assets < BAM 2 million (~EUR 1.02 million) turnover	< 50 employees ≤ BAM 4 million (~EUR 2.04 million) turnover and/or balance sheet
Medium-sized	< 250 employees = EUR 50 million turnover = EUR 43 million balance sheet	< 250 employees < BAM 4 million (~EUR 2.04 million) circulating assets < BAM 8 million (~EUR 4.08 million) turnover	< 250 employees ≤ BAM 40 million (~EUR 20.41 million) turnover and/or ≤ BAM 30 million (~EUR 15.30 million) balance sheet

Note: BAM: Bosnia and Herzegovina convertible mark; exchange rate as of December 2021.
Sources: FBiH (2009[24]; 2006[25]).

Table 14.3. Definition of micro, small and medium-sized enterprises in Republika Srpska

	EU definition	Law on Accounting and Auditing	Law on SME Development
Micro	< 10 employees = EUR 2 million turnover or balance sheet	< 5 employees < BAM 250 000 (~EUR 128 000) balance sheet <BAM 500 000 (~EUR 255 000) turnover	< 10 employees
Small	< 50 employees = EUR 10 million turnover or balance sheet	< 50 employees < BAM 1 million (~EUR 0.51million) balance sheet < BAM 2 million (~EUR 1.02 million) turnover	< 50 employees < BAM 19.55 million (~EUR 9.95 million) turnover or balance sheet
Medium-sized	< 250 employees = EUR 50 million turnover = EUR 43 million balance sheet	< 250 employees < BAM 4 million (~EUR 2.04 million) balance sheet < BAM 8 million (~EUR 4.08 million) turnover	< 250 employees ≤ BAM 97.79 million (~EUR 49.73 million) turnover and/or

	EU definition	Law on Accounting and Auditing	Law on SME Development
			≤ BAM 84 million (~EUR 42.71 million) balance sheet

Note: BAM: Bosnia and Herzegovina convertible mark; exchange rate as of December 2021.
Sources: RS (2019[26]; 2020[27]).

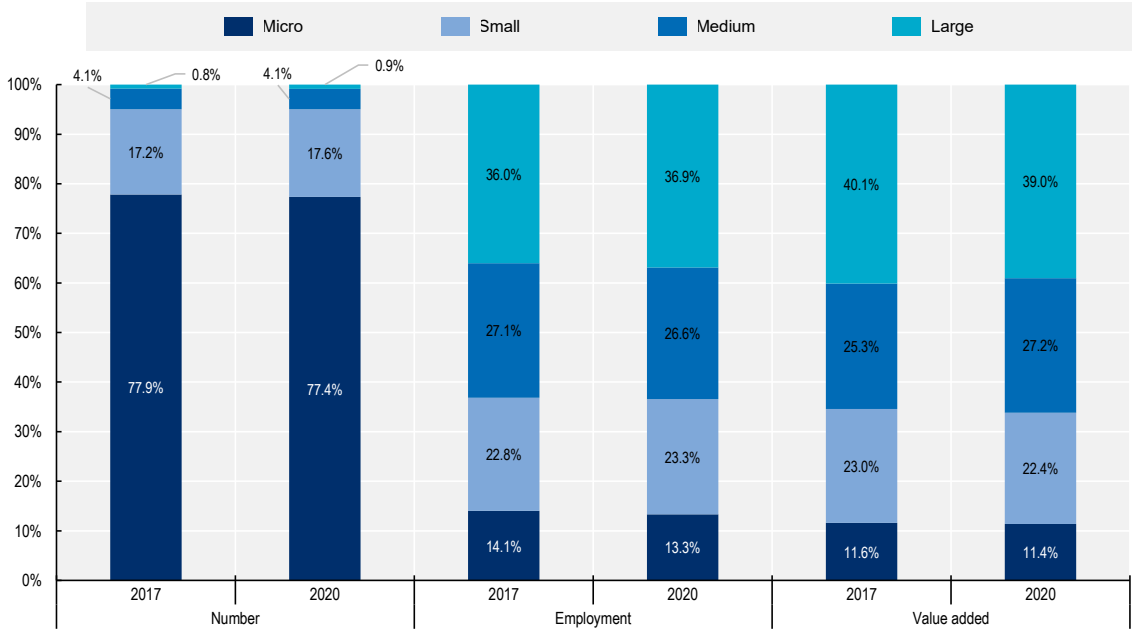
Table 14.4. Definition of micro, small and medium-sized enterprises in the Brcko District

	EU definition	Law on Accounting and Auditing
Micro	< 10 employees = EUR 2 million turnover or balance sheet	No definition in place
Small	< 50 employees = EUR 10 million turnover or balance sheet	< 50 employees < BAM 2.8 million (~EUR 1.43 million) turnover < BAM 1.4 million (~EUR 0.71 million) circulating assets
Medium-sized	< 250 employees = EUR 50 million turnover = EUR 43 million balance sheet	< 250 employees < BAM 4 million (~EUR 2.04 million) turnover ≤ BAM 8 million (~EUR 4.08 million) circulating assets

Note: BAM: Bosnia and Herzegovina convertible mark; exchange rate as of December 2021.
Source: Brcko District (2011[28]).

In 2020, Bosnia and Herzegovina's 31 726 SMEs accounted for 99.46% of all enterprises in the economy, with their number increasing by 0.05 percentage point since 2017. The number of small enterprises increased by 1 percentage point since 2017, while the number of micro and medium-sized enterprises decreased by 0.5 and 0.05 percentage point. The number of persons employed by small enterprises increased the most among SMEs, by 8.93 percentage points from 2017 to 2020, while the number of persons employed by medium-sized enterprises increased by 4.97 percentage points over the same period. In 2020, SMEs represented 63.14% of employment in the business sector, an increase of 5.59 percentage points since 2017 (Figure 14.2).

Figure 14.2. Business demography indicators in Bosnia and Herzegovina (2017 and 2020)

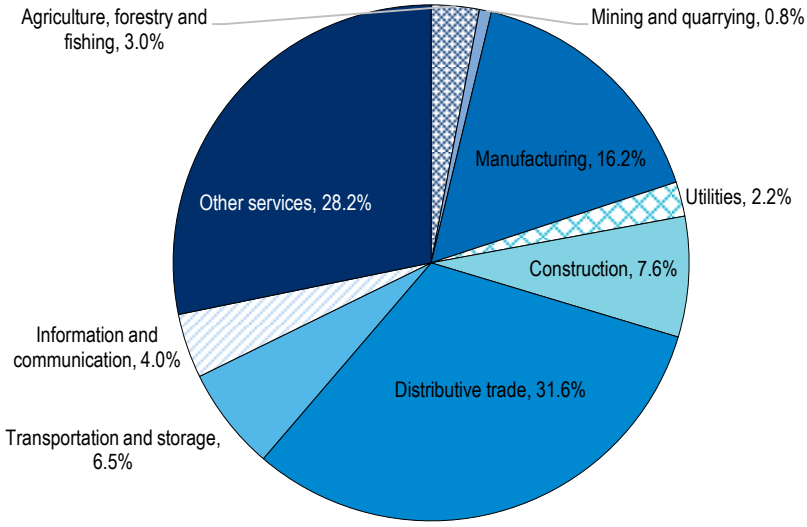


Note: Latest data for the FBiH are from 2019. Unincorporated enterprises are not included. Due to unavailability of state-level data for micro-enterprises, data for Bosnia and Herzegovina have been calculated by aggregating the data from the Federation of Bosnia and Herzegovina and the Republika Srpska.
Source: Statistical offices of the FBiH and the RS.

The economy's total value added in 2020 was approximately EUR 720 million more than in 2017. SMEs in Bosnia and Herzegovina accounted for 60.97% of value added by businesses in 2020, a 16-percentage-point increase from 2017.

The makeup of SMEs by sector in Bosnia and Herzegovina has seen slight changes in the sectoral distribution since 2017 (Figure 14.3). The distributive trade sector, which includes wholesale, retail trade, and the repair of motor vehicles and motorcycles, remains the overwhelming industry of SMEs in the economy at 31.63%. At 16.18%, the manufacturing sector follows as the second-highest number of SMEs in Bosnia and Herzegovina, followed by the construction (7.55%) and transportation and storage (6.47%) sectors.

Figure 14.3. Sectoral distribution of SMEs in Bosnia and Herzegovina (2020)



Note: Due to unavailability of state-level data for micro-enterprises, data for Bosnia and Herzegovina have been calculated by aggregating the data from the Federation of Bosnia and Herzegovina and the Republika Srpska. Data for FBiH are from 2019.The sector classification generally follows the Statistical Classification of Economic Activities in the European Community (NACE) Rev.2 classification of productive economic activities with the following exceptions: "Utilities" represents the sum of "Electricity, gas, steam and air conditioning supply" (D); "Water supply" comprises "Sewerage, waste management and remediation activities" (E); "Distributive Trade" covers "Wholesale and retail trade; repair of motor vehicles and motorcycles" (F); and Other Services here consists of (I) Accommodation and food service activities, (L) Real estate activities, (M) Professional, scientific and technical activities, (N) Administrative and support service activities as well as (S) Other service activities. For more information, consult NACE Rev. 2 Classification.
Source: SBA Assessment questionnaire

Most of Bosnia and Herzegovina's companies (over 70%) are located in the FBiH entity, with around 30% in the RS entity (Table 14.5), and are concentrated around the main commercial hubs of the economy, particularly the Sarajevo canton (over 24% of total enterprises in 2020 and 2021).

Table 14.5. Number of registered companies in Bosnia and Herzegovina, by enterprise size class and entity and FBiH canton (2021 or the latest available year)

Entities	Cantons (FBiH)	Enterprise size class, by employment				Total	Share of total number of enterprises	
		0-9	10-49	50-249	250+		2020-21	2017
Federation of Bosnia and Herzegovina	Bosnian Podrinje	135	41	8	4	188	0.54%	0.57%
	Herzegovina-Neretva	2 260	413	77	16	2 766	7.93%	7.86%
	Canton 10	556	92	16	2	666	1.91%	2.00%
	Sarajevo canton	7 234	1 084	245	64	8 627	24.73%	23.18%
	Posavina canton	279	55	14	2	350	1.00%	1.14%
	Central Bosnia canton	1 410	305	98	26	1 839	5.27%	5.58%
	Tuzla canton	3 113	653	195	36	3 997	11.46%	11.72%
	Una-Sana canton	1 625	332	63	6	2 026	5.81%	6.02%
	Western Herzegovina canton	1 069	183	50	11	1 313	3.76%	3.83%
	Zenica-Doboj canton	2 308	547	166	28	3 049	8.74%	8.47%
	Total FBiH	19 989	3 705	932	195	24 821	71.16%	70.40%
Republic of Srpska		7 700	1 839	425	96	10 060	28.84%	29.60%
Bosnia and Herzegovina		27 689	5 544	1 357	291	34 881	100.00%	100.00%

Note: Data for Republika Srpska are from 2020. Data from this table were collected from entity governments, using different methodologies from those used by the Bosnia and Herzegovina Institute for Statistics, which is the source of the data mentioned in the main text.
Source: SBA assessment government questionnaires.

Assessment

Description of the assessment process

The Small Business Act (SBA) assessment cycle was virtually launched on 7 July 2021, when the OECD team shared the electronic assessment material – questionnaires and statistical sheets, accompanied by explanatory documents.

Following the virtual launch, the Ministry of Foreign Trade and Economic Relations distributed the link to the assessment material to the appropriate ministries and government agencies at the state level and the statistical sheets to the National Statistical Office of the Federation of Bosnia and Herzegovina. In parallel, the link to the assessment material and the statistical sheets were also shared with the entity representatives: in the Federation of Bosnia and Herzegovina, the Ministry of Development, Entrepreneurship and Craft; and in Republika Srpska, the Ministry of Economy and Entrepreneurship. These institutions compiled the data and documentation between July and September 2021 and completed the questionnaires. Each policy dimension was given a self-assessed score accompanied by a justification. The completed questionnaires and statistical data sheets were received by the OECD team on 1 October 2021, following which the OECD team began an independent review.

The OECD reviewed the inputs and requested additional information on certain elements from the state Ministry of Foreign Trade and Economic Relations, Ministry of Development, Entrepreneurship and Craft of the Federation of Bosnia and Herzegovina and the Ministry of Economy and Entrepreneurship of Republika Srpska. For several dimensions, virtual consultation meetings with key dimension stakeholders were organised from end-October to mid-November. The meetings aimed to close any remaining information gaps in the questionnaires.

A virtual preliminary findings meeting with Bosnia and Herzegovina was held on 24 November 2021 with an aim to present and discuss the preliminary *SME Policy Index 2022* assessment findings and initial recommendations for Bosnia and Herzegovina. At the same time, it served as an opportunity to seek the views of a broad range of policy stakeholders on how SMEs are affected by current policies and to gauge what more can be done across different policy areas to improve SMEs' performance and competitiveness in Bosnia and Herzegovina, especially in the post-COVID context.

The meeting allowed the OECD to validate the preliminary assessment findings. The draft SME Policy Index publications and the Economy Profile of Bosnia and Herzegovina were made available to the government of Bosnia and Herzegovina for their review and feedback in March 2022.

Scoring approach

Each policy dimension and its constituent parts are assigned a numerical score ranging from 1 to 5 according to the level of policy development and implementation, so that performance can be compared across economies and over time. Level 1 is the weakest and Level 5 the strongest, indicating a level of development commensurate with OECD good practice (Table 14.6). For further details on the SME Policy Index methodology and how the scores are calculated, as well as the changes in the last assessment cycle, please refer to Annex A.

Table 14.6. Description of score levels

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

Entrepreneurial learning and women entrepreneurship (Dimension 1)

Introduction

Entrepreneurial learning raises learners' skills and develops the mindsets needed to change their lives and the world around them through entrepreneurial action for social and economic impact. It is the basis for empowering learners to know they can generate the creative ideas needed in the 21st century.

Women's entrepreneurship should be prioritised to support women's economic and social empowerment and drive improved stability and social and economic growth. It can also enable closing gender gaps in the workforce, supported by equality and gender impact analysis of policies affecting family care and social protection.

The overall score for Bosnia and Herzegovina has remained constant since the 2019 assessment. There have been good developments at the state and entity levels across both sub-dimensions (Table 14.7). Some actions remain under development, such as focusing on the entrepreneurship key competence within pre-service teacher training at the state level and practical integration of entrepreneurial learning developments into entity-level policy and implementation within education and training systems. Women's entrepreneurship remains an area where progress is seen, but overall development is fragmented. There is also a strong need to improve the policy area's statistical base, as evidence of the progress and efficacy of actions taken at the state and entity levels is lacking.

Table 14.7. Bosnia and Herzegovina's scores for Dimension 1: Entrepreneurial learning and women's entrepreneurship

Dimension	Sub-dimension	Thematic block	Bosnia and Herzegovina	WBT average
Dimension 1: Entrepreneurial learning and women's entrepreneurship	Sub-dimension 1.1: Entrepreneurial learning	Planning and design	3.13	3.43
		Implementation	2.90	3.51
		Monitoring and evaluation	2.17	2.73
		Weighted average	**2.82**	**3.33**
	Sub-dimension 1.2: Women's entrepreneurship	Planning and design	4.20	3.97
		Implementation	3.49	3.83
		Monitoring and evaluation	4.25	3.11
		Weighted average	**3.85**	**3.73**
Bosnia and **Herzegovina's** overall score for Dimension 1			**3.23**	**3.49**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

There has been significant progress at the state level in entrepreneurial learning, with the launch of the strategy, Priorities for the Integration of Entrepreneurial Learning and Entrepreneurship Key Competence into Education Systems in Bosnia and Herzegovina (2021-2030) (Council of Ministers of Bosnia and Herzegovina, 2021[29]). There is evidence of progress on strategy actions at the state level, supported by state-level EU funding. Implementation at the entity level varies, with evidence of policy co-ordination and integration within the education and training system in the Federation of Bosnia and Herzegovina.

For women's entrepreneurship, progress has been mixed, with a new strategy in Republika Srpska and no renewal of the Women's Entrepreneurship Strategy that was previously in place in the Federation of Bosnia and Herzegovina.

Table 14.8. Bosnia and Herzegovina's implementation of the SME Policy Index 2019 recommendations for Dimension 1

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Update the entrepreneurial learning strategy	Recent progress can be seen via the launch of a new state-level strategy in 2021 addressing the integration of entrepreneurial learning and key competence into education and training systems. EU international partners funding is supporting further developments related to strategy actions at the state level, while the level of practical implementation differs across entity-level education systems.	Strong
Embed women's entrepreneurship within economic reform plans	No significant progress has been made in this area. There is limited reference to women's entrepreneurship in the 2021-2023 ERP, though there are broad actions relating to SME development, but without specific priority placed on women entrepreneurs.	Limited

There has been good progress in developing entrepreneurial learning as a key competence at the state level

Bosnia and Herzegovina has established a strong framework for the development of entrepreneurial learning at the state level, supported by inter-institutional co-ordination and in direct response to the recommendations made in previous SBA assessments. The recently published strategy on Priorities for the Integration of Entrepreneurial Learning and Entrepreneurship Key Competence into Education Systems in Bosnia and Herzegovina (2021-2030) (Council of Ministers of Bosnia and Herzegovina, 2021[29]) is a positive step forward, with priorities echoed across wider government documents, including Improvement of Quality and Relevance of Vocational Education and Training (VET) in Bosnia and Herzegovina in the Light of Riga Conclusions (2021-2030) (Ministry of Civil Affairs of Bosnia and Herzegovina, 2021[30]). The 2021-2030 strategy offers a comprehensive and detailed development pathway for lifelong entrepreneurial and key competence development at the state level. However, there is a lack of insight into how this will be implemented at the entity level, and a budget has not been allocated to the actions.

Funding from international development co-operation partners, through the EU-funded Education for Employment programme,[2] has been shaped to support the implementation of the state strategy, particularly through working groups on entrepreneurial/digital competences and teacher training. Seven working groups were launched in June 2021,[3] including the Working Group on Digital and Entrepreneurship Learning (WGDEL), the Career Guidance Working Group, the Teacher Training Competence Expert Working Group and the Working Group for Continuous Professional Development. Within its first six months, WGDEL defined learning outcomes for ISCED (International Standard Classification of Education) Levels 1-3 based on EntreComp and DigComp,[4] through an extensive state-wide consultation process involving teachers and experts from all levels of education and pedagogical institutes.[5] Building on this, there is also interest by the Ministry of Civil Affairs in opening dialogue with BiH education systems on ways to integrate the new European Sustainability Competence Framework (GreenComp). The work being undertaken at the state level offers an opportunity and can be translated into all education systems in the economy, reinforcing the drive for more developed competence-based education systems across Bosnia and Herzegovina and supporting the need to improve the quality of education at all levels (European Training Foundation, 2021[31]; OECD, 2019[32]).

There remains a need to fully integrate entrepreneurship key competence development into all learner experiences at the entity level

The Federation of Bosnia and Herzegovina has continued its commitment to this policy area through government funding programmes and entity-level policy co-ordination. A multi-stakeholder policy partnership was established in 2016, but there has been less visibility of its activity since the last

assessment. However, government-financed programmes (Official Gazette of Bosnia and Herzegovina, 2020[33]) have been put in place to support projects aimed at integrating key competences into preschool, primary and secondary schools, based on the European key competence framework.[6] There is evidence of learning outcomes relating to the entrepreneurship key competence at all levels of education and training except higher education in the Federation of Bosnia and Herzegovina, in line with the state-level common core curriculum where entrepreneurship is included as a cross-curricular competence.[7]

In Republika Srpska, practical implementation of the entrepreneurship key competence at the curriculum level is still developing, while entrepreneurship has been an element of the secondary school curriculum since 2006. The Education Development Strategy of Republika Srpska places a priority on actions to embed entrepreneurship key competence into the education system, with a particular focus on vocational and higher education in the Education Development Strategy Action Plan until 2020 (Government of Republika Srpska, n.d.[34]). Recent advances in the VET sector include further work to develop the dual education model alongside guidelines to support business-education co-operation, developed in collaboration with regional chambers of commerce and businesses (Chamber of Commerce and Industry of Republika Srpska, 2021[35]). In higher education, a university entrepreneurial ecosystem is being developed through business support centres within universities.[8]

Practical entrepreneurial experiences are not yet fully integrated as a feature of the core curriculum in Bosnia and Herzegovina. In the Federation of Bosnia and Herzegovina, these are widespread across all levels of education but on an ad hoc basis that is not monitored or evaluated. While there are interesting examples, including those addressing green and digital themes,[9] there remains a lack of practice sharing on effective approaches to improve learning and increase quality. In Republika Srpska, practical entrepreneurial experiences are not yet an explicit feature across all levels of education. At the VET level, there is an ad hoc provision, and there has been recent development of the dual education approach,[10] which can support practical entrepreneurial learning. Both business co-operation and practical entrepreneurial experiences appear to happen primarily in VET and higher education sectors, and there is an opportunity to increase the availability of these opportunities to all students, including those in primary and secondary levels in Republika Srpska.

There has been less development of the entrepreneurship key competence at the level of pre-service teacher training, but there is a renewed commitment to take this forward

In-service teacher training is ongoing through engagement in the EU-supported Education for Employment programme, government-financed actions in the Federation of Bosnia and Herzegovina with ad hoc training opportunities across both entities.[11] There has been less progress in developing the entrepreneurship key competence within pre-service training provision to support entrepreneurial learning. Pre-service teacher training is, however, a priority within the state-wide strategy (Council of Ministers of Bosnia and Herzegovina, 2021[29]), and it appears that the EU Education for Employment programme is taking this forward through the Expert Working Group on Teacher Training Competence. The work of this expert group started in mid-2021, and while there is a strong vision toward the quality provision of both pre-service and in-service teacher training for entrepreneurial learning, progress is not yet visible.[12]

Monitoring and evaluation of entrepreneurial learning is lacking at the state level and across both entities

There is a lack of comprehensive monitoring and evaluation of the actions outlined in the state-level strategy (Council of Ministers of Bosnia and Herzegovina, 2021[29]) and no clear indication of how this will be taken forward in line with constitutional competences. While the previous state-level strategies were evaluated, the new strategy emphasises entity-level actions to monitor and evaluate implementation. There are school-level inspections and evaluations across both entities, but the extent to which these place an explicit focus on learning related to the entrepreneurship key competence is unclear.

Overall, there are stronger co-ordination efforts to promote and develop women's entrepreneurship, but these are more evident at the entity level

There is an increased focus on developing women's entrepreneurship at both entity and state levels. At the state level, the focus is on gender equality, and within this, there are clear actions to promote and support women's entrepreneurship. At the state level, the Agency for Gender Equality in Bosnia and Herzegovina leads the work and is supported by the Commission for Gender Equality of the Parliamentary Assembly of Bosnia and Herzegovina. These structures are mirrored at the entity level, with entity-specific gender centres[13] working alongside the Commission for Gender Equality in the Federation of Bosnia and Herzegovina and the Equal Opportunities Committee in Republika Srpska. Women's entrepreneurship is highlighted as a priority for women's social and economic empowerment through actions within the Gender Action Plan of Bosnia and Herzegovina (2018-2022)[14] co-ordinated by the Agency for Gender Equality and entity-level gender centres. In contrast, women entrepreneurs are only briefly mentioned in the ERP 2021-2023 (Council of Ministers of Bosnia and Herzegovina, 2021[36]), and there is no currently active state-level group or partnership addressing women's entrepreneurship.

This policy area is more visible at the entity level through strategies that focus more closely on women's entrepreneurship and SME development. However, the level of policy co-ordination and practical implementation of women's entrepreneurship differ between the Federation of Bosnia and Herzegovina and Republika Srpska.

In Republika Srpska, there is strong co-ordination of women's entrepreneurship through a comprehensive strategy approach in the Women's Entrepreneurship Strategy (2019-2023) (Government of Republika Srpska, 2019[37]), adopted in October 2019, and which includes a detailed analysis of the state of play alongside broad-based actions on areas impacting women's entrepreneurship. The strategy is supported by the multi-stakeholder Council for Women's Entrepreneurship,[15] led by the Chamber of Commerce and Industry[16] and includes representation from the Ministry of Economy and Entrepreneurship, women entrepreneurs and a range of stakeholders. Actions included addressing financial, networking and training support for women entrepreneurs, in addition to actions to ensure equality for working mothers and make it easier for them to run their businesses. Other actions work to include women as decision makers within regulatory structures, such as business councils and other decision-making bodies that have an impact on women's entrepreneurship. The broad nature of these strategy actions is important to address the change needed to achieve social and economic equity across genders.

The strategy for women's entrepreneurship in the FbiH ended in 2020, and a follow-up strategy has not yet been developed. However, actions continue, and there is evidence of a range of government-financed support available to encourage women's entrepreneurship, supported by the Ministry of Education and Science. These include programmes to support women entrepreneurs in digitalisation, leadership and online business development following the impact of the COVID-19 pandemic.[17] These function alongside actions to share good practice and provide skills development programmes, primarily as partnership actions between the FBiH Gender Centre and the Chamber of Commerce, which are also active in developing and implementing the state-level Gender Action Plan.

A range of online portals promote access to information, support and networks for women's entrepreneurship

Several entrepreneurship portals are available in the economy, including those targeting all entrepreneurs as well as portals providing women-specific information. The Poduzetna portal for women's entrepreneurship is led by the Bosnia and Herzegovina Association of Women Entrepreneurs and supported through European Bank for Reconstruction and Development (EBRD) funding.[18] This is a new initiative that provides information from across the economy and engages a range of stakeholders in the sources of information and training it draws from, including information on financial support, micro-credit,[19] legislation changes affecting women entrepreneurs, training opportunities and women's networks. The

Zeda Development Agency in the City of Zenica provides a regional portal, including information relevant to the region, such as networks, events, incubation centres and available support projects, including those specific to women entrepreneurs. In Republika Srpska, there is a government-led entrepreneurship portal with information on public calls, available support, news and events relevant to all entrepreneurs.[20] To provide a specific focus on women's entrepreneurship, the Council for Women's Entrepreneurship website provides insights into policy development, activities, and training through a dedicated online portal.[21]

Monitoring and evaluation actions in the area of women's entrepreneurship exist, but these are limited in scope, while statistical data sources are lacking

Republika Srpska reports on the implementation of its Women's Entrepreneurship Strategy through annual reports on SME development, prepared by the Ministry of Economy and Entrepreneurship and the Development Agency (Government of Republika Srpska, 2020[38]). These reports bring together data from wider stakeholders[22] involved in developing women's entrepreneurship. Data collected are intended to form the basis of a database on women's entrepreneurship accessible through the Council for Women's Entrepreneurship website,[23] but this is not yet active.

In the Federation of Bosnia and Herzegovina, there is less focus on monitoring and evaluation. This may be linked to the expiration of the strategy focusing on this policy area and reports relating to the evaluation of women's entrepreneurship not being publicly available.

The Agency for Gender Equality at the state level and the gender centres at the entity level are drivers of the initiatives and measures toward gender equality and mainstreaming in Bosnia and Herzegovina. Comprehensive evaluation and data collection on the progress and impact of actions relating to women's entrepreneurship needs to be developed further across the economy. Progress is already seen in Republika Srpska, where there is an annual report on gender statistics to provide the evidence base needed to analyse and monitor gender equality,[24] offering a starting point to move forward towards analysing trends, women-owned SME growth pathways and considering this data as part of the smart specialisation mapping processes. Moving forward, consistent evaluation and data collection will be vital to understanding the efficacy and impact of different actions on women's entrepreneurship.

The way forward for Dimension 1

- **Build a multi-stakeholder policy partnership for entrepreneurial learning, as set out in the new state-level strategy**. Consolidating and formalising this partnership can drive ongoing commitment to strategy implementation at state and entity levels. With multiple actors involved in the work of actions funded by international partners, such as Education for Employment, it is important to use a state-level partnership to drive practical implementation at the entity level toward increasing the cross-curricular developments and overall quality of entrepreneurial learning that students experience during their education and training pathways. A good practice example from Montenegro is found in Box 14.3.

Box 14.3. Building a national policy partnership in Montenegro

Montenegro has successfully brought together and sustained a multi-stakeholder policy partnership that drives the co-ordination and development of lifelong entrepreneurial learning, gradually increasing the focus on this policy area and resulting in progress on the practical implementation of entrepreneurial learning at all levels of lifelong learning.

The consistent partnership between government ministries and key national stakeholders was linked to the design and implementation of national strategies. The relevance and importance of participation were clear to each partner organisation and closely aligned to their organisational objectives, with a named representative from each organisation. The partnership was initially informal, and organisations worked

together to place the focus on increasing the profile of lifelong entrepreneurial learning at the policy level and gaining recognition for their partnership approach. This finally resulted in formal recognition by the government in 2021, as a working group of the National Council for Competitiveness led by the Ministry of Economy.

The nascent policy partnership at the state level of Bosnia and Herzegovina has the potential to inform and guide the development of entrepreneurial learning, with actors from both entities involved in the strategy development as well as the ongoing Education for Employment programme. Bringing partners together can place a focus on actions supporting lifelong entrepreneurial learning, enhance the work of all partners in this field and lead to further recognition of the importance of this policy area across both entities.

Sources: Government of Montenegro (2021[39]) and McCallum et al. (2018[40]).

- **Match pre-service teacher training provision to the needs of the core curricula, the newly developed entrepreneurial and digital learning outcomes developed through the Education for Employment programme, and support the new entrepreneurial learning strategy**. This should be achieved through the ongoing work of the Expert Groups on Teacher Competence and Continuing Professional Development, with a strong focus on ensuring that pre-service teacher training is future-proofed to include explicit reference to entrepreneurship key competence development. A good practice example from the United Kingdom is presented in Box 14.4.

Box 14.4. Matching initial and continuing teacher education to the needs of the new Curriculum for Wales (United Kingdom)

In the United Kingdom, the University of Wales Trinity Saint David has successfully integrated the development of the entrepreneurship key competence into pre-service teacher training programmes and a new Education Doctorate supporting continuing professional development for experienced educators. Participant feedback shows that those who participate in the programme go on to use EntreComp to underpin their own teaching or wider teacher training initiatives, such as head-teacher training for the new curriculum led by Wales' National Academy for Educational Leadership.

The approach taken first places explicit focus on teachers' professional and entrepreneurial competences, using learning outcomes from EntreComp, to build an understanding of the relevance of this key competence. The courses developed also introduce knowledge and practical application of the entrepreneurship key competence for learners across diverse subject areas and with cross-curricular relevance. The university has embraced the EntreComp framework as a guide for this work, matching it with the new Curriculum for Wales, which emphasises four purposes of learning, including supporting learners in becoming "enterprising, creative contributors, ready to play a full part in life and work."[1]

One of the recommendations in this assessment is that universities and pedagogical institutes realign their training provision to match the needs of the national curriculum to the content of university-based training of new teachers. Through the Education for Employment programme, Bosnia and Herzegovina has developed learning outcomes encompassing the DigComp and EntreComp framework competences. The opportunity now is to integrate these new developments, alongside the existing focus on entrepreneurship as a cross-curricular key competence within the economy's state-level core curriculum, into pre-service teacher training to ensure new teachers are equipped to deliver the innovative pedagogies and approaches required for the future.

1. For more information on the Curriculum for Wales, see https://hwb.gov.wales/curriculum-for-wales (accessed on 20 January 2022).
Sources: Welsh Government (2021[41]); Penaluna, Penalune and Polenakovikj (2021[42]); Weicht and Jónsdóttir (2021[31]); McCallum et al. (2018[40]).

- **Strengthen the commitment to the practical implementation of the 2021-2030 strategy for entrepreneurial learning at the entity level**. It will be important to clearly show how the actions of the strategy will be implemented across each education and training system, to ensure it supports the specificities of each system and context/stage of development of entrepreneurial learning. This should include a confirmed budget allocation to implement the state-level strategy and a clearly defined pathway for monitoring and evaluation. Progress should be reported annually with the education chapter of the ERP.
- **Ensure there are active women's entrepreneurship strategies covering all areas of the economy addressing actions related to financial support, training, leadership, inclusion of women in key decision-making bodies and actions that support women who are primary carers in accessing entrepreneurship as a valid career pathway**. Consideration should be given to creating effective actions to support practice sharing and learning between key government, private sector and non-governmental organisation (NGO) stakeholders who are active in the delivery of women's entrepreneurship policy and practice at all levels.
- **Upgrade the depth and quality of monitoring and evaluation of actions related to women's entrepreneurship and increase the availability of gender-disaggregated data relevant to women's economic engagement and SME development**. This should be included in and add value to the breadth of data captured by entity-level Statistical Offices in close co-operation with entity-level gender centres and in support of the Gender Action Plan for Bosnia and Herzegovina. This would provide a stronger evidence base on the progress and efficacy of policy actions related to women's entrepreneurship, relevant to entity-level actions, smart specialisation development and key state-level documents such as the ERP. New statistical data sources developed should align with requirements for harmonisation with Eurostat.

Bankruptcy and second chance for SMEs (Dimension 2)

Introduction

Firms enter and exit the market as a natural part of the business cycle, and policies can ensure that such transitions occur in a smooth and organised manner. Well-developed insolvency procedures and regimes can protect both debtors and creditors, striking the right balance between both parties, for example. This is particularly relevant for smaller firms as they lack resources compared to bigger firms. Therefore, governments need to make sure that bankruptcy proceedings are efficient, ease reorganisation procedures (instead of bankruptcies) and ensure that those starting again have the same opportunities in the market they had the first time.

In Bosnia and Herzegovina, as in other Western Balkan economies where SMEs make up a large share of total businesses, effective liquidation and discharge procedures are particularly important as they can allow entrepreneurs to reintegrate into the market. This was particularly relevant in the context of the COVID-19 pandemic, where a number of firms faced financial difficulties or were at risk of financial distress (OECD, 2021[43]).

Bosnia and Herzegovina has made the most significant improvement since the last assessment. Its performance increased from 2.55 in 2019 to 3.38 and is performing above the WBT average of 3.03 (Table 14.9). Bosnia and Herzegovina became the regional leader primarily due to its efforts to harmonise the bankruptcy legal frameworks across the entire territory.

Table 14.9. Bosnia and Herzegovina's scores for Dimension 2: Bankruptcy and second chance

Dimension	Sub-dimension	Thematic block	Bosnia and Herzegovina	WBT average
Dimension 2: Bankruptcy and second chance	Sub-dimension 2.1: Preventive measures		**2.80**	**2.74**
	Sub-dimension 2.2: Bankruptcy procedures	Design and implementation	**4.00**	**3.47**
		Performance, monitoring and evaluation	**3.50**	**3.23**
		Weighted average	**3.80**	**3.38**
	Sub-dimension 2.3: Promoting second chance		**2.20**	**1.96**
Bosnia and Herzegovina's overall score for Dimension 2			**3.38**	**3.03**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Bosnia and Herzegovina has improved its performance since the 2019 assessment. Its insolvency framework is regulated at the entity level and is harmonised across the entire territory. However, bankruptcy proceedings are not resolved in a timely manner, and the use of reorganisation processes remains limited.

The existing preventive measures[25] have been enhanced, albeit indirectly, with the introduction of new business advisory and mentoring services provided under projects funded by international partners (from the European Union and the Japan International Cooperation Agency [JICA]). A fully-fledged early warning system is yet to be adopted (Table 14.10). The Danube Chance 2.0 EU Interreg project implemented by the Development Agency of Republika Srpska (RARS) contributed to the promotion of restructuring measures and provided support to financially distressed enterprises facing imminent insolvency and entrepreneurs who had already declared bankruptcy and were ready for a fresh start (RARS, 2022[44]). Thanks to the Danube project and the promotion of second chance in the Strategy for the Development of

SMEs of Republika Srpska (2021-2027), Republika Srpska became the only jurisdiction in the WBT region to include and implement second chance in its policy framework during this assessment.

Table 14.10 Bosnia and Herzegovina's implementation of the SME Policy Index 2019 recommendations for Dimension 2

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Develop a fully-fledged early warning system	An early warning system is still missing in Bosnia and Herzegovina, but both entities introduced business advisory and mentoring services to SMEs that indirectly contribute to insolvency prevention. Additionally, Republika Srpska is promoting the benefits of an early warning system through the Danube Chance 2.0 project.	Limited
Continue to harmonise the insolvency legal framework with the EC recommendations	The bankruptcy laws in the Federation of Bosnia and Herzegovina, Republika Srpska and the Brcko District are harmonised, but none of them includes simplified, fast-track bankruptcy proceedings for SMEs.	No progress
Enhance and adapt the administrative capacities of the bodies implementing the insolvency legislation	The governments introduced higher qualification standards and examinations/licensing for bankruptcy administrators. However, no special follow-up capacity building on implementing new pre-insolvency restructuring was organised for implementation bodies.	Moderate
Create a monitoring and evaluation process for bankruptcy mechanisms	No major progress has been made on evaluation in Bosnia and Herzegovina. In the Federation of Bosnia and Herzegovina, with the enactment of the new bankruptcy law in July 2021, a digital insolvency register at the FBiH Financial Information Agency was introduced. However, this register includes only data from newly opened bankruptcy proceedings.	Limited

The insolvency framework has gradually been harmonised across the entities in Bosnia and Herzegovina

Since 2003, international organisations have played a major role in each entity in developing a legal basis for bankruptcy proceedings, with important discrepancies between the entities (FBiH Parliament, 2003[45]). Following a series of reforms in each entity, the regulatory framework was harmonised in 2021 for the first time across the entire territory and with the United Nations Commission on International Trade Law (UNCITRAL) Legislative Guide on Insolvency Law (UNCITRAL, 2004[46]).

In 2016, Republika Srpska introduced the hybrid proceeding of pre-insolvency restructuring in line with the out-of-court restructurings in the European Union (RS Parliament, 2016[47]; European Commission, 2016[48]). In 2019, the Brcko District made substantial changes to their insolvency law,[26] thus harmonising its legal framework with Republika Srpska (Brcko District Parliament, 2019[49]). Similarly, in July 2021, the Federation of Bosnia and Herzegovina aligned its insolvency law[27] with Republika Srpska and the Brcko District (FBiH Parliament, 2021[50]).

The overall legal framework's main novelty is the introduction of pre-insolvency proceedings as preventive financial and operational restructuring based on an imminent insolvency threat. Overall, this important legislation upgrade process could be viewed as a major achievement in terms of the coherence of the insolvency framework within the economy.

Following the harmonisation, the current legal framework allows for two types of restructuring procedures: 1) a pre-insolvency restructuring plan, which is a major insolvency prevention measure; and 2) a regular bankruptcy reorganisation plan, which can be submitted together with the filing of the bankruptcy petition or decided later at the first creditors' meeting in a regular bankruptcy proceeding. Both procedures are finalised upon the confirmation of the reorganisation plan by the insolvency judge or under the court's authority, which provides for the greater legal security of all parties. The restructuring/reorganisation plan is possible if it provides a more favourable settlement for the creditors in relation to what they would receive in a bankruptcy liquidation. The form of the plan is not restricted to any legal measure of debtor-creditor

settlement, such as debt rescheduling; change of maturity, interest rates or other terms of the loan, credit or other claim or replacement of security instrument; debt-equity swap; or debt write-off. However, these novelties cannot be qualified as simplified, fast-track procedures per se as the targeted potential beneficiaries are not clearly defined (e.g. SMEs under a certain maximum debt threshold at the time of filing for bankruptcy).

In the Federation of Bosnia and Herzegovina, another novelty regarding the bankruptcy process is the digitalisation of notifications, meaning that all important notices are announced on the FBiH Financial Information Agency (FIA) site (FBiH Financial Information Agency, 2020[51]). The FIA also works as a credit rating bureau and provides an assessment, upon a company's request for BAM 50 (around EUR 25), of their liquidity, solvency, and efficiency of assets' usage, operational efficiency and profitability. This system serves somewhat as an alternative early warning tool, but not a fully-fledged one, as information is collected on a yearly basis and does not focus on SMEs facing potential imminent insolvency. The FIA also provides an electronic register for all opened pre-insolvency and bankruptcy proceedings. However, the register does not provide information on unresolved proceedings initiated under the previous bankruptcy law. According to the latest data provided by the FIA, since August 2021, no pre-insolvency proceeding or regular bankruptcy reorganisation plan has been submitted to courts in the Federation of Bosnia and Herzegovina, while 115 regular bankruptcy liquidation proceedings have been opened. Given that this is a new initiative, the amount of publicly available information is expected to increase in the coming years.

In Republika Srpska, data collected are published on the official website of the Ministry of Justice and comprise information regarding cases resolved under the old and the new law (from 2016), such as the duration and costs of the procedure; and the value of the creditors' settlement. Moreover, for companies going through the reorganisation process, information regarding the value of the assets and the value obtained from the debtor's settlement are publicly available.

Preventive measures are still not fully developed, whereas programmes to promote second chance are slowly emerging

None of the entities has established a fully-fledged early warning system. In both the Federation of Bosnia and Herzegovina and Republika Srpska, business advisory and mentoring services are provided; however, they only indirectly contribute to the prevention of insolvency among SMEs, as firms that are in financial distress or have not paid their taxes are excluded from these services (JICA, 2020[52]).

The Danube Chance 2.0 EU Interreg project provides support to companies in financial distress (Interreg Danube Transnational Programme, n.d.[53]). It promotes early warning support and a quick restart for entrepreneurs who failed (second chance). It carries out three groups of activities: 1) continuously improving the legislation related to bankruptcy; 2) strengthening consulting support to entrepreneurs who want to restart a business, through trainings and exchange of experiences, mentoring services and appropriate financial incentives for a new beginning; and 3) providing early warning support for entrepreneurs who have business problems, to reduce the number of SMEs going bankrupt. This programme and the promotion of second chance is included in the Strategy for the Development of SMEs of Republika Srpska (2021-2027), making Republika Srpska the only jurisdiction in the WBT region to include second chance in its policies. For this measure, an annual budget of BAM 100 000 (approximately EUR 50 000) is envisaged, both from the RS budget and international partners' funds (RS Parliament, 2021[54]). However, the legal framework does not distinguish honest[28] from fraudulent entrepreneurs, and there is no clear indication of how the authorities would encourage or ensure the reintegration of honest entrepreneurs into the economy.

The Federation of Bosnia and Herzegovina and the Brcko District did not promote second chance in this assessment cycle.

The way forward for Dimension 2

- **Develop a fully-fledged early warning system as an insolvency prevention measure.** The government should provide SMEs with access to an early warning tool that red flags identified financial distress signals and recommends adequate remediation. It could start by further developing its existing mentoring and advisory services to extend the offer to SMEs in financial distress. Box 14.5 offers two models of how an early warning system tool could be introduced. Furthermore, FIA in the Federation of Bosnia and Herzegovina should enhance its current activities by taking over the monitoring and evaluation of cases to process under the law on bankruptcy proceedings. In addition, digital monitoring and an evaluation system of insolvency proceedings, similar to FIA in the Federation of Bosnia and Herzegovina, should be established in Republika Srpska and the Brcko District. The information collected should be aggregated and analysed for higher legislation development purposes, assessing the preventive insolvency policy implementation, including the impact of the early warning system, as recommended under the EU Directive 1023/2019 (European Commission, 2019[55]).

Box 14.5. Early warning systems in the European Union

Early warning tools may include different instruments: alert mechanisms when the debtor has not made certain types of payments; advisory services provided by public or private organisations; and incentives under national law for third parties with relevant information about the debtor, such as accountants, tax and social security authorities, to flag to the debtor a negative development.

In the European Union, there are two competing models for early warning systems:

1. **Self-assessment tool:** Creating tools for SMEs and entrepreneurs to anonymously assess their economic situation. The self-test tool can be a simple software application on a public website. SMEs and entrepreneurs have only to enter basic financial data about their business. The application will produce a preliminary diagnostic with recommendations for remediation actions, like searching for a specific business advisory or mentoring support service. The application conducts a financial ratios diagnostic analysis. The quality of the diagnostic analysis depends on the quantity and quality of the data intake by the entrepreneur.

   This model is useful as a quick financial health check and should be complemented with a business advisory support service by a public institution or access to a commercial or professional association.

2. **Intervention mechanism:** This includes a series of steps to remedy the distress situation under external supervision. The mechanism is based on an early warning signal triggered for the SME, identification of problematic areas causing financial distress and reporting to company management with recommendations to take remedial measures. The process to remedy the identified issues then follows through a series of interventions by different actors, aiming to avoid company insolvency. The process can include:

- A company bookkeeper or external auditor spots an observation that may lead to financial distress. The early warning mechanism can be built on an obligation of the bookkeeper or auditor to inform the company's management of the issue.
- If management does not take action to remedy the situation, there may be subsequent communications with the board or even at the shareholders' meeting.
- If there is no adequate reaction of the enterprise organs, the mechanism can prompt the intervention of outside bodies, such as special mediation or even trigger a special preventive measure court procedure.

- Finally, if there is no intervention, the system may provide for creditors' actions related to the use of alternative dispute resolution.

Public creditors can play a significant role in an early warning system as they can identify a delay in tax and social security payments – a warning that enterprises are experiencing financial difficulties. Information on late payments should be carefully used together with diagnostic analysis, as companies tend to pay only public debt to avoid early warning detection mechanisms.

Source: IMF (2021[41]).

- **Finalise the digitalisation of liquidation proceedings by introducing the electronic sale portal covered under the new draft amendments**. Digitalising the liquidation process would enhance transparency; save time and the costs of currently lengthy liquidations; anticipate potential conflicts between the creditors' committee; and protect creditors' rights as claims are recovered from the best market price reached through a competitive bidding procedure. This could be achieved by introducing e-auctions and automatic e-distributions mechanisms regarding the liquidation process.
- **Introduce simplified bankruptcy proceedings for SMEs**. As microenterprises and SMEs have smaller scales of business and simpler operations, short-track proceedings, for example, for SMEs with a maximum debt set at a certain threshold, determined based on the average size of the economy's micro and small size firms at the time of filing for bankruptcy would ease the cumbersome and expensive administrative burdens for small companies. Only SMEs as debtors should be able to file for bankruptcy reorganisations. Requirements for restructuring plans should also be simplified. Furthermore, administrative proceedings should be financially affordable for SMEs, and the procedure should be simplified, e.g. there is no need for a creditors' committee. Simplified and fast-track procedures would be more relevant in the aftermath of COVID-19 as they could allow for a quicker reintegration of businesses into the economy and save social payments that might result from potential unemployment.
- **Promote second chance to honest entrepreneurs**. The economy should promote second chance as an option to honest entrepreneurs to have a fresh start and thus reduce the cultural stigma related to business failure. Some positive developments on this front are observed in Republika Srpska, which could potentially serve as a good practice example within the economy. Moreover, the legal framework should provide for debt discharge and clearly distinguish honest from fraudulent entrepreneurs to allow for quicker reintegration. The policy should be widely promoted through public-awareness campaigns that promote a fresh start among those starting over after bankruptcy.

Institutional and regulatory framework for SME policy making (Dimension 3)

Introduction

A strong institutional and regulatory framework is the basis for SME policy making. SMEs are often disproportionately affected by regulatory changes and pay a higher price for legislative compliance, given their limited resources compared to larger companies. Therefore, policy makers should consider the unique needs of SMEs when designing policies that impact the private sector, especially given SMEs' importance for the economy in terms of employment, value added and business demographics.

In an economy like Bosnia and Herzegovina, where SMEs represent an even greater share of total enterprises (99.5%) and value added (61%) than the EU average, it is vital to "think small first" when designing and implementing SME policies. Given Bosnia and Herzegovina's constitutional structure, it is especially important to ensure that policies do not cause additional layers of administrative burden or increased compliance costs for SMEs. The COVID-19 pandemic has further exacerbated the remaining challenges that Bosnian SMEs were exposed to, including the informal economy (European Commission, 2021[56]).

Bosnia and Herzegovina's performance in Dimension 3 has seen an incremental increase since the previous assessment (when it was 2.62). Minor improvements are noted in the frequency of public-private consultations (PPCs) at the state level and in the rules for conducting regulatory impact assessments (RIAs) at the level of the entities. Overall, Bosnia and Herzegovina performs below the regional average in this dimension due to its highly complex regulatory environment and lack of effective quality control mechanisms for the use of policy-making tools that can improve the application of the "think small first" principle throughout the economy (Table 14.11).

Table 14.11. Bosnia and Herzegovina's scores for Dimension 3: Institutional and regulatory framework for SME policy making

Dimension	Sub-dimension	Thematic block	Bosnia and Herzegovina	WBT average
Dimension 3: Institutional and regulatory framework for SME policy making	Sub-dimension 3.1: Institutional framework	Planning and design	3.50	4.28
		Implementation	3.10	3.96
		Monitoring and evaluation	3.00	3.81
		Weighted average	**3.20**	**4.03**
	Sub-dimension 3.2: Legislative simplification and regulatory impact analysis (RIA)	Planning and design	2.80	3.84
		Implementation	2.30	3.47
		Monitoring and evaluation	2.00	2.95
		Weighted average	**2.39**	**3.48**
	Sub-dimension 3.3 : Public-private consultations (PPCs)	Frequency and transparency of PPCs	3.00	4.00
		Private sector involvement in PPCs	2.10	3.92
		Monitoring and evaluation	1.90	3.10
		Weighted average	**2.42**	**3.79**
Bosnia and Herzegovina's overall score for Dimension 3			**2.72**	**3.79**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Bosnia and Herzegovina's entities have made efforts to align their SME policy frameworks with the different levels of governance, as well as with the SBA. Although they have not yet been formally adopted, the

process of creating the Guidelines for Harmonisation of Support to SMEs has led to increased alignment of SME policies throughout the economy (Table 14.12). Nevertheless, significant challenges remain in building a regulatory environment that is considerate of and responsive to the needs of SMEs at all levels of governance. Namely, despite upgrading their frameworks for conducting RIA, neither entity is effectively conducting quality control of RIA. Moreover, while efforts have been made to ensure consistent, transparent and inclusive PPCs at the state level, these consultations still miss the necessary level of engagement and struggle to engage the business community as stakeholders. In the entities, PPCs lack effective monitoring and evaluation mechanisms to measure their quality and consistency.

Table 14.12. Bosnia and Herzegovina's implementation of the SME Policy Index's 2019 recommendations for Dimension 3

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Establish effective co-ordination of SME policy across the different levels of government	Guidelines for the harmonisation of support to SMEs and entrepreneurship have been developed at the state level. They have been drafted in concertation with the relevant line ministries in the entities as well as with state-level institutions. While this is an achievement, the guidelines have not yet been adopted, and this delay limits their usefulness.	Moderate
Ensure full implementation of RIA, including aspects affecting SMEs	At the entity level, updates to the guidelines for conducting RIA broadened the range of impacts assessed to include impacts on SMEs. At both the entity and state levels, quality control and monitoring and evaluation of the use of RIA across different institutions are still lacking.	Limited
Enhance the quality of the public-private consultation process and ensure SMEs can participate effectively	At the state level, the number of consultations through the online portal has increased, as has the use of the portal by state-level institutions. However, stakeholder engagement remains low, and reporting could be improved to better measure the engagement of SMEs and the private sector and increase transparency for individual consultations. At the level of the entities, quality control and monitoring are not conducted, and neither entity has a functioning online portal for public-private consultations, although the Federation of Bosnia and Herzegovina is in the early stages of launching one.	Limited

The development of state-level guidelines for harmonising support to SMEs has led to increased alignment of entity SME policies

There have been important developments regarding the coherence and co-ordination of Bosnia and Herzegovina's SME policies since the last assessment. Previously non-existent, state-level Strategic Guidelines for the Harmonisation of Support to SMEs (2021-2027) have been developed, although not yet formally adopted by the BiH Council of Ministers. This lack of adoption means that the state-level government cannot continue its alignment with the areas of the SBA for which it has competencies, namely public procurement, standards and technical regulations, and internationalisation. The guidelines were developed by the state-level Ministry of Foreign Trade and Economic Relations with input from entity governments and the Brcko District, and seek to ensure the coherence and co-ordination of state-level policies with the entity and Brcko District-level strategies as well as their alignment with the SBA. Despite not being formally adopted, the guidelines led to the indirect harmonisation of policy frameworks between the different levels of governance through a bottom-up approach (Miovčić, 2021[57]).

At the entity level, SME policies are defined and implemented by the entities' respective strategic documents, namely Republika Srpska's SME Strategy (2021-2027) and the Development Strategy of the Federation of Bosnia and Herzegovina (2021-2027).[29] Policy co-ordination and monitoring and evaluation of implementation are ensured by the Ministry of Economy and Entrepreneurship in Republika Srpska and by the Federal Ministry of Development, Entrepreneurship and Crafts in the Federation of Bosnia and Herzegovina. Monitoring and evaluation of the state-level guidelines are planned to be entrusted to the Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina, alongside reporting by the

entities. However, as the guidelines have not yet been adopted, this state-level monitoring is not taking place, even though entities have begun implementing their policy frameworks.

RARS, the entity's implementing institution, reports that over 90% of its annual work plan was implemented in 2020, in spite of a level of funding that has remained constant since the last assessment, an issue which has in the past led to delays in implementation. Despite this success, RARS remains overly reliant on funding from international partners for the reliable implementation of its SME policy objectives. The Federation of Bosnia and Herzegovina's plans to create its own implementation body, an SME Agency of Federation of Bosnia and Herzegovina, have not yet materialised, meaning that implementation is still under the responsibility of the Federal Ministry of Development, Entrepreneurship and Crafts.

Informality is still a significant challenge in Bosnia and Herzegovina and is estimated to represent around one-third of GDP (European Commission, 2021[58]). Both entities have made efforts to combat the informal economy, with efforts in Republika Srpska, for instance, focusing on strengthening inspection services and reducing the administrative burden for companies that operate formally. However, given the wide-ranging effects of informality on the competitiveness of the whole economy, increased efforts to combat it would be welcome.

The business environment remains fragmented and complex, despite entities' efforts to simplify business-related legislation

Bosnia and Herzegovina continues to have a complicated and costly business environment for companies to navigate, characterised by fragmentation in its internal market, differing regulatory policies between the two entities and a generally high level of administrative burden (European Commission, 2021[58]).

The entities have nonetheless made encouraging efforts towards simplifying administrative procedures and amending or repealing laws that negatively impact businesses. In Republika Srpska, as a continuation of previous efforts to improve the business environment, action was taken to reduce administrative, utility and court fees, and special republic taxes, and the government launched a Project for the Optimisation of Administrative Procedures and Formalities, with a corresponding action plan in 2021, which should identify administrative procedures that require simplification. In 2021, the Federation of Bosnia and Herzegovina developed a register of fees and charges, and adopted a Law on Crafts, simplifying the registration of crafts businesses and creating a craft registry. However, these measures are rather ad hoc, and a more systemic approach to simplifying legislation for businesses in the Federation of Bosnia and Herzegovina is lacking. Furthermore, the lack of co-ordination risks further exacerbating the fractures in Bosnia and Herzegovina's internal market by causing different administrative and compliance requirements for businesses between entities (European Commission, 2021[58]).

SME aspects have been included in RIA guidelines, but there is room to improve quality control and effective application of RIA

Since the previous assessment, both entities have adopted updated guidelines for their RIA procedures. In the Federation of Bosnia and Herzegovina, the Decree on RIA (September 2020) broadens the scope of mandatory impacts for consideration to take into account impacts on SMEs. The decree also transfers the responsibility for quality control of RIA from the General Secretariat of the federal government to its Office for Legislation. In Republika Srpska, the Decision on the Implementation of RIA (2019) similarly broadens the scope of analysed impacts and includes those on SMEs.

Despite having requirements for conducting RIA at both the state and entity levels, consistently and effectively applying these requirements remains a challenge. At the state level, although guidelines on drafting legislation exist, there is no regular reporting to monitor state-level institutions' compliance with them, and a lack of human resources and administrative capacity prevents effective quality control of RIA. At the level of the entities, quality control is conducted, but none of the institutions charged with ensuring

the quality of RIA have the right to return RIA to line ministries if they are incomplete or of insufficient quality (OECD, 2021[59]).

The quality of RIA accompanying policy proposals at both the state and entity levels could be improved (European Commission, 2021[58]). Moreover, legislation at both the state and entity levels allows for a shortened procedure for RIA, lessening the scope of analysis that is conducted at the early stages of policy design (OECD, 2021[59]).

The framework for ensuring effective public-private consultations has significant room for improvement at both the state and entity levels

A framework for PPCs exists at both the state and entity levels in Bosnia and Herzegovina. However, the level of development of the tools for conducting effective PPCs and engaging stakeholders is uneven. At the state level, an online portal (https://www.ekonsultacije.gov.ba) aims to aggregate PPCs from all state-level institutions to improve their accessibility. Co-ordinators have been appointed from all state-level institutions registered on the portal, and the number of institutions using the portal has increased. At the level of the entities, the Federation of Bosnia and Herzegovina has developed an online portal for PPCs, which is not yet fully operational, as no consultations have been posted yet. Line ministries in the Federation of Bosnia and Herzegovina continue to share calls for PPCs on their individual websites, limiting the ease of access for stakeholders. Republika Srpska does not have a portal (OECD, 2021[59]).

The quality control practices of conducting PPCs could be significantly improved throughout Bosnia and Herzegovina. While a legal framework for conducting consultations exists at both the state and entity levels, only the state level has effective quality control of the consultation process (OECD, 2021[59]). Namely, the state-level Ministry of Justice reports on the adherence of state-level bodies to the quality standards for PPCs. This monitoring has shown that the number of consultations held by state-level institutions has increased in recent years (from 281 in 2018 to 543 in 2020), as has the number of institutions holding PPCs through the online portal (from 39 in 2018 to 64 in 2020). However, results also show significant room for improvement regarding stakeholder engagement, as in 2020, of the 51 surveyed institutions, 67% reported having no public participation or a low level of it for the PPCs they conducted (Bosnia and Herzegovina Ministry of Justice, 2021[60]). Moreover, the reporting conducted by the Ministry of Justice does not disaggregate the engagement data collected by the types of stakeholders that participate in PPCs. Therefore, it is impossible to accurately measure SMEs' level of engagement or to identify in which areas further outreach efforts are necessary. Businesses in Bosnia and Herzegovina have the lowest satisfaction rate with procedures for public consultations in the Western Balkans region (12%, compared to a regional average of 22%) (RCC, 2021[42]). Efforts to engage with the business community will be key in building trust and dialogue, given the low level of trust and enthusiasm of Bosnia and Herzegovina's businesses for participating in PPCs.

Another issue that impedes the effective conduct of PPCs throughout Bosnia and Herzegovina is the high level of use of urgent procedure, which circumvents the requirement for PPCs, to pass legislation. In the Federation of Bosnia and Herzegovina, 64% of laws passed in 2020 were adopted through urgent or shortened procedures, and in Republika Srpska, 50% of laws were adopted in this way (European Commission, 2021[58]).

The way forward for Dimension 3

- **Strengthen quality control of regulatory impact assessment and ensure it is effectively used.** At the state level, investments should target additional human and administrative capacities to allow for effective quality control and monitoring of RIA for state-level legislation. At the level of the entities, the institutions conducting quality control of RIA (the Office for Legislation in the Federation of Bosnia and Herzegovina and the Ministry of Economy and Entrepreneurship in Republika Srpska) should be empowered to return unsatisfactory and incomplete RIA to the

originating ministries, along with mandatory feedback for improvement. In both entities, regular reporting on the conduct of RIA and its compliance with quality and comprehensiveness standards across all line ministries and institutions should become common practice to identify in which areas capacities are lacking and priority investment is needed. The reports prepared by Montenegro's Ministry of Finance on the quality of RIA across different line ministries can serve as an example of good practice (Box 14.6).

Box 14.6. Montenegro's reports on the quality application of regulatory impact assessment

Making full use of its quality control function, the Ministry of Finance and Social Welfare of Montenegro publishes regular reports on the state of the RIA process in Montenegro and the progress made in improving its quality.

As in some other economies in the WBT region, these reports contain a statistical aggregation of all RIAs conducted as a share of all primary and secondary legislation adopted and the degree to which they meet the requirements for conducting RIA by line ministries. However, what makes Montenegro's reports stand out is that the RIAs conducted are then divided into categories, showing what share of RIAs was satisfactory in terms of quality in the areas of problem definition, goal definition, options definition, impact assessment, fiscal impact assessment, consultation with stakeholders, and monitoring and evaluation. This kind of analysis allows the Ministry of Finance to measure the progress made in these different areas compared to previous years.

In its latest report, the Ministry identified that 68% of RIAs conducted in 2020 were "done with quality" versus 61% in 2019, showing a slight improvement in overall quality. More specifically, the areas with the greatest room for improvement were options definition, impact assessment, fiscal impact assessment, consultations with stakeholders, and monitoring and evaluation. This allows the government to focus its efforts on building capacity for conducting useful and effective RIA in these areas.

The other WBT economies would benefit from making their reports on the use of RIA more analytical, as the key to effective use of RIA as a policy-making tool lies beyond respect for formal requirements, requiring regular measurement of policy makers' ability to conduct detailed, evidence-based analysis in several areas.

Source: Montenegrin Ministry of Finance and Social Welfare, (2021[61])

- **Introduce regular reporting on public-private consultations and encourage businesses to participate in public-private dialogue.** At the state level, the Ministry of Justice should upgrade its reports on the conduct of PPCs to include data on the types of stakeholders engaged, and in the case of businesses, special attention should be given to differentiating between the sizes of businesses participating in PPCs, to be able to measure the engagement of SMEs in particular. Entity governments can use the example of the reports published by the state-level Ministry of Justice to develop their own monitoring and evaluation mechanisms, which should take into account the same considerations. At all levels of governance, efforts should be made to encourage businesses to participate in consultations. Alongside the online portals for consultations that exist at the state level and in the Federation of Bosnia and Herzegovina (and which Republika Srpska may consider introducing), proactive outreach campaigns could help increase SMEs' level of engagement.

Operational environment for SMEs (Dimension 4)

Introduction

From registering a company and obtaining a business licence to filing and paying taxes, SMEs interact with public institutions, physically or digitally, at all stages of their development. The operational environment in which SMEs must navigate is determined by the ease of using digital services, the number of procedures and the costs associated with their interactions with the government. Complex requirements imposed on businesses have adverse impacts on SMEs' abilities to operate, take advantage of market opportunities efficiently and grow.

For an economy like Bosnia and Herzegovina, characterised by a complex institutional structure and highly decentralised governance framework, the development of digital government services poses a unique challenge, as it is, in general, an effort that requires substantial co-ordination between different levels of government (OECD, 2014[62]; 2021[63]). The COVID-19 pandemic has revealed to what extent digital services for SMEs can be vital in certain situations and useful in saving time and resources otherwise.

Bosnia and Herzegovina's performance in this dimension has improved since the last assessment, from 2.34 in 2019 to 2.49 in 2022. Performance in delivering digital government services for SMEs has improved slightly since the last assessment (when it was 1.81), translating progress in developing a state-level policy framework. Incremental progress has also been achieved in optimising company registration and business licensing processes.

Table 14.13. Bosnia and Herzegovina's scores for Dimension 4: Operational environment for SMEs

Dimension	Sub-dimension	Thematic block	Bosnia and Herzegovina	WBT average
Dimension 4: Operational environment for SMEs	Sub-dimension 4.1: Digital government services for SMEs	Planning and design	2.80	4.28
		Implementation	1.73	3.33
		Monitoring and evaluation	1.48	2.48
		Weighted average	**1.99**	**3.40**
	Sub-dimension 4.2: Company registration	Planning and design	3.50	4.42
		Performance	2.80	3.93
		Monitoring and evaluation	2.50	4.06
		Weighted average	**2.96**	**4.18**
	Sub-dimension 4.3: Business licensing	License procedures	3.75	3.88
		Monitoring and streamlining of license system	3.35	3.73
		Weighted average	**3.55**	**3.80**
	Sub-dimension 4.4: Tax compliance procedures for SMEs	SME tax compliance and simplification procedures	No scores	
		Monitoring and evaluation of SME-specific tax measures		
Bosnia and Herzegovina's overall score for Dimension 4			**2.49**	**3.64**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Digital government services for SMEs in Bosnia and Herzegovina remain underdeveloped compared to other WBT economies. Although a common framework for public administration reform that aims to improve service delivery and increase the availability of digital services across all of Bosnia and Herzegovina's administrative divisions has been adopted, it has not yet been implemented. Lack of alignment in policy and legal frameworks between Bosnia and Herzegovina's two entities leads to a

fragmented digital service environment and stagnation in the development of key enablers of digital services such as electronic signature and the interoperability of government data. Somewhat encouraging initial steps have been taken in developing open data at the state level; however, their usefulness for SMEs remains limited. Positive developments are ongoing with regard to company registration in both entities. While the Federation of Bosnia and Herzegovina has amended its legislative framework to establish a one-stop-shop for company registration, Republika Srpska is in the process of making e-registration fully operational. Business licences are centralised on line in both entities, and Republika Srpska is streamlining reforms to simplify licensing procedures for businesses. Unincorporated SMEs face a high tax burden under the standard tax regime, but some SMEs can benefit from simplified tax regimes, which reduce tax compliance costs. In addition to regular taxes, businesses need to pay stamp duties, which might result in a significant additional tax burden for SMEs. Co-operation between the Indirect Taxation Authority and the entities' tax administrations is weak (Table 14.14).

Table 14.14. Bosnia and Herzegovina's implementation of the SME Policy Index's 2019 recommendations for Dimension 4

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Create a single portal and expand digital services, allowing SMEs to complete all processes on line	As the rollout of digital government services is done at the entity level, there is no central portal for the whole economy. While the entities have their own portals which aim to centralise and facilitate access to digital services, most pages are purely informational (businesses still need to complete part or all of the service physically). The user-friendliness of both portals could be improved.	Limited
Harmonise and continue efforts to implement digital authentication or e-signatures in order to allow SMEs to complete services fully on line and across the entire territory	Electronic signature is still developed unevenly between the entities, and the state-level Law on E-signature is still outdated.	No progress
Harmonise the business registration process and widen online registration opportunities for SMEs	The Federation of Bosnia and Herzegovina has undertaken the relevant reforms to make its one-stop-shop operational, although the process will only be available in person. Optimisation of administrative procedures is underway in Republika Srpska, and an online registration portal has been established, although it is not yet fully operational.	Moderate
Pursue efforts to streamline company registration and licensing under one-stop-shops	There have not been any developments in streamlining company registration and licensing together under one-stop shops. Nevertheless, efforts were made to optimise company registration in both entities. The Federation of Bosnia and Herzegovina's one-stop-shop should be operational in 2022. Moreover, Republika Srpska is in the process of streamlining business licensing.	Limited
Regularly monitor and evaluate tax simplification measures	Bosnia and Herzegovina has implemented measures to simplify the tax administration procedures and increase the tax literacy of entrepreneurs; this has contributed to reducing compliance costs for SMEs. However, additional simplification procedures could help reduce tax compliance costs even further.	Moderate

Despite the creation of a common framework for public administration reform, digital government services are unevenly developed between the two entities

In 2018, Bosnia and Herzegovina adopted an economy-wide Strategic Framework on Public Administration Reform (2018-2022), which was developed jointly with the entities and Brcko District and contains a section on digitalisation and the development of digital government services throughout the economy and its subdivisions. The Public Administration Reform Co-ordinator's Office co-ordinated the development of the Strategic Framework on Public Administration Reform (2018-2022) and is charged with overseeing its implementation together with the Public Administration Reform Co-ordination structure. However, the structures for its implementation have not yet been put in place, and the corresponding action plan was not adopted by the entities and Brcko District until late 2020, despite the term of the framework nearing its

end, and as such, the implementation of the framework has been delayed. The entities have their respective frameworks for the development of digital government, and it is mainly at their level that digital government reforms are being implemented, leading to different levels of progress in developing digital government services.

Republika Srpska is implementing its E-Government Development Strategy (2019-2022), and one of its goals is the creation of "an interoperable, user-oriented and economically sustainable process of digitalisation of public services". Republika Srpska has an online portal (www.esrpska.com) that aims to serve as a one-stop-shop for digital services; however, the goal has not yet been achieved, as the portal's content is mainly informational and only in some cases redirects to the domains of institutions in which services can be completed on line (such as for filing declarations for taxes or social security contributions). There is room to improve the user-friendliness of the portal, as the links to the relevant institutions are not provided in a clear way,[30] leaving room for doubt in identifying the competent institution for a given service. In the future, the Government of Republika Srpska plans to redesign the portal or develop a new one in order to enable the use of transactional services.

The Federation of Bosnia and Herzegovina's Development Strategy (2021-2027), adopted in February 2021, aims to advance the digital transformation of the public administration. The strategy recognises that public services in the Federation of Bosnia and Herzegovina are designed around the administration and are not user-centric. Moreover, it announced plans to draft a digital government strategy for the Federation of Bosnia and Herzegovina, which would aim to empower a body with strong political legitimacy to steer and co-ordinate digitalisation reforms in the entity, as well as to co-ordinate relations with international partners for investing in the necessary information and communication technology (ICT) infrastructure. As in Republika Srpska, the Federation of Bosnia and Herzegovina's online portal (http://euprava.fbih.gov.ba) contains information on a range of services and administrative procedures and redirects to the site of the competent administrations without allowing users to complete many key services directly on line.

Businesses' satisfaction with digital services in Bosnia and Herzegovina is the lowest among all of the Western Balkan economies, with only 19% of businesses surveyed in the latest Balkan Business Barometer survey responding that they are satisfied with digital services provided by the public administration (compared to a regional average of 39%). One-third (33%) are dissatisfied.[31] This could be due to digital services in Bosnia and Herzegovina being generally underdeveloped compared to its regional peers and due to their fragmented nature (RCC, 2021[42]). Neither entity has established mechanisms to monitor and evaluate the performance of its digital services.

Progress on ensuring the key enablers of digital services is advancing slowly, and data interoperability, electronic signature and open data remain underdeveloped

In 2018, Bosnia and Herzegovina adopted a framework for economy-wide interoperability of information systems. However, implementation is advancing slowly, as a working group for the co-ordination of the framework's implementation was established only in June 2021, three years after the framework was adopted, and no action has been taken since. Advancing interoperability is essential for ensuring more efficient and integrated digital services throughout Bosnia and Herzegovina, in line with the once-only principle.[32] It is also a prerequisite for Bosnia and Herzegovina's integration with European information systems as the economy advances on its goal to join the European Union (OECD, 2021[9]).

The current electronic signature legislation in Bosnia and Herzegovina is outdated at the state level, as the Law on Electronic Signature dates back to 2006, and is thus not aligned with the more recent EU eIDAS Regulation. Despite this, there is a state-level accreditation body that has so far accredited one private company, Halcom d.d, with the right to provide qualified electronic certificates necessary for use in electronic signatures, while the Indirect Taxation Authority also issues qualified electronic signatures which are usable for its own services. However, due to the lack of consensus for updating the state-level legislation, the entities have adopted diverging approaches, with Republika Srpska developing its own

legislation and accreditation institutions which are up to date with the EU legal framework (which is not the case in the Federation of Bosnia and Herzegovina and at the state level). This means that companies from one entity need to provide additional documents in order to use electronic signatures in the other entity, contributing to the administrative burden. Having diverging legal frameworks and approaches and different regulatory institutions also complicates the integration of Bosnia and Herzegovina's electronic signature system with the European Union, where a single national accreditation authority is recognised per economy.

Bosnia and Herzegovina has begun implementing its first Open Government Partnership (OGP) Action Plan (2019-2021), since it joined the OGP in 2014. The action plan focuses on improving transparency and opening data in state-level areas of competence, such as public procurement, macroeconomic data and official statistics. So far, the State Statistical Office and Central Bank of Bosnia and Herzegovina have opened their data in a machine-readable format (OECD, 2021[9]). While this is an encouraging first step in fostering an open data culture in the government, much more could be done to improve the level and accessibility of open data that could be relevant for SMEs in their business practices. In 2020, open data readiness assessments, supported by international partners, were conducted at the state level and in Republika Srpska, and showed that more effort was needed to create a favourable environment for open data initiatives at the state level, while in Republika Srpska, the outlook was more positive.

The common framework for public administration reform needs to be operationalised in order to deliver its objectives

Bosnia and Herzegovina's Strategic Framework for Public Administration Reform provides a comprehensive framework for the development of digital government services, and identifies the need to design services around the needs of users and improve monitoring and evaluation of digital services. However, due to the Strategic Framework not being properly implemented, it remains a visionary document whose validity will need to be extended in order to remain relevant. A budget for the Strategic Framework's Action Plan must also be adopted by all relevant parties in order for the actions to be properly implemented.

A comprehensive and aligned framework is essential to help both the state and the entities jointly establish a clear vision, goals and objectives that could help Bosnia and Herzegovina utilise the opportunities of digital transformation to create public value and reduce administrative burdens for businesses, and particularly SMEs that often have fewer resources. The operationalisation and co-ordination of this framework's implementation are essential and can only be achieved through budgeted activities and a joint monitoring and evaluation mechanism.

Key developments were undertaken to optimise company registration in both entities, although the process is more advanced in Republika Srpska

Positive developments have been made in both entities to reduce the time and costs associated with business registration processes. While the Agency for Intermediary, IT and Financial Services (APIF) has been acting as a one-stop-shop in Republika Srpska since 2015, in 2021, the Federation of Bosnia and Herzegovina adopted the long-awaited adjustments to its administrative laws as a legal basis for making its one-stop-shop operational. In particular, the amendment to the Law on Administrative Procedures foresees the online collection of data between institutions instead of requiring businesses to do so, and the Law on Crafts and Related Activities prescribes the silent-is-consent principle for business registration. The system is expected to be fully operational in 2022 and should lower the costs and shorten the procedures required for registering a company, which are considerably higher in the Federation of Bosnia and Herzegovina than in other economies in the region. The Law on Crafts and Related Activities envisages a maximum of 7 procedures, compared to 13 in 2019 (representing 80 days and 13.7% of GNI per capita (World Bank, 2020[64])). Nevertheless, no progress has been achieved in eliminating the paid-in minimum capital requirement, which amounts to EUR 500 (10.2% of GNI per capita (World Bank, 2020[64])).

In Republika Srpska, the 2019 amendment to the Law on Registration of Business Entities sets the stage for online registration through a single portal and payment slip system, which should ensure high interoperability between the 76 relevant institutions at entity and local levels. This portal was established in 2021 (https://eregistracija.vladars.net),[33] but is not yet fully operational due to delays in the commissioning of the electronic signature mechanism. Online registration training for APIF officers, individuals and companies is planned until the portal becomes fully functional. The online system should considerably reduce costs (entrepreneurs will receive a 50% discount on administrative fees) and the time for company registration, estimated at three days by the APIF. The RS government launched a project for the "Optimisation of Administrative Procedures and Formalities" in 2021 (see Institutional and regulatory framework for SME policy making (Dimension 3)), which aims to further reduce the number of procedures required to register a business (those prior and subsequent from registering on line or physically).

Monitoring and evaluation mechanisms are in place in Republika Srpska, although public monitoring reports on company registration are not available. Evaluation has been conducted and is particularly beneficial to developing e-registration for businesses. Such mechanisms are planned in the Federation of Bosnia and Herzegovina with the establishment of its one-stop-shop.

Little progress has been achieved in improving the connection and co-ordination of company registers among the entities (European Commission, 2021[58]). To operate across all of Bosnia and Herzegovina, multiple registrations are still required, increasing the costs of registering a company.

Information on business licences is centralised in both entities, and streamlining reforms are ongoing in Republika Srpska

Licences are obtained at the entity level from a number of public institutions. Applicants from Bosnia and Herzegovina have access to clear information on all licences and permits on online entity-level registers: a Single Point of Contact for Business portal in Republika Srpska: https://pscsrpska.vladars.net/sr and as part of the e-Government portal in the Federation of Bosnia and Herzegovina: http://euprava.fbih.gov.ba/#admin-procedures. The portals provide guidelines for obtaining a licence, in particular regarding the responsible institution, necessary fees and compliance standards. However, application processes remain in person, and there is no plan to digitalise them in the near future, which remains a big or very big obstacle for one-third of businesses in Bosnia and Herzegovina (RCC, 2021[42]).

Delays in obtaining licenses can be costly to entrepreneurs, as they add uncertainty and additional costs to much-needed business transactions. According to the latest data available, 16 days were required to obtain an operating licence, 19 for an import licence and 103 for a construction permit on average in Bosnia and Herzegovina, the last two being higher than WBT averages (which were 24, 11 and 72, respectively) (World Bank, 2019[65]). The burdensome number of procedures, requirements, paperwork and cost for obtaining business licences are considered overall a big or very big obstacle in Bosnia and Herzegovina for 42% of the respondents to the Balkan Business Barometer survey, albeit slightly less than in 2019 (53%) (RCC, 2021[42]). Promisingly, streamlining of the licensing process has been ongoing in Republika Srpska since 2021, as part of the aforementioned "Optimisation of Administrative Procedures and Formalities" project. With the involvement of the business community (PSCSRPSKA, 2021[66]), 944 formalities available on the Single Point of Contact for Business portal were being reviewed at the time of writing, a large number of which concern business licensing. A final Action Plan was adopted at the end of 2021 and includes a clear timeline to simplify administrative procedures and reduce the length of time and costs associated with them (including which ones should be abolished). Moreover, a five-year economy-wide USAID E-Governance Activity project was launched in 2021 to support initiatives to increase transparency and efficiency in administrative procedures conducted by the competent authorities, with a specific focus on digitalisation. As part of this project, it is planned to improve and develop the electronic issuance of construction permits in five selected pilot municipalities.

A comprehensive set of tax policy measures has been introduced to maintain employment and support business cash flow during the COVID-19 pandemic

Some measures were targeted at SMEs specifically. VAT exemptions were introduced for imports and domestic sales of products directly linked to the fight against the COVID-19 pandemic, such as medical equipment and disinfection tools and products. The Federation of Bosnia and Herzegovina subsidised a temporary reduction in employer and self-employed social security contributions (SSCs); the flat tax for self-employed entrepreneurs was reduced by 50% (Ministry of Finance of the Federation of Bosnia and Herzegovina, 2020[67]). Republika Srpska subsidised a temporary reduction in employer and self-employed SSCs. Additionally, the minimum personal income tax (PIT) liability for self-employed workers was reduced from BAM 600 (approximately EUR 307) to BAM 240 (approximately EUR 123) (Tax Administration of Republika Srpska, 2020[68]).

In addition, tax administration measures facilitated tax compliance during the pandemic. The Federation of Bosnia and Herzegovina waived advance PIT, and corporate income tax (CIT) payments for self-employed workers and interest was not charged on the deferred tax liabilities (Ministry of Finance of the Federation of Bosnia and Herzegovina, 2020[67]). The tax administration stopped forced tax collections. Republika Srpska extended the deadlines for filing and paying the PIT and the CIT; interest was not charged on the deferred tax liabilities (Tax Administration of Republika Srpska, 2020[68]). Overall, these measures were broadly aligned with measures that have been taken in economies around the world.

Unincorporated SMEs face a high tax burden under the standard tax regime

Self-employed entrepreneurs are subject to high SSCs, especially in the Federation of Bosnia and Herzegovina. This increases compliance costs and reduces incentives for SMEs to operate partly or fully in the formal economy. In the Federation of Bosnia and Herzegovina, self-employed SSCs were levied at a rate of 41% on net income in 2021 (IBFD, 2021[69]). In Republika Srpska, the self-employed SSC rate is 31% from 1 January 2022 onwards. In addition to SSCs, self-employed workers pay a flat PIT rate of 10% in both entities (but a presumptive tax system may apply, see below); there is a basic allowance in the PIT of BAM 3 600 (approximately EUR 1 842) in the Federation of Bosnia and Herzegovina and BAM 12 000 (approximately EUR 6 100) in Republika Srpska (IBFD, 2021[69]).

Gig-workers are subject to the standard flat PIT; however, in most cases, they pay SSCs at special rates. In the Federation of Bosnia and Herzegovina, gig-workers pay 10% of their income for health and pension contributions. In Republika Srpska, they pay SSCs at a rate of 31% levied on 60% of the average gross salary in the previous year. However, gig-workers that fall under a specific type of employment contract, such as a temporary contract, pay pension and disability insurance contributions at a rate of 18.5% and health insurance contribution at a rate of 10.2%.

CIT incentives are available to SMEs and larger businesses that incentivise capital formation and employment

In Bosnia and Herzegovina, the standard CIT rate in 2021 was 10% (IBFD, 2021[70]). In the Federation of Bosnia and Herzegovina, businesses that employ new staff for at least 12 months can deduct twice the gross salary of these new staff members from their CIT base. In Republika Srpska, businesses that increase the salary of their employees qualify for a partial refund of employer SSCs. Since 2019, businesses can reduce their tax liabilities by the amount invested in manufacturing equipment and plants.

Simplified tax regimes are available for a selection of SMEs

In the Federation of Bosnia and Herzegovina, a lump-sum tax regime is available for a selection of self-employed entrepreneurs, which reduces their tax compliance costs. The lump-sum tax regime only applies to self-employed entrepreneurs that are not registered for VAT and operate in specific business sectors;

overall, 14% of the self-employed qualify for the regime; the remaining 86% are subject to the standard PIT regime. The annual PIT liability for these self-employed ranges from BAM 360 (approximately EUR 184) to BAM 960 (approximately EUR 490), depending on the business sector in which they operate. This tax design is relatively simple, as tax liabilities are fixed as long as businesses continue to carry out the same business activity. However, as PIT liabilities are fixed, businesses that have a low turnover or low profits can face a high effective tax rate (when the PIT liability is expressed as a percentage of their profit). An in-depth evaluation of business tax returns and a dialogue with all self-employed entrepreneurs would provide information on whether there is scope to improve the tax regime for the self-employed and/or implement the standard tax regime across all sectors.

To reduce compliance costs, self-employed entrepreneurs in Republika Srpska are allowed to calculate their taxable income with a lump-sum method or to pay tax under a presumptive tax regime, rather than income being taxed at a rate of 10% (sole proprietorship), 8% (personal income) or 13% (copyrights, capital income and gains). Under the lump-sum method, businesses that meet the set criteria in the law are taxed on turnover (that cannot be less than a set amount). Under the presumptive tax regime, PIT liabilities are 2% of annual turnover, regardless of the business sector the firm operates in (Tax Administration of Republika Srpska, 2020[68]). Businesses that qualify for the presumptive regime should have an annual turnover of less than BAM 50 000 (approximately EUR 25 600), benefit from a VAT exemption, operate in specific business sectors, do not employ more than three employees (in addition to the entrepreneur him/herself) and do not carry out the activity with other entrepreneurs. Presumptive income taxes imply that businesses with low profits will face a higher effective tax rate than businesses that have high profits, which raises horizontal equity concerns. Republika Srpska should therefore assess whether there is scope to improve the design of its two simplified tax regimes, for instance, by integrating both regimes into a presumptive tax regime with rates that increase with turnover, to encourage SMEs to grow into the regular PIT regime.

No VAT simplification measures are implemented for SMEs, but the VAT design is simple, and the VAT refund system seems to work relatively well

In both entities, businesses with an annual turnover exceeding BAM 50 000 (approximately EUR 25 600) have to register for VAT. Voluntary registration for VAT is possible for businesses with lower turnover, provided they remain VAT liable for a minimum of five years. In 2021, the standard VAT rate was 17%, and there were no VAT reduced rates (IBFD, 2021[70]). In addition, businesses can claim VAT refunds on a monthly basis, and the tax administration indemnifies businesses in case of late reimbursement of the excess VAT paid. This constitutes good VAT design practice and helps ease VAT compliance costs. Bosnia and Herzegovina could evaluate whether it wants to introduce additional measures to facilitate VAT compliance for SMEs, such as simplified input tax credit calculation schemes and reduced restrictions for businesses to qualify for VAT voluntary registration.

Co-operation between the Indirect Taxation Authority and the entities' tax administrations is weak

Neither entity can verify business tax returns with information from the VAT due to limited information exchange with the Indirect Taxation Authority.

SMEs benefit from tax administration simplification measures, but they do not widely use digital services.

SMEs benefit from simplified bookkeeping rules, except for VAT purposes, and all businesses are required to pay taxes on a monthly basis. Cash accounting is allowed for PIT purposes in the Federation of Bosnia and Herzegovina and Republika Srpska, provided businesses have annual turnover below BAM 500 000 (approximately EUR 256 000). However, cash accounting is not allowed for VAT purposes in either entity. In the Federation of Bosnia and Herzegovina, businesses subject to the lump-sum tax regime do not have to keep books. In Republika Srpska, businesses under the regular regime are required to keep several

books (income and expense, permanent assets, receivables and liabilities), but self-employed workers only have to keep a book of income and expenses. Moreover, businesses make PIT and CIT pre-payments on a monthly basis (considered as final payments for self-employed workers in Republika Srpska). In addition, VAT returns are filed monthly, regardless of the size of the business.

While online tax filing and payment reduce tax compliance costs, they are not widely used in Bosnia and Herzegovina. However, efforts have been made to increase tax literacy amongst SMEs. E-filing is not mandatory, except for VAT, resulting in only 55% of tax returns being filed electronically in the Federation of Bosnia and Herzegovina and 43% in Republika Srpska (OECD, 2021[9]), although the signature used for electronic filing is free of charge. Electronic tax payments are not mandatory and remain difficult in practice due to the complexity of the online procedure and technical problems with the online portal. The Indirect Tax Compliance Strategy (2019-2021) launched by the Indirect Taxation Authority has contributed to informing and educating taxpayers. These types of initiatives are welcome as part of a strategy to reduce compliance costs for SMEs.

The way forward for Dimension 4

- **Operationalise the Strategic Framework for Public Administration Reform**. As the extension of the Strategic Framework for Public Administration Reform's validity is planned, priority should be given to achieving consensus between all levels of government in Bosnia and Herzegovina on concrete common and individual goals, resources and timelines. The efficient development of digital government can only be ensured through common horizontally accepted priorities and objectives that are valid for all levels of government, in line with Bosnia and Herzegovina's constitutional structure, and through which progress can be regularly and accurately monitored and evaluated. Having an aligned framework for digital transformation would also ensure easier digital integration with the EU networks in the future.
- **Develop a comprehensive and aligned framework on open data.** Building on the momentum from its first OGP Action Plan, Bosnia and Herzegovina should look to develop a more ambitious policy framework for promoting open data across its different levels of governance. Designed jointly by the state level and the entities, in line with Bosnia and Herzegovina's constitutional structure, a strategic framework should look to establish a joint open data portal; establish clear, aligned and mandatory guidelines for open data publishing, annotation and formatting applicable to all institutions at all levels of governance; increase the availability of open data relevant for the private sector; and promote the reuse of open data for the creation of innovative products by SMEs.
- **Ensure the implementation of key enablers of digital government services.** A joint working group comprising representatives from both entities, the state level, Brcko District and the Public Administration Reform Co-ordinator's Office, should be formed to ensure that outstanding issues in digital service delivery, such as alignment of electronic signature legislation, do not further impede Bosnia and Herzegovina's digital transformation, and that the legal environment allows for the rollout of digital services at the level of the entities. Additionally, a joint one-stop-shop portal redirecting users to the portals of the entities for relevant digital services could facilitate user-friendliness and information accessibility for SMEs in Bosnia and Herzegovina.
- **Consider digitalising the business licensing application process.** While both entities have centralised licensing registers, businesses are still required to apply in person to each institution responsible for granting a licence. Digitalising the licensing application process would save time and lighten the administrative burden on SMEs by reducing the number of steps required. It would also improve access for smaller firms operating at a distance from the relevant offices. A prerequisite for this would be the introduction of electronic signature, aligned across the entire economy, which would allow companies to complete this process digitally end-to-end.

- **Evaluate the taxes paid by businesses and the tax simplification procedures that aim to facilitate tax compliance; also evaluate to which extent stamp duties can be reduced, especially for SMEs**. The Federation of Bosnia and Herzegovina could consider abolishing stamp duties or, if this is not possible, reducing them to decrease compliance costs for SMEs. Both entities could evaluate whether the monthly tax payment obligation leads to high compliance costs, and whether tax pre-payments could be made less frequently instead for smaller businesses.
- **Enhance co-ordination, co-operation and data exchange among the economy's different tax administrations.** More intensive information exchange between the entities and the Indirect Taxation Authority would improve the quality of the tax audits and reduce compliance costs for businesses that have to provide VAT information to the respective entities.
- **Both entities could consider introducing mandatory e-filing under the personal income tax and the corporate income tax and simplifying tax e-payment procedures.** Enable the interoperability of the electronic signature and simplify the procedure of paying taxes on line.

Support services for SMEs (Dimension 5a)

Introduction

SMEs are more prone than larger companies to suffer from a lack of managerial and technical skills, suboptimal technology, limited access to markets and information, and a lacking entrepreneurial skillset, which can hinder their growth. BSSs provided or supported by the government – ranging from general information and advice to training, mentoring and technical services – seek to address these challenges, thus providing a tool to boost SME productivity. While the COVID-19 pandemic had negative effects on the provision of BSSs across the globe, particularly those involving direct contact with SMEs, it also provided an opportunity to reduce the cost of participation for SMEs by moving part of the activities on line.

SMEs in Bosnia and Herzegovina continue to encounter difficulties accessing BSSs to improve their competitiveness. Low productivity and growth among SMEs are prevalent across entities. To remedy this, Bosnia and Herzegovina needs to provide capacity building and skill development activities to its SMEs. Granting them access to a mix of financial and non-financial support is a key element of the current policy approach, where both access to finance and technical assistance have been negatively affected by the COVID-19 pandemic.

Bosnia and Herzegovina improved its last assessment score of 3.41 on support services for SMEs, scoring 3.65 in this cycle (Table 14.15). Progress stems mostly from a strengthened strategic framework for BSSs provision. The economy scored relatively high in the implementation thematic block assessing the BSSs provided by the government, even though the majority of programmes was initiated by international development co-operation partners. Additional improvements are still needed across entities in monitoring and evaluation.

Table 14.15. Bosnia and Herzegovina's scores for Dimension 5a: Support services for SMEs

Dimension	Sub-dimension	Thematic block	Bosnia and Herzegovina	WBT average
Dimension 5a: Support services for SMEs	Sub-dimension 5a.1: BSSs provided by the government	Planning and design	3.17	4.17
		Implementation	3.86	4.24
		Monitoring and evaluation	3.06	3.88
		Weighted average	**3.49**	**4.15**
	Sub-dimension 5a.2: Government initiatives to stimulate private BSSs	Planning and design	4.80	4.63
		Implementation	3.75	4.21
		Monitoring and evaluation	2.50	3.84
		Weighted average	**3.82**	**4.26**
Bosnia and Herzegovina's overall score for Dimension 5a			**3.65**	**4.20**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Public provision of BSSs was emphasised in various strategic documents adopted since the last assessment cycle. While Bosnia and Herzegovina advanced in implementing support programmes for SMEs, the majority of them are backed by international development cooperation partners, increasing the economy's reliance on external support. Moreover, the programmes risk being mismatched to SMEs' needs, as neither of the entities conducted any training needs analysis (TNA) or demand assessments. There has been little advancement in monitoring and evaluation in Republika Srpska, with OECD's recommendation mostly unrealised. In contrast, the Federation of Bosnia and Herzegovina introduced an

independent evaluation of the impact of provided BSSs (Table 14.16). Progress under this dimension thus remains uneven.

Table 14.16. Bosnia and Herzegovina's implementation of the SME Policy Index 2019 recommendations for Dimension 5a

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Analyse the needs and supply of BSSs more effectively and regularly to fill the gaps in BSS provision, better target the support provided and create more effective BSS provision systems	Little progress has been made in matching BSS demand to BSS supply. Republika Srpska conducted an assessment of training needs in collaboration with the Chamber of Commerce, but details on the results are lacking. No progress has been made in analysing SMEs' training needs in the Federation of Bosnia and Herzegovina.	Limited
Strengthen the monitoring and evaluation of BSS programmes in both entities	The Federation of Bosnia and Herzegovina has made progress in strengthening the monitoring system by introducing an independent review of BSS impact and delivery and creating a database of available incentives and beneficiaries to monitor the achievement of set targets and the allocation of funds. At the time of assessment, Republika Srpska is preparing to launch a Register of Incentives, with the goal of exchanging information between institutions that offer support programmes for SMEs. The register will contain a record of granted support funds and public calls for programmes and incentives for SMEs.	Moderate
Introduce a quality assurance mechanism, such as an accreditation system for private-sector consultants, which SMEs are required to use under co-financed support programmes	No formal accreditation systems have been introduced, but Republika Srpska introduced training and education requirements to be included in a database of private-sector consultants available to SMEs.	Limited

Both entities in Bosnia and Herzegovina reinforced their strategic frameworks for public BSS provision

Government provision of BSSs and their impact on SME competitiveness in Bosnia and Herzegovina is a cornerstone in new government strategies. The Federation of Bosnia and Herzegovina adopted the Action Plan for the Development of SMEs in the Federation of Bosnia and Herzegovina (2019-2020) (Federal Ministry of Development, Entrepreneurship and Crafts, 2019[71]), which served as a transitional document until the entry into force of the Development Strategy of the Federation of Bosnia and Herzegovina (2021-2027) (Federal Ministry of Development, Entrepreneurship and Crafts, 2021[72]). The key priorities of the Action Plan[34] ranged from establishing a dedicated agency for SMEs and increasing their access to finance to boosting technical development and conducting capacity-building activities. Due to the limited resources of the Federal Ministry of Development, Entrepreneurship and Crafts, the number of priorities and measures envisioned was reduced.[35] While the Action Plan's targets focused more on promoting entrepreneurship and reducing administrative barriers for SMEs, the Development Strategy of the Federation of Bosnia and Herzegovina (2021-2027) places more emphasis on improving the digital infrastructure of SMEs and supporting industrial clustering. However, the government also highlights SME access to mentoring programmes, facilitated networking and financial support as key targets of the strategy. The targets are well-defined, though not measurable, hindering further efforts in monitoring. The Development Strategy identifies the lack of resources as one of the main constraints and highlights the necessity for external funding.

In addition, the Federation of Bosnia and Herzegovina adopted the Action Plan for Innovation in SMEs (2021-2023) (Federal Ministry of Development, Entrepreneurship and Crafts, 2021[73]) and the Action Plan for the Implementation of the SBA Principles (2020-2021)[36] (Federal Ministry of Development, Entrepreneurship and Crafts, 2020[74]). The former has a clear focus on financial support for green and innovative practices, while the latter aims to strengthen the institutional framework for implementing activities in accordance with the SBA Principles. By emphasising support for innovative practices for SMEs

and placing BSSs within the SBA assessment framework, the Federation of Bosnia and Herzegovina has strengthened its strategic framework for government-provided support services. The Action Plan for the Implementation of the SBA Principles (2020-2021) is monitored through a series of meetings of a dedicated SBA group, which is in charge of the qualitative monitoring process.

In Republika Srpska, the government adopted a new Strategy for the Development of SMEs (2021-2027) (RS Parliament, 2021[54]). The strategy serves as a continuation of the previous one, with added focus on social entrepreneurship, SME competitiveness, access to EU markets and support for innovation. The Action Plan was being drafted at the time of assessment; therefore, information on specific measures to achieve the strategy targets is lacking. In order to reinforce the strategic framework for government-provided BSSs, Republika Srpska established the Centre for Digital Transformation within the Chamber of Commerce. The centre serves as a one-stop-shop for SMEs in their efforts concerning digital transformation, providing advisory and consulting services, training and information. Due to the onset of the COVID-19 pandemic, approximately 30% of the activities planned in the Strategy for the Development of Small and Medium Enterprises were not realised. In addition to the pandemic, there is a significant lack of resources impeding implementation, as well as a strong reliance on external funds.

Nevertheless, SMEs in both entities have access to informational and educational workshops, trainings, tailored mentoring, advisory services in the area of management, sales and marketing, as well as access to incubators and business accelerators. However, as neither of the entities conducted a TNA or an assessment of SME demand for specific BSSs, the governments are risking a mismatch between the needs of the private sector and the provided BSSs.

Bosnia and Herzegovina relies on international development partners for the provision of public BSSs, and a co-ordinated approach to BSS provision is lacking

Since the last assessment cycle, the RS government has launched a number of initiatives[37] that involve collaborating with international development co-operation partners; however, they do not specifically target increasing SME competitiveness or capacity. The Federation of Bosnia and Herzegovina made progress in implementing the mentoring project, “Establishment and promotion of mentoring services for small and medium enterprises in the Western Balkans”,[38] initiated together with JICA. Republika Srpska[39] is also part of this mentoring project with JICA, providing advisory support to 53 entities in 2020 through the services of 45 certified mentors.

Most of the projects in both entities are funded through external support, which signals high reliance on external funding. While the Federation of Bosnia and Herzegovina does have entity-governed technical assistance programmes for SMEs,[40] they have a local focus, limited to one region or city. Entity-wide programmes in the Federation of Bosnia and Herzegovina also rely on external support. While international co-operation is noteworthy and should be continued as it can have a positive impact on knowledge transfer between international agencies, governments and SMEs, as well as build capacity for local BSS providers, it should not become a substitute for functional and effective government programmes to provide BSSs (UNCTAD, 2005[75]). Over-reliance on external funds and technical assistance can reduce the economy’s ability to develop and fund government support programmes due to a lack of institutional infrastructure for programme implementation. External partner-co-ordinated projects also tend to be temporary, thus limiting a regular, systematic approach to providing public and private BSSs.

While both entities in Bosnia and Herzegovina have frameworks for implementing their strategic targets related to BSS provision, the mandates of institutions across entities are complicated and risk duplication of efforts. The implementation of the SBA Principles falls under the mandate of the Ministry of Foreign Trade and Economic Relations at the state level, but SBA-related policies and strategies are within the purview of entity-level institutions (European Commission, 2021[76]). In the Federation of Bosnia and Herzegovina, there are five[41] regional development agencies governed by the mandate of the FBiH Ministry of Development, Entrepreneurship and Crafts, tasked with BSS provision for SMEs. In Republika

Srpska, the agency responsible[42] is RARS, with additional support provided through a network of local development agencies.

A co-ordinated inter-agency approach is needed to streamline the public provision of BSSs and maximise their utility for SMEs. At the time of assessment, despite the prevalence of international partner programmes to provide technical assistance, domestic companies did not seem to perceive the support as substantial. Some 94% of enterprises reported they did not receive public and/or support from international partners in 2018-20 (RCC, 2021[42]). This may signal low awareness or outreach of the programmes and a lack of co-ordination between agencies responsible for the provision of BSSs.

Both entities support the private-sector provision of BSSs, though co-financing is only available in the Federation of Bosnia and Herzegovina

As in the case of public BSS provision, the government's initiatives to stimulate private-sector BSSs are included in key strategy documents. The newly adopted Action Plan for the Development of SMEs in the Federation of Bosnia and Herzegovina (2019-2020) and the RS Strategy for Development of SMEs (2021-2027) both state the importance of good private-sector provision of BSSs and improved SME access to support services; however, the documents lack concrete measures.

While international development co-operation partners mostly fund public BSSs, private BSSs remain incentivised by the governments across entities. In the last assessment cycle, co-financing of BSSs was available to SMEs in both entities. The Federation of Bosnia and Herzegovina still provides co-financing from government funds and has increased the co-financed amount from 50% to 60%[43] of the costs since the last assessment cycle. Republika Srpska, however, does not currently provide co-financing schemes for SMEs from government funds. Nevertheless, through RARS, the government launched the Network of Consultants project, which seeks to contribute to developing the consulting services market in Republika Srpska. SMEs have access to a comprehensive database of a wide range of business consultants,[44] trained and educated to support SMEs in their development. Legal entities performing consulting activities and NGOs are also eligible to be included in the database to provide a wider range of services for SMEs. The services are co-financed on the basis of a voucher system. At the time of assessment, 96 service providers were registered in the database.

Monitoring and evaluation are uneven across entities

Both entities have monitoring mechanisms in place for public BSSs. However, while both entities report on the implementation of their strategies and action plans with publicly available reports, systematic monitoring based on indicators is lacking. Moreover, there is no evidence that the results of evaluation have a direct impact on service provision.

Since the last assessment cycle, the Federation of Bosnia and Herzegovina introduced an online registry, serving as a monitoring mechanism for all BSS recipients. The government created a centralised database of all incentives and their beneficiaries to be updated annually. The system facilitates a comprehensive analysis of the effectiveness of allocated funds and monitors target achievement by all beneficiaries back to 2013. Moreover, the Federation of Bosnia and Herzegovina's introduction of an independent review of BSS delivery and impact is a notable development.

There has been no change in monitoring systems in Republika Srpska, as it is done through annual reports, which are now publicly available. However, the reports do not evaluate the effectiveness of introduced BSS programmes.

Similarly, government incentives for private BSSs are not monitored thoroughly on either entity level. Since Republika Srpska does not provide co-financing initiatives using government funds, the monitoring system is non-existent. The Federation of Bosnia and Herzegovina uses expenditure monitoring mechanisms without a particular focus on programme outcomes or feedback, limiting the scope of evaluation.

The way forward for Dimension 5a

- **Reduce reliance on international development co-operation partners and external funding, and prioritise entity-level development of business support services (BSSs) for SMEs.** Developing a comprehensive across entity programme focused on improving SME competitiveness through training, mentoring, technical assistance, and access to finance would make SME support more predictable. External funding and projects are sporadic and do not constitute regular and consistent support on which SMEs can rely. A government programme with outreach across entities could contribute to higher cohesion among SMEs and broader inter-agency collaboration in improving SME capacity domestically and abroad.
- **Strengthen the monitoring and evaluation mechanisms for public and private BSS provision.** Evaluation of provided BSSs should be integrated into BSS policy design (Box 14.7). Impact assessment is a useful tool in determining the effectiveness of services and monitoring outcomes. A framework to measure the performance of SMEs after taking up provided initiatives could provide valuable insight into both positive and negative effects of selected incentives, which could later demonstrate the viability of provided BSSs.

Box 14.7. The United Kingdom's Business Support Evaluation Framework

The UK Department for Business, Energy and Industrial Strategy (BEIS) has created a dedicated framework for evaluating business support interventions in the United Kingdom. The tool aims to help policy makers create comparable support programmes and establish a set of standards to which all initiatives can adhere to provide the highest quality services. The framework focuses on quantitative evaluation and is complemented by qualitative monitoring. The evidence gathered through the evaluation framework serves as a basis for an impact and cost-effectiveness assessment. BEIS provides numerous support programmes for businesses, which are monitored and evaluated on a regular basis; therefore, the framework serves as a compilation of the evidence already gathered with the goal of identifying good practices in the area of evaluation. The framework focuses on support programmes' comparability through standardisation, data collection and reporting.

The framework is designed along a logic model, which accounts for different data components to be collected. The key elements include inputs, e.g. resources used for a support programme, deliverables, programme output and impact. The envisioned timeline of the impact evaluation is set at a minimum of three years. The business support interventions are evaluated based on a set of pre-defined indicators, such as gross value added, turnover, employment and productivity proxy measures, such as turnover/headcount ratio. The indicators are well targeted to ensure programme comparability. BEIS aims to create uniform standards for provided support programmes and increase the transparency of the evaluation process.

Monitoring and evaluation of BSS programmes are uneven across entities in Bosnia and Herzegovina; thus, introducing a common, comparable evaluation framework would improve the quality of provided support services. Given Bosnia and Herzegovina's governmental structure, comparable programmes and a common assessment framework would reduce the administrative burden for both entities and ensure higher quality support services for SMEs. Bosnia and Herzegovina can leverage its co-operation with international development co-operation partners, which can assist the economy in developing an evidence-based framework for impact evaluation.

Source: Department for Business, Energy and Industrial Strategy (2019[77]).

- **Conduct effective, regular analysis of the demand and supply of BSSs in order to fill the gaps in BSS provision so as to provide more targeted and customised support for SMEs** (Box 14.8). Both entities should aim to match the supply of BSSs available to satisfy the needs of SMEs, evaluated on a regular basis from the angle of their expertise, stage of development and experience. In order to maximise the utility of BSSs and ensure their uptake, they should be tailored to the specific characteristics of local SMEs.

Box 14.8. Turkey's approach to training needs analysis

Turkey's SME Development and Support Organisation (KOSGEB)'s Information Management and Decision Support Department is responsible for analysing the supply and demand for BSSs and SMEs' training needs. The assessments are conducted systemically, regularly and in a formalised manner. KOSGEB extends the evaluation practice to regional institutions to assess their institutional capacity to support SMEs on the ground. KOSGEB also conducts regular TNA and updates the dedicated training portal accordingly. Analysis results are then used in future support programme design.

The regularity and consistency in conducting TNAs contribute to SME support measures being well targeted and successful in Turkey. In addition, KOSGEB collaborates with regional Development Agencies in Turkey; therefore, their SME outreach is broader, allowing them a more comprehensive view of SME needs across the economy.

Despite Bosnia and Herzegovina's complex administrative environment, the economy has the capacity to conduct systematic research on SME demand for BSSs in both entities. In the Federation of Bosnia and Herzegovina, five regional development agencies are tasked with providing BSSs for SMEs. Expanding their mandate to conduct a thorough analysis of the training needs of their BSS beneficiaries would ensure that their BSS offer matches the demand, thus increasing BSS uptake and effectiveness. In Republika Srpska, RARS is the main body responsible for SME support, along with local development agencies, the Innovation Centre of Banja Luka, the Chamber of Commerce and the Chamber of Crafts providing additional assistance. The Chamber of Commerce has already made efforts to conduct a TNA among SMEs, but the approach is not systematic and works on an ad hoc basis. Republika Srpska could build on this analysis by conducting regular analysis of the demand and supply of available SMEs.

Source: KOSGEB (2022[78]).

- **Increase efforts to introduce a quality assurance mechanism**, such as an accreditation system for private-sector consultants whom SMEs are required to that SMEs must use under co-financed support programmes. Though efforts have been made in assuring the quality of private-sector consultants, further development of formal control mechanisms is needed for private-sector BSS providers.

Public procurement (Dimension 5b)

Introduction

Easy access to public procurement markets for SMEs and increasing their participation can boost competition by ensuring equal treatment and open access, thus promoting inclusive growth. Policy makers should therefore take into consideration the unique needs of SMEs, as they are disproportionally affected by complex procedures and often discouraged by the effort needed to take part in these procedures, while being unsure of the outcome.

The value of awarded contracts in Bosnia and Herzegovina decreased during the COVID-19 pandemic (BAM 2 771 billion (approximately EUR 1 418 billion) in 2020 compared to BAM 2 844 billion (approximately EUR 1 455 billion) in 2019) (OECD, 2021[59]). No changes to the Public Procurement Law (PPL) were introduced in response to the COVID-19 pandemic, as tools and procedures for emergency procedures were readily available (OECD, 2021[59]). The Public Procurement Agency issued instructions to contracting authorities related to the possibility of using negotiated procedures without prior notice, based on grounds of urgency, as well as exemption from the scope of the PPL for contracts which required special security measures (OECD, 2021[59]). The outbreak of COVID-19 was also used as justification to enhance the application of domestic preferences in public procurement, which is contrary to Bosnia and Herzegovina's commitments to the European Union (OECD, 2021[59]).

Bosnia and Herzegovina scored 3.49 on Dimension 5b, the lowest score on this dimension in the region (Table 14.17). It is also slightly lower than in 2019 (3.57), mainly due to limited progress in the area of implementation. All in all, progress in the field of public procurement may be qualified as limited, mostly because of the lack of improvements in public procurement legislation, delays in adopting updated strategic documents (action plans) and limited progress in the establishment of electronic procurement tools.

Table 14.17. Bosnia and Herzegovina's scores for Dimension 5b: Public procurement

Dimension	Thematic block	Bosnia and Herzegovina	WBT average
Dimension 5b: Public procurement	Planning and design	3.76	4.16
	Implementation	3.36	4.15
	Monitoring and evaluation	3.40	3.27
Bosnia and Herzegovina's overall score for Dimension 5b		**3.49**	**3.98**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

The Council of Ministers adopted a Proposal on the Law on Amendments to the Public Procurement Law, but the new provisions have not yet been adopted by the parliament (OECD, 2021[59]). While the application of domestic preferences was supposed to phase out on 1 June 2020, the Council of Ministers adopted a new temporary decision (Council of Ministers, 2020[79]) on preferential domestic treatment (with a 30% margin of preference) that was valid from 1 June 2020 until 1 June 2021. This decision was in breach of the SAA of Bosnia and Herzegovina with the European Union (OECD, 2021[59]). No new measures concerning domestic preferences have been adopted since the expiry of this decision. The grounds for re-establishing domestic preferences in the future, however, still exist in the PPL (Public Procurement Agency of Bosnia and Herzegovina, 2014[80]), and new preferences may be adopted by the government by means of implementing regulations.

Table 14.18. Bosnia and Herzegovina's implementation of the SME Policy Index's 2019 recommendations for Dimension 5b

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Further align national legislation with EU rules and international best practice	There have been no changes to the legal framework related to public procurement. The Public Procurement Law is partly in line with the *acquis*, but it provides for some exemptions that are not compliant with the *acquis*; the draft amendment of the PPL was prepared by the Public Procurement Agency and submitted to parliament but has not yet been adopted.	No progress
Ensure that economic operators have access to public procurement on equal footing regardless of their origin	The application of domestic preferences, which were supposed to be phased out in June 2020, was extended until 1 June 2021, and their amount increased to 30%. The decision was not extended in 2021, but the risk of being re-imposed still exists as the PPL contains provisions authorising the government to regulate the issue of domestic preferences; the economy needs to ensure and continue the equal treatment of domestic and EU/international bidders in line with the provisions of the Stabilisation and Association Agreement. The Procurement Review Body's (PRB) website has finally been launched, and the PRB no longer has to rely on the Public Procurement Agency's (PPA) website. Information about review procedures and the PRB is accordingly published there, while the PRB's rulings are published on the Public Procurement Portal.	Moderate
Remedy the issue of lack of expert staff of the PRB	Bosnia and Herzegovina still needs to strengthen the PRB's administrative capacity by increasing staff, as many positions are still vacant (OECD, 2021[59]).	No progress
Constantly monitor and analyse obstacles faced by SMEs in access to public procurement markets	According to the information available at the time of writing this assessment, no progress was made to improve the monitoring and analysis of the obstacles faced by SMEs when accessing public procurement markets.	No progress
Lower the fees to be paid by economic operators complaining to the PRB against the decisions of contracting authorities	The fees paid by economic operators filing complaints with the PRB against the decision of a contracting authority remained the same (they are set by the PPL). No changes were adopted to the PPL.	No progress

Public procurement procedures, although transparent and open, attract relatively little competition among economic operators

In 2020, Bosnia and Herzegovina's public procurement market amounted to 8.05% of GDP, slightly below the 2019 level (European Commission, 2021[58]). Procurement contracts are mostly concluded under transparent and guaranteed competition procedures: 92% of contracts were awarded in 2020 under procedures with a public call for competition (OECD, 2021[59]). However, the average number of tenders submitted in procurement procedures was only 2.05 (OECD, 2021[59]), a decrease from 2019 when it was 2.16 (OECD, 2021[59]). Even more worrisome, 71% of all contracts in 2020 were concluded following a procedure in which only one tender was submitted (an increase from 67% in 2019) (OECD, 2021[59]).

The regulatory framework still does not provide for some solutions envisaged in the 2014 EU Procurement Directives

Public procurement is regulated in the Law on Public Procurement of 2014 (Public Procurement Agency of Bosnia and Herzegovina, 2014[80]). The PPL is based on the EU Procurement Directives adopted in 2004, but the 2014 EU Procurement Directives are yet to be implemented. The Strategy and Action Plan for the Development of the Public Procurement System in Bosnia and Herzegovina for the period 2016-2020 foresaw a gradual harmonisation with the new EU Procurement Directives (OECD, 2021[59]). However, the scheduled measures were not implemented (OECD, 2021[59]). On 18 February 2021, the Council of Ministers adopted the Proposal on the Law on Amendments to the Public Procurement Law (OECD, 2021[59]) and submitted it to parliament (OECD, 2021[59]). The draft law provides improvements

with regard to transparency in various phases of the procurement process and brings the PPL closer to the 2014 EU Procurement Directives, for example, with provisions concerning labels, life-cycle tools, preliminary market consultations and the obligation to indicate the main reasons why a contract is not subdivided into lots (OECD, 2021[59]).

The PPL's provisions provide various solutions to facilitate the access of SMEs to public procurement procedures: division of procurement into lots,[45] joint bidding (participation of consortia),[46] the possibility of relying on the resources of other economic operators,[47] and the application of proportionate and non-discriminatory requirements concerning the participation of economic operators.[48] The PPL also allows the winning tenderer the possibility to subcontract parts of a contract to third parties[49] and does not limit the maximum share of subcontracting. It does require, however, that subcontracting essential parts of the contract be subject to advance approval by the contracting authority.[50]

The PPL's current provisions do not promote the application of social, environmental and innovative or sustainability considerations. It is acknowledged that the application of such considerations is particularly beneficial for SMEs. While they may often be at a disadvantage in delivering off-the-shelf mass products at the cheapest possible purchase price, they may be able to offer customised, innovative goods or services that perform better in terms of quality, or that have a broader economic, social and environmental impact (European Commission, 2020[81]). The current PPL only mentions environmental characteristics among legitimate contract award criteria,[51] and contracting authorities are allowed to also take into account social and environmental requirements when establishing contract performance conditions.[52] The PPL also provides the possibility of restricting participation in procurement procedures to economic operators that employ disabled employees, but the provisions, based on the 2004 EU Procurement Directives, are stricter than those provided in the 2014 EU Procurement Directives.[53] Contracting authorities do not have the possibility to use a special procedure for social and other specific services in accordance with the 2014 EU Procurement Directives.

Selection of the best tender is based on the lowest price or the most economically advantageous tender criterion: contracting authorities are free to choose between those two options.[54] Unlike in some other economies of the region, the PPL does not provide any preferences for the application of quality criteria. Indeed, the lowest price criterion remains the most often used criterion in public procurement procedures (and amounted, in 2020, to 86% of procedures) (OECD, 2021[59]). It remains, however, less frequent than in other economies in the region.

The regulatory framework requires a formalistic approach to verifying economic operators' qualifications

Implementation of the PPL is very formalistic and fails to achieve some of its main objectives (OECD, 2021[59]). For example, mandatory self-declaration of economic operators, introduced in the PPL with the intention to replace documentary evidence as the condition for participating in the tender, in effect imposes more burden and costs on participants. First, any self-declaration submitted by bidders must be certified by a competent authority (municipality or public notary).[55] Second, only originals or certified copies of documentary evidence not older than three months from the date of submission of the tender may be accepted by contracting authorities from the winning bidder (if the winner fails to deliver such documents, the contract is proposed to the second-best bidder).[56] This results in many economic operators submitting documentary evidence along with the obligatory self-declaration with their tenders, completely devaluing the concept of a self-declaration (OECD, 2021[59]). Moreover, economic operators are forced to regularly obtain up-to-date original documents from institutions and certify the copies thereof to have them readily available in case they are required to deliver them to the contracting authority (OECD, 2021[59]).

The institutional set-up supports conducting public procurement, but the current electronic procurement system does not enable fully electronic communication

The Public Procurement Agency (PPA, n.d.[82]) is an independent administrative body responsible for policy making, preparing draft legislation, monitoring, and advisory and training activities in the field of public procurement and managing and developing the Public Procurement Portal. It has two branch offices, one in Banja Luka and one in Mostar. The PPA carries out monitoring of public procurement; provides advisory and operational support to contracting authorities and economic operators, such as ad hoc advice on legal as well as technical issues (through a hotline and in writing); conducts training and examinations of public procurement staff; and manages and operates the Public Procurement Portal.

The Public Procurement Portal (EJN, n.d.[83]), established with the support of the Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ), allows the publication of procurement notices and documents as well as the generation of reports on procurement procedures by the PPA. The portal also posts legislation (new and previous), opinions interpreting the provisions of the law, periodic and annual monitoring reports, and decisions of the Procurement Review Body. The PPL does not foresee the electronic submission of requests to participate in tenders. They are still handled, in principle, in a traditional paper manner, although there are examples of contracting authorities requesting electronic submission or indicating the possibility of submitting bids electronically and using electronic auctions in specific cases. The use of digital technologies in the tendering process (e-procurement) to overcome the lengthy paper-based procedures is regarded as being convenient for all kinds of enterprises, and particularly for SMEs, as it contributes to simplifying public procurement processes and reducing transaction costs (OECD, 2018[84]).

The rights of economic operators in public procurement are protected by a review of appeals by an independent Procurement Review Body

The PRB (PRB, n.d.[85]) is an independent and autonomous institution responsible for reviewing complaints submitted by economic operators. Responsibility for review is divided between the office in Sarajevo and two branch offices (one in Mostar and the other in Banja Luka) depending on the value of procurement concerned and the type of contracting authority. Any economic operator with or having had an interest in a public procurement contract award is allowed to appeal if they can make the case that damage was or could have been caused by the public procurement procedure because of the actions of the contracting authority. Those appealing need to pay a fee before the appeal is reviewed by the PRB. The fees are set according to the value of the entire public procurement contract and range from BAM 500 (around EUR 255) to BAM 25 000 (around EUR 12 800).

The review of the appeals process comprises two stages, as prior to an appeal being submitted to the PRB, it should be examined by the contracting authority in question. While the PPL is mainly compliant with the EU Remedies Directive, the time limits for bringing appeals before the PRB (five days)[57] are manifestly too short and do not comply with the requirements of the Remedies Directive.

After years of relying on the PPA's website for the publication of relevant information, in 2018, the PRB launched its own website. Rulings adopted by the PRB are published on the Public Procurement Portal.

The way forward for Dimension 5b

- **Complete the implementation of the 2014 EU Procurement Directives.** The current legal framework for public procurement has remained unchanged and is largely aligned with the basic EU principles but requires further alignment with the 2014 EU Procurement Directives. A draft amendment has been prepared and submitted to parliament but has not yet been adopted. It would also be beneficial to introduce anti-corruption mechanisms into the public procurement legislation,

in particular regarding conflicts of interest, and reduce the frequency of application of non-transparent and non-competitive procurement procedures (direct award procedures).

- **Complete the establishment of electronic public procurement.** Communication and exchange of information in Bosnia and Herzegovina is not fully conducted by electronic means, which is a standard under the 2014 EU Procurement Directives. The PPL does not foresee the electronic submission of requests to participate, and tenders are still handled on paper. The use of e-procurement contributes to the simplification of public procurement processes and reduces transaction costs, and, as such, is particularly beneficial for SMEs.
- **Reduce the administrative burden of participating in public procurement,** in particular, by simplifying provisions for economic operators to prove their compliance with exclusion and qualification (selection) criteria (Box 14.9).

Box 14.9. Self-declarations in the EU Public Procurement Directives: European Single Procurement Document

Economic operators participating in public procurement procedures in European Union member states can prove compliance with exclusion and qualification (selection) criteria by means of self-declarations. Those self-declarations are submitted with tenders or requests to participate, in principle, instead of certificates issued by public authorities or third parties. Those certificates, statements and other means of proof – the supporting documents – are then required only from the bidder to whom the contracting authority has decided to award the contract.

In EU member states, at least above the thresholds of application of the Public Procurement Directive, this self-declaration takes the form of the European Single Procurement Document (ESPD). Contracting authorities are obliged to accept ESPDs from economic operators as preliminary proof that the economic operator fulfils the following conditions:

a) is not in one of the situations in which economic operators should or may be excluded
b) meets the relevant selection criteria that have been set by the contacting authority
c) where applicable, fulfils the objective rules and criteria that have been set out by the contracting authority for the purposes of short-listing (in the case of multi-stage procedure).

The ESPD has a form established by the European Commission and is obligatory for EU member states in procurement covered by EU Procurement Directives. The ESPD consists of a formal statement by the economic operator that the relevant ground for exclusion does not apply and/or that the relevant selection criterion is fulfilled, and the economic operator should provide the relevant information as required by the contracting authority. The ESPD should also identify the public authority or third party responsible for establishing the supporting documents and contain a formal statement to the effect that the economic operator will be able, upon request and without delay, to provide those supporting documents.

The ESPD is used in Poland, and documents and certificates (proof) are only required from the bidder who is being offered the contract. The contracting authority, if required for the proper conduct of the procedure, may, at any stage of the procedure, including the pre-selection stage or immediately following receipt of requests to participate, request that economic operators submit all or some proof, valid at the moment of their submission. In case of reasonable suspicion that proof submitted earlier in the process has ceased to be valid, the contracting authority may request that the economic operator(s) submit proof that was valid at the time of their submission. The contracting authority may, but is not obliged to, request specific proof. Such a demand may be addressed to one particular supplier or several. Such a request is possible, in particular in the case of a two-stage procedure, at receipt of

requests to participate or immediately after the submission of such requests – it concerns thus the qualification stage of such a procedure. Submission of proof may also be requested after the submission of tenders if there are doubts concerning the validity of previously submitted documents. The possibility of using self-declaration should encourage the participation of economic operators, and in particular SMEs, by reducing the costs related to their participation in public procurement. Instead of evaluating numerous documents, contracting authorities only need to evaluate that self-declarations are submitted by all participants of the procedure – bidders submitting tenders (in an open procedure) or candidates submitting requests for participation in two-stage procedures (for example, a restricted procedure) to decide whether they should be excluded or admitted to the procedure. Self-declarations and information included therein should be sufficient for the contracting authority to take a decision on whether a given bidder (candidate) should be excluded or admitted to the public procurement procedure.

Sources: European Commission (2016[86]; n.d.[87]; 2017[88]).

Access to finance for SMEs (Dimension 6)

Introduction

Access to finance remains critical for economic growth and inclusive development, allowing companies to expand their operations and invest to gain in efficiency and productivity. However, the availability and affordability of credit are typically strongly correlated with firm size, meaning the smaller the company, the more difficult it is to access funding, thereby requiring targeted policy measures to encourage and complement private-sector financing without crowding it out.

Like elsewhere across the globe, the COVID-19 pandemic suddenly increased pressures on firm finances in Bosnia and Herzegovina, especially for smaller firms that do not have large financial buffers. It brought access to credit to a sudden halt, requiring a swift short-term targeted policy response to shore up firm finances without, however, losing sight of more long-term measures to provide sustainable financing opportunities for small businesses.

Against this background, Bosnia and Herzegovina has made limited progress in supporting access to credit for SMEs. Compared to the previous assessment in 2019, it has marginally improved its score from 3.26 to 3.34 (Table 14.19) but continues to lag behind the other economies in the region. Nevertheless, some progress has been made in aligning banking regulations and improving the legal framework for non-bank finance.

Table 14.19. Bosnia and Herzegovina's scores for Dimension 6: Access to finance for SMEs

Dimension	Sub-dimension	Thematic block	Bosnia and Herzegovina	WBT average
Dimension 6: Access to finance for SMEs	Sub-dimension 6.1: Legal and regulatory framework	Creditor rights	3.90	4.27
		Registers	4.50	4.63
		Credit information bureaux	4.50	4.37
		Banking regulations	3.20	4.09
		Stock market	3.00	3.23
		Weighted average	**3.94**	**4.20**
	Sub-dimension 6.2: Bank financing	Bank lending practices and conditions	2.80	3.23
		Credit guarantee schemes	2.40	2.61
		Weighted average	**2.64**	**2.98**
	Sub-dimension 6.3: Non-bank financing	Microfinance institutions	4.40	3.37
		Leasing	3.00	3.24
		Factoring	1.60	2.71
		Weighted average	**2.99**	**3.09**
	Sub-dimension 6.4: Venture capital ecosystem	Legal framework	2.00	2.73
		Design and implementation of government activities	1.40	2.57
		Monitoring and evaluation	1.00	1.47
		Weighted average	**1.53**	**2.40**
	Sub-dimension 6.5: Financial literacy	Planning, design and implementation	1.40	2.83
		Monitoring and evaluation	1.00	1.19
		Weighted average	**1.32**	2.50
Bosnia and Herzegovina's overall score for Dimension 6			**3.34**	**3.68**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

The complex institutional structure of Bosnia and Herzegovina and the subsequent lack of a single financial market continues to significantly impede access to finance, especially for smaller firms. Competencies related to financial market regulations fall within the remit of the entities, while the Central Bank maintains a rather limited co-ordination function. Progress has been made in aligning regulations to EU standards, triggering harmonisation also across entities, and the banking sector has weathered the economic downturn caused by the COVID-19 pandemic relatively well amid strengthened resilience prior to the pandemic. The establishment of dedicated COVID-19 sovereign credit guarantee schemes, complementing the existing public Guarantee Fund in Republika Srpska, have further helped to soften the impact on lending. Legislative reform has somewhat strengthened the framework for non-bank financial instruments, though limited data collection continues to hamper effective monitoring of non-bank financial institutions' activity. No progress has been made in establishing equity-based financial instruments, and there is no systematic and co-ordinated approach to promote financial awareness.

With regard to progress made on the key recommendations made for Dimension 6, Table 14.20 provides an overview of specific actions undertaken since the previous assessment.

Table 14.20. Bosnia and Herzegovina's implementation of the SME Policy Index's 2019 recommendations for Dimension 6

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Continue to align the financial space	Some progress has been made to harmonise the regulation and supervision of the banking sector with European standards, which was recognised by the European Commission in 2021. However, lack of co-ordination across entities and fragmentation of the supervision of the banking sectors remain major impediments to the long-term stability of the financial sector and hinder effective lending.	Moderate
Strengthen the non-bank financing ecosystem and standardise data collection	Despite a solid legal framework for non-bank financial products, uptake of factoring and, to a lesser extent leasing, remain subdued. Data on non-bank financial services remain unavailable in the Federation of Bosnia and Herzegovina, hindering comprehensive monitoring and evaluation to identify additional actions to promote these types of finance.	Limited
Introduce a financial literacy strategy	No progress has been made in developing a strategic, inclusive approach to financial literacy, as initiatives remain untargeted and ad hoc.	No progress

Progress has been made in aligning legal frameworks, but continuous fragmentation in the regulatory set-up impedes financial sector supervision and co-ordination

A legal framework regulating the financial sector is in place and broadly aligned to Basel III requirements, although the complexity of the institutional set-up limits harmonised supervisory and regulatory policy making in support of SME access to finance across all of Bosnia and Herzegovina, thereby impeding lending. Some progress has been made by both entities to align their legal and regulatory frameworks to EU standards. Since 2017, both the Banking Agency of Republika Srpska and the Banking Agency of the Federation of Bosnia and Herzegovina have undertaken steps to harmonise regulations with the *acquis*. Since 2019, the European Banking Authority has directly supported this process. As a result, in October 2021, the European Commission confirmed that the banking sector regulations are broadly aligned with EU standards, therefore reaching an important milestone in the creation of a harmonised financial space across the economy. Further underlining good intentions to improve co-ordination and exchange, amongst others, a memorandum of understanding between the two entities and the state level has been prepared, which would greatly increase predictability and the long-term stability of the financial system. However, at the time of writing, the memorandum of understanding was still pending signature. Finally, the Central Bank of Bosnia and Herzegovina has greatly increased its capacity for adequate forecasting and risk

assessment – however, due to the constitutional split of competences, it cannot comprehensively supervise the financial sector.

Both Republika Srpska and the Federation of Bosnia and Herzegovina operate their own cadastre, which, combined, cover all of the territory of Bosnia and Herzegovina. Both systems are available on line. However, they are not harmonised, not easily linked or verifiable, and there are no concrete plans to create a unified cadastre. Online usage of the registration system over movable assets, administered at the state level, was eased in 2019, while private data protection has been strengthened. A public credit registry, operated under the supervision of the Central Bank, has increased its coverage in recent years, from 36.6% in 2016 to 47.1% of Bosnia's adult population in 2019 (World Bank, 2020[89]). The registry includes data from all the actors in the financial sector but still does not draw on data from retail or utility providers. There is also a private credit bureau, covering 14% of all adults; however, it is not regulated by a public agency.

Capital markets are regulated at the entity level and are governed by dedicated legislation on security markets, though capital market activities remain subdued. Both entities have their own local markets, the Sarajevo and Banja Luka Stock Exchanges. Both participate in the regional SEE Link, but neither offers a dedicated listing market for smaller enterprises. In 2019, the Securities Commission of the Federation of Bosnia and Herzegovina lost some of its required members, rendering it unable to perform its regular duties and temporarily halting major capital market operations until new members were appointed in 2021.

The banking sector remains stable amid strengthened supervision and temporary crisis mitigation measures, but lending remains relatively expensive

Bank finance continues to be the most commonly used source of finance, and the number of banks (23, of which two-thirds are foreign-owned) remains high, given the size of the economy. After a temporary decline in lending in 2020 and early 2021, credit rebounded at 1.6% in Q2 2021 (Central Bank of Bosnia and Herzegovina, 2021[90]), though mainly driven by loans to the public sector. Lending to the private sector has been slow to recover. Banking sector stability has been maintained throughout the economic crisis caused by the COVID-19 pandemic amid tighter rules and improved risk management – aligned to EU standards – in the period preceding the pandemic. The level of application, however, appears to differ between foreign- and locally owned banks. Nevertheless, across the industry, however, non-performing loans have further declined as a result of these measures, down from 10% at the end of 2017 to 6% at the end of Q1 2021 (European Commission, 2021[58]).

The FBiH Development Bank, the IRBRS, as well as some cantons, provide credit lines at favourable lending conditions. In 2021, the FBiH Development Bank launched dedicated credit lines to support information technology (IT), energy efficiency and renewables. Equally, in 2020, the IRBRS introduced a new credit line for the acquisition of new technologies and equipment. However, data are not consistently collected or monitored, and initiatives are not well co-ordinated, thereby raising concerns about sustainability, impact and crowding out. The FBiH Development Bank also provides financial support specifically targeting digitalisation, energy efficiency and investment into renewable energy. However, there is no specific focus on SMEs and scope, and uptake remains unclear.

In addition, both entities introduced dedicated credit guarantee funds to help mitigate the impact of the pandemic on lending. The FBiH Development Bank launched the entity's first Guarantee Fund in 2020, with an initial reserve of EUR 40 million, targeting SMEs and craftspeople. It was designed to support liquidity and working capital, as well as to provide ongoing financial support to investments that had started pre-crisis. In Republika Srpska, the authorities set up a special EUR 25 million COVID-19 Guarantee Fund, co-financed by the EBRD. This specific fund, issued at the portfolio level, is operative until the end of 2022, while the RS Guarantee Fund, operative since 2010, continues to provide guarantees and enjoys increasing uptake. Following a significant drop during the previous assessment period, down from

EUR 1.8 million in 2015 to less than EUR 500 000 in 2016, the fund provided guarantees worth EUR 32.9 million in 2021.

Access to alternative sources of finance remains below potential despite improved legislation

Some progress has been made to strengthen legislation promoting alternative sources of finance for SMEs, but overall the sector remains underdeveloped. Non-bank finance is embedded in a well-developed legal and regulatory framework across both entities. In 2020, Republika Srpska adopted a new Law on Factoring, followed by several by-laws in 2021, envisaged to make factoring available via non-bank financial institutions and enable reverse factoring. In the Federation of Bosnia and Herzegovina, a new Law on Microfinance was proposed in 2018 to ease the establishment of microfinance institutions but is still pending adoption. In addition, some minor modifications to strengthen the legal framework for leasing and factoring have also been undertaken since the last assessment. Amid limited availability of data, in particular from the Federation of Bosnia and Herzegovina, across the economy, however, it is difficult to gain full insight into the effect of the improved legislation and assess the uptake of alternative finance.

Where data are available, they suggest an increase in non-bank financial institutions' activity. The number of microfinance institutions has nearly doubled since the last assessment. There are now 25 micro-credit organisations operating largely self-sufficiently across Bosnia and Herzegovina. In Republika Srpska, where some data on non-bank finance activities are being collected, total assets of microfinance institutions increased substantially by 17% between 2019 and 2020, though microfinance is predominately used for household consumption. All four leasing companies active in Bosnia and Herzegovina are registered in the Federation of Bosnia and Herzegovina, and activities have grown slightly since 2019 by 8% from low levels, standing at BAM 117 million (approximately EUR 58 million).

Equity finance is non-existent, and no venture capital funds operate in Bosnia and Herzegovina. Laws on Investment Funds in both entities regulate venture capital; however, there is no dedicated framework to regulate or define venture capital or crowdfunding. No activity has been reported on crowdfunding and initial coin offering during the assessment period. In Republika Srpska, a recent study conducted on the obstacles to venture capital identified the need to establish a venture capital fund for Republika Srpska and to increase efforts to connect local companies to international investors. In addition, preliminary plans are underway to amend the Law on Investment Funds of Republika Srpska, which may facilitate the establishment of alternative investment funds. The Innovation Centre Banja Luka is registered as a business angel network and offers incubation services to start-ups; however, it has not undertaken any angel investments.

Furthermore, SMEs should be better informed and supported to use financial resources from EU-funded programmes (e.g. Horizon Europe, Single Market Programme etc.) that are seen as important financial tools for SME development and technological advancement.

The development of a systematic approach to promoting financial literacy remains nascent

No progress has been made to promote financial awareness and education among private enterprises or the broader population. The Association of Microfinance Institutions offers some financial awareness training across the economy and financial literacy, and RARS incorporates elements of financial literacy in its entrepreneurship training. However, the impact of these initiatives is limited by the lack of a centrally co-ordinated strategy and of a baseline assessment and monitoring and evaluation measures. The portal "U plusu" funded by international partners has become largely inoperative.

The way forward for Dimension 6

- **Continue to harmonise financial market regulation and enable the exchange of information.** Building further on the efforts made to align both financial markets to EU standards, additional steps should be taken to facilitate inter-entity exchange of information on the financial sector and good practice. The Central Bank could facilitate this process while respecting entity competencies. The ultimate goal remains the creation of a frictionless financial space across the whole of Bosnia and Herzegovina, irrespective of the level at which it is regulated.
- **Strengthen the mandate and structure of the credit guarantee funds.** The two credit guarantee funds, in addition to the existing one in Republika Srpska, have proven vital to support access to finance during the COVID-19 pandemic, and the experience gathered should be used to introduce and sustain this type of support beyond the COVID-19 pandemic. A review of the existing performance of the funds would help identify bottlenecks, and together with stakeholders, the mandate and design of the credit guarantee schemes should be revisited to ensure that measures are targeted and support those needing them the most. Provisioning long-term funding, including from the private sector, coupled with vigorous risk management and monitoring and evaluation, would additionally ensure the credibility and sustainability of the schemes.
- **Raise awareness about the opportunities of non-bank finance and improve data collection.** Together with financial service providers, conduct awareness-raising campaigns to promote alternative access to finance and showcase its benefits. This should be linked to an increased and harmonised collection of data related to non-bank finance, which would help monitor uptake and assess the impact of legislative changes made in recent years.
- **Develop a more compressive and co-ordinated approach to promote financial literacy, in collaboration with all stakeholders.** This strategy should include both measures for entrepreneurs and the broader public, including pupils, and should suggest a clear implementation mechanism and the body responsible for its execution.

Standards and technical regulations (Dimension 7)

Introduction

Access to the European Single Market is conditional upon compliance with EU regulations and directives, which due to the New Approach Directives, also increasingly rely on conformity to European standards. While standards and technical regulations can enable trade by defining (minimum) criteria for products and processes, they may also represent a barrier to trade, particularly for SMEs. To lower these barriers, WBT economies need to have a national quality infrastructure (QI) system that is accessible and supportive of SMEs. At the same time, a high level of alignment with the *acquis* is a pre-condition for recognition of an economy's procedures and institutions by the relevant European QI bodies and associations.

Bosnia and Herzegovina sold 72% of its exports to the European Single Market in 2020, which is the third-highest share among WBT economies after Albania and North Macedonia (Eurostat, 2021[91]). This share has continuously increased, from 69% in 2010 to 72% in 2020. Hence, the alignment of its QI legislation and implementation with the *acquis* and procedures is ever more important for Bosnia and Herzegovina's economy.

Despite a better score on this dimension compared to the previous assessment (from 2.78 to 3.22) (Table 14.21), Bosnia and Herzegovina continues to rank last in the region on this dimension. While the basic aspects of a functional QI system are in place, alignment with the *acquis* continues to be comparatively low, and there are few measures to support SMEs in standards development and implementation.

Table 14.21. Bosnia and Herzegovina's scores for Dimension 7: Standards and technical regulations

Dimension	Sub-dimension	Thematic block	Bosnia and Herzegovina	WBT average
Dimension 7: Standards and technical regulations	Sub-dimension 7.1: Overall co-ordination and general measures	-	**3.77**	**3.90**
	Sub-dimension 7.2: Harmonisation with the EU *acquis*	Technical regulations	3.91	4.38
		Standards	2.38	3.77
		Accreditation	2.67	3.89
		Conformity assessment	2.86	4.22
		Metrology	3.97	4.13
		Market surveillance	3.44	3.96
		Weighted average	**3.20**	**4.06**
	Sub-dimension 7.3: SME access to standardisation	Frequency and transparency of PPCs	3.53	3.88
		Private-sector involvement in PPCs	2.50	3.21
		Monitoring and evaluation	2.20	3.57
		Weighted average	**2.74**	**3.55**
Bosnia and Herzegovina's overall score for Dimension 7			**3.22**	**3.96**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Despite an improvement in its overall score, albeit from a comparatively low level, Bosnia and Herzegovina's progress in the area of technical regulations has been limited. The main recommendation

of both the OECD's and the European Commission's previous reports (European Commission, 2021[58]), namely the establishment of an economy-wide QI strategy, remains unaddressed. Such a strategy is essential to further improve the co-ordination on QI, as the level of authority (central government or local government) differs across different QI pillars. Entity-level strategies such as the Quality Infrastructure Strategy 2019-2023 of Republika Srpska (Government of Republika Srpska, 2019[92]) are also important elements, but they do not replace the need for economy-wide co-ordination of QI activities.

There has been some progress on improving SME access to standardisation, as the pandemic and the resulting web conferences lowered the barriers to participating in technical committees and the ISBIH. The ISBIH also offers a newsletter and undertook numerous awareness-raising activities during the assessment period. However, there are still no SME-specific incentives for technical committee participation nor a financial support programme to help SMEs implement standards.

Table 14.22. Bosnia and Herzegovina's implementation of the SME Policy Index's 2019 recommendations for Dimension 7

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Develop a state-wide strategy on quality infrastructure (QI) and implement a co-ordination mechanism across different levels of government	A state-wide strategy has still not been developed. Republika Srpska has adopted a Quality Infrastructure Strategy at the subnational level.	Limited
Improve SME access to standardisation	Information provisions have improved (newsletter and regular activities), but there are no direct measures or incentives to increase the participation of SMEs in standards and financially support them with implementation.	Moderate

There is no state-level QI strategy or central information platform for exporters, but Republika Srpska introduced an entity-level QI strategy in 2019

There has been very little progress in this first sub-dimension. While QI is an important chapter of the Ministry of Foreign Trade and Economic Relations' mid-term Work Plan 2020-2022, there is still no economy-wide QI strategy (for all of Bosnia and Herzegovina). Overall, there remain discrepancies with respect to QI strategy development and centralised information provision at the entity level. While Republika Srpska has adopted (on the parliamentary level) a Strategy for QI (2019-2023) (Government of Republika Srpska, 2019[92]), the Federation of Bosnia and Herzegovina does not have such a strategy. Similarly, the state level still lacks a central website that lists all of the relevant horizontal and/or sectoral legislation as well as information about standards and the conformity assessment process for firms that are interested in exporting to the EU and require information about conformity requirements with EU regulations and standards. Republika Srpska's Ministry of European and International Cooperation has established a subpage where it introduces the regulatory requirements and also provides lists of standards, technical regulations and the QI strategy (Ministry of European Integration and International Cooperation, 2022[93]). While the availability of this information is, of course, positive, the absence of similar QI fact pages at the state level means that the level of information provided is not the same across the whole economy. Companies that want to get certified for a certain standard or assure their legislative compliance may need to search for and browse through different organisations' web pages, which creates informational barriers, particularly for SMEs, as they do not have the same resources nor the informed staff like larger companies. Regional co-operation with other QI institutions from the region appears to be limited

to the Central European Free Trade Agreement (CEFTA) working groups and the Southeast Europe Quality Infrastructure programme.

There has been slow progress in the alignment with the acquis*, but the market for conformity assessment continues to increase as well as the scope for accreditation*

Technical regulations are not applied uniformly across Bosnia and Herzegovina, as Republika Srpska implements its legislation separately. Furthermore, Bosnia and Herzegovina lacks an updated plan that identifies legislation that is not harmonised with the *acquis*, as the latest list dates back to 2006 and needs to be updated. In Republika Srpska, a list of all valid regulations with their legal basis and the standards to which they refer (if applicable) is available on line, but it does not specify whether they are harmonised with the *acquis* or not (RS, 2022[94]). Having an updated list of non-harmonised regulations is also important for the private sector, as it demonstrates in which areas compliance with national technical regulations may be insufficient for exports to the European Single Market. There is no specific body to fulfil the obligation of notifying technical regulations (European Commission, 2021[58]). Overall, this leads to low alignment with the *acquis* in both sectoral as well as horizontal legislation compared to the other WBT economies.

The ISBIH continues to be a full member of the European Telecommunications Standards Institute and an affiliate member of CEN/CENELEC (European Committee for Standardisation/European Committee for Electrotechnical Standardisation). The adoption rate of European standards has not significantly improved during the reporting period and is currently at 89%, an improvement of 2% compared to the previous report. The ISBIH adopted around 2 000 standards per year between 2019 and 2021 (European Commission, 2021[58]). However, there continue to be mandatory standards in place that conflict with European standards and that have not been withdrawn in a systematic manner (European Commission, 2021[58]). This can be an issue for firms that want to export to the European Union and sell in the local market at the same time and as they need to comply with national standards to sell their products and services in the local market, but by doing so do not respect the European standards. This, in turn, may result in their products and services being non-conform with EU rules. In addition to that, the ISBIH also publishes a small number of national standard documents. In 2021, 10 standards were published compared to 30 in 2020 and 14 in 2019. Concerning education on standards, the ISBIH is currently preparing a service so that students can access standards on line for educational purposes, but there is no broader incorporation of standards into educational curricula.

There has been comparatively more progress in accreditation, as two additional accreditation fields are covered by multilateral agreements with the European co-operation for Accreditation, namely medical laboratories and product certification. As a response to the challenges posed by the COVID-19 pandemic, the Institute for Accreditation of Bosnia and Herzegovina (BATA) offered remote accreditation for both re-accreditation as well as for first-time accreditation, which allowed accreditation services to continue without disruption. However, BATA continues to be understaffed, as it operates with only 20 employees, which is one less than during the previous assessment and less than the 28 originally foreseen. As the number of accredited conformity assessment bodies is increasing (see below), this may also increase the co-ordinative effort for BATA, without any additional human resources available.

The number of nationally accredited conformity assessment bodies increased from 116 to 151 during the assessment period. This 30% increase is the second largest in the WBT region. More specifically, 81 testing laboratories, 2 medical laboratories, 9 calibration laboratories, 4 product certification bodies and 55 inspection bodies have been accredited by BATA across Bosnia and Herzegovina. A list of the conformity assessment bodies is published on BATA's website.[58]

In the area of metrology, since the previous assessment, Republika Srpska implemented the European directives on non-automated weighing and measurement instruments as rulebooks into their legal framework, and they are applied since 1 January 2022. Metrology operations are carried out both by the Institute of Metrology of Bosnia and Herzegovina (IMBiH) as well as by metrology bodies at the entity level.

Staff shortages continue to be a limiting factor for these institutions. The IMBiH, for example, has currently 55 staff members. While this is three more employees than during the previous assessment, the figures remain well below the 72 employees required under the implementing legislation. The appointment of the Metrology Council has been completed, which is a positive development, as it had been pending since 2012.

The responsibilities for market surveillance are shared between the market surveillance agency of Bosnia and Herzegovina (state level) and the inspectorates of the Brcko District, Republika Srpska and the Federation of Bosnia and Herzegovina. Legislative alignment is particularly low in the market, as the current state-level law dates back to 2004 and is thus neither aligned with the previous *acquis* 768/2008 nor with the new Regulation 1020/2019. Both regulations include important provisions on the market surveillance required in the EU Single Market, and transposing these into national law is important for lowering the barriers to the free movement of goods between the European Union and Bosnia and Herzegovina. While the annual work plans for the market surveillance agency as well as information about dangerous products are available on line, the agency lacks a strategy. A market surveillance strategy or at least a dedicated section within a broader QI strategy that would set a target both for the operations as well as for the alignment of internal procedures with EU market surveillance procedures would be important. In terms of operations, 218 proactive inspections and 7 reactive inspections were carried out as well as 7 203 pieces of unsafe products were withdrawn from the market in 2020. During 2021, 201 proactive and 17 reactive inspections were carried out as well as 33 620 pieces of unsafe products were withdrawn from the market.[59] Overall, these figures show that the level of market surveillance activities remained stable between 2020 and 2021, unlike decreases observed in some of the other WBT economies.

Access to standardisation: Basic awareness-raising measures are in place, but no financial support programme covers standard-related costs for SMEs

The ISBIH has basic information provision measures such as a newsletter, a regularly updated news section on its website and regular social media postings. Furthermore, it publishes an event calendar, which lists all its committee and council meetings. The ISBIH offers international standards in both English and Bosnian for purchase on its website. It translated 38 international (ISO or European) standards in 2021, compared to 18 in 2020 and 25 in 2019.[60] The increasing tendency in translation is a positive sign for improved accessibility of standards in the local language. Furthermore, several webinars were held for new committee members and awareness-raising purposes during the reporting period. Topics included a discussion on ISO management and construction standards (ISBIH, 2020[95]). While the website offers some basic information about the conformity assessment and the benefits of standards, it lacks a concrete guide outlining the different steps a company needs to take if it wants to implement a standard. Such a guide would be of particular importance for SMEs, which have higher information barriers than larger companies.

Other than offering digital committee meetings and the public feedback mechanism on standard documents, there are no specific incentives in place to increase the participation of SMEs in standards development. As SMEs account for 62.7% of the value added of Bosnia and Herzegovina's economy (European Commission, 2021[56]), having their expertise and opinion represented accordingly in the standards development processes and in the needs assessment of standards undertaken by BATA is important. While not SME-specific, purchases of standards are exempted from VAT in Bosnia and Herzegovina, which is a financial incentive not provided by other WBT economies.

Finally, Bosnia and Herzegovina currently does not have a centrally-coordinated programme in place to financially support SMEs or other firms with the implementation-related costs of standardisation. In the Republika Srpska, the Enterprise Development Agency (EDA) implemented a small EUR 25 000programme in cooperation the Ministry of Economy and Entrepreneurship, but this was restricted to

the certification of 5 companies and 17 auditors in energy management (EDA, 2020[96]). In addition to that, there is a support programme for "Innovation and Digitalisation in SMEs" funded by GIZ, but it is not related to QI.[61] A programme that supports certification efforts, independent of sector and region, would be important to make standardisation more financially accessible for SMEs.

The way forward for Dimension 7

- **Create an action plan/strategy for harmonising with the *acquis*.** Compared to other Western Balkan economies and Turkey, there is still a considerable gap in the alignment of both horizontal and sector-specific regulations. To close this gap, it is important to establish a list of regulations that are not yet aligned with the *acquis* and create an action plan with clear objectives to close these gaps. This should also include legislation in the non-harmonised areas and assess their compliance with Articles 34-36 of the Treaty on the Functioning of the European Union.
- **Develop a state-wide quality infrastructure strategy and improve co-ordination across different governmental institutions and levels**. This recommendation was made in the previous assessment. As many activities are carried out by different institutions at different levels (state or entities), co-ordination of the different QI pillars through the means of a state-wide strategy and a co-ordinating authority remains crucial to assuring effective policy implementation. One good practice example from the region is Serbia's QI Strategy 2015-2020 (Box 14.10). The strategy developed by the authorities in Republika Srpska, based on Serbia's example, can also help to inform a state-wide strategy.
- **Improve access to regulations, standards and conformity-relevant information through a central web page and contact point.** Export-relevant information regarding standards, technical regulations and conformity assessment is scattered across different websites, complicating access to information for firms that want to export products to the EU Single Market. Information should be available and easily accessible through a central website. In addition to the website, the ISBIH's existing 13 contact points across Bosnia and Herzegovina could potentially be broadened to also provide information on technical regulations and other QI-relevant information.

Box 14.10. A joint QI strategy: Serbia's Quality Infrastructure Strategy (2015-2020)

Despite having an institution co-ordinating the economy's QI activities (usually the Ministry of Economy), most WBT economies lack a joint QI strategy. A joint strategy can, however, provide important guidance for identifying common as well as dimension-specific challenges, co-ordinating the activities of the different QI institutions, and setting joint as well as dimension specific targets.

One notable exception in the region is Serbia, which has developed a five-year QI strategy for the period 2015-2020. The strategy begins by analysing the status quo in each of the QI pillars (technical regulations, standardisation, accreditation, conformity assessment, metrology and market surveillance). For some areas, this is done through a so-called SWOT (strength, weakness, opportunity and threat) analysis. This is then followed by a list of objectives per QI pillar. Finally, the QI strategy is accompanied by annual action plans, which operationalise the more generic objectives from the strategy into concrete, measurable activities. Each activity lists the responsible entity, a timeline and the budget from which the respective activity is financed.

This traditional combination of a multi-year strategy and annual action plans is a good approach to break down large strategic goals into smaller pieces and keep track of them, which is particularly useful in a policy area like QI which includes so many different institutions.

As the authorities for QI services differ in Bosnia and Herzegovina across the different pillars (i.e. technical regulations, standards, accreditation, etc.), with some services being co-ordinated and implemented at the state level and others at the entity level, having a joint QI strategy is of particular importance. The strategy could set joint and pillar-specific objectives that would then be implemented by the different institutions at the different levels of governance but monitored by a central authority, thereby assuring co-ordination and adherence in activities over the medium and long term.

Source: Serbian Ministry of Economy (2021[97]).

Enterprise skills (Dimension 8a)

Introduction

SMEs, the cornerstone of job creation, provide a significant share of employment, with two out of three employed people working for an SME, acting as an engine for social development and economic growth. Yet to drive growth and reduce the tendency for start-ups to result in lower-paying jobs, SMEs need to invest in skills, digitalisation and innovation to boost productivity and higher paid employment. However, they lack the capacity of larger enterprises to invest in training for founders and the workforce. They can be supported by relevant government-financed training, however, to close skills gaps and upskill the workforce. This is emphasised when it comes to greening businesses, for example, where environmental sustainability cannot be achieved within SMEs, as the potential is limited by lack of awareness and skills as well as the additional costs involved. Supporting SMEs through developing enterprise skills can create far-reaching impacts for families, local communities and countries.

Bosnia and Herzegovina's score for this dimension remains static (Table 14.23), though there has been increased focus on the collection and analysis of skills intelligence and practical implementation of enterprise skills training across more diverse topics. Weak approaches to monitoring and evaluation persist.

Table 14.23. Bosnia and Herzegovina's scores for Dimension 8a: Enterprise skills

Dimension	Thematic block	Bosnia and Herzegovina	WBT average
Dimension 8a: Enterprise skills	Planning and design	2.04	2.86
	Implementation	3.42	3.85
	Monitoring and evaluation	2.00	2.67
Bosnia and Herzegovina's overall score for Dimension 8a		**2.72**	**3.32**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Bosnia and Herzegovina has seen significant progress in structured actions supporting skills intelligence, backed by EU-funded programmes, with good potential to be sustained (Table 14.24). Enterprise skills are more evident within strategies across both entities. There is an increased level of practical implementation, complemented by good adaptation to online provision during the COVID-19 pandemic across many training providers.

Table 14.24. Bosnia and Herzegovina's implementation of the SME Policy Index 2019 recommendations for Dimension 8a

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Embed skills development in economic strategies	Enterprise skills have been included as a priority in various strategies at state and entity levels. This has not yet resulted, however, in their inclusion in the ERP, and the vocational sector is not yet highlighted as a provider of SME training for key economic sectors.	Moderate
Hold policy dialogue on smart specialisation	The Smart Specialisation Strategy (S3) process is in its early stages. While Bosnia and Herzegovina stakeholders have attended regional workshops led by the Joint Research Centre, no concrete action plan provides a development path toward S3. Stakeholder engagement should remain a priority throughout the process.	Limited

Strategic actions are taking place to strengthen and co-ordinate skills intelligence at the state and entity levels

The development of skills intelligence has advanced during this assessment period, with the launch of the Improving Labour Market Research[62] programme funded by the European Union, with close collaboration with key actors at both state and entity levels. The programme is conducting a range of labour market research, providing evidence and recommendations for the alignment of education and economic development policy in line with the needs of the labour market. Programme actions link to commitments within a range of policy documents,[63] though there is no reference to skills intelligence of SME skills in the ERP (Council of Ministers of Bosnia and Herzegovina, 2021[36]).

Within the EU funding, the Bosnia and Herzegovina Agency for Labour and Employment is leading the development of research evidence at the state level, including drafting thematic reports on women in the labour market (Labour and Employment Agency of Bosnia and Herzegovina, 2021[98]), the impact of COVID-19 (Labour and Employment Agency of Bosnia and Herzegovina, 2021[99]) and an overall labour market survey (Labour and Employment Agency of Bosnia and Herzegovina, 2021[100]).

Entity-level research offers insights into sectors and specific geographic areas, alongside research into the plans and expectations of employers, and guidelines for creating economic and education policies tailored to each entity.[64] While extensive research being undertaken offers valuable insights into labour market intelligence and identifies skills mismatches between supply and demand for the labour market, there is less visibility of skills anticipation to support alignment with future skills needs. Analysis of relevant statistical information from government-financed SME skills training is also lacking.

There is a commitment to continued collection of this labour market intelligence at the entity level and an ambition to create agreements at the state-wide level. Supporting this, both entities report that they are using skills intelligence to inform policy making; however, there are no visible use cases to demonstrate this. With a wide range of stakeholders actively involved in developing skills intelligence, there is a need to identify a lead agency at both the entity and state levels to co-ordinate and expand this work beyond the lifetime of EU funding.

Training providers have successfully transitioned a broad range of trainings on line in response to the COVID-19 pandemic

Following the recommendation from the previous assessment cycle, SME skills are now integrated into a range of strategies, e.g. the Development Strategy of the Federation of Bosnia and Herzegovina (2021-2027) (Federal Ministry of Development, Entrepreneurship and Crafts, 2021[72]) and Republika Srpska's Strategy for Development of SMEs (2021-2027) (RS Parliament, 2021[54]). However, there continues to be little inclusion of this policy area within the ERP, and there is no systemic monitoring of government-financed training for SMEs, while evaluation is the responsibility of each provider and is not collated at the entity level. However, SME skills development actions are evident, including examples supporting digitalisation, green and circular economy, sustainable business practices and internationalisation. There is less focus on investment readiness[65], social economy training[66] and intellectual property. SME skills provision is supported by actions within actions funded by international partners, such as the EU4Business project currently being implemented in Bosnia and Herzegovina jointly with the ILO to address specific sectors and entrepreneurship development.[67]

Significant efforts have been made to transform SME skills training to online formats following the outbreak of the COVID-19 pandemic, including via the chambers of commerce in both entities[68] and the state-level Foreign Chamber of Bosnia and Herzegovina, which conducted a range of training, including an online Digital Academy to drive forward digital marketing.[69] There are diverse examples of training that have been adapted and implemented on line to ensure continued provision of SME skills development opportunities.

Smart specialisation is seen as a priority, but progress is limited

The Smart Specialisation Strategy (S3) process remains at an early stage of development in Bosnia and Herzegovina. The S3 process is not yet initiated, though the state-level working group established through the Council of Ministers has been given a three-year timeline for drafting the strategy.[70] In the Federation of Bosnia and Herzegovina, the Development Strategy 2021-2027 (Federal Ministry of Development, Entrepreneurship and Crafts, 2021[72]) places a priority on the development of smart specialisation, but there is no mention of this in the related Action Plan for Innovation in SMEs (2021-2023) (Federal Ministry of Development, Entrepreneurship and Crafts, 2021[73]). In Republika Srpska, there is less visibility of policy priorities linked to smart specialisation in current documents; however, plans are underway to develop a Proposal of the Smart Specialisation Strategy for 2021-27. Support to drive this work forward across the economy is evident at the European level, with ongoing regional collaboration and support from the European Commission's Joint Research Centre, with a recent series of regional workshops involving members of the working group on raising awareness around S3 topics.[71]

Online access to information on training and support is not yet well-developed

Online portals providing information and registration for enterprise training are not yet launched in either entity. There is a need to emphasise the full range of current and potential providers of SME skills training. VET-based provision can be more emphasised, where vocational specialisms could support sector-based upskilling. A strong evidence base and a broader perspective of where and how SMEs can be trained beyond traditional providers can scale the potential for SME growth and innovation and be linked to smart specialisation. Start-ups have more accessible routes to information on support and training, such as via the entrepreneurship portal in Republika Srpska, which offers a range of government-based information, advice and support offers for entrepreneurs and SMEs.[72] Scope remains for opening up wider online access in the Federation of Bosnia and Herzegovina and at the state level; ensuring this might include support from non-government providers.

The way forward for Dimension 8a

- **Hold multi-stakeholder policy dialogue on the co-ordination and improvement of skills intelligence, placing priority on actors with competence for labour and employment and sector-based organisations.** The purpose should be to build shared responsibility, developing the role of sector organisations to drive forward sector-based skills planning and projection with emphasis placed on priority sectors with growth potential. Government-led labour market research and analysis should cover all entities and be expanded to include future skills anticipation, shaping evidence-based data to support the design of the next ERP and the S3 process. Work can be done to support the development of indicators for SME skills intelligence to guide future monitoring and evaluation related to SME skills at all levels.

Innovation policy for SMEs (Dimension 8b)

Introduction

Supporting innovation and building a knowledge economy is increasingly becoming a priority for the WBT region, and globally. Recognising the link between innovation and productivity and its contribution to higher value-added economic output and competitiveness, many governments have started to emphasise the creation of an environment conducive to innovation and knowledge development. However, equal attention must be given to enhancing innovation capacity at the firm level.

The mainly small but open economy of Bosnia and Herzegovina can further leverage inter-regional and international co-operation to progress in its innovation agenda, creating regional innovation systems and encouraging cross-border co-operation to boost research and development (R&D).

Bosnia and Herzegovina has made limited progress in promoting innovation in SMEs, improving its score from 1.86 in 2019 to 1.97 in 2022 (Table 14.25) and continues to be outperformed by all other economies included in this assessment. Notwithstanding, some actions have been undertaken to improve performance in this dimension, notably in relation to government institutional and financial support services for innovative SMEs.

Table 14.25. Bosnia and Herzegovina's scores for Dimension 8b: Innovation for SMEs

Dimension	Sub-dimension	Thematic block	Bosnia and Herzegovina	WBT average
Dimension 8b: Innovation for SMEs	Sub-dimension 8b.1: Policy framework for innovation	Strategic approach	2.40	3.81
		Implementation of innovation policy	1.92	3.31
		Co-ordination of innovation policy	1.52	3.30
		Weighted average	**1.98**	**3.46**
	Sub-dimension 8b.2: Government institutional support services for innovative SMEs	Incubators and accelerators	2.40	3.27
		Technology extension services for established SMEs	1.00	2.14
		Weighted average	**1.84**	**2.82**
	Sub-dimension 8b.3: Government financial support services for innovative SMEs	Direct financial support	2.60	3.81
		Indirect financial support	1.60	2.26
		Weighted average	**2.20**	**3.19**
	Sub-dimension 8b.4: SMEs and research institution collaboration and technology transfer	Innovation voucher schemes and co-operative grants	1.72	2.85
		Institutional infrastructure for business-academia co-operation	1.68	2.99
		Intellectual property rights	2.48	3.05
		Weighted average	**1.86**	**2.95**
Bosnia and Herzegovina's overall score for Dimension 8b			**1.97**	**3.18**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Bosnia and Herzegovina was included in the European Innovation Scoreboard[73] for the first time in 2021, amid improvements in the collection of statistical data on innovation performance.[74] Accordingly, the economy is classified as an emerging innovator, ranking amongst the bottom three economies included in the scorecard. Bosnia and Herzegovina's innovation policy continues to be characterised by a decentralised approach, owing to the complex institutional and regulatory set-up. Policy design and implementation remain fragmented and ad hoc, with limited monitoring and evaluation mechanisms.

Inclusion in the European Innovation Scoreboard, at the level of the whole economy, could therefore be used as an important tool to improve co-ordination and monitor progress. Both entities have adopted SME innovation action plans, which provide some form of a basic strategic approach. Both action plans envisage the establishment of financial support schemes and expanded institutional support to develop a knowledge economy; however, to date, no concrete policy measures have been introduced, and support – small in size – is mainly provided via international development co-operation partners, with the exception of Republika Srpska. Subsequently, investments in R&D remain negligible, and efforts need to be strengthened to stimulate collaboration between private enterprises and academia.

Table 14.26 provides an overview of the key developments and actions undertaken in relation to the key recommendations for Dimension 8b made in the previous assessment.

Table 14.26. Bosnia and Herzegovina's implementation of the SME Policy Index's 2019 recommendations for Dimension 8b

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Improve co-ordination of R&D and innovation policies	Innovation policy remains decentralised across various levels of government, with no mechanisms to co-ordinate these actors. The inclusion of Bosnia and Herzegovina in the European Innovation Scoreboard in 2021 could be an important tool to increase monitoring and evaluation of innovation performance across the whole economy.	Moderate
Secure direct funding for private-sector R&D and innovation activities	Limited progress has been made to introduce financial support schemes, and private-sector R&D remains very low. Small-scale financial support is available, but this remains mainly at the pilot stage and is dependent on support from international partners. On a positive note, the new SME innovation action plans envisage a stronger focus on direct and indirect financial support.	Limited
Implement an innovation voucher scheme	A small-scale innovation voucher programme has been piloted, though this was not focused on collaboration with scientific researchers and was fully funded by international partners. However, the new SME innovation action plans envisage the establishment of an innovation voucher scheme.	Moderate

The legal and regulatory framework for innovation remains fragmented, hindering the effective design and implementation of innovation policies

In line with the constitutional set-up, innovation policy is dealt with at the entity- and canton level, leading to a highly fragmented legal framework that is unable to create a single, sizeable economic space conducive to innovation. Even at the entity level, the legal and regulatory framework for innovation remains limited. In Republika Srpska, innovation is defined by the Scientific and Technological Development Strategy (2017-2021), which mainly focuses on scientific R&D. SME innovation is addressed in the Strategy for SME Development 2021-2027, which envisages the development of financial support schemes for innovation in SMEs, building support infrastructure, and focusing on digitalisation and participating in international R&D and innovation programmes. As part of this process, a mapping of the innovation infrastructure in Republika Srpska has been conducted, and an action plan has been put in place. In the Federation of Bosnia and Herzegovina, previous plans to develop an innovation strategy have not yet materialised, but like in Republika Srpska, an action plan was adopted for SME innovation as part of the newly developed FBiH Development Strategy (2021-2027). In 2020, a working group was established at the state level to develop a Smart Specialisation Strategy. To date, however, no progress has been evident.

Policy co-ordination remains fragmented and decentralised. At the state level, the Ministry for Civil Affairs performs a high-level co-ordination function, both across the entities and the Brcko District, as well as internationally. There are no dedicated implementation agencies responsible for the implementation of innovation policy. In Republika Srpska, the Innovation Centre Banja Luka performs some aspects of an innovation fund, but tailored support to foster innovation remains limited, and no dedicated funding is in

place. RARS also provides some technical support related to innovation in SMEs and start-ups. In the Federation of Bosnia and Herzegovina, innovation measures are predominately led by international partners or business associations, thereby remaining highly fragmented without any holistic approach.

An emerging institutional support structure for innovation is in place, but it varies significantly in organisational structure, purpose and scope

While a number of incubators operate across Bosnia and Herzegovina, they typically do not have a specific focus on innovation. In Republika Srpska, the Innovation Centre Banja Luka continues to lead the provision of incubation services, providing training and advisory support to start-ups, partially funded directly by the authorities. This work is complemented by a number of other functioning incubators, including the Entrepreneurship Centre Banja Luka, the Innovation Centre East Sarajevo, and business incubators in Prijedor and Modrica. Since the last assessment, an additional Innovation Centre for Sustainable Development of Bijeljina has been established. RARS also provides entrepreneurial learning for start-ups via an Accelerator Programme, which has been implemented since 2018 with support from the European Union under the Danube Transnational Programme (2014-2020).[75] In the Federation of Bosnia and Herzegovina, there are 14 operating incubators, both public and private (and some receiving support from international partners), all of which receive some direct government funding, to varying degrees. In 2019, these incubators received over EUR 5 million in support, primarily for the BusiBIT Centar Tuzla, Biznis Inkubator Zenica and Ljubuski. Many incubators offer training, mentoring and advisory services to their tenants and have supported a significant number of entrepreneurs. However, anecdotal evidence suggests that some incubators no longer serve their purpose, as entrepreneurs have made these centres their permanent offices.

There are no technology extension services available for mature SMEs seeking innovations, although several private-sector and international partners' initiatives focus on digital innovations. For instance, the DigitalBiz project, supported by the United Nations Development Programme and launched in December 2020, provides support to SMEs to digitalise, while the "Innovation and Digitalisation in SMEs" project, implemented by GIZ between 2019 and 2021, supported over 500 SMEs to digitalise, including with the support of the local ICT sector.

Financial support for innovation remains limited, but there are plans to introduce targeted support schemes

Investments in R&D activities remain negligible. There are no public financial support schemes available to support innovation and R&D in SMEs, though both entities' action plans for SME innovation envisage the establishment of such measures. In Republika Srpska, preliminary steps have been launched to establish an Innovation and a Science Fund. Some support is available through initiatives funded by international partners. The Challenge to Change project, implemented since 2016 with support from Sweden, launched its sixth call for projects in 2021 and aims to support innovative ideas across Bosnia and Herzegovina. This fund, for a total of EUR 3.9 million, is available to both Bosnian and Swedish companies and is locally implemented in partnership with RARS and the Sarajevo Regional Development Agency. It offers co-financing of up to EUR 30 000 to support the development of a new product, service or process in the market, preferably with a social benefit. As of end-2020, over 2 500 projects had applied for funding and 89 had been implemented, supported by about EUR 1 816 000 from the Challenge to Change Fund,[76] while another 70 were ongoing (C2C, 2022[101]). Sweden also supported a small-scale pilot innovation voucher scheme for SMEs (not linked to scientific research) in Banja Luka and Zenica. As of the end of 2020, 17 companies had received total support of EUR 100 000 to co-finance advisory services in support of innovation.

There are no indirect financial support schemes available across Bosnia and Herzegovina. However, with the adoption of a new Law on Incentives in 2019 and 2020, some support has been made available for investments in new technologies and modern equipment in Republika Srpska.

Financial support to incentivise collaboration between businesses and academia remains nascent, but an institutional infrastructure is gradually emerging

Integration of scientific research and business activity and technology absorption of SMEs remains low, and as in the previous assessment, there are no innovation voucher schemes or competitive co-operation schemes available to stimulate collaboration between academia and industry. In Republika Srpska, the pilot Synergy Programme aims to increase technology transfer and raise awareness about opportunities for co-operation between R&D institutes and the private sector. Under a first call launched in 2019, five projects received financing of around EUR 25 000 each. Efforts are underway to extend the programme, though it remains unclear whether an initial evaluation of the pilot has been conducted.

Some progress has been made to expand the institutional infrastructure in support of collaboration. In the Federation of Bosnia and Herzegovina, there are five technology and science parks in operation. The most recent is the Posusje Technology Park Foundation, established in 2019. The BusiBIT Centar Tuzla regularly collaborates with the University of Tuzla. However, the focus on business-academia collaboration is not evident. There are also plans to establish a Science and Technology Park in Banja Luka, and the authorities plan to conduct a feasibility study with support from the United Nations Development Programme. At the University of Banja Luka, the centre for entrepreneurship operates a technology transfer office, and an economic support centre has been established at the Faculty of Mechanical Engineering since the previous assessment.

Finally, patent applications in Bosnia and Herzegovina remain below potential even though some support is provided to enterprises to raise awareness about the importance of intellectual property protection. In addition, Bosnia and Herzegovina's legislative framework for intellectual property protection does not have specific provisions to support exchange with businesses and commercialisation of intellectual property, as the split between ownership and royalty is not sufficiently defined.

The way forward for Dimension 8b

- **Harmonise strategic priorities and enhance the co-ordination of innovation policy**. Co-ordinated approach to innovation policy is crucial given the large numbers of actors with stakes in it, such as government institutions, the private sector and the research sector. This is all the more important in the context of Bosnia and Herzegovina due to the complexity of its institutional set-up. Timely completion of an economy-wide Smart Specialisation Strategy would help address outstanding obstacles to innovation, while further improvements and harmonisation of the collection of statistical data related to innovation activities would help improve monitoring and evaluation of policy measures.
- **Increase the scale of financial incentives to foster innovation.** To ensure the success of the SME innovation action plans, a sufficient budget should be allocated to design meaningful and co-ordinated financial support schemes. These schemes should be designed in consultation with the private sector and build on lessons learnt from existing initiatives funded by international partners and should include regular monitoring and evaluation practices. Funding needs and sources should also be identified when preparing the Smart Specialisation Strategy.
- **Introduce measures to stimulate collaboration between the private sector and scientific research.** The approach to business-academia collaboration requires an overhaul and is not sufficiently addressed in the SME innovation action plans. Together with all stakeholders, clear steps should be laid out to identify current obstacles to business-academia research and develop a more strategic approach to incentives, increasing exchange and co-operation. This should include more investments in public sector scientific research, financial incentives to encourage private-sector demand for research, awareness-raising and an incentive structure for scientific researchers to collaborate with the business community.

SMEs in a green economy (Dimension 9)

Introduction

Since SMEs, on aggregate, have a significant environmental footprint (small firms account for 50% of greenhouse gas [GHG] emissions in the world (ITC, 2021[102])), it is essential that the governments of the WBT region include them in their environmental considerations to achieve the net-zero goal for GHG emissions. On the one hand, like any other economic entity, SMEs face the consequences of environmental degradation, which can generate specific challenges for their survival and growth. On the other hand, and more importantly, SMEs can be a source of innovation and solutions to develop the technologies needed to address environmental challenges. New green markets, such as the circular economy, can also create new business opportunities for SMEs. Even without moving into new markets, SMEs can potentially improve the performance of their business by realising efficiency gains and cost reductions by greening their products, services and processes. In this regard, tailored policies, incentives and instruments are necessary to enable them to participate in the green transition, as SMEs face a number of barriers (financial, informational, etc.) in their greening efforts, and more so than large firms (OECD, 2021[103]).

For a small coal-dependent economy vulnerable to the impacts of climate change like Bosnia and Herzegovina, sustainable and green economic growth is essential, particularly in the post-COVID-19 context. The pandemic has put additional pressure on Bosnian SMEs and their greening efforts, primarily due to issues with liquidity maintenance and access to finance. Well-co-ordinated and targeted financial and technical support will be required to overcome challenges in adopting sustainable practices.

Bosnia and Herzegovina has improved its score in this dimension – up from 2.40 in 2019 to 2.92 in 2021, with progress made in scaling up its incentives and instruments for SME greening (Table 14.27). Bosnia and Herzegovina will need to ensure proper monitoring and evaluation of greening measures to render their implementation efficient in the future.

Table 14.27. Bosnia and Herzegovina's scores for Dimension 9: SMEs in a green economy

Dimension	Sub-dimension	Thematic block	Bosnia and Herzegovina	WBT average
Dimension 9: SMEs in a green economy	Sub-dimension 9.1: Framework for environmental policies targeting SMEs	Planning and design	3.55	3.87
		Implementation	2.60	2.81
		Monitoring and evaluation	2.25	2.47
		Weighted average	**2.82**	**3.06**
	Sub-dimension 9.2: Incentives and instruments for SME greening	Planning and design	3.10	3.06
		Implementation	3.44	3.02
		Monitoring and evaluation	1.80	2.12
		Weighted average	**3.01**	**2.85**
Bosnia and Herzegovina's overall score for Dimension 9			**2.92**	**2.94**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Environmental policies targeting SMEs are included in Republika Srpska's new Strategy for Development of SMEs (2021-2027) and the Development Strategy of the Federation of Bosnia and Herzegovina (2021-2027). Both strategies include ambitious sets of measures with corresponding budgets and activities. While specific co-ordination bodies have not been established in either entity, the private sector

has slowly been involved in developing and implementing green measures. Both entities' environmental protection funds increasingly target smaller enterprises, facilitating their green access to finance, and additional financial instruments are planned under the recently adopted strategies. Environmental management systems (EMS) have been promoted, but other non-financial tools remain limited (Table 14.28).

Table 14.28. Bosnia and Herzegovina's implementation of the SME Policy Index 2019 recommendations for Dimension 9

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Implement measures to help SMEs improve their resource efficiency	Both entities have made progress in implementing resource efficiency measures, with a strong focus on energy efficiency. In line with its SME Strategy, Republika Srpska has organised trainings and awareness-raising activities on energy efficiency concepts. The City Development Agency Cidea Banja Luka and the Ministry of Economy and Entrepreneurship, with the support of the EBRD, have organised an online workshop on the topic of "Green Economy - Energy Efficiency in SMEs". Moreover, the project "Implementation of energy management standards ISO 50001 in SMEs", implemented by the Agency for Enterprise Development of Sweden, has promoted energy management systems. The Federation of Bosnia and Herzegovina has implemented resource efficiency measures as well, as part of the Action Plan for the Development of SMEs in the Federation of Bosnia and Herzegovina (2019-2020). In particular, funds of EUR 7 500 000 were introduced in 2019 and in 2020 to strengthen SMEs' energy efficiency.	Moderate
Increase financial support for SME greening	Financial incentives (vouchers, subsidised credit lines) are included in the new Strategy for Development of SMEs (2021-2027) and the Strategy for Industrial Development (2021-2027) in Republika Srpska and the Development Strategy of the Federation of Bosnia and Herzegovina (2021-2027). In addition to these measures, both the RS and the FBiH Environmental Protection Funds have (co-)financed the implementation of programmes, projects and other activities in the field of environmental protection through public calls.	Moderate

Environmental policies targeting SMEs are increasingly introduced in Bosnia and Herzegovina's strategic documents, focusing primarily on energy efficiency and eco-innovation

In Bosnia and Herzegovina, both entities (Republika Srpska and the Federation of Bosnia and Herzegovina) have the competencies to develop, adopt and implement environmental policies targeting SMEs, with no state-level institutions in charge of promoting the green economy. Promisingly, greening measures targeting SMEs are gaining momentum in both entities, as they are increasingly included in strategic documents and implemented accordingly.

SME greening policies were introduced for the first time in Republika Srpska in 2016 as part of its SME Strategy (2016-2020), the majority of which have been implemented since the previous assessment. Namely, energy efficiency measures, environmental management standards and available financial instruments (mainly from the Fund for Environmental Protection and Energy Efficiency) have been promoted through information campaigns and trainings organised by the government in partnership with international development co-ordination partners. The subsequent RS Strategy for Development of SMEs (2021-2027) also includes green measures, envisaged as a continuity of previous activities. The strategy comprises an ambitious set of measures with corresponding budgets and activities related to promoting and financing energy efficiency projects and renewable energy sources[77] and creating and expanding energy efficiency networks based on the Learning Energy Efficiency Networks.[78] Financial support for green innovation through dedicated voucher programmes[79] is also envisaged as part of the strategy, in line with the Action Plan for Innovation in SMEs (2021-2023). Moreover, the Strategy for Industrial Development (2021-2027) is expected to boost resource efficiency, with targets on the circular economy

(Box 14.11), energy efficiency, and the use of renewable energy sources. In particular, the strategy envisages the provision of financial support for energy efficiency and renewable energy projects and the organisation of promotional campaigns targeted at the private sector to present available sources of funding in this regard.

Box 14.11. SMEs and the circular economy in Bosnia and Herzegovina

SMEs play an important role in achieving circular economy objectives by rendering their business operations more circular and contributing to the innovation that can strengthen circularity across economies (OECD, 2021[103]). As greening measures are gaining momentum in Bosnia and Herzegovina, SMEs, which represent the largest share of enterprises in the economy, should lead the way in the transition from a linear to a circular economy.

Some steps have been taken in Bosnia and Herzegovina to develop a circular economy framework (particularly in Republika Srpska), but it remains rather underdeveloped.

The RS Strategy for Industrial Development (2021-2027) aims to develop an efficient waste management system, with a special focus on waste recycling and reusing, energy recovery of waste and safe disposal of waste. The strategy is aligned with the RS Waste Management Strategy (2017-2026) and the RS Waste Management Plan (2019-2029), which outline a comprehensive list of short (2019-2024) and long-term objectives (2024-2029), promoting a circular economy, the use of clean technologies and the rational use of natural resources. The plan has a EUR 2.5 million implementation budget. The new overarching Environmental Protection Strategy of Bosnia and Herzegovina (planned to be adopted in 2023) indirectly covers waste management and the circular economy. However, neither document targets SMEs specifically.

Overall, the promotion of circular economy concepts and activities in Bosnia and Herzegovina remains limited, and SMEs are not sufficiently supported in their transition. However, envisaged financial measures that aim to boost eco-innovation in both entities could catalyse the circular economy in Bosnia and Herzegovina. In addition, the realised and planned projects related to the adoption of EMS might be used as efficient tools upon which further, more targeted circular economy activities can be built.

Since the last assessment, Republika Srpska has introduced and amended several regulations targeting its waste management system, which could set non-financial incentives for SMEs to green their activities and increase their use of EMS. These include: the introduction of a financial management system for special categories of waste and the manner of calculating and paying the fees for burdening the environment with these types of waste; conditions on the design, production and use of packaging waste; monitoring measures for titanium dioxide waste management; and waste management for long-term organic pollutants. Moreover, the 2021 Amendment on the RS Law on Waste Management has harmonised the coefficients for calculating waste management fees in Republika Srpska with those in the Federation of Bosnia and Herzegovina, increasing transparency for SMEs working in both entities. These regulations should also provide clarity on SMEs' administrative requirements.

Sources: OECD (2021[9]; 2021[103]).

In the Federation of Bosnia and Herzegovina, the Action Plan for the Development of SMEs (2019-2020) has encouraged greening measures, with a specific budget of EUR 7 500 000 to implement the project "Strengthening competitiveness and technological development, energy efficiency and green entrepreneurship", which has raised awareness on green measures and promoted international quality standards. Following the adoption of this law and the Law on Environmental Protection in 2021, which indirectly promotes eco-efficiency and eco-innovation for SMEs, the Federation of Bosnia and Herzegovina adopted the Development Strategy (2021-2027), which includes SME greening for the first time. The

strategy has a specific target on increasing SMEs' energy efficiency through concrete technical and financial support measures[80] and assistance in the implementation of energy audits and energy management systems,[81] as well as on boosting eco-efficiency through several financial instruments.[82] The Action Plan for Innovation in SMEs (2021-2023) should also provide a stronger impetus for eco-innovation.[83]

Although strategies are monitored annually in both entities, evaluation of policies has not been carried out in the Federation of Bosnia and Herzegovina.

While co-ordination of SME greening policies remains limited, business associations have been increasingly integrated

Two ministries in Republika Srpska (the Ministry of Spatial Planning, Construction and Ecology and the Ministry of Economy and Entrepreneurship) and the Ministry of Environment and Tourism in the Federation of Bosnia and Herzegovina are in charge of green policies for SMEs. However, there are no specific bodies in either entity in charge of co-ordinating SME greening policies and their corresponding funds. Nevertheless, a co-ordination body is planned to be established in line with the next Environmental Strategy of the Federation of Bosnia and Herzegovina and should include relevant stakeholders involved in environmental policies. In both entities, consultations with the private sector are regularly held in the process of strategy development, as was the case for the Development Strategy of the Federation of Bosnia and Herzegovina (2021-2027), which included 1 400 participants from all sectors.

Business associations have been increasingly involved in developing and implementing greening policies for SMEs. For example, both entities' respective chambers of commerce have been involved in implementing the project, Energy Efficiency Network in Industry of Bosnia and Herzegovina,[84] conducted in 2021, which promoted energy efficiency measures and created networks among different enterprises. As part of the project, energy audits were conducted in 16 enterprises, and best practice examples were shared with all participants. The RS Chamber of Commerce has engaged in a follow-up project which has established a co-ordination body to support the private sector in the field of industrial energy efficiency. This body will improve awareness and knowledge of economic entities on the potential of energy-saving measures and link activities with funding sources, thus creating a boost for greening measures among SMEs.

Financial incentives for greening projects remain dependent on international partners' support but increasingly target SMEs

Both the RS Fund for Environmental Protection and Energy Efficiency and the FBiH Environmental Protection Fund are operational and have increased the scope and outreach of their programmes to target smaller enterprises, as recommended in the last assessment.

Through the RS Fund for Environmental Protection and Energy Efficiency, SMEs can apply for grants to scale their greening efforts. The value of the funds allocated amounted to EUR 100 000 in 2021, and the Fund reports that 206 SMEs benefited from support for their energy efficiency projects in 2019, compared to 115 in 2020. Moreover, the Fund signed joint programmes with the United Nations Development Programme (UNDP) in 2018 and the EBRD in 2021[85] for large projects in public facilities, which plan to engage SMEs through contracts for construction work to enhance the energy efficiency of public sector facilities (schools, hospitals, public administration buildings, etc.). As of 2021, three contracts have been concluded with SMEs as part of the UNDP project; six are envisaged for the first half of 2022; and more are planned in the years to come, which should create new opportunities for SMEs.

The FBiH Environmental Protection Fund also co-finances programmes in partnership with international development co-operation partners. In 2020, 93 companies of all sizes participated in public calls, and 51 projects were approved, representing a total amount of EUR 2.7 million.[86] The Fund supports SMEs

mainly in projects in the areas of energy efficiency and water management; provides technical assistance (including energy audits); and conducts awareness-raising activities. In 2021, the Fund supported public-awareness projects on the importance of environmental protection in the amount of EUR 450 000.

Both Funds report on their activities through annual reports, and the RS Fund has been active in raising awareness of its activities through print and electronic media and regular contact with several economic entities.

Although neither of the aforementioned Funds has introduced COVID-19 recovery programmes or financially supported SMEs impacted by the crisis, with the outbreak of the COVID-19 pandemic, new financing for SMEs has been unlocked with a EUR 10 million loan provided by the European Investment Bank (EIB) to Raiffeisen Leasing BiH. The loan aims to support SMEs working in several sectors, including environmental protection, particularly energy efficiency and renewable energy.

Seeking to further encourage the greening transition of SMEs, both entities have integrated additional financial mechanisms available to SMEs in the recently adopted RS Strategy for Development of SMEs (2021-2027) and the Development Strategy of the Federation of Bosnia and Herzegovina (2021-2027). As part of both strategies, voucher programmes are planned to be established to finance eco-innovation projects. To support energy efficiency projects, the Federation of Bosnia and Herzegovina plans to finance a credit line targeted at SMEs through its Development Bank, as well as to provide funding support to foster the development of energy service companies (ESCOs) markets.[87] The RS Strategy for Industrial Development (2021-2027) also includes a set of financial measures to encourage greening efforts by co-financing programmes with international partners through the Fund for Environmental Protection and Energy Efficiency and by increasing the Investment and Development Bank's credit support.

Environmental management systems have been promoted, but other non-financial tools for SME greening remain insufficient

In both entities, the laws on Environment Protection (last amended in 2020 in Republika Srpska and adopted in 2021 in the Federation of Bosnia and Herzegovina) contain provisions governing the system of eco-labelling and EMS, which aim to encourage the production, marketing and use of products with a reduced impact on the environment. In addition to contributing to an increased demand for green business practices, certification of green practices could be useful for SMEs when dealing with business licensing and administrative requirements (OECD, 2021[103]). While no eco-labels have been awarded so far, both entities have implemented projects to promote EMS. Some 21 SMEs in the Federation of Bosnia and Herzegovina were supported in implementing international quality standards in 2019 as part of the project, "Technical harmonisation (introduction of ISO and HACCP standards and ensuring CE mark)", which was not renewed in 2020 due to the COVID-19 pandemic. In Republika Srpska, the project, "Implementation of energy management standards ISO 50001 in SMEs", implemented by the Agency for Enterprise Development of Sweden, supported five companies in introducing 50001 standards; trained 17 auditors on EMS guidelines; and conducted awareness-raising campaigns. According to the RS Chamber of Commerce, 40 SMEs adopted EMS in 2020. Moreover, Republika Srpska has increased SMEs' awareness of green tools through the online workshop "Green Economy - Energy Efficiency in SMEs", organised by the City Development Agency Cidea Banja Luka and the Ministry of Economy and Entrepreneurship with the support of the EBRD.[88]

Although some regulatory instruments are legislated in both entities, such as the best available techniques to achieve environmental quality standards in the Federation of Bosnia and Herzegovina[89] and performance standards, particularly waste management standards in Republika Srpska (Box 14.11), relevant data or evidence confirming they benefit SMEs are lacking. Moreover, green public procurement policies remain non-existent in both entities.

The way forward for Dimension 9

- **Strengthen monitoring mechanisms and introduce evaluation tools to ensure efficient implementation of policies and support programmes**. Cross-sectoral and systematic monitoring and evaluation of greening measures targeting SMEs would help identify bottlenecks hindering SME greening, streamline policy measures and assess the impact of financial support programmes. To ensure appropriate monitoring and evaluation of measures, both entities should improve SME-specific greening data collection (on energy efficiency, green products, eco-innovation and beneficiaries of public support measures).
- **Enhance financial support to SME greening, particularly in the context of the post-COVID-19 recovery**. The governments of both entities might consider facilitating SMEs' access to green finance by connecting greening aspects to existing financial schemes. The two entities' credit guarantee funds (introduced in 2020 in the Federation of Bosnia and Herzegovina to help mitigate the impact of the pandemic and operative since 2010 in Republika Srpska) (see Access to finance for SMEs [Dimension 6]) could serve as an appropriate vehicle for this by introducing dedicated credit guarantee schemes for green projects. For instance, since 2015, the Swiss Technology Fund has been providing loan guarantees to SMEs that develop and sell technologies or services that contribute to a sustainable reduction in greenhouse gas emissions. More than 80 cleantech companies have received access to low-cost loans from commercial banks based on these guarantees (Technology Fund, n.d.[104]).
- **Support SMEs' transition to a circular economy by creating an appropriate policy framework and building on existing support programmes**. While the circular economy framework targeting SMEs remains underdeveloped in both entities, eco-innovation and resource efficiency measures can be used as the basis upon which further, more targeted circular economy policies can be built. Both entities in Bosnia and Herzegovina should enhance support to SMEs in their green and circular transition through awareness-raising, capacity building and sharing of best practices. Facilitating partnerships and peer-to-peer learning between businesses of all sizes could encourage SMEs to engage in green and circular practices (OECD, 2020[105]). Building on enhanced co-operation with business associations, the governments could facilitate circular economy initiatives, such as Circular Glasgow, led by the Glasgow Chamber of Commerce (see Box 14.12). These activities could create the basis for drafting the strategic documents required to promote and implement efficient circular economy policies in line with the European Union's guidelines on the circular economy (the Green Deal and the new Circular Economy Action Plan). While Circular Glasgow is a city-level project, it could easily be scaled up at the entity level in Bosnia and Herzegovina.

Box 14.12. Circular Glasgow: Capacity building on the circular economy

Since 2015, the Glasgow Chamber of Commerce has hosted Circular Glasgow and is responsible for delivering this initiative with Zero Waste Scotland, the Glasgow City Council (United Kingdom) and key stakeholders.

Circular Glasgow aims to build best practices and capacity on the circular economy across Glasgow businesses, helping them identify opportunities to support and implement circular ideas.

This is done by carrying out: 1) workshops and events – a series of knowledge-sharing business-to-business networking events; 2) a Circle Assessment – a tool that helps businesses understand opportunities to become more circular; and 3) the Circle Lab – an online hackathon event to find a circular solution to local challenges. The Circle Lab sought solutions to make Glasgow's event industry more circular.

Following the 2020 edition, ways to turn the winning ideas (namely a deposit-based reuse system for food and drink containers, circular designs for event marketing and branding, and a scheme that will repurpose organic waste into energy and fertilisers) into pilot projects were explored.

Building on the work of Circular Glasgow, the city of Glasgow adopted its Circular Economy Route Map (2020-2030) to reflect and shape a circular economy approach at a city-wide level to continue this momentum.

Sources: OECD (2019[106]; 2020[107]); City of Glasgow (2020[108]).

Internationalisation of SMEs (Dimension 10)

Introduction

Expansion into foreign markets and SME internationalisation are key factors in boosting SME productivity and competitiveness on a global scale. Smaller economies in the region often struggle with competing internationally or even accessing foreign markets, often due to a lack of technical assistance or resources. Supporting export promotion, sustainable integration into global value chains (GVCs) and opening digital sales channels need to be supported through concrete policy actions and enhanced governmental support. With such support, SMEs can broaden their reach, improve productivity, and introduce innovative practices.

Sustainable growth stemming from an export-oriented manufacturing and services sector is vital for a small, open economy like Bosnia and Herzegovina. The economy's internationalisation efforts largely focus on export promotion and capacity building for SMEs. The key challenge is increasing productivity and competitiveness in order to successfully integrate into the global market. The COVID-19 pandemic has created an additional strain, especially on SMEs; therefore, a broad range of well-coordinated policies is required to boost SMEs' internationalisation and their productivity, while easing labour reallocation during the ongoing recovery.

Despite moderate improvements since the last assessment cycle under all three sub-dimensions, which resulted in an increase in score to 2.79 in 2022 from 2.57 in 2019, Bosnia and Herzegovina still lags behind the region (Table 14.29). New SME Development Strategies both in the Federation of Bosnia and Herzegovina and Republika Srpska contributed to an increase under the export promotion sub-dimension. However, the economy remains poorly integrated into GVCs, and the government is not advancing in creating a conductive internationalisation policy environment. E-commerce remains underdeveloped in the economy across all levels of government, with no legal framework in place at the time of assessment.

Table 14.29 Bosnia and Herzegovina's scores for Dimension 10: Internationalisation of SMEs

Dimension	Sub-dimension	Thematic block	Bosnia and Herzegovina	WBT average
Dimension 10: Internationalisation of SMEs	Sub-dimension 10.1: Export promotion	Planning and design	4.13	4.61
		Implementation	4.20	4.24
		Monitoring and evaluation	3.07	3.65
		Weighted average	**3.96**	**4.23**
	Sub-dimension 10.2: Integration of SMEs into global value chains	Planning and design	2.52	3.88
		Implementation	1.55	3.57
		Monitoring and evaluation	1.89	2.70
		Weighted average	**1.91**	**3.49**
	Sub-dimension 10.3: Promoting the use of e-commerce	Planning and design	2.48	3.62
		Implementation	1.33	3.15
		Monitoring and evaluation	1.00	3.29
		Weighted average	**1.61**	**3.32**
Bosnia and Herzegovina's overall score for Dimension 10			**2.79**	**3.80**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

While the state level remains without a formal strategic framework for export promotion, in line with both the Federation of Bosnia and Herzegovina and Republika Srpska's newly adopted SME Development Strategies (2021-2027), both entities moderately advanced in supporting SMEs in their internationalisation efforts through export promotion programmes. However, SME integration into GVCs remains a challenge in Bosnia and Herzegovina, even though Republika Srpska intensified its efforts in cluster formation and development (Table 14.30). Across all three levels of government, data collection, monitoring and evaluation of internationalisation programmes and strategies are underdeveloped. Similarly, neither of the entities has a developed legal framework for promoting e-commerce, despite it being mentioned in strategic documents.

Table 14.30. Bosnia and Herzegovina's implementation of the SME Policy Index 2019 recommendations for Dimension 10

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Increase SMEs' uptake of programmes aimed at supporting cluster and local supplier quality	According to the inputs received by all three levels of government, no progress has been observed on this recommendation, despite moderate advancements in the implementation of cluster and supplier development programmes,	No progress
Strengthen the provision of information on export promotion, cluster and other internationalisation support programmes	Moderate progress has been made to ensure equitable and public access to information on current government programmes and initiatives. The state-level and both entities have online portals that provide information services for SMEs.	Moderate
Complete the legislative and strategic framework for e-commerce and develop formal mechanisms to encourage SMEs to adopt e-commerce	No progress has been made on this recommendation.	No progress

Both entities adopted new strategic frameworks emphasising export promotion as strategic goals

Bosnia and Herzegovina has advanced in addressing pressing export promotion obstacles prevalent across the economy. The export promotion in Bosnia and Herzegovina is outlined in newly adopted strategic documents at the entity levels. No such documents exist at the state level at the time of drafting this report.

In the Federation of Bosnia and Herzegovina, export promotion programmes are linked to the new Action Plan for SME Development (2019-2020), with one of its eight strategic goals being the support for export-oriented industries, and the Development Strategy of the Federation of Bosnia and Herzegovina (2021-2027) (Federal Ministry of Development, Entrepreneurship and Crafts, 2021[72]). The latter directly addresses obstacles faced by the SMEs[90] and envisions supporting exports and higher value production through enhancing intellectual property protection, assisting SMEs in adhering to international standards, strengthening GVC involvement and encouraging linkages with the diaspora. It has clearly set realistic and measurable goals given the long implementation period, but they might prove too ambitious given the fragmented state of institutions and resource constraints. The targets[91] set are focused more on directing the workforce towards manufacturing and higher-technology industries rather than increasing the export capacity of SMEs, which serves the purpose of shifting to higher-value exports. Bosnia and Herzegovina could leverage its diversified export base in chemicals, machinery and automotive components to boost its competitiveness internationally (OECD, 2019[109]).

In Republika Srpska, export promotion is at the centre of the Strategy for Development of SMEs (2021-2027), which includes export support as one of the main strategic goals and the Industry

Development Strategy (2021-2027) (Ministry of Economy and Entrepreneurship, 2021[110]). The former addresses obstacles faced by SMEs in their expansion efforts and enlists RARS in co-ordinating the support of the Europe Enterprise Network. Consequently, the strategy envisions trainings on internationalisation, advisory services on standardisation, EU legislation and tax policies, as well as intellectual property, boosting SME competitiveness and innovation capacities. Nevertheless, the strategy lacks quantifiable goals, further impeding monitoring and evaluation efforts. Republika Srpska's Industry Development Strategy (2021-2027) has formulated measurable goals[92] related to export promotion and integration into GVCs; however, given the significant negative impact of the COVID-19 pandemic and the redirection of funds to mitigate it, they might prove too ambitious. Moreover, on top of issues faced by SMEs across the economy, SMEs in Republika Srpska quote cumbersome customs procedures[93], long waiting periods for import and export licences and insufficient knowledge of customs regulations as the main obstacles to exportation (Ministry of Economy and Entrepreneurship, 2021[110]). While the Industry Development Strategy (2021-2027) addresses these issues, the outlined measures lack substance and clearly defined targets. The Ministry's implementation capacity is reduced due to limited resources and their redirection to overcoming the COVID-19 crisis.

Export promotion support varies across different levels of government

Both on the state level and in the Federation of Bosnia and Herzegovina, export promotion programmes are co-ordinated by Export Promotion of Bosnia and Herzegovina within the Foreign Trade Chamber of Bosnia and Herzegovina. In Republika Srpska, export promotion activities are co-ordinated by the Ministry of Economy and Entrepreneurship, the Ministry of European Integration and International Co-operation, the Chamber of Commerce of Republika Srpska and the Union of Employers' Associations of Republika Srpska. In October 2019, the Republic Agency for Development of Small and Medium Enterprises was transformed into RARS. The government expanded RARS's mandate to include improvement of the export environment within the entity, export promotion and support for potential investors, development of venture capital markets and improvement of SME competitiveness domestically and abroad.

The SMEs on all three levels of government have access to the support services in the area of export promotion ranging from training in the introduction of international quality standards; product promotion; information on trade fairs and international missions; business-to-business (B2B) meetings and vouchers; or co-financing of registration fees for international trade fairs. At the state level, SMEs have access to limited financial support for attending international trade fairs. In the Federation of Bosnia and Herzegovina, the government introduced dedicated support related to quality standards, digital marketing, product promotion and advertising. In 2020, 391 enterprises benefited from government initiatives for export promotion. Moreover, the Federation of Bosnia and Herzegovina introduced a grant scheme to increase SME competitiveness domestically and abroad. In Republika Srpska, on the other hand, there are currently no new export promotion programmes. The public financial support[94] available to SMEs in Republika Srpska is limited, and there are no dedicated financial instruments for export support, thus curbing SMEs' export activity. On a positive note, RARS's extended mandate is a welcoming step in supporting SMEs in different policy domains affecting internationalisation.

Integration into GVCs remains a priority across all levels of government, but stalled programme implementation weakens their efforts

Despite a fairly comprehensive strategic framework for the integration of SMEs into GVCs, the progress in the introduction and implementation of programmes and activities remains limited across all levels of government. The strategic documents highlighting increased efforts on internationalisation and inclusion in GVCs present little to no evidence of quantifiable, concrete measures to achieve the target.

On the state level, the government included support for SME integration into GVCs in the Strategic Guidelines for Harmonisation of Support to SME Development in Bosnia and Herzegovina. The document

contains a range of activities[95] pertaining to increased internationalisation and integration into GVCs; however, it had not yet been adopted at the time of assessment. Since the last assessment cycle, the state level did not introduce any new programmes on SME integration into GVCs. In the Federation of Bosnia and Herzegovina, integration into GVCs is mentioned in the Development Strategy of the Federation of Bosnia and Herzegovina (2021-2027), expressing the need to harmonise regulation regarding the spatial concentration of entrepreneurial activity (Federal Ministry of Development, Entrepreneurship and Crafts, 2021[72]). The Federation aims to build on existing comparative advantage and economies of scale, as well as intensify specialisation efforts, but they might prove insufficient, given the limited export capacity of SMEs in the Federation of Bosnia and Herzegovina. In order to help SMEs integrate into GVCs, the entity emphasises the importance of creating linkages between SMEs and the diaspora, especially among investors and skilled workforce, to compensate for the human capital flight. While leveraging the diaspora can contribute to a higher degree of internationalisation, the economy would need to provide financial and non-financial incentives for diaspora representatives to invest (Gordon and Suominen, 2014[111]).

Bosnia and Herzegovina has a dedicated entity in place to oversee attracting FDI on all levels of government. The Foreign Investment Promotion Agency of Bosnia and Herzegovina (FIPA) provides services to potential investors ranging from sectoral studies, facilitating contact with the private and public sector in the economy to co-operating with regional organisations to improve the investment climate within the entity. The agency does not, however, implement dedicated programmes to support SME linkages with investors; it can neither register companies nor obtain licences and permits. It serves a more informational purpose, with an unstable mandate and a lack of political support and resources (OECD, 2021[9]).

While a few clusters[96] are operating in the Federation of Bosnia and Herzegovina, broader entity-level cluster support is lacking. Although FIPA provides information on current market opportunities, it does not use its platform to encourage industrial clustering among SMEs.

In Republika Srpska, the adopted Strategy for Development of SMEs (2021-2027) and the Strategy for Attracting Foreign Investment (2021-2027) include provisions on SME integration into GVCs. The government emphasises digitalisation and innovation as a gateway to facilitating access to GVCs, and therefore the majority of activities in that area pertain to the increased digitalisation of SMEs. The strategy identifies major obstacles faced by SMEs, mainly difficulties accessing foreign markets, lack of resources and a qualified labour force, as well as low innovation capacity. The Law on Incentives, adopted in 2019, envisages support for SMEs in the procurement of new technologies and modern equipment as an incentive for direct investment. Although Bosnia and Herzegovina's low levels of digitalisation might hinder the efforts centred around new technologies, the economy's growing ICT sector and a relatively well-developed Internet infrastructure could further the strategic endeavours of connecting to GVCs through digital solutions (UNDP, 2020[112]). Republika Srpska's strategic framework, which emphasises the importance of financial and non-financial incentives for technology acquisition and innovation, is a good first step toward strengthening SMEs' capacities to become suppliers of multinational enterprises (MNEs) (OECD, 2022[113]).

Despite the lack of a dedicated, operational programme on GVCs integration, Republika Srpska introduced new initiatives on cluster formation and development with the co-operation of the Ministry of Agriculture. The government recognised the importance of the agro-food industry in GVCs and allocated funds for the support of cluster development in this sector through the International Fund for Agricultural Development (IFAD) Rural Competitiveness Development Project. Since 2019, 24 SMEs and 18 agricultural co-operatives have benefited from the project. At the time of assessment, the Ministry has been preparing the Agricultural Cluster Development Programme 2022-26, due for finalisation in early 2022. With 8.9%[97] of GDP coming from agriculture, providing support to agricultural clusters is a natural progression. However, it risks misalignment with Republika Srpska's strategic framework, which focuses on technology and digital solutions, as GVC integration support is dedicated primarily to the agricultural sector. In addition, the Strategy for Development of SMEs (2021-2027) envisages the establishment of special economic zones (SEZs) within Republika Srpska. In 2021, Republika Srpska adopted a new Law on Free Zones, and at

the time of assessment, the work on the legal framework for SEZs establishment was underway. The entity conducted the process of mapping specific locations for the zones and trained local administrations on SEZs.

Bosnia and Herzegovina has moderately advanced in improving the information asymmetry among the supplier base, especially in Republika Srpska. Given a broader scope of responsibilities, RARS has introduced a Suppliers Database, which facilitates finding business partners for domestic and foreign companies on a national and international level and is publicly available on RARS's website. The entity is also planning to establish a public registry for SEZs; however, details on the timeframe are lacking. Nevertheless, despite moderate progress, more intensive efforts informing SMEs about available GVCs support are needed, including the implementation of a public database containing information on SEZs and the respective incentives they offer. While the Federation of Bosnia and Herzegovina does offer an online portal for SMEs to access information about available support programmes, no efforts have been undertaken to improve the quality of the supplier base and the information asymmetry within.

The legal framework for the promotion of e-commerce is practically non-existent across different levels of government

Bosnia and Herzegovina does not have a legal framework governing e-commerce across all three levels of government. Nevertheless, on the state level, e-commerce is regulated by the Law on Consumer Protection in Bosnia and Herzegovina, which includes provisions on electronic payment instruments, though it does not outline specific regulations on e-commerce. There is no legal framework for e-commerce in Republika Srpska. Although mentioned in the Federation of Bosnia and Herzegovina's SME Development Strategy (2021-2027), there are no quantifiable, measurable targets outlined. Nevertheless, the Federation of Bosnia and Herzegovina's programme "Strengthening the competitiveness of SMEs" highlights market access and the promotion of SME products, with a focus on digitised solutions, the development of digitised business solutions and establishing an e-commerce sales channel.

Both the Federation of Bosnia and Herzegovina and Republika Srpska acknowledge the need to develop e-commerce and e-payments infrastructure in the entities, especially in light of the COVID-19 pandemic, when most internationalisation support activities, such as training or capacity building, had to be moved on line. Without a well-developed legal framework and incentives for SMEs to increase e-commerce uptake and build capacity in this area, Bosnia and Herzegovina faces remaining behind in their efforts on digitalisation.

With the exception of the Federation of Bosnia and Herzegovina, regarding introduced and implemented initiatives, dedicated institutions and government programmes, there has been no change since the last assessment cycle. While digitalisation is mentioned in strategic documents across entities, there are currently no operational government programmes for promoting e-commerce, no specific institutions, no dedicated budgets and therefore, no monitoring mechanisms.

The way forward for Dimension 10

- **Introduce capacity-building activities and training to upgrade the skills of the labour force.** In order to leverage a broad export base and make exports more competitive globally, Bosnia and Herzegovina should introduce targeted non-financial support with the goal of shifting to a skills-based labour force and positioning the export offer in a more competitive position on foreign markets. In order to achieve the goal of shifting the workforce towards more technology and knowledge-intensive industries, Bosnia and Herzegovina should assess its workforce capabilities and upgrade them to adapt to skills-based labour to create competitive advantage within the industry (WTO, 2019[114]). A comprehensive policy mix, which complements financial support with a skills development programme, could contribute to increased productivity and competitiveness.

- **Reinforce investment facilitation and aftercare services.** Enhancing inter-agency co-operation could be the first step to streamlining the investment facilitation framework. Bosnia and Herzegovina's business environment is complex, with regulations varying at different levels of government. Adopting a whole-of-government approach in the area of attracting FDI and thus promoting linkages between MNEs and SMEs would contribute to an overall improvement of the business climate across all three levels of government. Boosting FIPA's capabilities and resources would allow it to expand its operations to provide better quality investment facilitation and aftercare services. In addition, FIPA could assist foreign investors in identifying potential SME partners and direct them to regions with the best-suited suppliers with the highest potential for linkages. In order to simplify Bosnia and Herzegovina's investment framework, the Council of Ministers, to which FIPA reports, should ensure that the agency's priorities and activities are consistent across the entity and state levels.
- **Strengthen data collection processes across levels of government.** So as to focus on monitoring and evaluation in the area of export promotion and integration into GVCs, the first step to viable monitoring mechanisms would be data collection. Bosnia and Herzegovina does not collect data on SME internationalisation, particularly GVC integration at the state level, and none of the entities collects data on the performance indicators of introduced programmes. A good first step would thus be to collect data on SMEs operating within the economy with a particular focus on ones with the potential to successfully integrate into the supplier network of a potential investor. Following a thorough data collection process, the economy could create a publicly available database of SME suppliers, which would assist potential foreign investors in matching with a relevant SME that could meet their specific needs.
- **Develop a comprehensive legal and strategic framework for e-commerce and e-payments.** More significant investment is needed in ICT infrastructure in order for SMEs to be able to successfully adopt e-commerce practices. Bosnia and Herzegovina needs a co-ordinated approach in facilitating SME access to opportunities in digitalising their operations and taking full advantage of e-commerce. Moreover, having a dedicated institution, with a dedicated budget, co-ordinating e-commerce policy would streamline communication and standardise processes across all levels of government. Adhering any potential new legislation to EU directives would ensure consistency with EU legislation and facilitate cross-border e-commerce. Bosnia and Herzegovina should ensure that on top of a comprehensive legal framework for e-commerce, capacity building on integrating an e-payment system, transactions and cybersecurity is provided to SMEs across the economy (Box 14.13).

Box 14.13. Argentina introduces a new approach to wire transfers

The Central Bank of Argentina introduced a new payment infrastructure, Transferencias 3.0 (Wire transfers 3.0), as one of the measures to mitigate the effects of the COVID-19 pandemic. The goals of the initiative are to create a more inclusive payment system and to boost the uptake of online payments among SMEs and beyond. Launched in December 2020, the project completed its second phase of aligning the payment message confirmations with the international standard ISO 20022 and is fully operational.

The main features of the new payment infrastructure include a universal payment interface, instant crediting for vendors, significantly lower operating costs for vendors and a variety of online payment methods, such as biometrics, QR codes, cards and national identity documents. One of the main priorities of the Central Bank of Argentina is to reduce the cost per transaction for micro and small enterprises. The infrastructure entails special advantages for micro and small enterprises, including no

fees for the first three months on the first ARS 50 000 (EUR 430) billed each month and a reduced fee of ARS 8 per each thousand for the following transactions.

Facilitated and secure payments are important elements to develop a functioning e-commerce infrastructure. Lack of trust in online financial services is quoted as one of the main obstacles for SMEs in the Western Balkan region to adopt e-commerce practices (World Bank, 2020[115]). The Central Bank of Argentina's approach places assurance and inclusivity at the centre of the payment infrastructure, as the economy faces a similar distrust in online financial services. Bosnia and Herzegovina does not have a legal framework on e-commerce at any level of the government, despite being mentioned in strategic documents. Aligning any e-commerce legislation on the state and entity level with EU regulations, which includes provisions on e-payment security, is crucial to increasing the adoption of digital practices in the sales channel. Open and universal online payment infrastructure is a priority for the e-commerce policy in Bosnia and Herzegovina and a key component in achieving full financial inclusion.

Source: Central Bank of the Argentine Republic (2020[116]).

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Notes

1. For more information, see: https://www.energy-community.org/implementation/Bosnia_Herzegovina/ENV.html.
2. For more information on the overall objectives of the Education for Employment programme, see https://education4employment.eu.
3. For more information, see https://education4employment.eu/the-e4e-project-appointed-seven-working-groups-that-start-working-in-july/.
4. For more information and resources related to DigComp, see https://joint-research-centre.ec.europa.eu/digcomp_en.
5. It is not yet clear how these key competence-based learning outcomes developed as a result of the Education for Employment programme at the state level will be integrated into the common

core curriculum. It is assumed this action would be followed up by the state-level Agency for Pre-Primary, Primary and Secondary Education.

6. For more information on the European key competences for lifelong learning, see https://op.europa.eu/en/publication-detail/-/publication/297a33c8-a1f3-11e9-9d01-01aa75ed71a1/language-en.

7. The state-level common core curriculum is led by the Agency for Pre-Primary, Primary and Secondary Education. For more information, see https://aposo.gov.ba/.

8. For more information, see the Centre for Entrepreneurship and Technology Transfer in University of Banja Luka https://www.unibl.org/sr/univerzitet/uprava-i-strucne-sluzbe/rektorat/centar-za-preduzetnistvo-i-transfer-tehnologija, Centre for Economic Support of the Faculty of Mechanical Engineering http://cenzapp.org/# and the Innovation Centre Banja Luka https://icbl.ba/projekti/.

9. Examples of practical entrepreneurial experiences implemented include environmental education in primary school (see https://novival.info/okolis-edukacija-i-poduzetnistvo-kroz-intereticku-saradnju-osnovnih-skola-hercegovine-ii/ and https://balkans.aljazeera.net/teme/2019/12/22/gracanicki-skolarci-primjer-ekoloske-osvjestenosti-i-poduzetnistva); school mini-company fairs (see https://ekonomskotrgovinska.com/view-more/sajam-preduzeca-za-vjezbu-skolsko-takmicenje/200); and practical vocational experiences (see https://srednjaskolacapljina.ba/2021/02/24/strucna-praksa-na-cnc-stroju/).

10. For more information, see https://komorars.ba/centar-za-dualno-obrazovanje/.

11. An example of this is the Community of Innovative Teachers and training available via https://inskola.com/, led by the Centre for Educational Initiatives.

12. For more information on the objectives and main activities of Education for Employment Component 3 relating to teacher training, see https://education4employment.eu/component-3/.

13. These are established in accordance with the Law of Gender Equality in Bosnia and Herzegovina and include the FBiH Gender Centre (see http://www.gcfbih.gov.ba/) and the Gender Equality Centre of the Government of Republika Srpska (see https://www.vladars.net/sr-SP-Cyrl/Vlada/centri/gendercentarrs/Pages/default.aspx).

14. This can be seen within Action 1.3.11, as part of the measure to eliminate sex-based discrimination in work, employment and the labour market and links to the measure to address equal access to education, including improving entrepreneurial skills in Action 1.4.7. See https://arsbih.gov.ba/wp-content/uploads/2019/02/GAP-BIH-2018-2022_ENG.pdf.

15. See https://komorars.ba/zene/.

16. The Chamber of Commerce in Republika Srpska is also active at the European level through the Sectoral Group for Women's Entrepreneurship within the European Enterprise Network.

17. The Ministry of Education and Science provides co-financing supporting women's entrepreneurship under the following programmes: "Support to training programmes, vocational training and advanced training of adults with a focus on women for easier integration into the labour market"; "Support Programme for Women Affected by Coronavirus - Implementation of Online Business" (see https://www.gcfbih.gov.ba/podrska-poduzetnicama-cije-su-djelatnosti-pogodjene-pandemijom-koronavirusa/); and "Digitalisation of business and development of women's leadership and business" (see https://www.digitalnaekonomija.ba/bs-Latn-BA/articles/3/digitalizacija-poslovanja-kao-platforma-za-razvoj-zenskog-liderstva-i-biznisa).

18. See http://www.poduzetna.ba/stranica/o-portalu.

19. One of the leading micro-credit organisations is Mi Bospo, which places a special focus on supporting women. For more information, see https://www.mi-bospo.org.

20. The RS Entrepreneurship Portal is a joint project of the RS Development Agency and the RS Ministry of Industry, Energy and Mining. The project was funded by the European Union through the program, Support to the Competitiveness of Small and Medium Enterprises in Bosnia and Herzegovina, supported by the EBRD. For more information, see https://www.preduzetnickiportalsrpske.net/.

21. See https://komorars.ba/zene/.

22. Every year, the Ministry of Education and Science in the FBiH delivers key data to the Gender Centre of the FBiH on the implementation of the programme "Support to training programmes, vocational training and advanced training of adults with a focus on women for easier integration into the labour market". The broad process is detailed at https://www.gcfbih.gov.ba/oblasti/institucionalni-mehanizmi-za-ravnopravnost-spolova/.

23. See https://komorars.ba/zene/.

24. To access the 2021 edition, see https://www.rzs.rs.ba/static/uploads/bilteni/zene_i_muskarci/Zene_i_muskarci_2021_web.pdf.

25. Preventing the insolvency of SMEs is achieved through implementing: 1) the Law on Financial Operations, which established clear rules for identifying liquidity problems and requires management to undertake measures for financial restructuring, as well as 2) the Law on Consensual Out-of-court Financial Restructuring.

26. The final and preclusive articles of this law provide that all bankruptcy cases that have not been completed at the date of entry into force of the new law shall be adjudicated under the new insolvency law.

27. In contrast to the Brcko District's approach, the final and preclusive articles provide that all previously started and non-completed bankruptcy proceedings shall be completed under the previous law on bankruptcy proceedings.

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

29. The FBiH Development Strategy is an overarching document, but contains goals related to SMEs. A sectoral SME strategy is currently under development as well.

30. For example, the page related to direct taxation (www.esrpska.com/ContentPage.aspx?kat_id=9f4b1d17-c4de-4eff-860c-5e698ddcc22b&podkat_id=5516bcfa-ea2f-4c51-a2cc-ef51d43e5381&page_id=6) provides information on the legal framework, but there are no links to the RS Tax Administration's website where the declaration can be filed.

31. Combined share of respondents who answered "strongly satisfied" and "tend to be satisfied" or "completely dissatisfied" and "tend to be dissatisfied" when asked about their level of satisfaction with digital services provided by the public administration.

32. The once-only principle aims to ensure that users of e-services only need to provide certain information to the government once, which is then shared among administrations through the government's interoperable data exchange network.

33. The e-Registration project in Republika Srpska is the result of a long-term reform process achieved through the LIFE Business Environment Improvement Project implemented by the International Finance Corporation, a member of the World Bank Group, and funded by the British Embassy in Bosnia and Herzegovina.

34. The Action Plan for the Development of SMEs in the Federation of Bosnia and Herzegovina (2019-2020) defined 75 actions and 30 priorities to achieve 8 strategic targets.

35. Compared to the previous action plan, the number of priorities was reduced from 17 to 13, and the number of measures was reduced from 23 to 17. The budget for the implementation of this action plan is BAM 18 652 000 (approximately EUR 9.5 million).

36. The Federation of Bosnia and Herzegovina collaborated with GIZ in the area of implementing 43 activities within 10 SBA dimensions.

37. Danube Chance 2.0, Challenge to Change and “Building digital entrepreneurial capacity in the elderly through innovative training systems”.

38. The Sarajevo Development Agency (SERDA) is responsible for the implementation of the project.

39. The organisation of training and certification of mentors is carried out by RARS.

40. The Zenica Economic Development Agency (ZEDA) provides SMEs with support pertaining to opening and registering a business, organising training for start-ups, retraining and additional programmes, including those related to supporting internationalisation.

41. The regional development agencies are the following: SERDA with 22 employees at the time of assessment; ZEDA with 13; TRA (Development Agency of Tesanj Municipality) with 4; RAZ (Razvojna Agencija Zavidovici) with 7; and INTERA with 9.

42. In addition to RARS, SME support is also provided by local development agencies, the Innovation Centre of Banja Luka, the Chamber of Commerce and the Chamber of Crafts.

43. The co-financed amounts refer to the Strengthening the Competitiveness of SMEs in 2021 project.

44. In order to be included in the database, individual consultants are required to have a higher education degree, knowledge of at least one foreign language and five years of experience.

45. PPL, Article 16.

46. PPL, Article 44 (5).

47. PPL, Articles 47 (3) and 48 (4).

48. PPL, Article 44 (3).

49. PPL, Article 73 (1).

50. PPL, Article 73 (3).

51. PPL, Article 64 (2).

52. PPL, Article 54 (1).

53. PPL, Article 9.

54. PPL, Article 64 (1).

55. PPL, Article 45 (4).

56. PPL, Article 72 (3).

57. PPL, Article 100.

58. See www.bata.gov.ba/Akreditirana_tijela/Spisak-akreditiranih-tijela.pdf.

59. Data provided by the Market surveillance agency of Bosnia and Herzegovina during the assessment process.

60. Data provided by the ISBIH during the assessment process.

61. The project "Innovation and Digitalisation in SMEs", funded by the German Ministry of Economic Cooperation and Development and implemented by GIZ, is aimed at improving the conditions for innovation and increasing the competitiveness of the SME sector through digitalisation. The project aims to bring together IT companies and SMEs from traditional sectors such as wood, metal processing, tourism and agriculture to increase the presence of digitalisation and innovation in these sectors. Customised advice is offered to participating firms. For more information, see https://b2bit.ba/giz-inovacija-i-digitalizacija-u-msp.

62. For more information, see https://trzisterada.ba/.

63. Short-term commitments to the development of skills intelligence are made in the Priorities for the Integration of Entrepreneurial Learning and Entrepreneurship Key Competence into Education Systems in Bosnia and Herzegovina (2021-2030) (Council of Ministers of Bosnia and Herzegovina, 2021[29]).

64. For more information on these reports, see https://trzisterada.ba/index.php/research-and-analysis/.

65. In Republika Srpska, there are strategies that commit to actions in the area of investment readiness, including the Strategy for attracting foreign investment 2021-2027 and actions within the Industry Development Strategy (2021-2027).

66. In Republika Srpska , the Law on Social Entrepreneurship was adopted in 2021. In the Federation of Bosnia and Herzegovina, social entrepreneurship is addressed within the Development Strategy (Federal Ministry of Development, Entrepreneurship and Crafts, 2021[72])

67. See https://eu4business.ba/en/. As part of this, ILO is using the ILO-designed Start and Improve Your Business (SIYB) methodology through a range of training programmes to support entrepreneurship (for more information on SIYB, see https://www.ilo.org/empent/areas/start-and-improve-your-business/lang--en/index.htm).

68. Examples include http://kfbih.com/poziv-poduzetnicama-na-webinar-ii--storytelling-tajna-uspjeha-svakog-branda and http://kfbih.com/poziv-poduzetnicama-i-svim-zainteresiranim-na-besplatnu-radionicu--priprema-i-pisanje-koncept-nota-i.

69. See https://www.komorabih.ba/poziv-na-online-edukaciju-digitalna-akademija/.

70. According to a decision in the Official Gazette of Bosnia and Herzegovina, No. 1/21.

71. See https://s3platform.jrc.ec.europa.eu/w/series-of-awareness-raising-seminars-on-s3-design-and-implementation-for-kosovo*-albania-bosnia-and-herzegovina-and-turkey.

72. See https://www.preduzetnickiportalsrpske.net/.

73. The annual European Innovation Scoreboard provides a comparative assessment of research and innovation performance of the countries of the European Union and its regional neighbours. It allows policy makers to assess the relative strengths and weaknesses of national research and innovation systems, track progress, and identify priority areas to boost innovation performance. See the regional chapter on Innovation for SMEs (Dimension 8b) for further information.

74. The availability of statistical data related to innovation, in line with the Eurostat methodology, remains weak, but the availability of data (at 72% in 2021) is expected to increase following Bosnia and Herzegovina's inclusion in the European Innovation Scoreboard.

75. The Danube Transnational Programme is a financing instrument of the European Territorial Co-operation, better known as Interreg. The European Territorial Co-operation is one of the goals of the European Union's Cohesion Policy and provides a framework for the implementation of joint actions and policy exchanges between national, regional and local actors from different member states. The Danube Transnational Programme promotes economic, social and territorial cohesion in the Danube Region through policy integration in selected fields.

76. For more information, see Challenge to Change Fund: https://c2c.ba/en.

77. Activities include the organisation of professional events and workshops on the green economy transition; public-private dialogue on the importance of transitioning to more energy-efficient solutions for all stakeholders; and organisation of awareness campaigns for available sources of financing (credit schemes that are mainly supported by international partners for the time being). The budget for implementation is BAM 100 000 (around EUR 50 000), which is financed by international partners' funds. Financing of energy efficiency should be undertaken through the Fund for Environmental Protection and Energy Efficiency.

78. This measure is based on the Learning Energy Efficiency Networks (LEEN) developed in some EU member states, which includes support to cross-sectoral SME networks and on conducting energy audits and assessments of implemented measures. Students from technical faculties are to be involved in conducting free energy audits, as developed in the US model of "industrial assessment centres". The estimated funds are BAM 1.5 million (around EUR 750 000), of which BAM 500 000 (around EUR 250 000) are from the Environmental Protection Fund.

79. This voucher programme will be created once the Science Fund and Innovation Fund are established (with the possibility of becoming a specific fund in the future).

80. Technical and financial support to MSMEs for improving the energy performance of buildings (such as through the installation of renewable energy plants).

81. Environment management systems, including ISO 50001 and 14001 standards.

82. This measure includes establishing a fund (using a bond mechanism scheme and funds from the national budget), supporting financial schemes from private funds (according to the ESCO model) and establishing a credit line for SME projects by the Development Bank of the Federation of Bosnia and Herzegovina.

83. In particular, the Action Plan aims to design a voucher scheme for innovation and the greening of SMEs, to secure funding for innovation support projects, and to set up thematic networks, including for SMEs' energy efficiency and greening measures as innovative business models.

84. The project was implemented by the ReSET Centre for Sustainable Energy Transition, Sarajevo from July to December 2021 as a programme intervention within the "Mechanism to support the implementation of SME development strategies – SIEM" within the project, "European Act on Small Business as a framework of strategies and policies for small and medium enterprises in Bosnia and Herzegovina – SBA in BiH", which is implemented by the Enterprise Development Agency (Eda) and financed by Sweden.

85. The contract signed with UNDP, in the amount of EUR 750 000 in 2018 is a part of Green Economic Development project and is planned to last until the end of 2022.The EBRD project signed in 2021 is a EUR 4.5 million credit line and EUR 1.5 million grant from the European Union.

86. In 2020, 93 private companies (SMEs and large companies) participated in the Public Invitation, and 47 projects were approved for the value of BAM 3 409 036 (approximately EUR 1.7 million). The Management Board also decided to approve an additional four projects for the value of BAM 1 950 000 (approximately EUR 975 000).

87. Energy service companies offer services for implementing and financing energy efficiency projects, including energy auditing, design and engineering, equipment procurement, construction, installation, commissioning, measurement and verification of energy and cost savings, operations and maintenance, facility management and energy services.

88. The workshop was organised as part of the EU Industry Day 2021.

89. The Rulebook on the Adoption of the Best Available Techniques Achieving Environmental Quality Standards in the FBiH prescribes the mandatory implementation and development of the best available techniques and concrete methods, in the form of technical instructions, intended to achieve environmental quality standards.

90. Some 43% of surveyed SMEs in the economy cite lack of export capacities as the reason for not exporting their products and services, while 48% who do export, complain of customs clearance taking over five days (RCC, 2021[42]).

91. The Federation of Bosnia and Herzegovina aims to increase the percentage share of the workforce in industrial areas of medium-high technological intensity from 10.5% base value in 2019 to 20% in 2027, and 1.1% to 5% of employees in high technological intensity. Moreover, the Federation of Bosnia and Herzegovina aims to increase the gross value added per employee from the 2018 base value of 35 242 to 65 000.

92. Republika Srpska aims to maintain a 5% annual growth rate of the value of manufacturing exports, an average of five initiatives aiming to remove trade restrictions per year, adding 100 suppliers to the Western Balkans Suppliers Database and adding 70 companies to cluster initiatives.

93. Custom procedures and issuing import and export licenses is within the purview of state-level institutions.

94. The IRBRS does not have dedicated export credit lines, although SMEs can access funds through existing IRBRS credit lines for export promotion purposes. There is a guarantee line for exporters under the RS Guarantee Fund.

95. The activities include: connecting domestic SMEs with foreign partners through the existing two consortia of the European Entrepreneurship Network (EEN), inclusion of domestic SMEs in the supply chains of foreign investors in Bosnia and Herzegovina, organising B2B meetings by the Foreign Trade Chamber of Bosnia and Herzegovina, and Chambers of Commerce of the Entities. Bosnia and Herzegovina and with the support of international projects (e.g. EBRD, GiZ and others), promotion of the capacity of domestic SMEs through Bosnia and Herzegovina embassies and missions and support for the joint appearance of SMEs in foreign markets.

96. Cluster of Automotive Industry of Bosnia and Herzegovina, Sarajevo Wood Cluster in Bosnia and Herzegovina, Cluster of Plastics and Toolmakers of Bosnia and Herzegovina, Graphic cluster in Bosnia and Herzegovina, Zenica, Tourist clusters: Una and Herzegovina.

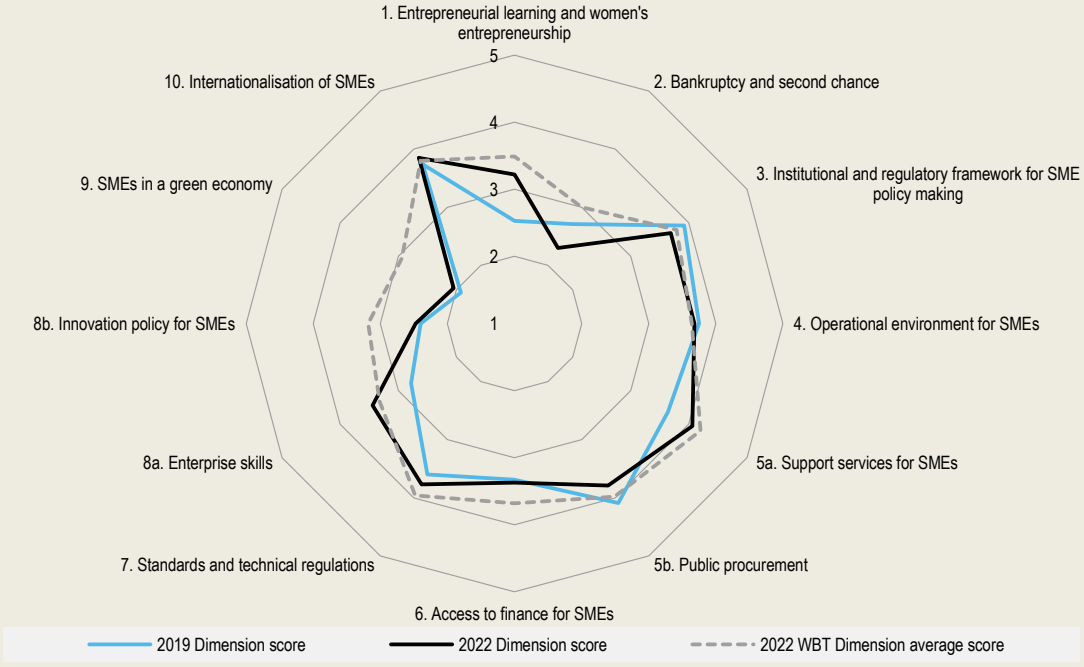
97. For more details, see: https://businessrpska.com/en/industries/agriculture/.

15 Kosovo: Economy Profile

This chapter covers the progress made by Kosovo in implementing the Small Business Act (SBA) for Europe over the period 2019-21. It starts with an overview of Kosovo's economic context, business environment and status of its EU accession process. It then provides key facts about small and medium-sized enterprises (SMEs) in the Kosovar economy, shedding light on the characteristics of the SME sector. It finally assesses progress made in the 12 thematic policy dimensions relating to the SBA during the reference period and suggests targeted policy recommendations.

Key findings

Figure 15.1. Small Business Act scores for Kosovo (2019 and 2022)



Note: WBT: Western Balkans and Turkey.

Kosovo* has made progress in implementing the Small Business Act (SBA) since the publication of the previous report – the SME Policy Index: Western Balkans and Turkey 2019 (Figure 15.1). The main achievements that have helped the economy improve its performance in this assessment are as follows: support services for small and medium-sized enterprises (SMEs); internationalisation of SMEs; public procurement; and standards and technical regulations. However, the progress has been rather incremental, and the economy still needs to step up its efforts to build an environment conducive to business across a number of areas, namely bankruptcy and second chance; innovation; and SMEs in a green economy.

Main achievements

- **Education-business co-operation is being boosted through the University of Pristina for Competitiveness/Competencies/Co-operation (UPCO) cluster**, bringing together the University of Pristina, the City of Pristina and the Kosovo Chamber of Commerce (KCC). This structured collaboration based on the triple-helix model has the potential to drive forward development of the entrepreneurial ecosystem to create social, cultural and economic value for the region.
- **The range of publicly provided business support services (BSSs) has expanded since the last assessment cycle.** The government reinforced the Kosovo Investment and Enterprise Support Agency (KIESA)'s institutional capacity, which resulted in improved quality and range of its services. Moreover, due to the introduction of new support schemes, the uptake of BSSs provided by the government increased by 67.7%. In addition, to support services offered by the government, SMEs in Kosovo have access to a wide range of private BSSs. There are currently multiple online portals containing information on private consultants specialising in BSS

provision, further raising awareness and facilitating access to private-sector BSSs among SMEs.

- **Financial intermediation has been increasing, albeit from low levels.** A number of financial schemes (co-financing grant programmes and various financial support schemes) have been introduced recently, including for SMEs. The Kosovo Credit Guarantee Fund (KCGF) remains a key vehicle for the authorities to support access to finance for smaller enterprises, and the fund has increased its capacity significantly since the last assessment, almost doubling the number of guaranteed loans in 2021 compared to 2019.
- **Skills intelligence has been boosted through the development of three statistical barometers**, with the Labour Market Barometer as an online statistics database, a vocational education and training (VET) Barometer providing analysis at the institutional level and the Skills Barometer reporting on current and future skills needs. These have the practical potential to be used as decision-making tools for policy and implementation.
- **Kosovo made considerable advancements in digitalising export promotion** services by enabling SMEs to apply for export support on line, which greatly streamlines the procedures, further reducing the administrative burden. Cumbersome export support procedures were considered one of the main reasons behind weak export growth in the economy; therefore, this development is particularly noteworthy. Through the e-Kosova platform, Kosovo improved the availability of export promotion services for SMEs.

The way forward

- **Embed gender-disaggregated data and improve monitoring and evaluation of women's entrepreneurship actions**. While the policy and practical support for women's entrepreneurship have seen general improvements, there remain severe challenges of data and evaluation to allow for a fuller understanding of the progress and impact of actions taken.
- **Promote second chance to honest entrepreneurs**. Kosovo should promote a second chance as an option for honest entrepreneurs to have a fresh start and reduce the cultural stigma related to business failure. The legal framework should provide automatic debt discharge to honest entrepreneurs. The policy should be widely promoted through public awareness campaigns promoting a fresh start following bankruptcy.
- **Improve digital government services**. A comprehensive policy framework for digital government is needed to ensure the rollout of digital government services and improve their quality in line with users' needs. Such a framework should give a clear mandate to the Agency for Information Society to drive digital government reforms and especially to further develop the e-Kosova online portal into a digital one-stop-shop for government services and improve the quality of digital services through the adoption of common standards across all institutions.
- **Intensify efforts to match supply and demand for business support services among SMEs.** Updating the training needs analysis performed in 2017 and assessing demand for particular support services would contribute to a higher uptake and effectiveness of government-provided BSSs. This is particularly important given the ever-changing SME landscape in Kosovo and across the region, and taking into account the onset of the COVID-19 pandemic, as it is bound to reflect the changes in SMEs' needs in the economy.
- **Enhance the strategic framework for innovation**. Developing a detailed innovation policy framework, designed in consultation with all stakeholders, would enable Kosovo to prioritise innovation activities, identify existing bottlenecks in a targeted and tailored manner, and maximise resources. This should be coupled with an action plan that includes measurable targets as well as a clearly defined mandate for all the public developing the bodies involved to

ensure implementation capacity and accountability. Swift progress in Smart Specialisation Strategy should also be a government priority.

- **Enhance financial support for SME greening.** This can be done through the expansion of the scope of the National Energy Efficiency Fund, established in 2019, which could include specific financial programmes to support SME greening. The Fund could extend loans and loan guarantees to SMEs for energy efficiency measures or subsidise a share of consultancy costs to identify and implement resource efficiency measures. The government might consider facilitating SME access to green finance by connecting greening aspects to existing financial schemes. For instance, the newly introduced financial support to increase export readiness and job creation could include a green criterion, such as the possibility of a grant component if SMEs plan to implement eco-innovative projects or purchase new machinery intended to improve resource efficiency.

* This designation is without prejudice to positions on status and is in line with United Nations Security Council Resolution 1244/1999 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence

Economic context and role of SMEs

Economic overview

Kosovo is an upper-middle-income economy with a population of approximately 1.8 million as of 2021 and a per capita gross domestic product (GDP) by purchasing power parity of 10 707 in 2020 (in constant 2017 international dollars), having shrunk by roughly USD 600 since 2019, and remains the lowest in the region (World Bank, 2022[1]). Like most economies in the Western Balkans and Turkey (WBT) region, Kosovo is dominated by the services sector, accounting for 54% of GDP and employing approximately 56.6% of the population. However, industry in Kosovo overwhelmingly accounts for the highest share of value added to GDP in the region at 37.3%, nearly 10 percentage points higher than the following highest industry sector of North Macedonia, and employs roughly 24.8% of the labour force. While agriculture accounts for only 6.6% of GDP, albeit an increase of 0.5 percentage points from 2019, it forms 18.7% of Kosovo's workforce, the highest proportion of agricultural employment in the region after Albania (KAS, 2022[2]).

Among WBT economies, Kosovo was one of the hardest hit by the COVID-19 pandemic, with a 5.3% decrease in GDP, the highest loss in the region after Montenegro and North Macedonia. In 2020, heavy reliance on both domestic and foreign tourism made the economy greatly susceptible to the effects of COVID-19 mitigation measures, such as border closures and mobility restrictions (Box 15.1). Kosovo's lack of an independent monetary policy after unilaterally adopting the euro in 2002, coupled with its strong dependence on capital inflows, makes the economy highly vulnerable to external shocks and business cycle fluctuations. However, the economy rebounded with a 10.5% GDP growth, fuelled by strong diaspora inflows from remittances, tourism, compensation of seasonal migrants, and real estate investments that averaged approximately 43% of GDP and are expected to increase 2.8% in 2022 (IMF, 2022[3]; 2022[4]; European Commission, 2022[5]).

Box 15.1. Kosovo's COVID-19 recovery programme

After several support packages worth over EUR 200 million allocated until May 2020, Kosovo established an all-encompassing Economic Recovery Plan in the amount of EUR 1.1 billion to distribute funds to individuals and firms in the form of loans, grants and subsidies as part of its COVID-19 recovery plan. By the end of the programme in December 2021, 2 105 enterprises benefited from a total of roughly EUR 106 million in loans and EUR 77 million in guarantees, with underrepresented beneficiaries, such as women in business and start-ups, targeted (Table 15.1).

Table 15.1. Kosovo's Economic Recovery Package loan and guarantee results (2021)

Windows within the Economic Recovery Package	Number	Loan amount (EUR)	Guarantee amount (EUR)	Average loan amount (EUR)	Average guarantee amount (EUR)
Total Economic Recovery Package	2 015	105 555 405	76 948 973	52 385	37 196
Women in Business window	269	11 736 215	8 592 222	43 629	31 941
Agro window	152	6 971 200	5 226 910	45 863	34 388
Manufacturing window	394	28 719 074	19 943 859	72 891	50 619
Service window	593	25 453 740	17 956 255	42 924	30 280
Trade window	572	31 840 876	22 572 077	55 666	39 462
Start-up window	35	834 600	657 650	23 846	18 790

The plan also provided professional support for businesses to help them operate effectively during the pandemic, including guidance on moving operations on line, working from home and digitising key business practices. The government also provided specific economic support measures throughout the pandemic:

- **Subsidies:** In order to preserve existing jobs and provide assistance for businesses during COVID-19, the government-provided subsidies in the amount of EUR 130 for those who lost their jobs due to the COVID-19 crisis and allocated EUR 67 million to increase employment, with a specific focus on groups of workers with a lower probability of finding employment during the crisis. Eligible firms received EUR 170 per month for each employee on their payroll and EUR 206 for each new employee hired on a minimum one-year contract during the crisis. The government also subsidised up to 50% of rent costs for SMEs during the crisis and allocated EUR 20 million to public enterprises with access to interest-free loans until December 2020.
- **Tax measures:** The Tax Administration of Kosovo began extending the deadline to file and pay tax liabilities and pension contributions in March 2020 and allowed taxpayers affected by the crisis to apply for an extension of tax payment deadlines for up to three years. The Ministry of Finance and Transfers suspended all interest on unpaid property taxes until 2021. As part of the August 2020 Plan for the Implementation of the Economic Recovery Package, the government allocated EUR 15 million to ease the tax burden on firms to improve enterprises' short-term liquidity. The government also postponed tax obligations for specific firms, covered 5% of pension contributions that firms pay employees, exempted firms from penalties for late tax payments due to the pandemic, and provided tax breaks for firms operating in strategic sectors.
- **Credit:** The KCGF also provided SMEs with one-use guarantees in the amount of EUR 250 000-500 000. Guarantees were provided for up to 50% at the start of the Economic Recovery Package and were later raised to 80% of the principal loan with a one-year inclusion period that expired at the end of 2021.
- **Loans:** At the start of the pandemic, the Central Bank suspended loan repayments for individuals and businesses and began reviewing requests for the suspension of credit repayments and frozen individual credit ratings to assist borrowers during the crisis. Additionally, the interest rate on loans for SMEs operating in the tourism sector was cut by 50%, while the interest rate on loans for large companies was cut by 15%. To ensure financial liquidity and continued access to financing for micro, small and medium-sized enterprises (MSMEs), the KCGF provided loans for long-term investments as well as working capital in the amount of EUR 1 million with a repayment period of up to 84 months.
- **Sector-specific support:** At the start of the COVID-19 pandemic, the Ministry of Agriculture, Forestry and Rural Development allocated EUR 5 million for grants and subsidies to increase agricultural production during the crisis, which was complimented by an additional EUR 26 million in August 2020 to increase domestic agricultural production and rural employment. In the same month, the government allotted EUR 5 million to subsidise wages for new employees hired to work in specific sectors or categories of employment and allocated EUR 10 million to enable the manufacturing and service sectors to access the equipment and machinery needed for automation processes. Publicly owned enterprises were also able to access EUR 14 million to support basic operations as well as EUR 17 million for capital investments.

Although numerous short-term economic support measures helped mitigate immediate economic damage, structural issues primarily with regard to the public health sector, employment, social protection and private-sector support were exacerbated by the pandemic and remain in need of reforms.

Sources: OECD (2021[6]; 2021[7]); European Commission (2021[8]); KCGF (2022[9]).

Overall investment levels in Kosovo have remained high. However, net foreign direct investment (FDI) flows have reached a plateau since 2016, with marginal increases over time. The majority of FDI comes from the diaspora through the real estate market and has not supported the growth of the domestic production base or the tradable sector (OECD, 2021[6]). Investment in the construction sector has been stable, particularly in the last three years, occupying 77.25% of investments in 2020 alone. SMEs are the largest recipients of investment at approximately 92.5%, with microenterprises accounting for 15.7%, small enterprises for 35.8% and medium enterprises for 41%. The source of these investments varies, with roughly 57.4% of the value of investments realised from the enterprises' own funds; 22.27% using local bank loans; 11.40% by foreign creditors; 2.64% by local co-investors; and 1.88% by foreign co-investors (KAS, 2021[10]). Investment domains also vary significantly among enterprise size, with agriculture comprising the highest proportion of investments in companies with 10-49 employees in both 2018 and 2020, while investments in tangible assets make up the largest share in medium-sized enterprises (KAS, 2022[11]).

Despite the positive effects, the heavy public spending on infrastructural improvements, coupled with unforeseen spending on COVID-19 mitigation measures, burdened the economy's debt which peaked in 2020 at 39.4% of GDP after reaching its lowest point in 2018 at 29.4% of GDP (European Commission, 2021[8]) (Table 15.2). Nevertheless, Kosovo is beginning to gear its public spending agenda towards energy efficiency projects, with plans to increase renewable energy sources in electricity consumption, which currently stands at around 5-6%, to 25% or 30% by 2031 under the National Energy Strategy (2021-2030), which was under preparation at the time of drafting. Public investments in infrastructure, particularly with regard to the green agenda, are moving forward with three new agreements on renewable energy projects in wind and solar power signed in 2020 (EBRD, 2022[12]). In addition to introducing a simplified one-stop-shop administrative procedure for renewable energy projects, Kosovo, in partnership with the European Bank for Reconstruction and Development (EBRD) and private investors, completed the Selac Winpark in March 2022, comprising 27 turbines with an installed capacity of 105 megawatts per hour, or 10% of the economy's installed capacity, reducing CO_2 emissions by 247 000 tonnes (OECD, 2021[6]; Ministry of Economy, 2022[13]). Further energy efficiency investments included the construction of a substation in Bajgora and an upgrade of the KOSTT substation in Vushtrri, as well as a 19.4 km overhead line network. Kosovo has also largely invested in upgrading public buildings with energy efficiency measures, 87 projects of which have been implemented in the amount of EUR 4.2 million and 15 additional projects that will be funded with another EUR 2.4 million (Ministry of Economy, 2022[13]). The economy has also contributed EUR 3 million to the World Bank and EU co-financed Kosovo Energy Efficiency Fund, which recently authorised the release of EUR 1 million to improve energy efficiency in primary and secondary schools, family medicine buildings and other municipal facilities (Ministry of Economy, 2021[14]).

The financial sector in Kosovo was severely affected by the pandemic but sustained a strong recovery throughout 2021. Bank lending saw a 14.7% increase year-on-year driven by household and non-financial corporation lending which grew at 13.2% year-on-year. Due to the cessation of COVID-19 related loan moratoriums in September, the non-performing loan ratio amounted to 2.2% in February 2022, showing a 0.5% decrease since November 2021. Commercial bank deposits decreased by roughly 2.3% in the same period, a 4.1% increase in the loan-to-deposit ratio which stood at 79.1% before returning to 76.5% at the end of 2021. Financial soundness indicators remained stable and satisfactory as the ratio of liquid assets to short-term liabilities for the banking sector decreased by 2.6% from September to November 2021, while the capital adequacy ratio saw a slight decline of 0.6% over the same period, remaining well above the regulatory minimum of 12% (European Commission, 2022[5]). The annual inflation rate increased by 7.5%

year on year compared to February 2022, primarily due to increases in consumer prices of food products, gas, fuels and electricity, the price of which had decreased in the first half of 2021, in line with the Law on Economic Recovery for COVID-19. Nevertheless, decreases in prices of fruit and clothing were noted during the same period, with a consolidated impact of -0.3% on the Harmonised Index of Consumer Prices (KAS, 2022[15]). Construction costs, import prices and producer prices also saw notable year-on-year surges in Q4 2021, with increases of 16%, 19.6% and 7.2%, respectively (KAS, 2022[16]; 2022[17]; 2022[18]). Kosovo's interest rate spread remained unchanged at 4.5 percentage points (European Commission, 2022[5]).

Table 15.2. Kosovo: Main macroeconomic indicators (2016-21)

Indicator	Unit of measurement	2016	2017	2018	2019	2020	2021
GDP growth[1]	% year-on-year	5.6	4.8	3.4	4.8	-5.3	10.5
National GDP[2]	EUR billion	5.9	6.4	7.0	7.0	6.8	..
GDP per capita growth[2]	% year-on-year	6.2	4.0	3.1	5.2	-4.6	..
Inflation[1]	% average	0.3	1.5	1.1	2.7	0.2	3.3
Government balance[1]	% of GDP	-1.1	-1.3	-2.9	-2.9	-7.6	-1.4
Current account balance[1]	% of GDP	-8	-5.5	-7.6	-5.7	-7.0	-9.2
Exports of goods and services[1]	% of GDP	23.8	27.3	29.1	29.3	21.6	33.7*
Imports of goods and services[1]	% of GDP	51.2	53.1	57.3	56.4	53.6	63.8*
Net FDI[1]	% of GDP	2.9	3.3	3.4	2.7	4.2	5.0*
External debt[2]	% of gross national income (GNI)	31.4	34.2	29.0	30.1	39.3	..
International reserves of the National Bank[1]	EUR million	895.2	939.4	933.9	937.1	969.1	1 060.6
Gross international reserves[1]	Ratio of 12 months imports of goods and services moving average	3.5	3.3	2.9	2.8	3.2	3.0*
Unemployment[1]	% of total active population	27.5	30.5	29.6	25.7	25.9	..

Note: *data is only available for Q3 2021.
Sources: 1. European Commission (2022[19]; 2022[5]); 2. World Bank (2022[20]).

While having improved overall in the last two decades, Kosovo's unemployment rate has been highly volatile, reaching an all-time high of 57% in 2001 and a record low of 25.7% in 2019, averaging 33.4% during this period. Despite the notable progress since the millennium, the economy maintained the highest unemployment rate in the WBT region in Q1 of 2021[1] at 25.8% of the total active population. COVID-19 exacerbated underlying structural problems of the Kosovo labour market, such as high informality, with some estimates putting informal employment as high as 33%, and low employment of youth, women and low-skilled workers (World Bank, 2017[21]). Kosovo's youth unemployment rate of individuals aged 15-24 increased from 16.2% in 2018 to 21.2% in 2020 and remains significantly higher than the EU average of 16.8% (Eurostat, 2021[22]). High rates of emigration also remain problematic for the region's workforce (OECD, 2022[23]), to which Kosovo is no exception, holding the highest emigration rate in the Western Balkans at 15%. However, Kosovo's population is among the youngest in Europe, with only 15.8% of its citizens over 65, moderately less than the European Union's population over 65, which stands at 20.8% (World Bank, 2022[24]).

Business environment trends

Despite the difficult circumstances surrounding the COVID-19 pandemic, reforms have continued to take place, albeit at a slower pace. Kosovo continues to have a well-developed Credit Guarantee Fund (KCGF), which has facilitated the continued expansion of financial intermediation that started at a comparatively low base. In spite of the pandemic, bank lending increased in 2020, rising to 11.2% in 2021 from 7.1% the

previous year (European Commission, 2022[19]). Loan growth was facilitated decreasing lending rates, albeit remaining significant at 6.2% in 2020, a continued increase of deposits since 2015 to 1.5% in 2020, improved contract enforcement, and increased guarantees extended by the KCGF for lending to MSMEs to cushion the impact of the crisis (Eurostat, 2022[25]). One of the targets of Kosovo's support measures is its large diaspora, having implemented its first-ever "diaspora bond" issuance during the summer of 2021 through commercial banks in collaboration with the Ministry of Finance.

Privatisation of state-owned enterprises (SOEs) is advancing, albeit slowly. Both governments in the last reporting cycle took decisions to dismiss several boards of publicly owned enterprises due to poor performance and replace them with temporary boards in order to better the efficiency of SOEs. The Ministry of Trade and Industry's Business Registration Agency offers 29 one-stop-shops for registration at the municipal level. Additionally, the Kosovo Investment and Enterprise Support Agency (KIESA) provides the necessary information during the pre-investment phase and facilitates interactions with other government agencies/departments in the process of obtaining all the necessary licences and permits. It also provides assistance for SMEs using one-stop-shop services. This improved the overall regulatory environment in Kosovo, which remains one of the most open economies for investment according to the OECD FDI Regulatory Restrictiveness Index. Its score amounts to 0.05 in 2020, significantly lower than the OECD average of 0.063, indicating that the economy has reduced barriers to trade and maintains only a handful of restrictions, notably in the maritime, TV and radio broadcasting, and legal sectors (OECD, 2020[26]).

Although improving, Kosovo's business environment still has several key impediments and obstacles to business development, which are acknowledged in the economy's latest Economic Reform Programme (ERP) (Box 15.2). The private sector development remains constrained by widespread informality, slow and inefficient judiciary, high prevalence of corruption and an overall weak rule of law. Due to pandemic-induced challenges, little progress has been achieved in improving the business environment. The general inspection reform aiming to reduce the number of overlapping and parallel inspections from 36 to 15 stalled in 2020, but the new government is committed to completing the process. Within the Administrative Burden Reduction Programme (2020-2027), aiming to achieve a 30% reduction of the administrative burden over the next eight years, Kosovo initiated a baseline measurement identifying all administrative hurdles for businesses. The structural reorganisation of KIESA remains behind schedule. In addition, the lack of a coherent policy for industry development throughout supply chains undermines the competitiveness of SMEs (European Commission, 2021[27]).

Box 15.2. Economic Reform Programmes

Since 2015, EU accession candidates have been obliged to produce annual ERPs that outline clear policy reform objectives and policies necessary for participation in the economic policy co-ordination procedures of the European Union. The ERPs aim to produce concrete reforms that foster medium and long-term economic growth, achieve macroeconomic and fiscal stability and boost economic competitiveness. Since their initial launch, ERP agendas have been required to include structural reform objectives in key fundamental areas:

- public finance management
- energy and transport markets
- sectoral development
- business environment and reduction of the informal economy
- trade-related reform
- education and skills
- employment and labour markets

- social inclusion, poverty reduction and equal opportunities.

In addition to these essential fields, and as the objectives of EU policies continue to evolve to include cross-cutting sustainable sectors, the structural reform agendas of ERPs have embraced new commitments to progressive policy reforms since the last assessment that also cover:

- green transition
- digital transformation
- research, development and innovation
- economic integration reforms
- agriculture, industry and services
- healthcare systems.

Once submitted by the governments, ERPs are assessed by the European Commission and European Central Bank, opening the door for a multilateral policy dialogue with enlargement candidates to gauge their progress and priority areas on their path to accession. Discussions and assistance on policy reforms take place through a high-level meeting between member states, EU institutions and enlargement countries, through which participants adopt joint conclusions that include economy-specific guidance for policy reform agendas.

The findings of the *SME Policy Index 2022* provide an extensive technical understanding of the progress made on business sector-related policy reforms that are key to the ERPs of the EU accession candidates at both the regional and economy-specific levels. The SBA delves into the specific barriers to progress in ten policy areas that are essential to applying the larger objectives of the ERPs, like boosting competitiveness and economic growth to SMEs in the region.

Source: European Commission (2021[8]).

EU accession process

Kosovo remains one of the WBT economies designated as a potential candidate for EU accession, having been assigned said status in 2008. The Stabilisation and Association Agreement (SAA) between the European Union and Kosovo entered into force in 2016, replacing the Stabilisation Tracking Mechanism enacted by the European Union in 2002 to ensure that the economy could continue to gradually integrate its domestic policies on legal, economic and social matters with the European Union. Kosovo's implementation of the new comprehensive framework aimed at establishing a free trade area and closer political dialogue between the European Union and Kosovo has since been administered through the National Programme for Implementation of the Stabilisation and Association (NPISAA), which was adopted the same year for the period 2017-21 (Government of Kosovo, 2017[28]). A new NPISAA for the period 2020-24 was adopted in July 2020 and aims to determine further measures and priorities for institutions to implement the SAA and enable the fulfilment of its obligations (Office of the Prime Minister, 2020[29]). Kosovo has made some progress in general harmonisation with EU standards. In its fourth report on progress on the implementation of the remaining benchmarks of the Visa Liberalisation Roadmap by Kosovo, the Commission confirmed that all benchmarks had been fulfilled, and the Decision on the Commission's proposal remains pending in the European Parliament and the Council (European Commission, 2018[30]).

According to the European Union's 2021 enlargement report for Kosovo, the economy is moderately prepared on enterprise and industrial policies that help encourage a hospitable environment for SMEs. Kosovo made some progress in aligning its industrial policy by making the National Council for Economy and Investment a more systematic and efficient forum for public-private business dialogue. The economy

also did well to maintain a functioning business environment during the COVID-19 crisis and lockdowns, which was particularly facilitated by Kosovo's well-established Credit Guarantee Fund, which was able to efficiently provide additional financing by increasing its coverage of credit guarantees for loans. Nevertheless, Kosovo needs to reinforce stagnant efforts to remove structural barriers to businesses as attention was focused on mitigating the immediate effects of the pandemic (European Commission, 2021[27]). In this regard, Kosovo should concentrate on:

- adopting and implementing a strategy to support Kosovo's business environment and industrial development
- reorganising the KIESA to improve its support schemes and provision of advisory services to SMEs and add an investor aftercare unit.

Although Kosovo has shown a firm commitment to aligning its policies with the European Union, further progress towards opening negotiations will strongly depend on improved bilateral relations and co-operation with neighbouring economies as well as further simplification of the regulatory environment for businesses and enabling better access to finance for SMEs. The findings and recommendations published in the *SME Policy Index 2022* can help provide the monitoring and guidance needed for Kosovo to meet the remaining requirements related to harmonisation of enterprise and industrial policy with the EU *acquis*.

EU financial support

The European Union remains the largest provider of financial assistance to Kosovo, helping the economy realise its reform processes and endeavours, bringing it closer to the *acquis*. The European Union's financial support to the economy and the region has been provided through both temporary support such as COVID-19 assistance packages as well as long-term investment programmes and funds through the Instrument for Pre-accession Assistance (IPA), European Investment Bank loans, Western Balkans Investment Framework grants and more.

In addition to a total of EUR 1.2 billion provided to Kosovo by the European Union between 2007 and 2020 under the IPA I and II, the European Union is providing funds under IPA III for the period 2021-27 to upgrade environmental management systems, improve transport systems by promoting environmentally friendly transport modes, and provide technical assistance for the management, monitoring, evaluation, information and control of IPA-related activities (European Commission, 2021[31]).

In 2020, the European Union pledged EUR 9 billion for the Western Balkans as part of a new economic and investment plan to support sustainable connectivity, human capital, competitiveness and inclusive growth, and the twin green and digital transition The European Commission has been integral in providing infrastructural funding for the Peace Highway connecting Kosovo to Nis in Serbia and the upgrading of a railway route connecting Belgrade with Pristina. The European Commission has also been helping the economy move away from coal and transition to renewable energy sources through further preparations for the construction of the Ibër-Lepenc Hydro System Phase II and starting a gas interconnection between Kosovo and North Macedonia. Kosovar SMEs will also be able to benefit from the scheme's increased funding to the Western Balkans Guarantee Facility (European Commission, 2020[32]).

The European Union has been crucial in financially supporting Kosovo in the wake of COVID-19. The economy received EUR 100 million of the European Commission's EUR 3 billion Macro-Financial Assistance (MFA) package for enlargement and neighbourhood partners that aims to help them limit the economic fallout of the COVID-19 pandemic. Kosovo received the second MFA payment in January 2021 after fulfilling the programme's policy conditions to improve the sustainability of public finances, enhance financial stability, strengthen good governance and the fight against corruption, as well as initiatives to increase youth employment (European Commission, 2020[33]).

The European Investment Bank (EIB) has also played a key role in financing the business landscape in Kosovo, having invested EUR 280 million to support Kosovo's companies since 1999. The EIB also provided EUR 11 million for the construction of a wastewater plant in the municipality of Gjilan, which will serve more than 90 000 people in Kosovo. The economy also continues to participate in the European Union's Competitiveness of Enterprises and Small and Medium-Sized Enterprises Programme (COSME), under which it benefits from support to entrepreneurship and entrepreneurial culture, access to finance for SMEs and access to markets (European Commission, 2021[34]). The economy has participated in the European Union's Research and Innovation programmes since 2008 and is part of the Horizon 2020 programme, allowing it access to the project's EUR 95.5 million budget to help develop projects and technologies and conduct research and activities that will contribute to tackling global challenges.

SMEs in the domestic economy

The classification of SMEs in Kosovo remains enshrined in the Law on Foreign Investments adopted in 2014 (Assembly of Kosovo, 2014[35]), which replaced the 2006 Law on Support to Small and Medium Enterprises and its subsequent amendment in 2008. The only criterion remains employment size, which conforms to the EU standard definition of SMEs (Table 15.3).

Table 15.3. Definition of micro, small and medium-sized enterprises in Kosovo

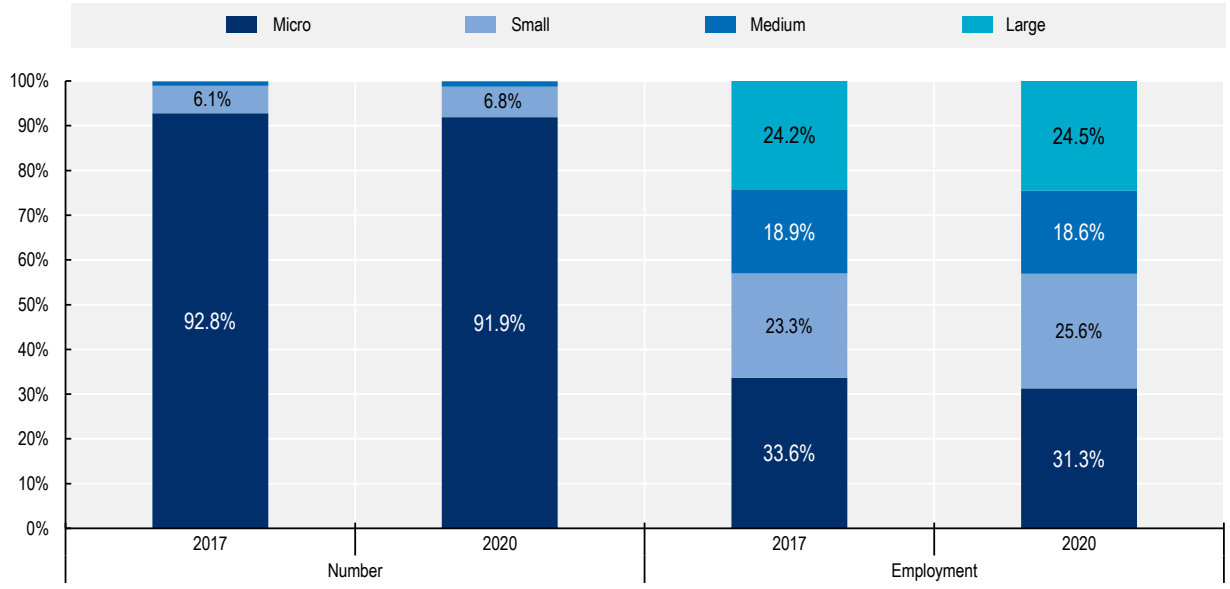
	EU definition	Kosovo definition
Micro	< 10 employees = EUR 2 million turnover or balance sheet	≤ 10 employees
Small	< 50 employees = EUR 10 million turnover or balance sheet	< 50 employees
Medium-sized	250 employees = EUR 50 million turnover = EUR 43 million balance sheet	< 250 employees

Note: For purposes related to the Law on Bankruptcy, an SME is defined as a business organisation that has an annual turnover of up to EUR 1 million or has up to 25 employees. This definition is only applied in bankruptcy cases.
Source: Assembly of Kosovo (2014[35]).

In 2020, Kosovo's 42 881 MSMEs accounted for 99.84% of all enterprises in the economy, increasing by about 4 850 since 2017. MSMEs also increased employment by approximately 27 000 people in the same period, accounting for 75.5% of total employment in the economy. The breakdown of enterprises by size in Kosovo was 91.9% microenterprises, 6.8% small, 0.15% medium and only 0.66% large enterprises in 2020. The number of microenterprises decreased by roughly 0.9% since 2017, which was partially absorbed by a 0.63% increase in small enterprises. Employment in SMEs experienced larger fluctuations, with micro, medium and large enterprises witnessing decreases in employment at 2.4%, 0.4% and 1.1%, respectively, while small enterprises noted a 2.3% increase in employees between 2017 and 2020 (Figure 15.2).

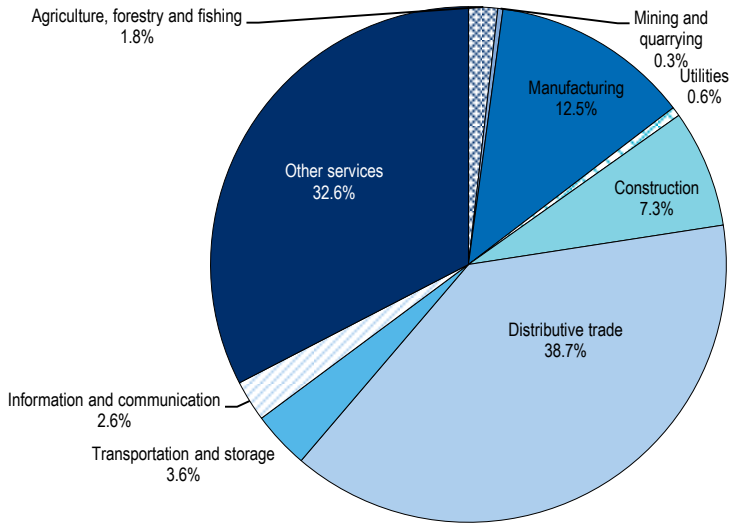
The sectoral distribution of SMEs in Kosovo has experienced slight changes since 2016 (Figure 15.3). The distributive trade sector, which includes wholesale, retail trade, and the repair of motor vehicles and motorcycles, remains the overwhelming industry of SMEs in the economy at 38.68% but saw the greatest decrease in the number of enterprises since 2016, at a 5.4% decline. Other services follows as the second-highest number of SMEs in Kosovo and witnessed the most notable increase in the number of enterprises since 2016, at a 5.5% increase. Slight increases of between 0.2% and 1% were also noted in the agriculture, construction, information and communication, utilities, and transport sectors, while manufacturing remained unchanged. A small decrease of 0.1% was noted for the mining industry.

Figure 15.2. Business demography indicators in Kosovo (2020)



Source: Statistical Office of Kosovo.

Figure 15.3. Sectoral distribution of SMEs in Kosovo (2020)



Note: The sector classification generally follows the Statistical Classification of Economic Activities in the European Community (NACE) Rev.2 classification of productive economic activities with the following exceptions: "Utilities" represents the sum of "Electricity, gas, steam and air conditioning supply" (D) and "Water supply, sewerage, waste management and remediation activities" (E); "Distributive Trade" covers "Wholesale and retail trade; repair of motor vehicles and motorcycles" (F); and Other Services here consists of (I) Accommodation and food service activities, (L) Real estate activities, (M) Professional, scientific and technical activities, (N) Administrative and support service activities as well as (S) Other service activities. For more information, consult NACE Rev. 2 Classification
Source: Statistical Office of Kosovo

Geographically, about 31.7% of enterprises were located in Pristina in 2021, followed by 9.7% in the municipality of Ferizaj and 7% in Prizren (Table 15.4). The number of enterprises in Pristina decreased by only 0.72% from 2019 to 2021, while the municipalities of Prizren, Mitrovicë and Vushtri also saw decreases of approximately 1% during the same period. On the other hand, the municipality of Ferizaj saw a notable 3.1% surge since 2019, while the municipalities of Lipjan, F. Kosove and Pejë also saw increases of around 1% during the same period.

Table 15.4. Number of registered companies in Kosovo by municipality (2019-21)

Municipality	Total number of enterprises			Share of total number of enterprises		
	2019	2020	2021	2019	2020	2021
Deçan	31	31	16	1.21%	1.08%	0.66%
Gjakovë	75	95	93	2.92%	3.31%	3.85%
Gllogoc	53	53	66	2.07%	1.85%	2.73%
Gjilan	132	161	136	5.14%	5.61%	5.63%
Dragash	13	19	4	0.51%	0.66%	0.17%
Istog	41	22	18	1.60%	0.77%	0.75%
Kaçanik	37	31	21	1.44%	1.08%	0.87%
Klinë	44	27	35	1.71%	0.94%	1.45%
F. Kosovë	93	126	117	3.62%	4.39%	4.84%
Kamenicë	34	30	16	1.33%	1.05%	0.66%
Mitrovicë	91	118	59	3.55%	4.11%	2.44%
Leposaviq	9	3	2	0.35%	0.10%	0.08%
Lipjan	55	63	83	2.14%	2.20%	3.44%
Novobërdë	6	8	4	0.23%	0.28%	0.17%
Obiliq	22	27	41	0.86%	0.94%	1.70%
Rahovec	39	27	36	1.52%	0.94%	1.49%
Pejë	103	132	125	4.01%	4.60%	5.17%
Podujevë	119	125	90	4.64%	4.36%	3.73%
Pristina	831	897	765	32.39%	31.28%	31.66%
Prizren	209	200	169	8.14%	6.97%	7.00%
Skenderaj	38	52	30	1.48%	1.81%	1.24%
Shtime	27	12	17	1.05%	0.42%	0.70%
Shtërpce	7	9	1	0.27%	0.31%	0.04%
Suharekë	40	52	42	1.56%	1.81%	1.74%
Ferizaj	169	254	234	6.59%	8.86%	9.69%
Viti	54	35	32	2.10%	1.22%	1.32%
Vushtrri	89	119	60	3.47%	4.15%	2.48%
Zubin Potok	5	1	1	0.19%	0.03%	0.04%
Zveqan	9	3	3	0.35%	0.10%	0.12%
Malishevë	42	37	37	1.64%	1.29%	1.53%
Juniku	2	2	1	0.08%	0.07%	0.04%
Mamushë	1	11	2	0.04%	0.38%	0.08%
Hani i Elezit	11	22	7	0.43%	0.77%	0.29%
Graçanica	22	29	31	0.86%	1.01%	1.28%
Ranillug	1	8	2	0.04%	0.28%	0.08%
Partesh	2	4	11	0.08%	0.14%	0.46%
Kllokot	0	8	1	0.00%	0.28%	0.04%
Mitr. Veriore	10	15	8	0.39%	0.52%	0.33%
Total	**2 566**	**2 868**	**2 416**	**100.00%**	**100.00%**	**100.00%**

Note: Data from 2021 Q4 business registrar records.
Source: Kosovo Agency of Statistics (2022[36]).

Assessment

Description of the assessment process

The SBA assessment cycle was virtually launched on 7 July 2021, when the OECD team shared the electronic assessment material – questionnaires and statistical sheets, accompanied by explanatory documents.

Following the virtual launch, KIESA, which acts as the SBA Co-ordinator nominated by the European Commission, distributed the link to the assessment material to the appropriate ministries and government agencies and the statistical sheets to the Kosovo Agency of Statistics. These institutions compiled the data and documentation between July and September 2021 and completed the questionnaires. Each policy dimension was given a self-assessed score accompanied by a justification. The completed questionnaires and statistical data sheets were received by the OECD team on 22 October 2021, following which the OECD team began an independent review.

The OECD reviewed the inputs and requested additional information on certain elements from KIESA. For several dimensions, virtual consultation meetings with key dimension stakeholders were organised in December. The meetings aimed to close any remaining information gaps in the questionnaires.

A virtual preliminary findings meeting with Kosovo was held on 14 January 2022 with an aim to present and discuss the preliminary *SME Policy Index 2022* assessment findings and initial recommendations for Kosovo. At the same time, it served as an opportunity to seek the views of a broad range of policy stakeholders on how SMEs are affected by current policies and to gauge what more can be done across different policy areas to improve SMEs' performance and competitiveness in Kosovo, especially in the post-COVID context.

The meeting allowed the OECD to validate the preliminary assessment findings. The draft SME Policy Index publications and the Economy Profile of Kosovo were made available to the KIESA for their review and feedback during February 2022.

Scoring approach

Each policy dimension and its constituent parts are assigned a numerical score ranging from 1 to 5 according to the level of policy development and implementation, so that performance can be compared across economies and over time. Level 1 is the weakest and Level 5 the strongest, indicating a level of development commensurate with OECD good practice (Table 15.5). For further details on the SME Policy Index methodology and how the scores are calculated, as well as the changes in the last assessment cycle, please refer to Annex A.

Table 15.5. Description of score levels

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

Entrepreneurial learning and women's entrepreneurship (Dimension 1)

Introduction

Entrepreneurial learning raises learners' skills and develops the mindsets needed to change their lives and the world around them through entrepreneurial action for social and economic impact. It is the basis for empowering learners to know they can generate the creative ideas needed in the 21st century.

Women's entrepreneurship should be prioritised to support women's economic and social empowerment and drive improved stability and social and economic growth. It can also enable closing gender gaps in the workforce, supported by equality and gender impact analysis of policies affecting family care and social protection.

Education and training quality and relevance are a significant challenge for Kosovo (European Training Foundation, 2020[37]), and entrepreneurial learning is integral to both. While there has been some improvement during this assessment period, the education and training system is yet to ensure that entrepreneurial learning and the development of entrepreneurial competences is a reality within learning experiences for young people in Kosovo.

The score for women's entrepreneurship has increased during this assessment period (from 2.53 in 2019 to 3.22 in this cycle), driven by the launch of the programme for gender equality, which includes a set of actions for women's entrepreneurship (Table 15.6).

Table 15.6. Kosovo's scores for Dimension 1: Entrepreneurial learning and women's entrepreneurship

Dimension	Sub-dimension	Thematic block	Kosovo	WBT average
Dimension 1: Entrepreneurial learning and women's entrepreneurship	Sub-dimension 1.1: Entrepreneurial learning	Planning and design	2.75	3.43
		Implementation	3.67	3.51
		Monitoring and evaluation	2.34	2.73
		Weighted average	**3.13**	**3.33**
	Sub-dimension 1.2: Women's entrepreneurship	Planning and design	3.40	3.97
		Implementation	3.49	3.83
		Monitoring and evaluation	3.00	3.11
		Weighted average	**3.36**	**3.73**
Kosovo's overall score for Dimension 1			**3.22**	**3.49**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

For entrepreneurial learning, the challenge remains to co-ordinate policy and actions at the government level and ensure that policy commitments are fully translated into practical implementation through training and guidance for educators and education organisations. The potential for excellence shines through advances in education-business co-operation, opening up the entrepreneurial ecosystem to embrace municipalities, academia and business.

Support for women's entrepreneurship has improved in terms of policy and design, but implementation is reliant on actions funded by international partners. Monitoring and evaluation remain under-developed for both sub-dimensions, resulting in a lack of understanding of the progress and impact of actions and a loss

of qualitative and quantitative data that could feed into skills intelligence to drive system-level change (Table 15.7).

Table 15.7. Kosovo's implementation of the SME Policy Index 2019 recommendations for Dimension 1

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Strengthen appropriation of entrepreneurship as a cross-cutting competence	There has been limited progress in strengthening the integration of the entrepreneurship key competence across curricula. Teacher professional development training remains limited at pre-service and in-service levels.	Limited
Facilitate education-business co-operation for the purposes of entrepreneurial learning	During this assessment period, the new government identified education-business co-operation as a top priority within the Kosovo Government Programme (2021-2025). This has been further developed through new education-business co-operation in UPCO (University of Pristina for Competitiveness/Competencies/Co-operation) – a triple-helix co-operation model confirmed in a recent Memorandum of Understanding between the University of Pristina, the City of Pristina and the Kosovo Chamber of Commerce (KCC). This co-operation will also include a focus on the entrepreneurial ecosystem. The implementation plan is under development.	Moderate
Facilitate education-business co-operation through teacher training and reward mechanisms	Progress in this area is linked to the development of the UPCO collaboration between the University of Pristina, the City of Pristina and the KCC, which has the potential to link university educators into this triple-helix co-operation. However, the memorandum of understanding was signed at the end of 2021; practical approaches to how the triple-helix co-operation will be developed are still being planned.	Limited
Build up decentralised capacity to connect business and education and training providers	Considerable potential remains to implement this recommendation, but no practical actions appear to have been taken. The recent Economic Reform Programme 2021-2023 identified the Council for Education and Vocational Training (CVETA) as a channel for discussions and consultation between business and ministry representatives on developing professional standards as the basis for drafting new curricula. This co-operation within CVETA could be expanded to identify further opportunities.	No progress
Develop a co-ordinated framework for monitoring and evaluation in order to bring about positive change	Monitoring and evaluation have improved during this assessment. However, there continue to be areas of weakness, such as a comprehensive report explaining the progress of specific actions taken and the change created as a result. There is no clearly defined lead body for this work across entrepreneurial learning or women's entrepreneurship, which impacts the ability to implement or collate data and results from monitoring and evaluation.	Limited
Renew the National Strategy for Entrepreneurship Education and Training	There has been no progress on renewing the strategy for entrepreneurship education and training, and this is not currently planned in the Kosovo Government Programme (2021-2025) (Government of Kosovo, 2021[38]).	No progress
Formalise co-ordination on women's economic empowerment	The launch of the Kosovo Programme for Gender Equality (2020-2024) is now the primary document underpinning the development of women's entrepreneurship. While there is evidence of activities happening in the economy, as yet, there is no multi-stakeholder partnership identified as having lead responsibility for women's economic empowerment to support and co-ordinate this work.	Moderate

Entrepreneurial learning is highlighted across policy but lacks system-level co-ordination

Entrepreneurial learning can be seen across a number of government strategies and documents. However, it is fragmented with little cross-government co-ordination to support the practical implementation of the vision and commitments. The Kosovo Education Strategic Plan (2017-2021) (Government of Kosovo, 2017[39]) highlights the importance of entrepreneurial learning without any focus on implementation.[2] Planning for the new version for 2022-2025 is now underway.

The Kosovo Government Programme (2021-2025) has more explicit commitment actions related to entrepreneurial learning, including exploring the possibility of including entrepreneurship subjects in lower secondary education, building additional laboratories to support student internships, developing a Fund for

Young Entrepreneurs and encouraging entrepreneurial collaborations between young people and diaspora (Government of Kosovo, 2021[38]).

The National Strategy for Innovation and Entrepreneurship (2019-2023) (Government of Kosovo, 2019[40]) was adopted during the current assessment cycle, which includes actions to boost innovative spirit and awareness among young people and a commitment to revising the curriculum. However, there is no associated action plan, and the linked Law on Innovation and Entrepreneurship has been delayed.[3] Alongside this is the Strategy for Youth (2019-2023) (Government of Kosovo, 2019[41]), which has a strong focus on entrepreneurship for young people[4] but no information on the progress of planned actions.

Relevant co-ordination bodies include the Council for Vocational Education and Training and the Digital Coalition (previously called the National Council for Innovation and Entrepreneurship), but there is little recent information on their activity or specific information on their work linked to entrepreneurial learning. There is more information on the Council for Vocational Education and Training,[5] which appears functional and benefits from the active involvement of representatives from the business community.

The lack of co-ordination and information on practical implementation reflects the ongoing challenge of limited government capacity to fully implement the vision of the above-mentioned strategies (European Training Foundation, 2020[37]). Data collection on implementing entrepreneurial learning is not widely collected and affects Kosovo's ability to monitor and evaluate impact. Strategy evaluations are undertaken, but conclusions may not be directly used in designing the next steps.

Entrepreneurship is included in Kosovo's key competences framework, but practical implementation is not yet widespread

Pre-university curriculum frameworks[6] in Kosovo include six key competences, with elements of the entrepreneurship key competence included within the Kosovan key competence for life, work and the environment. Entrepreneurial education is highlighted as a cross-curricular priority.[7] During this assessment period, a new student assessment framework was created (Government of Kosovo, 2020[42]) that emphasises the assessment of these key competences. However, there is limited system-level guidance for teachers on teaching, learning and assessment of key competences. Therefore, entrepreneurship as a key competence is not yet translated into practical implementation at the level of learners. Practical entrepreneurial experiences are not widely implemented[8] and are not a system-level commitment.

To support a wider understanding of the entrepreneurship key competence beyond the traditional economic focus, the EntreComp framework (European Commission, 2016[43]) has been translated[9] into Albanian and Serbian. It was also launched at an event with the Minister of Industry, Entrepreneurship, and Trade and the Minister of Education, Science, Technology and Innovation.[10]

Driving change in curriculum delivery, a new VET curriculum that includes entrepreneurship as a mandatory module is awaiting formal approval. EntreComp was used to inform the curriculum review process.

Teacher training is not widely available at pre-service or in-service levels

The Kosovo Education Strategic Plan (2017-2021) highlighted the need to harmonise pre-service teacher training with the needs of the Ministry of Education, Science and Technology (MEST) policies, which highlight entrepreneurial education as a cross-curricular requirement. However, there is no available evidence of progress in including entrepreneurial competence development, either as an elective or a compulsory topic for new teachers during pre-service teacher training.

For existing teachers, there is limited access to training. MEST has published a new catalogue of approved teacher training, but few options explicitly address the entrepreneurship key competence. Those included are training offers linked to existing entrepreneurial learning actions, such as the innovative Upshift

"Entrepreneur with Social Impact" teacher training linked to citizenship and democratic education, and Smartbits,[11] which includes entrepreneurial competences for career orientation.

Progress has been made in developing education-business co-operation

Structured collaboration using the triple-helix model has been established in Kosovo for the first time, bringing together the University of Pristina, the City of Pristina and the KCC into the UPCO cluster (ALLED2, 2022[44]). Supported by the ALLED2 (Aligning Education for Employment) project, this work aims to drive forward the development of an entrepreneurial ecosystem linked to creating social, cultural and economic value for the region through structured university-business co-operation. Strengthening co-operation through a formal memorandum of understanding will improve links between higher education and the labour market, the development of entrepreneurship and the promotion of lifelong learning. This is enabled through the legal framework established within the Law on Higher Education[12] (Government of Kosovo, 2011[45]). The involvement of municipalities, higher education and the private sector, is essential to advance the implementation of education reform, and this development can be a first step toward wider business co-operation for other universities as well at VET.

There is a stronger policy focus on women's entrepreneurship, but improvement is still needed, including dedicated monitoring and evaluation

The Kosovo Programme for Gender Equality (2020-2024) (Government of Kosovo, 2020[46]) was launched with an associated action plan that includes specific actions to encourage women's entrepreneurship and support start-ups by women entrepreneurs. However, there is a lack of cross-linkages between this programme and wider relevant strategies, such as the Private Sector Development Strategy (2018-2022) and the National Strategy for Innovation and Entrepreneurship (2019-2023), where there is little mention of focused actions supporting women's entrepreneurship.

A challenge remains regarding monitoring and evaluation. As yet, there is no comprehensive economy-level evaluation of actions and impact related to women's entrepreneurship and little sharing of practice. Compounding this is the low availability of gender-sensitive data on engagement in specific actions, such as training or start-up programmes.

The National Strategy for Innovation and Entrepreneurship (2019-2023) highlights the lack of gender-disaggregated data and commits to providing specific funding programmes. A practical Gender Impact Assessment Manual (Kosovo Agency for Gender Equality, 2019[47]) was published to support the review of all new legislative initiatives;[13] however, there is no clear evidence of the adjustments made based on the evaluation results and use of this manual.

Support for women entrepreneurs is not yet well developed

Direct grant support for start-up entrepreneurs is not yet well developed in Kosovo, with support programmes available from the Employment Agency (active labour market measures) that target women participants but are not tailored to them.[14] However, a range of non-government-led programmes supports women's entrepreneurship, including those financed using government funding, such as the Kosovo Women's Chamber of Commerce, Women in Business and the EBRD. Private-sector stakeholders also lead programmes, such as Procredit Bank, TEB Bank, and the Institute for International Cooperation of the Deutscher Volkshochschul-Verband eV (DVV). Nevertheless, there is not yet a dedicated online portal for accessing information, funding opportunities and training offers related to women's entrepreneurship.

Multi-stakeholder co-ordination to support women's entrepreneurship is being strengthened

Government funds, through grants, have been made available to strengthen the capacity of non-governmental organisations (NGOs) supporting women's entrepreneurship in Kosovo.[15] There is evidence

of interesting practices from diverse stakeholders, such as women's entrepreneurship support and green transformation[16] (TEB Bank), the COVID-19 response provided by Women in Business and She-Era to support women-owned businesses, and the training offer on digital transformation through the Kosovo Women's Chamber of Commerce.[17] In response to the COVID-19 crisis, resources were put in place targeting women entrepreneurs and working women, linked to the Programme for Economic Recovery and Agency for Gender Equality.[18] Lessons learned show that measures did positively impact women entrepreneurs, despite the added impact of family responsibilities on women; however, there was a negative impact on certain groups of women, including those informally employed, single mothers and informal women farmers.[19]

The way forward for Dimension 1

- **Identify new or existing multi-stakeholder policy partnerships to co-ordinate and strengthen efforts across different strategies** for, firstly, entrepreneurial learning and, secondly, women's entrepreneurship. Consider including these as explicit responsibilities of existing multi-stakeholder partnerships. For entrepreneurial learning, this would need to be a multi-stakeholder body linked to the MEST. For women's entrepreneurship, this could be an explicit responsibility of the National Council for Economy and Investment or as a sub-group of this body and with the direct involvement of the Agency for Gender Equality to ensure gender representation within this important economic council. Box 15.3 provides a relevant good practice example from Montenegro.

Box 15.3 Building a national policy partnership in Montenegro

Montenegro has successfully brought together and sustained a multi-stakeholder policy partnership that drives co-ordination and the development of entrepreneurial lifelong learning. The partnership has gradually increased the focus on this policy area, resulting in progress in the practical implementation of entrepreneurial learning at all levels of lifelong learning.

The consistent partnership between government ministries and key national stakeholders was linked to the design and implementation of national strategies. The relevance and importance of participation were clear to each partner organisation and closely aligned to their organisational objectives, with a named representative from each partner. The partnership was initially informal, and organisations worked together to place the focus on increasing the profile of entrepreneurial lifelong learning at the policy level and gaining recognition for their partnership approach. This finally resulted in formal recognition by the government in 2021 as a working group of the National Council for Competitiveness led by the Ministry of Economy.

This is a multi-stakeholder partnership body that is integrated into the equivalent of the National Council for Economy and Investment, allowing for the involvement of a full range of partners. In Kosovo, this could be directly linked to the National Strategy for Innovation and Entrepreneurship (2019-2023). It could be used as a model for both entrepreneurial learning and women's entrepreneurship. Such a partnership approach can bring partners together, link work to the different strategies that focus on actions supporting entrepreneurial lifelong learning, enhance the work of all partners in this field and gain further recognition of a partnership approach at the national and government levels.

Sources: Government of Montenegro (2020[48]) and McCallum et al. (2018[49]).

- **Provide accessible training courses and current guidance for educators** on how to integrate entrepreneurship as a cross-curricular key competence in teaching and assessment, including the

"hard to reach" entrepreneurial competences (or "soft skills") highlighted in the key competences of the Kosovo pre-university curriculum framework.

- **Prioritise the harmonisation of university teacher training programmes** with the needs of the curriculum framework and key competences, including the entrepreneurship competence underpinned by EntreComp. This needs to provide a future-proofed approach to the training of new teachers by learning from cutting-edge practices and ensuring they are trained to be adaptable and resilient to changing contexts and learning environments as they enter a profession undergoing systemic reform.
- **Launch an online portal that provides information and advice for women's entrepreneurship,** bringing together finance provision and support actions from government and non-government providers. This could be a dedicated portal or a specific section within an existing government entrepreneurship portal such as My Business.[20]
- **Improve system-level monitoring and evaluation of government-financed programmes related to entrepreneurial learning and women's entrepreneurship.** This will allow for a fuller understanding of the progress and impact of these actions across policy and implementation.

Bankruptcy and second chance for SMEs (Dimension 2)

Introduction

Firms enter and exit the market as a natural part of the business cycle, and policies can ensure that such transitions occur in a smooth and organised manner. Well-developed insolvency procedures and regimes can protect both debtors and creditors, striking the right balance between both parties, for example. This is particularly relevant for smaller firms as they lack resources compared to bigger firms. Therefore, governments need to ensure that bankruptcy proceedings are efficient, ease reorganisation procedures (instead of bankruptcies) and ensure that those starting again have the same opportunities in the market they had the first time.

In Kosovo, similarly to other Western Balkan economies where SMEs represent a large part of the economy, effective liquidation and discharge procedures can allow entrepreneurs to reintegrate into the market. This was particularly relevant in the context of the COVID-19 pandemic, where a number of firms faced financial difficulties or were at risk of financial distress, particularly in the tourism sector (OECD, 2021[50]).

Kosovo is one of two WBT economies, alongside Montenegro, that regressed in this dimension during this assessment period mainly due to weaker performance under the bankruptcy procedures sub-dimension and continuously disregarding promotion of second-chance policies in its strategic framework. Its score fell from 2.71 to 2.30 (Table 15.6) and is performing below the regional average of 3.03 (Table 15.8).

Table 15.8. Kosovo's scores for Dimension 2: Bankruptcy and second chance

Dimension	Sub-dimension	Thematic block	Kosovo	WBT average
Dimension 2: Bankruptcy and second chance	Sub-dimension 2.1: Preventive measures		**2.20**	**2.74**
	Sub-dimension 2.2: Bankruptcy procedures	Design and implementation	2.70	3.47
		Performance, monitoring and evaluation	2.30	3.23
		Weighted average	**2.54**	**3.38**
	Sub-dimension 2.3: Promoting second chance		**1.50**	**1.96**
Kosovo's overall score for Dimension 2			**2.30**	**3.03**

Note: WBT: Western Balkans and Turkey

State of play and key developments

During the assessment period, Kosovo implemented the provisional law on the economic recovery, which provides support measures for companies having financial difficulty, in addition to the existing insolvency laws. Kosovo is among the few economies in the region that allows a simplified and expedited reorganisation procedure for SMEs. However, fast-track simplified liquidation proceedings for SMEs, and automatic debt discharge rules are still lacking in Kosovo's legal framework. Moreover, second-chance programmes for SMEs are nascent, limiting the reintegration of honest entrepreneurs into the economy and changing the current perception of a cultural stigma linked to entrepreneurial failure (Table 15.9).

While there are no available data on the number of backlog cases, the number of bankruptcy cases remained very low compared to other WBT economies. Since 2017, the economy has recorded only eight resolved cases.[21] The insolvency results reflect to a great extent the way the economy is performing and informally resolving its disputes and collective settlements.

Table 15.9. Kosovo's implementation of the SME Policy Index 2019 recommendations for Dimension 2

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Develop a fully-fledged early warning system	A fully-fledged early warning system is still missing. The existing warning tools used by the Kosovo Tax Administration are based on annual financial statements, which could potentially be too late to prevent bankruptcies, leading to involuntary liquidations.	Limited
Further reduce the average cost and duration of bankruptcy proceedings by simplifying parts of the bankruptcy legislation	During the assessment period, no simplification measures have been adopted. The duration of proceedings and associated costs remain high, as in the previous assessment. Furthermore, there are no plans to streamline liquidation processes.	No progress
Improve the legal framework and develop initiatives to reduce the cultural stigma attached to entrepreneurial failure	No progress has been recorded in reducing the cultural stigma of entrepreneurial failure. The Insolvency Law provides clear rules for treating cases where the debtor files a petition with intent to deceive, defraud or subvert the creditors. However, no regulation distinguishes fraudulent from honest entrepreneurs.	No progress
Make the existing mediator system available before the opening of bankruptcy cases	No progress has been observed in this regard. The mediation system has not been extended to enable meditation to take place immediately upon receiving a signal from the tax administration or a well-designed early warning system before a court case is actually initiated.	No progress

Little progress has been made regarding Kosovo's insolvency legislative framework

Kosovo's insolvency framework comprises two laws: the Insolvency Law, adopted in 2016, and the Law on Business Organisation, adopted in 2018. The latter includes provisions relating to initiating insolvency proceedings for limited liability companies and joint-stock companies. In 2020, during the COVID-19 pandemic, the government adopted the Provisional Law on Economic Recovery, which provides support measures for companies having financial difficulties.

Overall, the regulatory framework provides a solid basis for insolvency regimes and regulates procedures for expedited SME reorganisation and pre-agreed plans, regular reorganisation of companies, liquidation of companies, discharge of debt and cross-border insolvency. Although the United Nations Commission on International Trade Law (UNCITRAL) Model Law on Cross Border Bankruptcy (CBB) has not been adopted, Chapter IX of the Insolvency Law regulates CBB according to the UNCITRAL Model Law. Furthermore, the Insolvency Law is partially compliant with the EU Regulation 2015/848 on insolvency proceedings (European Parliament and the Council of the European Union, 2015[51]; EBRD, 2022[52]).

The expedited SME reorganisation is a voluntary procedure, possible for companies with an annual turnover of up to EUR 1 million or with up to 25 employees. The debtor can submit the reorganisation plan in 30 days upon the initiation of the formal procedure, which needs to be assessed by the insolvency practitioner. There is also a possibility of submitting a pre-agreed plan with the creditors and requesting immediate court confirmation. Furthermore, the court holds an expedited hearing to determine if the debtor's pre-filing solicitation of votes discloses all required information and whether voting conditions were met (EBRD, 2022[52]).

The debtor who faces imminent insolvency can initiate the regular reorganisation procedure. The debtor is obliged to submit a reorganisation plan in 120 days upon petition filing under the supervision of the court. The procedure provides an automatic stay against the enforcement of creditors' claims until its final completion. However, the court may remove the debtor's management in the case of fraud or if the debtor cannot manage financial affairs in a profitable manner, which could trigger various compensation measures, like the reverse of discharge or the conversion of reorganisation into liquidation.

In addition to the aforementioned laws, the Law on Mediation also tackles potential disputes that might arise in bankruptcy procedures. Although an out-of-court settlement remains non-existent in Kosovo, the legal framework allows creditors and debtors, once the insolvency proceedings are initiated, to go into mediation to resolve disputes under the supervision of a neutral mediator.

Some aspects that could streamline the bankruptcy procedures are yet to be addressed in the legislation, such as fast-track liquidation through digitalisation to shorten proceedings, the need to enhance their effectiveness, the need to ensure the protection of debtors' and creditors' rights and better monitor and evaluate insolvency proceedings. Current liquidation proceedings are burdensome; they involve clearance by a board of creditors, the selection of appraisers and method of assets' sales, and allow for appeals, including on distribution. All of this could be avoided, shortened and improved with the introduction of e-auction sales.

Preventive measures are yet to be implemented

While no major progress regarding the introduction of insolvency preventive measures has been recorded since the last assessment, the Government of Kosovo has made some efforts to prevent insolvency through the enactment of the provisional law on the economic recovery from the COVID-19 crisis in December 2020. The law provided EUR 200 million to support all businesses registered with the tax administration before 29 February 2020 that experienced difficulties functioning during the COVID-19 pandemic (Government of Kosovo, 2020[53]).

The Kosovo Tax Administration (ATK) monitors the performance of companies and implements basic insolvency preventive measures. It notably runs basic early warning tools based on the companies' annual financial statements. The ATK also provides advisory services to companies with financial difficulties, and it has the right to file a petition for involuntary bankruptcy in court if all of the following conditions are met: 1) a debt has been due for at least 60 days; 2) the tax debtor owes the ATK more than EUR 2 000; and 3) the debt is not conditional or subject to a bona fide dispute. However, this mechanism cannot be qualified as a fully-fledged early warning system, as it bases the warning on annual financial statements, which could potentially be a late signal and thus ineffective in preventing bankruptcy.

Second-chance programmes for failed entrepreneurs are still lacking

Similar to the previous assessment findings, Kosovo did not promote second chance, which would encourage or ensure the possibility of reintegration of honest entrepreneurs into the economy. Neither the previous National Development Strategy (2016-2021) nor the upcoming National Development Strategy includes support measures for SMEs in financial difficulty or second chance, fresh start for honest entrepreneurs. Furthermore, the legal framework does not distinguish honest from fraudulent bankruptcies, nor does it clearly define honest entrepreneurs.

The way forward for Dimension 2

- **Develop insolvency prevention policy measures, including a fully-fledged early warning system,** as SMEs tend to underestimate the importance of maintaining a sound financial status and avoiding riskier decisions. If no appropriate corrective actions are taken on time, this may initially lead to financial distress and later to insolvency, particularly in the aftermath of the COVID-19 pandemic. The EU Directive 1023/2019 (European Parliament and the Council of the European Union, 2019[54]) introduces debtors' access to information on early warning tools (Box 15.4). As discussed above, the ATK currently identifies firms in financial difficulty based on their annual financial statements, which could be too late to raise a signal and might fail to prevent bankruptcy. This could be enhanced by introducing special procedures to screen and monitor early signs to detect SMEs in financial difficulty and identify advisory services to assist with recovery.

Box 15.4. Early warning systems in the European Union

Early warning tools may include different instruments: alert mechanisms when the debtor has not made certain types of payments; advisory services provided by public or private organisations; and incentives under national law for third parties with relevant information about the debtor, such as accountants, tax and social security authorities, to flag to the debtor a negative development.

In the European Union, there are two competing models for early warning systems:

1. **Self-assessment tool:** Creating tools for SMEs and entrepreneurs to anonymously assess their economic situation. The self-test tool can be a simple software application on a public website. SMEs and entrepreneurs have only to enter basic financial data about their business. The application will produce a preliminary diagnostic with recommendations for remediation actions, like searching for a specific business advisory or mentoring support service. The application conducts a financial ratios diagnostic analysis. The quality of the diagnostic analysis depends on the quantity and quality of the data intake by the entrepreneur.

   This model is useful as a quick financial health check and should be complemented with a business advisory support service by a public institution or access to a commercial or professional association.

2. **Intervention mechanism:** This includes a series of steps to remedy the distress situation under external supervision. The mechanism is based on an early warning signal triggered for the SME, identification of problematic areas causing financial distress and reporting to company management with recommendations to take remedial measures. The process to remedy the identified issues then follows through a series of interventions by different actors, aiming to avoid company insolvency. The process can include:
   - A company bookkeeper or external auditor spots an observation that may lead to financial distress. The early warning mechanism can be built on an obligation of the bookkeeper or auditor to inform the company's management of the issue.
   - If management does not take action to remedy the situation, there may be subsequent communications with the board or even at the shareholders' meeting.
   - If there is no adequate reaction of the enterprise organs, the mechanism can prompt the intervention of outside bodies, such as special mediation or even trigger a special preventive measure court procedure.
   - Finally, if there is no intervention, the system may provide for creditors' actions related to the use of alternative dispute resolution.

Public creditors can play a significant role in an early warning system as they can identify a delay in tax and social security payments – a warning that enterprises are experiencing financial difficulties. Information on late payments should be carefully used together with diagnostic analysis, as companies tend to pay only public debt to avoid early warning detection mechanisms.

Source: IMF (2021[55]).

- **Streamline liquidation processes by introducing digital tools.** The effectiveness of a bankruptcy proceeding directly relates to court case duration, which could be reduced with digitalisation. Digitalising the liquidation process would enhance transparency, save time and the costs of currently lengthy liquidations, anticipate potential conflicts between the creditors' committee, and protect creditors' rights as claims are recovered from the best market price reached

at a competitive bidding procedure. Moreover, information about insolvency procedures should be publicly available and contain information such as rules on data protection and privacy. This could be achieved by introducing e-auctions and automatic e-distribution mechanisms, such as in the North Macedonia example (Box 15.5).

Box 15.5. The digitalisation of bankruptcy liquidation procedures in North Macedonia

The 2015 amendment of the Insolvency Act in North Macedonia introduced the option of e-auction sales of assets from bankruptcy estates. Following seven years of implementation of e-auction sales, evidence shows that the amount of time taken by bankruptcy liquidation procedures has decreased, and creditors' claims recovered at the best market rates.[1] The main sale principles are defined in Articles 98-100 and Articles 189-196 as follows:

- The sale of the assets from the bankruptcy is done through e-auctions with public bidding.
- Parties interested in participating in e-auctions are required to pay a 10% bond/deposit of the book value of the asset. They then receive a Participant ID with which to bid. The ID is anonymous.
- The e-auction starts at a previously announced time and finishes in 30 minutes. All participants are automatically and electronically informed of the results of the auction.
- Two additional e-auction rounds can take place for any unsold assets. The process must be completed within 90 days of the decision on the sale of assets from the bankruptcy estate.
- The parties in the e-auctions have the right of appeal, which is resolved by a bankruptcy judge within three days of filing the appeal in court and is final.
- The shares of publicly traded companies from the estate are sold on the stock exchange.
- The initial price of an asset for bidding is not announced, and the auction starts from zero price.
- A proposal for the partial distribution of proceeds from the sale of assets may be submitted within eight days, upon completion of the e-sale, to the Board of Creditors to approve the costs of the procedure and distribution to creditors.
- There is an option for appeal on advance partial e-auctions and on final distribution to a bankruptcy judge, which is resolved by the judge within three days of filing the appeal in court and is final.

1. The time to resolve insolvency decreased from 1.8 years in 2016 to 1.5 years in 2020. The recovery rate increased from 44.6 cents on the dollar in 2016 to 48 cents on the dollar in 2020.
Source: Ministry of Economy of North Macedonia (2022[56]).

- **Promote second chance to honest entrepreneurs**. Kosovo should promote second chance as an option for honest entrepreneurs to have a fresh start and reduce the cultural stigma related to business failure. The legal framework should provide automatic debt discharge to honest entrepreneurs. The policy should be widely promoted through public awareness campaigns promoting a fresh start following bankruptcy.

Institutional and regulatory framework for SME policy making (Dimension 3)

Introduction

A strong institutional and regulatory framework is the basis for SME policy making. SMEs are often disproportionately affected by regulatory changes and pay a higher price for legislative compliance, given their limited resources compared to larger companies. Policy makers should therefore consider the unique needs of SMEs when designing policies that impact the private sector, especially given the importance of SMEs for the economy in terms of employment, value added and business demographics.

For an economy like Kosovo, where SMEs make up the vast majority of total enterprises (99.8% in 2020) and total employment (80.4% in 2020, significantly above the EU average of 65.2%), designing economic policies around the "think small first" principle is of primary importance. SMEs in Kosovo were hit hard by the COVID-19 pandemic, particularly in the wholesale and retail trade, transportation and storage and accommodation and food services sectors (European Commission, 2021[57]).

Kosovo's performance in this dimension has slightly deteriorated since the previous assessment (when it was 3.92) (Table 15.10), chiefly due to challenges in monitoring and evaluation of the SME policy framework, as well as due to the persistence of issues related to quality control of regulatory impact analysis (RIA) and public-private consultations (PPCs).

Table 15.10. Kosovo's scores for Dimension 3: Institutional and regulatory framework for SME policy making

Dimension	Sub-dimension	Thematic block	Kosovo	WBT average
Dimension 3: Institutional and regulatory framework for SME policy making	Sub-dimension 3.1: Institutional framework	Planning and design	3.80	4.28
		Implementation	3.60	3.96
		Monitoring and evaluation	2.80	3.81
		Weighted average	**3.50**	**4.03**
	Sub-dimension 3.2: Legislative simplification and regulatory impact analysis (RIA)	Planning and design	3.80	3.84
		Implementation	3.60	3.47
		Monitoring and evaluation	2.80	2.95
		Weighted average	**3.60**	**3.48**
	Sub-dimension 3.3: Public-private consultations (PPCs)	Frequency and transparency of PPCs	4.30	4.00
		Private sector involvement in PPCs	4.20	3.92
		Monitoring and evaluation	3.70	3.10
		Weighted average	**4.14**	**3.79**
Kosovo's overall score for Dimension 3			**3.69**	**3.79**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Kosovo is in the process of reworking its SME policy framework by updating the Private Sector Development Strategy (2018-2022), whose implementation has been halted for the time being. There is substantial room to improve the monitoring and evaluation mechanisms of SME policies, and the rework should address this issue. Although the reorganisation of the National Council for Economic Development into the National Economic and Investment Council (NEIC) has given it increased political legitimacy and technical capacity for engaging the business community, this momentum has been lost, especially since 2021. There is still scope to improve the consistency and effectiveness of the quality control of both RIA and PPCs (Table 15.11).

Table 15.11. Kosovo's implementation of the SME Policy Index's 2019 recommendations for Dimension 3

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Improve the monitoring of the Private Sector Development Strategy and start evaluating its effectiveness on the ground	Action is being taken to improve monitoring and evaluation mechanisms for the Private Sector Development Strategy (2018-2022) as part of its rework. However, this comes rather late, as the strategy's timeline is nearing its end and will likely only apply to the next iteration of the strategy.	Moderate
Ensure full implementation of regulatory impact analysis (RIA) while giving consideration to SME aspects	Actions have been taken to train policy makers to make better use of RIA, in particular in quantifying the costs and benefits of reducing administrative barriers for businesses. However, SME aspects are not yet fully considered in RIA, and there remains scope to improve the quality control of RIA in terms of its effectiveness.	Moderate
Ensure effective SME participation in public-private consultations	The National Council for Economic Development was reorganised into the National Economic and Investment Council, giving it broader institutional representation and stronger political leadership. The council has also been equipped with a technical secretariat and was active in engaging the business community in responding to the effects of the COVID-19 pandemic. However, there is room to improve the quality of PPCs for legislation and policies.	Moderate

The framework for SME policies is being updated, but monitoring and evaluation continues to be insufficient

The Government of Kosovo is currently updating its Private Sector Development Strategy (2018-2022), which is the main sectoral document for SME policies. While it remains unclear to what degree the strategy has been implemented so far, as part of the upcoming rework, the government aims to strengthen the strategy's monitoring and evaluation mechanisms, allowing progress to be better measured in the future.

Kosovo's National Development Strategy (2016-2021) also includes objectives related to the development of SMEs. Namely, the strategy's third pillar, related to the development of competitive industries, has measures to improve SMEs' access to finance, support for SME clustering and support SMEs in exercising higher value-added activities. Implementation was advancing well as of 2018, but no monitoring has been conducted since (Office of the Prime Minister, 2018[58]).

KIESA is the main implementation body for SME policies, as well as for investment promotion and special economic zones. Given its large spectrum of responsibilities, its current staffing and financial resources may be insufficient. While a structural reorganisation is planned that would allow the agency to refocus its strategic objectives, the reorganisation has not yet been enacted (European Commission, 2021[27]).

Informality remains a significant challenge, and the implementation of measures to reduce it has suffered delays

Informality, estimated at around 30% of GDP, represents a key challenge for Kosovo (European Commission, 2021[27]). The government has been implementing the Strategy of Combating Informal Economy, Prevention of Money Laundering and Terrorist Financing (2019-2023), focusing on raising voluntary compliance incentives for businesses and improving the administration's inspection capacities. Some progress has been achieved, namely in strengthening institutional capacity for implementing and co-ordinating policies to reduce informality. However, the implementation of the Strategy was delayed due to the COVID-19 pandemic, and only 52% of planned activities were implemented in 2019 and 2020 (Government of Kosovo, 2021[59]).

Efforts to improve regulatory policy and reduce administrative burdens on businesses have continued

Kosovo continued implementing its framework for regulatory reform through the Better Regulation Strategy 2.0 (2017-2021), whose main goals centre around increasing the capacity of the public administration to develop policies based on evidence and impact assessment practices. As part of the Better Regulation Strategy 2.0 (2017-2021), since 2018, the government has developed guidelines for RIA, which is conducted in the form of concept documents, aiming to better define the necessary procedures for measuring the impact of strategies and legislation on the society and the economy. While these guidelines also include instructions on how to conduct the SME Test, it has not yet been established in practice.[22] To improve administrative capacity for conducting effective impact assessments, the government has been putting a focus on providing training on calculating costs and using RIA to improve the quality of policy proposals (Office of the Prime Minister, 2020[60]).

As part of the Better Regulation Strategy 2.0 (2017-2021), in 2020, Kosovo adopted the Administrative Burden Reduction Programme (2020-2027) – an inter-institutional initiative which aims to reduce the administrative burden on citizens, businesses and the broader society by 30% by 2027. As part of this programme, Kosovo launched a baseline assessment of all administrative burdens on businesses, identifying 11 laws, 26 bylaws and 2 ministerial decisions that should be amended or repealed to improve the business environment for SMEs (European Commission, 2021[27]). A large part of the aforementioned trainings on better use of RIA focus on the capacity to calculate costs for measuring the impact of these measures in reducing the administrative burden on businesses. However, these have yet to yield tangible results.

While they are generally conducted for draft laws, RIAs are not conducted for secondary legislation or for strategies, leaving an important part of policy development without an impact assessment (OECD, 2021[61]). As regards concrete production of RIAs, ministries primarily struggle with identifying alternative options for policies, as well as with quantifying costs and benefits, despite the capacity-building efforts made.

When it comes to monitoring and evaluation, the Government Support Secretariat monitors the use of RIA through internal reports, which it submits to the Government's General Secretariat. These reports measure the overall effective use of RIA and adherence to the regulatory requirements for conducting RIA in policy making. While this is a solid base for monitoring and evaluation of the use of RIA, it is limited to observing respect of the formal requirements, whereas measuring the quality of the RIA process and evaluation of progress in overall quality are rarely conducted.

The government has taken action to enhance its capacity for engaging the business community, but there is room to improve quality control of PPCs

In 2020, the National Council for Economic Development of Kosovo was reorganised into the National Economic and Investment Council, enlarging its institutional representation and political importance.[23] Along with this restructuring, a permanent technical secretariat was established, with support from international partners, increasing its analytical and engagement capacities. Following this reorganisation, the council held several roundtables and consultations with representatives of the private sector and business associations to inform policy making, notably regarding the design of COVID-19 response measures. However, the council has been less active since, as no meetings were held in 2021.

Outside of the council's scope, the framework for conducting PPCs in Kosovo requires all business-related legislation to undergo consultations. The Office for Good Governance within the Office of the Prime Minister monitors and reports on the conduct of PPCs by the various institutions in Kosovo. The latest annual report revealed that in 2020, nearly 36% of documents (or 66 out of 184) submitted for public consultation did not meet the minimum quality standards, with room for improvement in ensuring quality control for PPCs (Office for Good Governance, 2021[62]; OECD, 2021[61]).

Kosovo's online portal for PPCs (https://konsultimet.rks-gov.net), managed by the Office for Good Governance, is regularly used by line ministries to centralise access to PPCs: in 2020, more than 98% of all primary policy documents and draft laws were published for consultation on the portal (European Commission, 2021[27]). Moreover, data on the PPCs held by various institutions are collected and accessible via the portal.

The way forward for Dimension 3

- **Ensure coherence in the development of SME policies and ensure they are monitored and evaluated.** Special care should be given to avoid overlap in activities and objectives between the new National Development Strategy and the upcoming Private Sector Development Strategy. Policy objectives in both documents should be hierarchical and complementary and set well-defined responsibilities as well as indicators that allow progress to be measured.
- **Strengthen quality control and improve monitoring and evaluation of regulatory impact analysis.** Quality control functions for RIAs could be further centralised and better defined to ensure consistent and effective control of these documents prepared by line ministries. Implementing the SME Test as a separate procedure could arm the government with a strong tool to measure the SME-specific impacts of policies and increase room for the engagement of SMEs in the policy-making process. The reports prepared by the Government Support Secretariat could be more analytical to encompass an evaluation of the quality of the RIA process, identify the main areas in which line ministries are struggling and prioritise capacity-building efforts. Montenegro can provide an example of good practice in this regard (Box 15.6).

Box 15.6. Montenegro's reports on the quality application of RIA

Conducting regular aggregate reporting on the RIA process with a focus on qualitative indicators is key to measuring progress in building institutions' capacities for conducting useful and evidence-based analysis.

Making full use of its quality control function, the Ministry of Finance and Social Welfare of Montenegro publishes regular reports on the state of the RIA process in Montenegro and the evolution of its quality.

As in some other WBT economies, including Kosovo, these reports contain a statistical aggregation of all RIAs conducted as a share of all primary and secondary legislation adopted and the degree to which they meet the requirements for conducting RIA by line ministries. However, what makes Montenegro's reports stand out is that the RIAs conducted are then divided into categories, showing what share of RIAs conducted was satisfactory in terms of quality in the areas of problem definition, goal definition, options definition, impact assessment, fiscal impact assessment, consultation with stakeholders and monitoring and evaluation. This kind of analysis allows the Ministry of Finance to measure the progress made compared to previous years in these different areas.

In the latest report, the ministry identified that 68% of RIA conducted in 2020 was noted as "done with quality" versus 61% in 2019, showing a slight improvement in overall quality. More specifically, the areas with the greatest room for improvement were options definition, impact assessment, fiscal impact assessment, consultations with stakeholders and monitoring and evaluation. This allows the government to focus its efforts on building capacity for conducting useful and effective RIA on these areas.

For Kosovo, supplementing the existing aggregate reports conducted by the Government Support Secretariat with indicators measuring the progress in quality in RIA across different areas would significantly improve the government's ability to identify and prioritise capacity-building efforts.

Source: Montenegrin Ministry of Finance, (2021[63]).

- **Further improve monitoring and evaluation of public-private consultations.** The Office for Good Governance's reports on PPCs are a strong starting point for comprehensive monitoring and evaluation of the use of PPCs in Kosovo's institutions. Expanding the range of indicators in these reports to include monitoring of the types of stakeholders engaged would allow the government to better measure the engagement of the business community, and more specifically of SMEs. Albania's recently introduced six-month aggregate reports on PPCs can serve as an example of good practice (Box 15.7).

Box 15.7. Albania's reporting on public-private consultations

As part of its new regulatory framework for conducting PPCs, introduced in January 2021, Albania strengthened the guidelines for monitoring and evaluation of PPCs conducted by all line ministries, as well as of the overall PPC process, monitored and evaluated by the Council of Ministers.

Starting in 2021, every six months, line ministries publish reports summarising the PPCs that they have held. The reports are available on the online PPC portal (https://konsultimipublik.gov.al) and contain an exhaustive summary of all the PPCs conducted by the relevant institution.

The Council of Ministers prepares another report, summarising the content of the line ministries' reports and analysing the adherence of consultations to quality standards (based on the respect of the requirement to conduct PPCs, the duration of PPCs and accessibility to the public). Indicators measuring public participation and the share of comments accepted or rejected allow the government to assess overall stakeholder engagement in PPCs conducted by the government across various line ministries. The report also provides recommendations to improve the PPC process.

Kosovo could take inspiration from this system, as it would allow the government to supplement its current reporting system with strong indicators, allowing it to measure the engagement of different categories of stakeholders.

Source: Reports available on Albania's online portal for PPCs: https://konsultimipublik.gov.al; Council of Ministers of Albania, (2021[64]).

- **Further enhance public-private dialogue by utilising the full potential of the National Economic and Investment Council.** While the NEIC has all of the important factors to succeed as a major platform for public-private dialogue in Kosovo, namely political legitimacy and technical capacity through its permanent secretariat, its potential has been largely underutilised and could be further improved. Montenegro's Council for Competitiveness can serve as an example of good practice from the region, as it meets regularly to discuss key topics such as combating the informal economy or stimulating innovation and is organised into several working groups, some of which play a key role in policy making.

Operational environment for SMEs (Dimension 4)

Introduction

From registering a company and obtaining a business licence to filing and paying taxes, SMEs interact with public institutions, physically or digitally, at all stages of their development. The operational environment in which SMEs must navigate is determined by the ease of using digital services, the number of procedures and the costs associated with their interactions with the government. Complex requirements imposed on businesses have adverse impacts on SMEs' ability to operate, take advantage of market opportunities efficiently and grow.

Kosovo's performance in this dimension has slightly decreased since the previous assessment (when it was 3.75), mainly due to the expiration of important policy documents and the lack of a comprehensive framework for digital service delivery, as well as the early stage of the rollout of digital government services compared to the other regional economies. No significant developments can be noted with regard to company registration and business licensing, for which Kosovo's performance remains high (Table 15.12).

Table 15.12. Kosovo's scores for Dimension 4: Operational environment for SMEs

Dimension	Sub-dimension	Thematic block	Kosovo	WBT average
Dimension 4: Operational environment for SMEs	Sub-dimension 4.1: Digital government services for SMEs	Planning and design	3.78	4.28
		Implementation	3.27	3.33
		Monitoring and evaluation	2.60	2.48
		Weighted average	**3.26**	**3.40**
	Sub-dimension 4.2: Company registration	Planning and design	4.60	4.42
		Performance	4.80	3.93
		Monitoring and evaluation	5.00	4.06
		Weighted average	**4.80**	**4.18**
	Sub-dimension 4.3: Business licensing	License procedures	3.75	3.88
		Monitoring and streamlining of license system	3.90	3.73
		Weighted average	**3.83**	**3.80**
	Sub-dimension 4.4: Tax compliance procedures for SMEs	SME tax compliance and simplification procedures	No scores	
		Monitoring and evaluation of SME-specific tax measures		
Kosovo's overall score for Dimension 4			**3.68**	**3.64**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Kosovo has made progress in increasing the availability of digital services for businesses, primarily through the establishment of an online portal whose purpose is to serve as a one-stop-shop. However, the momentum of the rollout of digital services could be further accelerated, and the quality of digital services increased through the adoption of a comprehensive framework for digital transformation. Key enablers for digital government services have been strengthened, namely through the adoption of a legal framework for electronic signatures and the gradual advancement of government data interoperability and open government data. The process of starting a business, in terms of the number of days and procedures required, remains straightforward in Kosovo. While the company registration framework is well designed, online registration is not fully operational because the electronic signature mechanism is not yet in place. Business licensing procedures are clear, centralised and overseen by the Legal Department of the Prime

Minister's Office. Kosovo is undertaking reforms to review and simplify the current procedures to reduce administrative burdens on businesses. Self-employed workers face a low tax burden, and incorporated SMEs can benefit from corporate income tax (CIT) incentives. SMEs are subject to a presumptive tax regime that takes horizontal equity concerns into account. Tax administration simplification measures and the development of digital services have considerably decreased tax compliance costs for SMEs (Table 15.13).

Table 15.13. Kosovo's implementation of the SME Policy Index's 2019 recommendations for Dimension 4

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Establish a digital authentication system or e-signature to widen the range of e-services	In December 2021, Kosovo adopted the Law on Electronic Identification and Trust Services in Electronic Transactions. With this, the legal framework for the use of electronic signatures is partially in place, but secondary legislation still needs to be adopted, and implementation and promotion of e-signature use are yet to follow.	Moderate
Continue efforts to improve open government data based on the result of the Open Data Readiness Assessment that is currently in progress	The number of datasets on the open data portal is gradually increasing. However, there have not been any monumental shifts in terms of open data culture in the public administration, nor have there been any initiatives to promote the reuse of open data by SMEs.	Limited
Streamline business licences and permits by integrating the authority to issue them	The Legal Department of the Prime Minister's Office is in the process of regrouping and streamlining all licences and permits on the e-Kosova government digital services portal. However, there is no plan to extend the Kosovo Business Registration Agency's mandate to centralise the licensing application processes within one-stop shops.	Moderate

A comprehensive policy framework to ensure the co-ordination of digital government reforms and accelerate the rollout of digital services is lacking

Kosovo lacks an overall policy framework for ensuring the delivery of digital government services. The Public Administration Modernisation Strategy (2015-2020) has expired, and although its validity has been extended with a new action plan until 2022, it does not focus on developing digital government services. The COVID-19 pandemic affected the implementation of the strategy, but it also revealed the potential benefits of digitalisation of the public administration (Ministry of Internal Affairs, 2021[65]). While the government recognises the importance of digital government and has shown political direction for advancing it through its programme, which includes objectives such as the development of digital services and interoperability, a more concrete road map or action plan has not yet been adopted (Open Data Kosovo, 2021[66]).

The Agency for Information Society within the Ministry of the Interior is responsible for co-ordinating the delivery of digital government services and related initiatives, such as efforts to simplify administrative procedures. However, due to the lack of a comprehensive policy framework[24] giving it the necessary authority and legitimacy, its capacity to effectively steer Kosovo's digital transformation and ensure inter-institutional co-ordination for the delivery of digital services is limited. There are no standards for service quality and delivery, which negatively impacts the delivery of services across various institutions (OECD, 2021[61]).

Data are collected on the use of digital services available on the e-Kosova platform but are limited to basic data on the number of users and the use of a given service. There is, therefore, room for improving the measurement of the types of users (citizens vs businesses and, more specifically, SMEs vs larger companies) and their experience with using digital services.

The rollout of digital government services is at an early stage and translates into a low level of business satisfaction

One of the main achievements of the Public Administration Modernisation Strategy (2015-2020) was the launch of the e-Kosova online portal for digital services (https://ekosova.rks-gov.net) in early 2021. The portal aims to serve as a one-stop-shop for digital services for businesses and citizens, therefore saving considerable time and resources when it comes to administrative procedures. However, the portal is still in the early stages of its development towards reaching this goal, as it currently provides only 36 digital services, the majority of which are oriented toward citizens, not businesses. Moreover, many services remain purely informational or are still only provided through the websites of their respective institutions and are not yet accessible through e-Kosova. Tax-related services are available through the website of the Tax Administration and are generally well developed. Based on research conducted by the Agency for Information Society, 168 out of 603 services offered by public institutions can be completed fully on line. An e-payment system for digital services is under development but has not yet been released, limiting the extent to which procedures can be conducted digitally end-to-end (OECD, 2021[61]).[25]

The lack of standards for service delivery across institutions and the low level of availability of digital government services compared to Kosovo's regional peers has led to a declining level of business satisfaction. According to the most recent Balkan Business Barometer survey, the share of surveyed businesses satisfied with the available digital government services dropped from 59% in 2019 to 34% in 2021, which is lower than the regional average (39% in 2021)[26] (Regional Cooperation Council, 2021[67]).

Key enablers for digital services, such as data interoperability, e-signature and open data, have been strengthened

The interoperability of government data has advanced with the further development of the Government Gateway platform for data exchange. In 2021, the platform had 28 interoperable information systems, compared to 12 in 2019. However, no quality assurance is performed, as each institution is responsible for managing its own respective systems, leading to gaps in the quality and completeness of registers (OECD, 2021[61]). Currently, the Kosovo Business Registration Agency, Civil Registration Agency, Tax Administration of Kosovo, Customs and Kosovo Cadastral Agency, among others, are connected to the Government Gateway, whose further development should allow for the progressive implementation of the once-only principle[27] (Open Data Kosovo, 2021[66]).

In December 2021, Kosovo adopted the Law on Electronic Identification and Trust Services in Electronic Transactions, harmonising the legal framework for e-signature with the eIDAS Regulation.[28] Now that the primary legislation is in place, efforts should be made to adopt the outstanding secondary legislation and ensure its implementation, as well as to promote the use of e-signatures among businesses. Full implementation of electronic signature and its adoption by businesses should allow the rollout of digital services accessible through the e-Kosova portal to be accelerated, particularly those requiring a high level of security.

Kosovo has an open data portal (https://opendata.rks-gov.net), managed by the Agency for Information Society, which contains 205 datasets as of 2022 (compared to 195 in 2019). The number of datasets has not increased since mid-2020, showing a slowdown in the publishing of open data on the portal. Datasets provided through the portal are machine-readable, and each institution has someone in charge of ensuring the publication of open data. However, as mentioned earlier, the lack of quality assurance of government data is hindering the overall quality of the data available, and guidelines to ensure the reusability of datasets are not in place (Open Data Kosovo, 2021[66]). So far, the government has not organised any initiatives to promote and stimulate the reuse of available open data by SMEs for the purpose of developing innovative products and services.

The company registration process remains well designed with no substantial changes since the last assessment

Company registration is undertaken at a single-window through one of the Kosovo Business Registration Agency's (KBRA) 29 municipal one-stop-shops, according to the "silent-is-consent" principle.[29] When registering at the KBRA, entrepreneurs receive a Unified ID number, which is a business registration, fiscal and value-added tax (VAT) number. While entrepreneurs have had the option to electronically register their companies since 2017 (https://rbk.rks-gov.net), they still need to submit a hard copy of the signed documents, as the e-signature mechanism is not yet in place. Efficient implementation of the Law on Electronic Identification and Trust Services in Electronic Transactions, expected in 2023, should make online registration fully operational. The process of starting a business remains very easy in Kosovo, with 4.5 days and 3 procedures required overall. The cost of starting a business is also low, at 1.4% of income per capita (World Bank, 2020[68]).

Monitoring and evaluation mechanisms are in place for company registration in Kosovo. The KBRA produces quarterly reports, which analyse the average duration to register different types of businesses and the number of businesses registered in terms of geographic location, gender and foreign/local ownership. The KBRA also monitors satisfaction with online registration procedures, and based on these results, a number of administrative instructions (foreseen by the Law on Business Organisations) are adopted to ease registration processes in Kosovo.

Licensing information is clear and centralised, and processes are being streamlined

Based on the Law on Permit and Licence System (2013), Kosovo offers information on the licensing process on a centralised e-licence portal (https://lejelicenca.rks-gov.net) with guidelines that specify the fees to be paid and the necessary procedures to follow. Licences are granted by different public institutions, which are responsible for issuing licences according to their competences, and each regulates its own procedures. The dedicated inter-institutional body, the Central Registry of Permits and Licences, ensures the oversight and co-ordination of licensing processes between competent institutions and the Legal Department of the Prime Minister's Office, which supervises its work. The Kosovar Institute for Public Administration regularly trains the staff in charge of issuing licences. Moreover, the Law on Inspections, approved in December 2021, will establish a dedicated office to monitor the inspection of the licencing process and evaluate officials' compliance with their mandates.

The number of procedures, requirements, paperwork and cost for obtaining business licences are considered a moderate obstacle for the majority (62%) of businesses in Kosovo (Regional Cooperation Council, 2021[67]). According to the latest available data, 13 days were required to obtain an import licence, 19 for an operating licence and 54 for a construction permit, the first being slightly higher than the WBT average (11, 24 and 72 days, respectively) (World Bank, 2019[69]).

Kosovo has undertaken positive developments to review and simplify its current licensing processes, in line with the Concept Document on Reducing Administrative Burden, approved in 2020. The document specifies the concrete activities and measures that need to be developed to reduce the administrative burden for businesses by 30% over an eight-year period through the lens of unnecessary licences and permits that could be abolished. As of 2021, five ministries have identified laws that need to be changed to eliminate unnecessary licences and permits, altogether touching upon 82 such requirements. The first few ministries have drafted the necessary legal amendments (OECD, 2021[61]).

Moreover, the Legal Department of the Prime Minister's Office is currently in the process of regrouping all licences and permits on the e-Kosova portal with other digital services (https://ekosova.rks-gov.net/Services). This should increase the availability and accessibility of relevant information for businesses, the majority of which (56%) consider it to be a moderate obstacle in obtaining a licence (Regional Cooperation Council, 2021[67]).

Kosovo introduced a set of tax measures to mitigate the impact of the COVID-19 crisis and support the economic recovery

The measures introduced to mitigate the impact of the COVID-19 crisis and support the economic recovery were available to all businesses, including SMEs. The filing and payment of the personal income tax (PIT), CIT, social security contributions (SSCs) and VAT were deferred, and no interest was charged on the deferred tax liabilities (Assembly of the Republic of Kosovo, 2020[70]). Moreover, Kosovo subsidised part of the wage bill to support businesses during the pandemic for a duration of two months. These tax measures aimed at supporting business cash flow; they were targeted at all businesses, including SMEs. In addition, Kosovo introduced a VAT exemption for some services related to agriculture and raw materials used by Kosovan businesses and a reduced rate of 8% applied to suppliers from hotels, restaurants and food services (Assembly of the Republic of Kosovo, 2020[70]).

Self-employed workers face a low tax burden, and incorporated SMEs can benefit from CIT incentives

Self-employed workers face a low tax burden because of low PIT and SSC rates. In 2021, self-employed entrepreneurs with an annual turnover exceeding EUR 50 000 were subject to a progressive PIT rate schedule with a rate ranging from 0% to 10%. The top PIT rate starts being levied on income slightly below the average wage (OECD, 2021[6]). In addition, self-employed workers pay a 10% SSC rate levied on their gross income and self-employed SSCs cannot be less than 30% of the average wage. Self-employed workers can complement their pension with voluntary private savings to the Kosovo Pension Savings Trust up to a maximum of 20% of their gross income (IBFD, 2021[71]). No special rules apply to gig workers. They are taxed under the same rules that apply to employees, i.e. the progressive PIT rate schedule applies, and employer and employee SSCs are levied at a rate of 5% on gross income. CIT incentives are available to SMEs and large businesses. The standard CIT rate in 2021 was 10%. Businesses in specific sectors can deduct from their CIT base 10% of the cost of their newly acquired asset on top of the regular tax depreciation allowances (IBFD, 2021[72]).

SMEs are subject to a presumptive tax regime that takes horizontal equity concerns into account

Self-employed workers with an annual turnover of less than EUR 50 000 and corporations with an annual turnover of less than EUR 30 000 are subject to a presumptive tax regime. The regime is automatically assigned to SMEs that qualify, but businesses can voluntarily register for the standard PIT and CIT regimes. SMEs that operate in trade, transport, agricultural and commercial activities pay a turnover tax at a rate of 3%. SMEs that operate in services and professional activities, which are sectors that, on average, have a higher profit margin, pay a turnover tax at a rate of 9% (Assembly of Republic of Kosovo, 2015[73]). As a result, the presumptive tax regime takes, to some extent, the average level of profitability across business sectors into account. PIT and CIT liabilities cannot be less than EUR 37.5 per quarter, regardless of the business sector. In addition, SSCs for self-employed entrepreneurs under the presumptive tax regime cannot be less than one-third of the turnover tax liability, and they cannot exceed three times the turnover tax liability

The tax system creates incentives and disincentives for SMEs to incorporate

Low taxes on capital income create a tax-induced incentive to incorporate for all businesses. In Kosovo, there is no withholding tax on dividends and no dividend tax levied at the personal shareholder level, which significantly reduces the tax burden for owner-managers of closely held corporations compared to self-employed workers who are subject to the PIT and SSCs.

On the other hand, young and innovative SMEs are incentivised not to incorporate to benefit from a longer period to carry forward losses. In Kosovo, while unincorporated businesses can carry forward losses for up to six years, corporations can only carry forward losses for four years. As young and innovative SMEs might have low profits and high investments, they may prefer to remain unincorporated rather than incorporating to be able to carry forward losses for a longer period of time. Kosovo could consider whether to align the carry-forward period across taxes.

There are no VAT simplification measures targeted at SMEs, but new rules are being considered to enhance the VAT refund system

Businesses with an annual turnover exceeding EUR 30 000 must register for VAT, and voluntary registration is allowed for businesses with a lower turnover. In 2021, the standard VAT rate was 18%, and there was a reduced VAT rate of 8%. There are VAT simplification schemes for business sectors; these schemes are not specifically targeted at SMEs (Assembly of the Republic of Kosovo, 2015[74]). Kosovo is considering lowering the minimum amount of VAT credit for businesses to obtain a VAT refund. A business would be eligible for a VAT refund if the refund exceeds EUR 1 000 rather than the previous threshold of EUR 3 000. This reform is welcomed, as it strengthens the functioning of the VAT system and reduces the instances when VAT becomes a cost for businesses, which is the case when firms cannot receive a refund when the VAT paid on their inputs exceeds the VAT collected on their sales.

Tax administration simplification measures and the development of digital services have considerably decreased tax compliance costs for SMEs

SMEs subject to the presumptive tax regime benefit from simplified tax administration procedures, which significantly decreases their tax compliance costs. Self-employed entrepreneurs or corporations subject to the presumptive tax regime benefit from simplified bookkeeping rules, and unincorporated businesses are allowed to use cash accounting for PIT purposes if their annual turnover does not exceed EUR 50 000. Overall, Kosovo has implemented a comprehensive package of simplified tax administration procedures inspired by regular evaluations of the taxpayer service and meetings between the tax administration and business stakeholders.

Digital services are widely used and contribute to reducing tax compliance costs for SMEs. E-filing is mandatory for SSCs and the VAT, and it is also allowed for other taxes. Overall, 95% of tax returns are filed electronically. Online tax payments are possible but not mandatory. All the digital services related to taxation are available on a one-stop-shop and are free of charge, which constitutes good practice.

The way forward for Dimension 4

- **Adopt a comprehensive policy framework for digital transformation, which can ensure the horizontal co-ordination of digital service delivery**. Kosovo should develop its new Digital Agenda taking into account the importance of having an institution capable of steering the horizontal digital transformation of the government and the economy. The Agency for Information Society could take on this role but would need to be equipped with the necessary legitimacy, authority and resources to ensure inter-institutional co-ordination for the digitalisation of services and the transformation of the e-Kosova portal into an effective one-stop-shop. The National Agency for Information Society of Albania could be used as a good practice example of an institution in the region which has shown good results in this regard (OECD, 2021[75]).[30]
- **Develop a culture of user-centred service delivery and adopt standards for service design and delivery**. Special attention should be paid to ensuring the user-centric development of services, especially when they are being digitalised. Kosovo's institutions should avoid simply digitalising services without considering the underlying utility of the process for the user and the end-user experience for businesses. A set of unified standards for service quality and delivery

should help institutions measure and improve the level of their digital services. Box 15.8 provides guidance on how to develop services around the end needs of users.

Box 15.8. Keys to successful user-oriented service delivery

Successfully designing public services that are tailored to and responsive to users' needs is a process that depends on several key factors, according to the OECD's Conceptual Framework for Analysing the Design and Delivery of Services:

- Firstly, **governments must consider contextual factors**, such as the political and administrative culture of a country, the technological context (availability of and widespread use of tools such as internet and information and communication technology (ICT) or electronic signatures in businesses), socio-economic and cultural factors. Embracing a digital by default approach risks excluding users who may be unable to complete services on line and need in-person support. Therefore, governments should understand how existing service delivery channels (websites, call centres, networks of service provision) can work together to provide inclusive access to services for all. Information shared through different channels (on line, in person, telephone) should be integrated to allow users to complete services end-to-end even if they change channels in the middle of the process.
- Secondly, **public sector service design should be guided by a philosophy that is based on inclusiveness of stakeholders, agile design and iteration**. In the case of digital services for businesses, this means that businesses, including SMEs, should be consulted proactively when designing services or adapting them to digital models. User feedback can also be collected ex post through monitoring and evaluation. An agile design philosophy allows governments to iterate on services and integrate user feedback throughout the service design and delivery process, as opposed to collecting feedback as a separate process.
- Lastly, **governments should enable the delivery of services based on a user-centric approach by taking a government as a platform approach, giving civil servants the resources and tools necessary to drive this transformation**. Concretely, this refers to establishing common standards for service delivery, empowering administrations with the ability and resources to explore, test and propose new services, developing reusable technical components (such as payments or identity), and establishing appropriate guidelines for public procurement to ensure the reflection of these principles when outsourcing.

Source: OECD (2020[76]).

- **Introduce standards for open data publishing**. A set of guidelines for the publishing and licensing of datasets on the government open data portal should help ensure that datasets are reusable by businesses and other interested stakeholders, by ensuring that they are consistently formatted, organised and annotated.
- **Develop technical solutions for the use of e-signature**. Once the legal framework is fully established (with the adoption of secondary legislation), Kosovo should look to facilitate the use of e-signature by businesses, in particular for company registration and electronic payments for digital services. A frequent obstacle to increasing its use encountered by other regional economies are the requirements in terms of technical equipment (card readers and related software for electronic ID cards) and costs (for certificates offered by private providers). To remedy this, the government could look to develop a cloud-based system of e-signature accessible through mobile devices or a

federated digital identity system[31] that is based on authentication through several information systems.

- **Evaluate the tax burden on SMEs,** for instance, by using business tax returns to ensure that the design of the presumptive tax regime incentivises businesses to grow into the regular tax regime. An evaluation of the tax burden is also required to assess whether there is a tax-induced incentive for SMEs to incorporate and what drives this incentive.
- **Develop a strategy to ease tax administration procedures further for SMEs by assessing their remaining hurdles**, including for VAT, for instance, through business surveys. Kosovo could evaluate whether to introduce additional measures to facilitate VAT compliance for SMEs, such as simplified input tax credit calculation schemes or cash accounting for VAT purposes.

Support services for SMEs (Dimension 5a)

Introduction

SMEs are more prone than larger companies to suffer from a lack of managerial and technical skills, suboptimal technology, limited access to markets and information, and a lacking entrepreneurial skillset, which can hinder their growth. Business support services (BSSs) provided or supported by the government – ranging from general information and advice to training, mentoring and technical services – seek to address these challenges, thus providing a tool to boost SME productivity. While the COVID-19 pandemic had negative effects on the provision of BSSs across the globe, particularly those involving direct contact with SMEs, it also provided an opportunity to reduce the cost of participation for SMEs by moving part of the activities on line.

In a small, open economy like Kosovo, SMEs often struggle with boosting their productivity and competitiveness. While adequately designed and reliable BSSs can be challenging for SMEs to access, they are vital components in stimulating SME growth and development, therefore contributing to a productive, knowledge-based and export-oriented economy. Combining financial support for SMEs with technical assistance could prove the most effective strategy for Kosovo, where SMEs still face challenges accessing funding and non-financial support.

Kosovo has improved its score (4.06) in this dimension since the last assessment (3.64) (Table 15.14). Its current score demonstrates advancements, particularly in programme implementation under the two sub-dimensions. Due to the revision of key strategic documents, scores for planning and design were moderately revised down in this assessment cycle. Nevertheless, the economy saw overall improvements in the provision of both public and private BSSs.

Table 15.14. Kosovo's scores for Dimension 5a: Support services for SMEs

Dimension	Sub-dimension	Thematic block	Kosovo	WBT average
Dimension 5a: Support services for SMEs	Sub-dimension 5a.1: BSSs provided by the government	Planning and design	3.86	4.17
		Implementation	4.28	4.24
		Monitoring and evaluation	3.56	3.88
		Weighted average	**4.01**	**4.15**
	Sub-dimension 5a.2: Government initiatives to stimulate private BSSs	Planning and design	4.00	4.63
		Implementation	4.30	4.21
		Monitoring and evaluation	3.80	3.84
		Weighted average	**4.11**	**4.26**
Kosovo's overall score for Dimension 5a			**4.06**	**4.20**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Kosovo has advanced somewhat in implementing the last assessment cycle's recommendations (Table 15.15). The strongest progress can be observed in expanding the range of publicly provided BSSs and reinforcing KIESA's institutional capacity to improve the quality of its services. The agency's budget increased, in line with the OECD's 2019 recommendations. Limited advancements are noted, however, in the area of conducting regular training needs analysis. The last assessment of the SME landscape and SMEs' BSS demand was conducted in 2017; therefore, the results are no longer relevant, particularly in light of the changes brought by the COVID-19 pandemic. While the uptake of government-provided BSSs

increased, it was not due to a redesigning of support schemes; thus, Kosovo has not advanced on this recommendation. Nevertheless, the government is in the process of reviewing strategic documents to amplify public support for SMEs. Privately provided BSSs are mainly contracted by international financial institutions (EBRD and World Bank) or development agencies that ensure quality checks of private-sector consultants, who are not subject to government-imposed quality assurance mechanisms.

Table 15.15. Kosovo's implementation of the SME Policy Index 2019 recommendations for Dimension 5a

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Tailor business support services more closely to SMEs' needs by using the training needs analysis results	Kosovo conducted a training needs analysis in 2017 and plans to repeat the assessment for 2022-24. However, given the ever-changing SME landscape in the region, and particularly following the onset of the COVID-19 pandemic, there is a clear need for an updated training needs analysis, as it is bound to reflect the changes in SME needs in the economy.	Limited
Improve SMEs' uptake of BSSs by redesigning existing schemes	Limited progress has been made in redesigning existing schemes, though there have been efforts to revise the strategic framework for public BSS provision. The current strategic documents were being revised at the time of assessment.	Limited
Offer a wider range of free-of-charge BSSs	Kosovo boosted its range of publicly offered BSSs. KIESA included support for women-owned companies and grants and training to improve the digitalisation of operations for SMEs. Within the framework of the Digital Empowerment Initiative, SMEs are obligated to make a contribution equal to 10% of the total amount of support received.	Strong
Introduce a quality assurance mechanism for private-sector consultants and trainers	There is currently no control mechanism for private-sector consultants supported by the government. The Kosovo Business Consultants Council offers the services of accredited consultants; however, it is limited to the Market Access and Digitalisation Services for Kosovo Businesses (ACCESS) project.	Limited
Ensure that KIESA possesses the human resources necessary to increase quality BSS provision	There has been an increase in KIESA's personnel and a considerable boost in the budget since the last assessment. KIESA's staff increased to 28 in 2020, with 4 employees dedicated to SME support. The agency's budget increased from EUR 510 000 in 2016 to EUR 3.1 million in 2020 (OECD, 2021[6]).	Strong

The main strategic document guiding support services for SMEs has expired, and lack of communication among state institutions hinders SME access to services

BSS provision in Kosovo is governed by the National Development Strategy (2016-2021) (Government of Kosovo, 2016[77]), though there is no dedicated strategy prioritising support services for SMEs. BSSs are at the centre of the Private Sector Development Strategy (2018-2022), which, at the time of assessment, was being revised by the government and is due to be merged with the continuation of the upcoming National Development Strategy. As the new strategy is yet to be adopted, the National Development Strategy (2016-2021) still prevails as the governing document.

KIESA is responsible for supporting SMEs in accessing BSSs, with a special unit dedicated to SME support with an allocated staff of four.

Despite a large number of general public services[32] provided by the government, one of the main remaining challenges is a fragmented and inefficient flow of information between state institutions, which in turn presents obstacles for SMEs to access the available services. While applying for government support, state institutions require SMEs to submit excessive paperwork and information already known to the government, extending the application time and bureaucracy required.

The range and uptake of BSSs in Kosovo have increased, but outdated training needs analysis warrant intensified efforts

Despite the aforementioned challenges, the uptake of BSSs in Kosovo has increased by 67.7% since the previous assessment. This increase is largely due to the introduction of new schemes. In 2020, KIESA

introduced direct assistance to women-owned SMEs and digitalisation training,[33] supporting 29 women-owned SMEs and 28 SMEs that benefited from digitalisation training (KIESA, 2020[78]). In addition, 24 SMEs used available subsidies to purchase tangible assets, and 28 SMEs benefited from the product certification reimbursement scheme, managing to certify 11 products.

Moreover, the implementation of KIESA's annual work plan for 2019 and 2020 was relatively successful. This resulted in the implementation of a wide range of support, such as a grants scheme, support for trade fair participation, the organisation of information sessions and the introduction of economic zones and business incubators (KIESA, 2020[78]).

While the uptake of government-provided BSSs increased, this increase was due to the introduction of new programmes rather than the use of already existing support, which can be partially explained by a lack of awareness of available programmes or can be due to their ineffectiveness, thus reducing the interest of SMEs to participate. Since the last assessment cycle, there have been no programmes implemented by KIESA to raise awareness or promote government-provided BSSs. In addition, KIESA's strategic orientation focuses more on financial support for SMEs rather than technical assistance, which is provided mostly by international development co-operation partners.

The last training needs analysis was conducted in 2017, which indicated strong demand for more educational support services, especially in management, financial planning, market access and marketing. However, with the dynamic business environment in the region, as well as the onset of the COVID-19 pandemic, SMEs' needs are bound to change and evolve. Therefore, the 2017 analysis might no longer be relevant, suggesting a need for a new assessment of the SME landscape in Kosovo.

Information on private BSSs is comprehensive, but sources remain fragmented

Private BSS provision is governed by the National Development Strategy (2016-2021) as part of the key target of improving the business environment in the economy. Kosovo's efforts to support private BSSs are noteworthy. There are currently multiple online portals[34] containing information on private consultants specialising in BSS provision. Despite strong efforts to provide information on available services and consultants, sources remain fragmented, without a centralised one-stop-shop website. Currently, the information is available on several portals and varies in clarity.

The monitoring of government-provided BSSs has improved, while private BSSs are not subject to government quality assurance mechanisms

Kosovo has strong monitoring mechanisms in place for the provision of BSSs. The government has introduced a monitoring committee to evaluate the public BSS programmes. In addition, the General Auditing Body, together with the auditor from the Ministry of Trade and Industry, are responsible for an independent review of public BSS provision, on top of a monitoring committee established directly by KIESA. The evaluation results are taken into account while considering the impact and delivery of BSSs.

For privately provided BSSs, each programme undergoes an independent review of its co-financing mechanisms annually. The beneficiaries of the funds are made public and are obliged to evaluate the support provided through a satisfaction survey. Satisfaction surveys are helpful feedback collection tools; however, their ability to provide information on the programmes' impact and effectiveness is limited (Lopez Acevedo and Tan, 2011[79]).

There has been no progress in implementing a government quality assurance system for private BSSs. While the use of co-financing schemes available to SMEs is contingent on hiring accredited consultants, it only applies to a limited number of projects, such as the ACCESS project, conducted by the Austrian Development Agency. The consultants are recognised by the Kosovo Business Consultants Council (BCC), as there are no government-imposed quality control mechanisms for private-sector consultants. The BCC's website contains a list of accredited private-sector consultants available to SMEs. However,

private consultants are included in the database upon paying an annual fee, which can be prohibitive for some. Otherwise, there are no government quality assurance mechanisms for private BSS providers.

The way forward for Dimension 5a

- **Increase efforts to match supply and demand for business support services (BSSs).** In line with OECD best practices, the government should aim to match the supply of BSSs available to the needs of SMEs. To this end, BSSs should be evaluated regularly from the angle of their expertise, stage of development and experience. In order to maximise the utility of BSSs and ensure their uptake, BSSs need to be tailored to the specific characteristics of local SMEs. Subsequently, filling the supply-demand gap for BSSs would require applying the findings of a needs assessment to create better-targeted measures. Kosovo should develop regular assessments of training needs and SME demand for specific BSSs. The government plans to repeat the analysis conducted in 2017, covering 2022-24. As the SME landscape is dynamic, particularly in the post-COVID-19 recovery period, SME needs will change faster. Therefore, the government should consider developing a systematic, annual assessment of training and BSS requirements.
- **Extend the Kosovo Investment and Enterprise Support Agency's activities to further include the organisation of informational and educational trainings for SMEs.** Currently, the agency focuses on co-financing and voucher schemes. However comprehensive the schemes, SMEs have expressed the need for more educational programmes, which would help develop new sets of skills. Austria has introduced programmes that can serve as an example for Kosovo (Box 15.9).

Box 15.9. Flexibility coaching for companies in Austria

The Public Employment Service in Austria (AMS) introduced an initiative to intensify mentoring for SMEs with the goal of increasing their flexibility. The practice took place between 2005 and 2019. The project targeted all companies with 50 employees and over, but SMEs were the main beneficiaries of the initiative. The main goal of the Flexibility Coaching project was to establish flexible management practices in companies, including human resources practices and then strengthen their adaptability to upcoming challenges they may face, including job creation. The programme was divided into three phases: AMS would probe the SMEs' needs and circumstances, then the organisation would analyse the beneficiary's economic situation and identify challenges and obstacles and develop a flexibility strategy. Upon granting of the funding, the flexibility strategy was implemented, including training, coaching and mentoring.

Throughout the duration of the project, 6 714 companies were supported by different modules of the Flexibility Coaching programme, the majority of which were SMEs. Some 72% of the companies implemented the project's recommendations, which included coaching on HR organisation, working hours and qualification and training. Some 89% of the participants expressed satisfaction with the initiative's results. The project was mostly successful in creating and maintaining employment for its beneficiaries, as well as increasing their capacity and adaptability.

In the latest training needs assessment in 2017, SMEs in Kosovo expressed the need for more educational activities combined with coaching. While the analysis is yet to be repeated, it can be anticipated that this specific need of SMEs has not changed, as KIESA did not introduce many trainings or informational projects. By drawing from Austria's example, KIESA could start providing more wide-ranging training modules for SMEs, covering aspects in which SMEs need more informational and educational support.

Source: AMS Austria (2022[80]).

- **Centralise the information sources on private BSS providers and initiatives.** The fragmentation of information sources may also contribute to the lower uptake of BSSs. Lack of

co-ordination and clarity of services available causes poor communication of available resources and thus limits access. The government should create a dedicated portal through which SMEs can learn about private-sector support. It should be widely accessible and available free of charge. Similarly, private consultants advertising their services on the website should be allowed to do so for free, as imposing a fee could be cost-prohibitive for some providers.

- **Intensify efforts to introduce a government-imposed quality assurance mechanism for private BSSs.** A good first step towards ensuring high-quality private BSSs could be a collaboration with the non-profit Kosovo BCC, as it manages its in-house accreditation system for consultants, and its support is contingent on using BCC-accredited providers. This strengthened collaboration could build the foundation for KIESA to later transition into its own accreditation system established with stronger institutional capacity. The government should have a certification or accreditation system in place for private-sector consultants in order to ensure high-quality services and enhance transparency. This would translate into SME growth and development and stimulate fair competition in the private sector.

Public procurement (Dimension 5b)

Introduction

Easy access to public procurement markets for SMEs and increasing their participation can boost competition by ensuring equal treatment and open access, thus promoting inclusive growth. Policy makers should therefore take into account the unique needs of SMEs, as they are disproportionally affected by complex procedures and often discouraged by the effort needed to take part in these procedures, all for an outcome which is unsure.

In response to the COVID-19 pandemic, the Government of Kosovo declared a public health emergency and some notices were published, dealing with issues such as the use of the negotiated procedures without prior publication (direct award of contracts), evidence of the fulfilment of qualification criteria remote communication, accelerated payments, tender securities required from bidders, non-penalisation of contract performance delays and the extension of time limit for execution of the contract for contracts that were already in force (OECD, 2021[61]). COVID-19 had some impact on the public procurement market in Kosovo, including an increase in the price of various items purchased under negotiated procedures without a previous call for competition (OECD, 2021[61]).

As of June 2020, all procurement activities had to be carried out in full compliance with the Public Procurement Law (PPL). Due to the worsening of the pandemic in September 2020, the Public Procurement Regulatory Commission (PPRC) issued advice on the use of the *force majeure* provisions in case of difficulties in contract implementation (OECD, 2021[61]).

For this dimension, Kosovo obtained the average score of 3.86, which is slightly lower than the regional average (Table 15.16). The decrease in score compared to 2019 (4.09) is mainly due to limited improvements in the electronic procurement tools (that lack more sophisticated solutions).

Table 15.16. Kosovo's scores for Dimension 5b: Public procurement

Dimension	Thematic block	Kosovo	WBT average
Dimension 5b: Public procurement	Planning and design	3.94	4.16
	Implementation	4.00	4.15
	Monitoring and evaluation	3.40	3.27
Kosovo's overall score for Dimension 5b		**3.86**	**3.98**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

The PPL, in its current version from 2016, is the basic legal act regulating public procurement in Kosovo (PPRC, 2016[81]). The last change to the PPL, an amendment adopted in December 2020 and valid until 31 December 2021, introduced preferential treatment of tenders submitted by domestic bidders containing domestic products or services, which affected the principles of equal treatment and non-discrimination of economic operators. However, according to information provided by the government, this measure was not applied in practice (there was no public procurement procedure in which this preference was used). Consultations on the new draft of the PPL have begun with the Ministry of Finance and other stakeholders as part of the policy-making procedure and are part of an ongoing EU project in Kosovo on public financial reforms and the procurement sector. The aim of the new PPL is the transposition of and harmonisation with the 2014 EU Procurement Directives. The government also launched the preparation of the new Public Procurement Strategy, which will no longer be a separate strategy but rather a sectoral public financial management strategy. Although Kosovo's overall score in 2022 is lower than in 2019, there have been some improvements in public procurement, as presented below. The 2019 recommendations have been

partly implemented, in particular as regards to implementation and monitoring of rules (Table 15.17). New functionalities have been added to electronic procurement, and the scope of information collected and processed by authorities has been extended.

Table 15.17. Kosovo's implementation of the SME Policy Index's 2019 recommendations for Dimension 5b

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Further align the national legislation with EU rules and international good practice	Work on new provisions to transpose the remaining provisions of the 2014 EU Public Procurement Directives has begun, but no significant progress has been made. Provisions on domestic preferences were adopted in response to the COVID-19 pandemic, in violation of the EU fundamental principles as well as commitments to the European Union. Their application was, however, temporary and expired at the end of 2021.	Limited
Further reduce the administrative burden involved in participating in public procurements	Use of the e-procurement system has been obligatory for all contracting authorities and for all types of procurements since 2017 (when electronic bid submission was allowed or was optional for some types of procurements), while starting from 1 January 2019, submission of electronic bids was made obligatory for all types of procurements. Two new modules on e-procurement have also been introduced.	Moderate
Increase the use of non-price criteria for awarding contracts to enable public buyers to receive the best value for money	The most economically advantageous tender criterion is hardly ever applied in public procurement, even though the Public Procurement Law or implementing provisions do not have any limitations or restrictions on its use. To date, the Public Procurement Regulatory Commission (PPRC) has not strongly promoted the use of this criterion.	Limited
Improve the monitoring of the public procurement system, and place a special focus on collecting data, evaluating SMEs' participation in public procurement and analysing the obstacles faced by SMEs in accessing public procurement markets	According to information provided by Kosovar authorities, the PPRC regularly collects and analyses information on the obstacles faced by SMEs – especially if these obstacles are related to access to public procurement and to public procurement principles. In most cases, these obstacles are addressed directly by contracting authorities (in particular, if the requirements of contracting authorities limit the participation and competition of SMEs) and through the legislative framework as well. There is no specific data or information on SMEs in the e-procurement system. A wide array of information is, however, made available through the e-procurement system, for example, the share of number and value of contracts awarded to groups of economic operators. All the information collected by the PPRC is shared with the public in the form of open data and can then be used for analysis and the production of statistical reports.	Moderate

The public procurement market represents a significant part of the economy

Kosovo's public procurement market was estimated at 7.5% of GDP in 2020, compared to 10.7% in 2019 (European Commission, 2021[27]). At the end of 2020, approximately 9 576 economic operators (compared to 6 000 in 2019) and around 25 000 active users were registered in the e-procurement system (compared to 10 000 in 2019) (European Commission, 2021[27]). In 2020, 10 935 public contracts were signed, compared to 12 412 in 2019 (European Commission, 2021[27]). Due to the COVID-19 pandemic, a significant amount of public procurement activities (10.4%) were carried out via a negotiated procedure in 2020 (European Commission, 2021[27]). The total value of signed contracts in 2020 was EUR 499 million, compared to EUR 781.4 million in 2019 (OECD, 2021[61]). In 2020, contracting authorities initiated 5 900 competitive procurement procedures with a value above the national thresholds, which represented 87.3% of the total value of procurement procedures (OECD, 2021[61]). The most often used procedure was the open procedure, covering 86.94% of the total value of the contracts (OECD, 2021[61]). The average number of tenders submitted per competitive procedure in 2020 was 4.8, which was similar to previous years (OECD, 2021[61]).

The regulatory framework, although compliant with basic EU standards, needs to be further harmonised with the EU 2014 Procurement Directives

In general, the regulatory framework reflects the fundamental EU principles of transparency, equal treatment and non-discrimination but is not fully in line with the 2014 EU Procurement Directives. The most recent change to the PPL, adopted in December 2020, introduced, until 31 December 2021, preferential treatment for tenders submitted by producers of domestic products and services (Government of Kosovo, 2020[53]).[35]

Kosovo has already implemented some initiatives to support SMEs provided for in the 2014 EU Procurement Directives. Public contracts may be divided into homogenous or heterogeneous lots. Operational guidelines suggest that, to encourage SMEs to participate in public procurement, limiting the number of lots which may be applied for should be a preferred option if there are many SMEs potentially interested in a given procurement.[36] Provisions also require that selection criteria should be limited to those which ensure that the concerned economic operator, first, is not subject to exclusion from the procedure and, second, if applicable, satisfies the minimum selection criteria specified in the contract notice and the tender dossier. All selection criteria and documentary and information requirements must be both directly relevant and in proportion to the subject matter of the concerned contract. For example, economic operators' minimum annual turnover should not exceed twice the estimated contract value. Financial requirements must be expressed in figures and should refer at most to the last three financial years. In exceptional cases when a minimum turnover is required in a specific field covered by the contract, this turnover should not exceed 1.5 times the anticipated contract value. Economic operators should, as a general rule, be permitted to satisfy such a requirement by submitting, as may be relevant and appropriate, one or more of the references listed in the PPL. However, if for any valid reason the economic operator is unable to provide the references requested by the contracting authority, the operator may be allowed to demonstrate its economic and financial standing using any other document that the contracting authority deems appropriate.

The PPL also regulates subcontracting. Economic operators must indicate in their tender any part of the contract that they intend to subcontract to a third party and each proposed subcontractor. Each proposed subcontractor must meet eligibility requirements and submit evidence of meeting the eligibility requirements. The PPL does not limit the share of subcontracting allowed, but according to the operational guidelines, subcontracting cannot exceed 40% of the contract value.[37] Contracting authorities may provide direct payments to subcontractors. The PPL states that the award criteria can be either the lowest price only or the economically most advantageous tender.[38] However, in practice, contracts are predominantly awarded based on the lowest price criterion, not taking into consideration the quality award criteria. In 2020, this criterion was applied in 99.63% of contracts, by value (OECD, 2021[61]). There are various reasons for the very limited use of non-price criteria, such as a preference for sticking with well-understood, routine procedures and a lack of the practical training, examples and guidance needed to increase knowledge, understanding and confidence on the part of contracting authorities to apply quality criteria (OECD, 2021[61]).

The institutional set-up supports contracting authorities and economic operators

The PPRC (PPRC, n.d.[82]) is the central public procurement body responsible for the development, functioning and oversight of the public procurement system in Kosovo. Its competencies[39] include monitoring procurement, developing and disseminating procurement manuals, guidelines and standard templates, providing support and advice, and supervising the functioning of the procurement system. The PPRC, in co-operation with the Kosovo Institute for Public Administration (KIPA, n.d.[83]), regularly offers training for contracting authorities and economic operators.

The most significant improvement has been made in relation to e-procurement (PPRC, n.d.[84]). All procedures are published on the e-procurement platform, and tender documents can be downloaded. The

platform ensures the transparency of procurement opportunities and equal access of economic operators to public procurement. Since January 2019, bids are prepared and submitted through the e-procurement platform, which is obligatory for all contracting authorities and for all types of procurement. In January 2021, new modules on contract management and performance evaluation were introduced to the e-procurement platform. It also includes performance evaluation elements to be carried out by contracting authorities and economic operators. Its application should help to mitigate the significant weaknesses that have been identified in contract management and execution, and systematically monitor them. Also, applying previously acquired experience in contract management to future transactions is becoming more widespread among the contracting authorities, which is a major step towards increased transparency and effective management and evaluation of contracts.

The legal provisions allow economic operators to seek justice with an independent review body

The PPL's provisions on the scope of the review and remedies system, the time limits for challenging decisions, the effects of filing a complaint, and the mechanism for ensuring the effectiveness of contracts are, to a large extent, consistent with the *acquis*, although some inconsistencies remain, such as those related to alternative penalties, for example. The Procurement Review Body (PRB) is the second-instance review body for complaints concerning public procurement (in the first instance, appeals are reviewed by the contracting authorities concerned). PRB's authority to impose a fine of EUR 5 000 on a complainant if the complaint is deemed frivolous may be considered a limitation on the complainant's access to justice. Apparently, however, the PRB has not used this option in practice so far.

The way forward for Dimension 5b

- **Prepare and adopt provisions to harmonise the Public Procurement Law with the EU 2014 Procurement Directives.** Kosovo should amend and modify its public procurement provisions to make them compatible with the 2014 EU Procurement Directives. New rules should, in particular, provide the possibility of using preliminary market consultations and prior involvement of candidates or bidders and regulate innovation partnerships and competitive dialogue procedures. They should also implement other solutions that are beneficial from the perspective of economic operators, such as the possibility of using self-declarations as preliminary proof that they fulfil the selection criteria and there are no grounds for exclusion and the so-called self-cleaning (Box 15.10), as well as provisions concerning sustainable procurement.

Box 15.10. Self-cleaning of economic operators

Article 57 (6) of the 2014 EU Public Procurement Directive introduced provisions concerning "self-cleaning" measures. Accordingly, economic operators finding themselves subject to exclusion from a procurement procedure can prove they are reliable by providing evidence of measures it has taken to remedy any past criminal offences or misconduct.

In accordance with EU requirements, the economic operator concerned may provide evidence that the measures it has taken are sufficient to demonstrate its reliability despite the existence of relevant grounds for exclusion.

For example, in **Slovenia**, the economic operator should prove that it has paid or undertaken to pay compensation in respect of any damage caused by the criminal offence; it has fully clarified the facts and circumstances by actively collaborating with the investigating authorities; and it has taken concrete technical, organisational and personnel measures to prevent further criminal offences. If the contracting authority considers those self-cleaning measures to be insufficient to prove the reliability of the concerned economic operator, it should inform the economic operator why it believes those measures insufficient to not exclude the economic operator.

Kosovo's current PPL does not contain any equivalent provisions. To complete the harmonisation, provisions should be prepared and adopted to allow bidders to prove their reliability to a contracting authority despite grounds for exclusion, as presented above.

Source: Slovenian Public Procurement Directorate (2016[85]).

- **Provide materials to help contracting authorities apply the most economically advantageous tender criteria.** To increase its use, the PPRC should promote the practical application of the most economically advantageous tender criterion. Box 15.11 presents an example of how this could be done.

Box 15.11. Support to contracting authorities for applying non-price criteria

The EU Public Procurement Directive requires that contracts be awarded to the most economically advantageous tender from the point of view of the contracting authority.[1] The most economically advantageous tender can be chosen based on price or cost alone or on the basis of the price-quality ratio when non-price criteria are also taken into account. According to EU rules, preference between these two options is left to the discretion of the contracting authority. EU member states may, however, decide that contracting authorities may not use solely price (cost) or restrict it to certain categories of contracting authorities or certain types of contracts.[2] Indeed, some countries use this option by introducing, for example, the maximum weight the price factor can have among the evaluation criteria.[3] Other countries recommend a plurality of criteria to assess other elements of the offer than just the price (OEAP, 2019[86]).

Application of the price-quality criterion enables contracting authorities to obtain customised, innovative goods or services that perform better in terms of quality, with broader economic, social and environmental impacts (de Bas et al., 2019[87]). Although more expensive when simply comparing the purchase price, procurement based on price-quality criteria may be more cost-effective in the longer term, when the full life-cycle cost is considered. The use of the best price-quality criteria instead of the

lowest price is often recommended as a tool to help SMEs gain an equal footing to public contracts (de Bas et al., 2019[87]). It is assumed that while SMEs may be at a disadvantage in delivering off-the-shelf mass products, they may be able to offer higher quality products or services or better adjust to the needs of contracting authorities. However, the application of non-price criteria is not simple. Contracting authorities often have difficulty formulating proper and meaningful quality criteria, including those involving strategic public procurement (green, socially responsible and innovative) and establishing a relevant link with the subject matter of the procurement (European Commission, 2021[88]). Central procurement institutions should help contracting authorities apply price-quality criteria by training them and providing examples of good practice or models.

In the **Slovak Republic**, the Public Procurement Office (PPO) is aware that non-price criteria are rarely used by contracting authorities due to a lack of knowledge for correctly applying them and for setting this type of award criteria. The Slovak PPO (Slovak Public Procurement Office, n.d.[89]) therefore established a Responsible Public Procurement project, financed by the European Economic Area and Norway Funds. The project's main goal is to increase awareness of price-quality criteria through methodologies and training to help contracting authorities set conditions correctly and thus increase value for money.

In **Poland**, the PPO's website contains a section dedicated to disseminating good practices in the field of public procurement (Polish Public Procurement Office, n.d.[90]). Contracting authorities that are more experienced in applying quality criteria may share their experience with other procurement practitioners by participating in a contest organised by the PPO on the best examples of quality criteria. Winning submissions chosen by the PPO are published on the PPO's website with practical comments.

To increase the application of price-quality criteria, the Kosovar authorities, and in particular the PPRC, should provide more support to contracting authorities. This support should include informing them about the shortcomings and limitations of applying price as the only award criterion; presenting the advantages of quality criteria; and providing practical advice through best practice examples, standard models and evaluation formulas. Finally, the application of quality criteria should be a prominent topic of training for procurement officers.

1. Article 67 of Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement and repealing Directive 2004/18.
2. ibid, Article 67 (2).
3. For example, Croatia, Lithuania and Poland.

Access to finance for SMEs (Dimension 6)

Introduction

Access to finance remains critical for economic growth and inclusive development, allowing companies to expand their operations and invest to gain in efficiency and productivity. However, the availability and affordability of credit are typically strongly correlated with firm size, meaning that the smaller the company, the more difficult it is to access funding. Targeted policy measures are therefore required to encourage and complement the private-sector provision of financing, without crowding it out.

In Kosovo, like elsewhere, the COVID-19 further exacerbated credit constraints for SMEs, which, compared to larger companies, often do not have significant financial buffers. This required a swift short-term targeted policy response to shore up firm finances without, however, losing sight of more long-term measures to provide sustainable financing opportunities for small businesses.

Against this unprecedented background, Kosovo has made certain progress in areas critical for facilitating access to finance for SMEs, resulting in an incremental increase in the economy's overall score, from 3.33 in 2019 to 3.37 in 2022 (Table 15.18). Some progress has been made in relation to the credit guarantee scheme, which has scaled up its operations since the last assessment. Overall, however, Kosovo remains positioned in the lower half of the region in this dimension.

Table 15.18. Kosovo's scores for Dimension 6: Access to finance

Dimension	Sub-dimension	Thematic block	Kosovo	WBT average
Dimension 6: Access to finance for SMEs	Sub-dimension 6.1: Legal and regulatory framework	Creditor rights	4.00	4.27
		Registers	4.80	4.63
		Credit information bureaux	3.30	4.37
		Banking regulations	3.60	4.09
		Stock market	2.00	3.23
		Weighted average	**3.68**	**4.20**
	Sub-dimension 6.2: Bank financing	Bank lending practices and conditions	3.20	3.23
		Credit guarantee schemes	3.10	2.61
		Weighted average	**3.12**	**2.98**
	Sub-dimension 6.3: Non-bank financing	Microfinance institutions	4.00	3.37
		Leasing	3.00	3.24
		Factoring	2.00	2.71
		Weighted average	**2.98**	**3.09**
	Sub-dimension 6.4: Venture capital ecosystem	Legal framework	2.10	2.73
		Design and implementation of government activities	2.30	2.57
		Monitoring and evaluation	1.00	1.47
		Weighted average	**1.97**	**2.40**
	Sub-dimension 6.5: Financial literacy	Planning, design and implementation	3.00	2.83
		Monitoring and evaluation	1.00	1.19
		Weighted average	**2.61**	2.50
Kosovo's overall score for Dimension 6			**3.37**	**3.68**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

In Kosovo, access to finance for SMEs is embedded in a solid legal and regulatory framework, and steps have been taken to address existing shortcomings in banking supervision. Notwithstanding, limited reliability of credit information impedes lending, and the cost of credit remains high, especially for smaller

businesses. The KCGF remains a key vehicle for the authorities to support access to finance for smaller enterprises, and the fund has increased its capacity significantly since the last assessment, including from the state budget. However, it continues to be overly reliant on support from international co-operation development partners, thereby somewhat risking long-term sustainability. Alternative sources of finance remain subdued. Even though microfinance has gained momentum in recent years, shortcomings in the legal framework regulating microfinance institutions impose severe risks to the industry's long-term growth and sustainability. A draft Law on Microfinance Institutions falls short of comprehensively addressing all the bottlenecks. Factoring, despite a new legal framework, remains non-existent, as do equity-based finance opportunities. Efforts by the Central Bank of Kosovo (CBK) to raise financial literacy levels have somewhat stagnated.

Table 15.19 provides an overview of the key actions undertaken in response to the recommendations made in the previous assessment.

Table 15.19. Kosovo's implementation of the SME Policy Index's 2019 recommendations for Dimension 6

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Scaling up and reviewing the Kosovo Credit Guarantee Fund (KCGF)	The KCGF has expanded its reach and has become an important tool in the authorities' response to the crisis. Output more than doubled between 2019 and 2021, from EUR 75 million in guaranteed loans to EUR 190 million (Q3 2021), respectively, including with budget support under the Economic Recovery Programme. However, structural problems remain unaddressed.	Moderate
Introducing planned factoring and reverse factoring legislation and considering a venture capital review	Despite the adoption of the Factoring Law, this type of service is still not in demand, suggesting limited understanding and awareness of its benefits. While other non-bank financial instruments have gained momentum, significant shortcomings in the legal framework regulation on microfinance impede the development of these kinds of services. A draft Microfinance Institution Law only addresses some of these bottlenecks. No progress has been made to enable the uptake of equity-based finance options.	Moderate
Formalising financial literacy support	No progress has been made in systematising efforts to increase financial literacy amid limited resources. The recent introduction of a more formalised approach to introduce financial education into the early-year school curriculum on a voluntary basis is an important step but should be linked to a broader and more comprehensive assessment of financial understanding and include clear key performance indicators.	Limited

The legal and regulatory framework supporting access to finance has been strengthened, but further steps are needed to boost financial sector supervision

Kosovo has made some progress in further strengthening its already well-developed legal and regulatory framework in support of access to finance. Basel alignment is gradually progressing, with Basel-mandated capital adequacy and leverage ratio requirements now defined and implemented and further legislation planned for 2022. Some steps have been taken to enhance financial sector supervision, and amendments to the Banking Law, expected to be adopted in 2022, aim to further enhance the authority of the CBK, thereby addressing existing gaps in its governance and decision-making authority.

Access to reliable information to build and improve credit-rating performance remains limited. A cadastre is in place and fully digitalised; however, in practice, access is limited and restricted to authorised personnel, such as lawyers. Amid continuous undocumented construction and missing documents from the 1990s, coupled with a lack of formal dispute processes and limited enforcement capacity of collateral execution, use is restricted. In addition, where immovable assets are accepted as collateral, the value used by banks is often significantly below the actual value, thereby significantly increasing the cost of finance. While a registration system for securities rights over movable assets is also on line and publicly accessible, it requires a personal log-in to use. Legislation was adopted in early 2020 to strengthen the credit registry, which covers around 41% of the adult population but does not include data from retailers or utility providers

(World Bank, 2020[91]). Under the new guidelines, loan providers must use the system, and the CBK has introduced a clear reporting procedure aimed at improving the credit-rating process and strengthening the CBK's supervision. This is an important step which, in combination with continuous efforts to improve the reliability and scope of available data, may better support lenders in assessing the creditworthiness of clients and reduce the cost of finance.

Capital markets remain in their infancy. There is no active stock market operative in Kosovo, though a government bond market is available to commercial lenders. Notwithstanding, a first-ever "diaspora bond" issuance was made in 2021 through commercial banks in collaboration with the Ministry of Finance. Targeting the Kosovo diaspora, this issuance managed to raise EUR 10 million of the EUR 20 million initially offered, which partially financed the authorities' Economic Recovery Programme.

Financial intermediation is increasing, although from low levels

Conventional bank lending dominates Kosovo's financial sector, which has remained stable throughout the economic shock of the COVID-19 pandemic. Lending was supported by forbearance measures introduced by the CBK, and credit grew by over 7% in 2020, though somewhat slowing compared to previous years. Non-performing loans remained stable. However, overall credit penetration remains modest at around 40% of GDP (European Commission, 2021[27]), and lending remains disproportionally more expensive for smaller businesses.

In response to these ongoing challenges, a number of financial schemes have been introduced recently, including for SMEs. Under the umbrella of the World Bank-supported Competitiveness and Export Readiness Project (CERP), a co-financing grant programme was launched in 2021 to increase the export readiness of local enterprises for a total amount of EUR 10 million, awarding grants capped at EUR 100 000 to 142 firms within its first year. In addition, the government announced a new financial support scheme in the amount of EUR 3.65 million in late 2021. The schemes will be implemented by KIESA, which is currently being restructured. Kosovo is one of the few Western Balkan economies with a Credit Guarantee Fund in place pre-COVID. The KCGF, established in 2016, offers 50% guarantees for SMEs, capped at EUR 250 000. It also offers guarantees available under the EU COSME Programme, and its capacity has increased significantly amid the COVID-19 pandemic, becoming a key vehicle for the authorities to soften the economic impact of the pandemic. Between 2019 and 2021, the KCGF nearly doubled the number of guaranteed loans, cumulatively reaching over 10 000 SMEs with a guaranteed volume of EUR 220 million in 2021, although the trend has somewhat shifted towards guaranteeing working capital (KCGF, 2021[92]). Despite the increase in loans guaranteed, the full potential of the KCGF has not yet been unlocked. It continues to be heavily dependent on international development co-operation partners (the United States Agency for International Development and KfW Development Bank) that appoint four of the KCGF's seven-member board of directors. Moreover, financial institutions participating in the regular guarantee scheme continue to pay a 2% flat fee, while the fees under COSME have been reduced. In addition, for guarantees under the Economic Recovery Programme, under which the KCGF has received an additional EUR 26.4 million, fees have effectively been abolished.

Lastly, Kosovo has received four investments under the Western Balkans Enterprise Development and Innovation Facility since 2013, amounting to nearly EUR 9 million (WBEDIF, 2022[93]).

Alternative sources of finance remain below potential while the legal framework requires continuous upgrades

Non-bank finance remains marginal, accounting for around 4% of financial sector assets (CBK, 2020[94]). Microfinance has gained further momentum. Between 2018 and 2020, assets increased by more than 25%, reaching EUR 315 million, suggesting increasing sustainability of this type of finance, especially for households (CBK, 2020[94]). However, for legacy reasons, most microfinance institutions continue to be registered as NGOs, thereby severely limiting their operations and long-term growth strategy, which

imposes significant uncertainty for the industry. Even though the CBK, international development co-operation partners and the microfinance institutions sector advocate for a transfer of the legal status of microfinance institutions to become joint-stock companies, Kosovo's Constitutional Court has ruled that this step would be incompatible with the Constitution. A draft law, prepared in 2017 with support from the World Bank, falls short of addressing this issue, although it provides more clarity on the services that microfinance institutions can provide. Leasing volumes have also increased since the last assessment, although from low levels, while factoring, despite a new law developed with the support of the EBRD in 2018, remains unavailable.

No progress has been made to encourage equity-based finance. Venture capital is regulated in principle, though no meaningful venture capital activities have been registered to date, and no review has been conducted to identify the existing bottlenecks. Equally, there are no plans to develop dedicated legislation for crowdfunding, which would encourage start-up finance. Kosovo benefits from an active diaspora supporting business development, investing almost EUR 1 million between 2017 and 2018 (EBAN, 2020[95]). However, more recently, amid COVID-19, no business angel activities have been recorded. Kosovo is investing significantly in creating an ecosystem conducive to start-ups. Once the first results become tangible, the focus may shift towards developing more finance opportunities to complement existing measures.

Efforts to promote financial literacy have somewhat stagnated

Little progress is evident with regard to enhancing financial literacy levels. In 2017, the CBK adopted a five-year financial literacy programme aimed at raising awareness on the importance of personal finance and saving. The plan is comprised of training and awareness-raising, collaboration with the financial industry, and the setting up of a Money Museum at the CBK. Progress on implementation has, however, been limited amid restricted resources and diverging priorities due to COVID-19. There have also not been any activities to assess levels of financial awareness and understanding among the population, though preliminary plans exist to conduct such an analysis in 2022. In contrast, some progress has been made to introduce financial education into the curriculum. In 2020, the CBK signed a memorandum of understanding with the Ministry of Education to develop a more targeted approach. With support from the European Fund for South-East Europe, materials were prepared for primary school children, while the approach to financial literacy in secondary schools is also planned. To date, however, financial literacy has not been introduced into the curriculum as a mandatory topic.

The way forward for Dimension 6

- **Improve the reliability of the cadastre.** Upgrading the cadastre by completing historic registration, increasing accessibility and introducing an effective dispute mechanism to ensure property is accurately registered and verified independently would greatly increase the use of the cadastre by lenders and support credit applications.
- **Increase the sustainability of the Kosovo Credit Guarantee Fund.** In close co-ordination with the international development co-operation partners and the private sector, a review of the fund's governance and income model, as well as an independent evaluation of its existing performance, would help to build a more sustainable business model attractive to the private sector and reduce dependency from international partners.
- **Revamp efforts to enhance financial literacy.** As the economy emerges from the COVID-19 pandemic, efforts should be undertaken to relaunch the CBK's financial literacy programme. A comprehensive assessment of the level of financial awareness and understanding of both Kosovo's broader population and its entrepreneurs would provide an important baseline and identify priority areas for support. Steps should further include a review and impact of existing support measures.

Standards and technical regulations (Dimension 7)

Introduction

Access to the European Single Market is conditional upon compliance with EU regulations and directives, which, due to the New Approach Directives, also increasingly rely on conformity to European standards. While standards and technical regulations can enable trade by defining (minimum) criteria for products and processes, they may also represent a barrier to trade, particularly for SMEs. To lower these barriers, WBT economies need to have a national quality infrastructure (QI) system that is accessible and supportive of SMEs. At the same time, the recognition of an economy's procedures and institutions by the relevant EU QI bodies and associations requires a high level of alignment with the *acquis*.

For a small open economy like Kosovo, creating an enabling policy environment that facilitates imports and exports is key for economic development. While only 34.4% of exports are to the EU-27, which is the lowest share in the region, the European Union is still Kosovo's largest trading partner (European Commission, 2021[96]). Furthermore, as European standards are also recognised in trade with other Western Balkan economies, having legislation and QI systems in place that are aligned with the European standards is of utmost importance to Kosovo's economy.

Kosovo's overall score under Dimension 7 has slightly improved, from 3.60 in 2019 to 3.77 in the current assessment (Table 15.20). Kosovo now ranks fifth out of the seven economies assessed in the SME Policy Index. The improvements stem primarily from progress in the first sub-dimension ("Overall co-ordination and general measures") and in the third ("SME access to standardisation"). However, there has been limited progress in harmonisation with the *acquis* and in the technical implementation in the six QI pillars.

Table 15.20. Kosovo's scores for Dimension 7: Standards and technical regulation

Dimension	Sub-dimension	Thematic block	Kosovo	WBT average
Dimension 7: Standards and technical regulations	Sub-dimension 7.1: Overall co-ordination and general measures	–	**4.00**	**3.90**
	Sub-dimension 7.2: Harmonisation with the EU *acquis*	Technical regulations	4.27	4.38
		Standards	3.53	3.77
		Accreditation	2.78	3.89
		Conformity assessment	4.71	4.22
		Metrology	3.62	4.13
		Market surveillance	3.67	3.96
		Weighted average	**3.76**	**4.06**
	Sub-dimension 7.3: SME access to standardisation	Awareness-raising and information	3.80	3.88
		SME participation in developing standards	3.50	3.21
		Financial support to SMEs	3.40	3.57
		Weighted average	**3.57**	**3.55**
Kosovo's overall score for Dimension 7			**3.77**	**3.96**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Kosovo's overall progress in the area of standards and technical regulations can be regarded as satisfactory, as the economy continued to align its legislation with the *acquis* and also started to implement a new project that supports standard-related costs for SMEs that want to export.

The previous assessment's recommendation for improving capacity at the Kosovo Standardisation Agency (KSA) was only marginally addressed (Table 15.21), as the institution continues to be understaffed, with only nine employees, and the adoption rate of European Standardisation remains at around 50%. In fact, human resource constraints are present in all three major QI institutions (standardisation, accreditation and metrology). This needs to be addressed to assure further progression in QI.

There was, however, considerable improvement with respect to SMEs' access to support for standards implementation, as the CERP, funded by the World Bank, supported a total of 31 SMEs in 2018-19. While this may appear small, it is a considerable improvement, as in 2017, only one firm was supported for product certification through a voucher programme offered by the KIESA.

Table 15.21. Kosovo's implementation of the SME Policy Index's 2019 recommendations for Dimension 7

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Enhance the capacity of the Kosovo Standardization Agency (KSA)	The KSA slightly increased its staff size from seven to nine full-time equivalents, but with approx. 12 000 European and international standards adopted, the adoption rate of European standards remains low, at around 50%.	Limited
Improve support to SMEs to implement standards	Thirty-one SMEs have now benefited from the Competitiveness and Export Readiness Project (CERP) (during the previous assessment, only one firm received support for standards implementation, under another programme), and regular information is provided via a newsletter from the KSA.	Strong

Quality infrastructure is well incorporated in updated strategy documents, but there is still no central contact point for standards and regulatory information for exporters

Improving QI is a specific objective (2.8.6) in the Kosovo Government Programme (2021-2025) (Government of Kosovo, 2021[38]). While recognition of QI as a key pillar of economic development is a positive sign, the strategy does not detail specific activities that will be implemented during the four-year period. In this context, it is important to draft a QI-specific action plan that breaks down broad objectives, such as the strengthening of the metrology, accreditation and standardisation capacities. While there is a separate strategy for standardisation (Kosovo Standardization Agency, 2020[97]) with concrete actions (see Sub-dimension 7.2 for more details), there are no strategic plans for accreditation, metrology or market surveillance.

Information about technical regulations and standards for firms that are interested in certification (i.e. for exporting to the EU Single Market) is scattered and hard to access on line. While the Ministry of Industry, Entrepreneurship and Trade's (MIET) QI Division has a separate sub-section on its website, it only displays the division's duties and links to other QI bodies and business associations. While the MIET's website displays legislation, the legislation could be categorised (e.g. horizontal and vertical legislation) or organised by sector. KIESA also provides some useful information for exporters, including a step-by-step export guide, but it lacks QI-specific information on standards or accreditation procedures. Combining both the legislative information from the MIET and more practical resources from KIESA on a single website in the form of a single contact point, which may also answer any questions that firms might have, would greatly improve access to information for SMEs and other firms interested in exporting.

Harmonisation with the acquis *is slowly progressing, and membership processes of national QI institutions in international associations ongoing*

In the area of technical regulation, the transposition of the EU Product Safety Directive into national law represents one of the key pieces of legislation. The draft of this law has been fully prepared and is currently awaiting ministerial approval. Its adoption is foreseen during the third quarter of 2022. All adopted technical regulations are published on the MIET's website, and since 2019, seven new technical regulations in areas such as personal protective equipment, safety of machinery, prepacked products and gas appliances have been adopted (Ministry of Industry, Entrepreneurship and Trade, 2021[98]).

In 2019 and 2020, Kosovo also adopted two new regulations to further align its standardisation legislation with the *acquis* and with CEN-CENELEC (European Committee for Standardization/European Committee for Electrotechnical Standardization) procedures. In addition, the KSA adopted a new five-year strategy (2020-25) with six main objectives, including faster adoption of European and international standards as well as improving awareness-raising and educational activities around standards. Despite these new strategic objectives, the actual adoption of CEN-CENELEC standards remains low. KSA reports that it has so far adopted around 12 000 international and European standards. As the current portfolio of CEN-CENELEC totals 23 919 standards, this represents around 50% of European standards (not counting other international standards). As the KSA is not an affiliate member of CEN-CENELEC, there are no detailed statistics available, but having at least 80% of CEN-CENELEC standards adopted is one of the membership criteria (Coordination Body for Market Surveillance, 2021[99]), so increasing the adoption rate is important for both the KSA and for firms seeking certification for standards in Kosovo.

The General Directorate for Accreditation (DAK) has applied to sign a multilateral agreement (MLA) in the area of testing laboratories, which was rejected in 2019 by the European Co-operation for Accreditation (EA) based on deficiencies in the internal management system. As a response to the EA's assessment, DAK has revised its management system to conform to ISO/IEC 17011:2017, which is the latest standard on the requirements for accreditation bodies. Due to organisational instabilities, DAK has postponed the re-application and intends to reapply for EA-MLA status only in 2025. Completing this recognition process and becoming an EA multilateral agreement signatory in a first field is a very important step for Kosovo, as it means that certifications provided by DAK-accredited conformity assessment bodies will be recognised in all 49 EA members. This would lower the barriers for local firms seeking to export their products to these markets, as they would no longer need to seek certification abroad. As of December 2021, there were 56 accredited conformity assessment bodies in Kosovo (37 testing laboratories and 19 inspection bodies). This is a 47% increase compared to 2018, the greatest increase in the region. The opportunities for firms to be assessed and certified for international and European standards in Kosovo are continuously improving, and international recognition of these accreditation services is, therefore, an important next step.

Kosovo adopted a Metrology Law in 2018 and nine additional pieces of implementing legislation to align its metrology system with the *acquis* (European Commission, 2021[27]). Important European directives such as the Measurement Instrument Directive, the Non-automated Weighing directive as well as Directives on Pre-packaging and Bottles have been approximated with domestic legislation. On the operational side, three calibration laboratories have been assessed by the Turkish accreditation body, TURKAK, according to international standards, and it is expected that certification will be provided in the coming months. However, the Kosovo Metrology Agency (KMA) has difficulties obtaining qualified staff and currently has only 14 employees, compared to 17 in 2018, as it was unable to replace retiring staff. To remedy this, the recruitment of four metrology officials is planned for 2022. Furthermore, the formation of the Metrology Council, a supervisory body stipulated in the Metrology Law, is expected to be completed within 2022 as well. Already being a full member of WELMEC, KMA applied for associate membership to the European Metrology Association (EURAMET) and at the International Bureau of Weights and Measures (BIPM) in 2021. While not having any voting rights, being an associate member would allow the KMA to participate

in all EURAMET activities, such as technical committee work, specific projects and work on the Committee of Weights and Measures' Mutual Recognition Arrangement, thereby giving the KMA access to a wide range of information, activities and exchanges on metrology, which should in turn also improve its capacities.

There has been moderate progress in market surveillance. The Law on Technical Requirements for Products and Conformity Assessment (Ministry of Industry, Entrepreneurship and Trade, 2018[100]), which also regulates market surveillance activities, is aligned with the old *acquis* (EC 2008/768) but not with the more recent Market Surveillance Regulation (EC 2019/1020). Kosovo did, however, adopt legislation on groups of products that were subject to inspection surveillance in October 2020, which unifies the rules on competencies of various inspectorates for groups of non-food products (European Commission, 2021[27]). The transparency of surveillance activities has also improved, as dangerous products, both identified by the European Union's Rapid Exchange of Information System (RAPEX) system as well as by the national authorities, are published on the Coordination Body for Market Surveillance's website (RAPEX Kosovo) (Coordination Body for Market Surveillance, 2021[101]). The number of inspections slightly decreased, from 1 255 in 2019 to 1 124 in 2020 (Coordination Body for Market Surveillance, 2021[99]).

Access to standards has improved, and a financial support programme for exporters is in place

Kosovo has made considerable progress in this dimension compared to the previous assessment, particularly in the areas of participation and support.

The KSA has basic awareness-raising measures such as a regularly updated news section on its website, a Facebook page and regular information sharing via email. Moreover, the KSA realised nine awareness-raising activities per year between 2018 and 2020, compared to five in 2017, as reported in the previous assessment. While offering a standards catalogue on line, only the titles of the standards are translated into the local language, and there is no guiding material on the standardisation process for companies. Describing the certification process from start to finish, as is done, for example, in the European Union's Blue Guide (Box 15.12), helps SMEs to better understand what is required of them to get their product, service or process certified according to a specific standard. Finally, the KSA plans to set up an information centre to promote and advise firms and the general public on standards. Having such a physical information point is a good tool to complement the online awareness-raising activities.

Kosovo is not yet developing its own national standards, but this is a specific objective in the current Standardisation Strategy (Kosovo Standardization Agency, 2020[97]). Therefore, technical committees currently only analyse the priorities for adopting European and international standards in their respective sectors. Participation in those committees is currently incentivised by providing technical committee members with discounts for purchasing standards. To incentivise more companies to participate in the development of national standards, the KSA plans to offer non-monetary benefits to committee members by listing them as authors on the standard and making their participation public on their website (Kosovo Standardization Agency, 2020[97]). Furthermore, technical committee members will receive a 50% discount on purchases of standards.

As briefly described above, the main vehicle providing financial support to firms seeking to implement standards is the World Bank's CERP (World Bank, 2021[102]). The programme provides matching grants that cover up to 90% of the activity costs or up to EUR 40 000 per firm. These grants can be used to cover inspection-related costs that may arise in the certification process and to buy small equipment. In the first round of applications (2018-20), 28 SMEs received financial support. A second round of applications was held in mid-2021, and 139 firms were selected for funding (World Bank, 2021[102]). While the programme's original target of reaching 420 firms will not be reached, due to an increase in the amount spent per firm, CERP remains a large support programme for Kosovo and may have a substantial impact on the export readiness of SMEs.

The way forward for Dimension 7

- **Increase human and financial capacities in quality infrastructure bodies to meet membership criteria in key European associations**. Given the short period of time, Kosovo has done a remarkable job of aligning key horizontal legislation with the *acquis* and building up institutions in the area of standardisation, accreditation and metrology. The next key step in all three areas is for the national institutions to be recognised, either as a full or associate member, by the relevant European associations (European Co-operation for Accreditation, EURAMET and CEN-CENELEC). To fulfil at least the technical requirements for membership, it is necessary to improve management systems and increase staff capacities. While this is partially recognised in the Standardisation Strategy, the required resources need to be availed. In particular, the recognition of accreditation services is very important for firms, as this will lower the barriers to certification, which are particularly high for SMEs.
- **Produce guides and information materials about standardisation in the local language**. Improving SMEs' knowledge about how to certify their products, services or processes is important to lower information barriers about the conformity assessment process. While basic awareness-raising mechanisms are in place, more concrete materials that show firms the different steps required for conformity assessment in European or international standards are not available on the KSA's website. As the KSA now plans to open an information centre, this might be a good time to produce such material in the local language. The information on conformity assessment provided in the European Union's Blue Guide is a good example of what such a step-by-step guide may look like (Box 15.12).

Box 15.12. Providing concise and clear information about product regulations and conformity assessment procedures: The European Union's Blue Guide

To create a better understanding of its product rules and their application, the European Union created the so-called Blue Guide. This comprehensive guidebook is structured along actors and the different QI pillars (e.g. conformity assessment, market surveillance), which allows the reader to quickly find the required information. A chapter on conformity assessment describes the certification process in a user-friendly way using a flowchart depicting the different steps required, from the technical documentation to the market placement of the product.

Through graphical means, the rather complex process of conformity assessment is explained and depicted in a clear and concise manner, which is particularly useful for SMEs that, contrary to large firms, may not have specialised staff familiar with QI processes.

Kosovo and other economies in the WBT region often lack such information materials, and firms are hence left with the pure legislative text or other material in complex, technical language, which may represent an information barrier for SMEs. Having process flowcharts and guides like the one described above available in the local language is one way to overcome such barriers for SMEs aiming to get their products or processes assessed and certified.

Source: European Commission (2016[103]).

Enterprise skills (Dimension 8a)

Introduction

SMEs, the cornerstone of job creation, provide a significant share of employment, with two out of three employed people working for an SME, acting as an engine for social development and economic growth. Yet to drive growth and reduce the tendency for start-ups to result in lower-paying jobs, SMEs need to invest in skills, digitalisation and innovation to boost productivity and higher-paid employment. However, they lack the capacity of larger enterprises to invest in training for founders and the workforce. They can be supported by relevant government-financed training, however, to close skills gaps and upskill the workforce. This is emphasised when it comes to greening businesses, for example, where environmental sustainability cannot be achieved within SMEs, as the potential is limited by lack of awareness and skills as well as the additional costs involved. Supporting SMEs through developing enterprise skills can create far-reaching impacts for families, local communities and countries.

The COVID-19 pandemic badly affected Kosovo's economy. In 2020, Kosovo's GDP, total employment and value added dropped sharply. The focus of institutions has been on the actions needed to mitigate these challenges to existing businesses, and as a result, less progress has been made at the institutional level (European Commission, 2021[27]).

Kosovo scored 3.44 in this dimension, slightly over the regional average (Table 15.22). The score for this dimension has risen slightly since the previous cycle when it was 2.78 with the contribution of practical implementation and skills intelligence actions through collaborations between government and international partners. Nevertheless, the performance in planning and design has dropped since 2019 due to the ongoing lack of concrete actions to drive forward enterprise skills across government policy.

Table 15.22. Kosovo's scores for Dimension 8a: Enterprise skills

Dimension	Thematic block	Kosovo	WBT average
Dimension 8a: Enterprise skills	Planning and design	3.58	2.86
	Implementation	3.53	3.85
	Monitoring and evaluation	3.00	2.67
Kosovo's overall score for Dimension 8a		**3.44**	**3.32**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

The most significant step forward during this assessment has been made in skills intelligence, with the launch of the Labour Market, VET, and Skills Barometers. These are innovative in approach and form a strong evidence base for policy makers and stakeholders. There are concerns about the lack of gender-disaggregated data within this, which should be rectified moving forward. SME support and training are patchy, with a continued lack of support for start-ups from the government. An increasing offer is being delivered by international co-operation development partners and NGOs, often in collaboration with the government. Monitoring and evaluation remain a challenging area, both when considering monitoring of strategy implementation and the practical implementation of government-financed actions (

Table 15.23).

Table 15.23. Implementation of the SME Policy Index 2019 recommendations for Dimension 8a

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Ensure better skills intelligence for more meaningful monitoring and evaluation	Development of a Kosovo skills intelligence framework has been strong, with the launch of an online portal with access to a national Labour Market Barometer, VET Barometer, and a Skills Barometer collating statistics from a range of economy-level sources. However, monitoring and evaluation of actions on enterprise skills remain weak.	Strong
Strengthen co-ordination mechanisms	Co-ordination has improved, as evidenced through the creation of the Kosovo Skills, VET and Labour Market Barometers, which draw information and statistics from across an abroad array of actors. However, ongoing challenges persist around the co-ordination of government- and international partners-financed actions supporting enterprise skills and associated monitoring and evaluation.	Limited
Strengthen start-up training and accessibility through a searchable web platform	There is no provision of a government website providing these services. StartUpKosovo was launched during this assessment period, supported by Innovation Centre Kosovo alongside international development co-operation partners funding. This is a starting point toward understanding more about the entrepreneurial ecosystem in Kosovo, but it is still under development.	Moderate
Review key policy documents that steer education and training provision to strengthen women's entrepreneurial skills and competences	The Kosovo Programme for Gender Equality (2020-2024) and action plan prioritises and identifies actions for women's entrepreneurship. The National Strategy for Innovation and Entrepreneurship (2019-2023) highlights women and youth as one of the thematic pillars, but there is no current action plan for this strategy. The Private Sector Development Strategy (2018-2022) mentions the importance of women entrepreneurs and business owners but does not include specific actions or targets. There is a continued need to enhance practical implementation and ensure cross-linkages between relevant strategies and action plans.	Moderate
Build SME skills into smart specialisation strategies	Work is ongoing to develop the smart specialisation process.	Limited

There is a lack of system-level co-ordination of policy related to enterprise skills

While policy commitments to support SME skills can be seen across government strategies, these remain relatively limited in scope, with limited support for start-up skills or SME skills in specific areas, such as green economy or sustainability. Actions funded by the international co-operation development partners can be seen addressing these gaps, but these are not well-coordinated at the system level, resulting in a potential risk of duplication of effort across partners.

The Kosovo National Development Strategy (2016-2021), the primary planning document, expired in 2021. The upcoming National Development Strategy is not yet adopted, but the concept note has been shared (Government of Kosovo, 2021[104]). Actions will be included in it to support SME development and to link education and training to the needs of the labour market. Supporting this document are the National Strategy for Innovation and Entrepreneurship (2019-2023) (Government of Kosovo, 2019[40]) and the

Private Sector Development Strategy (2018-2022) (Government of Kosovo, 2018[105]), both of which emphasise the importance of SME support and enterprise skills programmes. The first strategy has no attached action plan. However, the Private Sector Development Strategy (2018-2022) provides a framework of interventions and an allocated budget, including specific commitments to increase SME business advisory services, access to finance through the KCGF loans and training modules on financial literacy and intellectual property.

Overall, co-ordination across this area of work is lacking, and there is limited evidence of monitoring and evaluation of the practical implementation of strategy actions. During this assessment period, there has been limited visibility of the Kosovo National Council for Economy and Investment (NCEI) (European Commission, 2021[27]) with no evidence of meetings since 2021.[40] When active, this was as a multi-stakeholder forum with a remit[41] to support public-private business dialogue toward strengthening the private sector and the business environment in Kosovo, supported by EBRD. Post-pandemic, a reactivated NCEI or a similar high-level partnership body can be an effective channel in which this policy area can be addressed through dialogue within, and recommendations from, a multi-stakeholder business partnership forum.

System-level skills intelligence has been significantly improved with strong effort to ensure sustainability of the approach

Since the last assessment, the provision of economy-level skills intelligence has significantly improved through the support of actions funded by international development partners in collaboration with government ministries and non-government partners. This has built on previous work by the Ministry of Trade and Industry, through KIESA.[42] Working with a range of government and non-government partners and supported by the ALLED2[43] project, Kosovo has launched a set of three statistical barometers that strengthen the skills agenda and establish a Kosovo framework approach to skills intelligence.

The Kosovo Labour Market Barometer[44] was launched in 2020 and collates real-time data from 12 institutional data sources through a searchable database, bringing together demographic, employment, business, education and training statistical information. Most sources of data can be filtered by at least year, age, sector and municipality, with gender-disaggregated data included where available across employment and demographic statistics. While it was developed through international partners' funding,[45] the long-term focus has been to ensure its sustainability. It is now owned by the Government of Kosovo and managed by the Employment Agency.

The VET Barometer,[46] an online database of information and analysis of 200+ variables from 20 VET schools, is based on the ALLED2 school surveys carried out annually[47] and provides fully gender-disaggregated data. The barometer provides a valuable overview of the VET system in Kosovo across the schools surveyed, identifying the potential to improve the alignment of these schools with labour markets. The reports and online database include insights on management, teachers, curricula, infrastructure, technology and business co-operation. This latter section includes valuable insights, such as the percentage of practical learning and signed memorandums of understanding with businesses, alongside details of the main business-cooperation challenges faced and the improvements needed at the centre level. The VET Barometer grew from pilot research into the provision across VET schools in the economy and now offers online information and analysis based on systematic data collection that can be transferred to relevant government agencies.

The Skills Barometer, launched in 2021, is a report on Kosovo's current and future skills needs, offering an in-depth analysis of the causes and impact on businesses across different sectors. This five-year forecast into the skills and occupations demanded by different sectors and economic activities in Kosovo offers an important tool for evidence-based policy making in education, training and SME policy, particularly in terms of VET planning and identifying priority sectors across specific regions (European Commission, 2021[27]). The Skills Barometer currently addresses only the demand side because supply-

side information on those leaving education and training institutions is unavailable, highlighting the ongoing challenge of data availability. ALLED2 developed the Skills Barometer in co-operation with the KCC. Commitment is now finalised between KCC, the MEST and the National Council for VET to conduct the Skills Barometer every three years.

Development of the Smart Specialisation Strategy is evidenced, but institutional challenges remain

The development of the Smart Specialisation Strategy is moving forward, with current activity focused on the quantitative and qualitative mapping of Kosovo's economic, scientific, and innovative potential. This is accompanied by a range of workshops and the recently launched government e-platform[48] to support awareness and engagement across relevant stakeholders in collaboration with Heras+.[49] The mapping is now being finalised, and the first draft strategy is planned for publication in 2022. Challenges to this work include the availability of sufficiently detailed statistical data to fully inform quantitative mapping and the lack of an innovation agency within the Kosovo institutional landscape to support innovation policy and its implementation.[50]

The provision of SME support and skills training is not well developed at the government level, though international partners-funded initiatives provide a broader offer

While national policy recognises the importance of SME skills and training, practical implementation relies significantly on external funding from international development partners. As yet, there is only limited training provision featured through the KIESA website,[51] centred on start-up business plan competition, a women's business fair and basic training for business and entrepreneurs on marketing and legal aspects. More broadly, different offers are provided in collaboration with the government, such as the innovative Kosovo Digital Economy (KODE) Project[52] initiated by the Government of Kosovo and which aims to enhance access and use of ICT, including through strengthening human capital and supporting digital businesses and digitalisation. Another digital business project is ACCESS, which invites SMEs to become part of the Initiative for Digital Empowerment[53] to access digitalisation services. This is led by the MIET through KIESA and in co-operation with the Austrian Development Cooperation. Wider providers include the Innovation Centre Kosovo, which leads the StartUpKosovo[54] action to build a network of founders, entrepreneurs and other actors from across the entrepreneurial ecosystem in Kosovo. The website offers an important channel for collated information and advice on SME support and skills training available nationally.

Despite a range of providers, there remains no visible support or training focused on sustainable business practices, social economy, greening and the circular economy, and it is not possible to view the depth of provision, either government- or international partners-funded, available across all regions. There is also a significant lack of economy-level monitoring and evaluation of SME skills development actions. While there is a requirement for funded initiatives to monitor and evaluate training, there is no information on the results, and it is not collated at the system level. This means that existing provision does not underpin evidence-based decisions to refine future provision, with no mapping or sharing of proven good practices.

The way forward for Dimension 8a

- **Improve the co-ordination of SME support and skills across government and non-government strategies and implementation.** Skills mismatches and the need for upskilling are significant barriers to doing business in Kosovo. There is an opportunity to include enterprise skills as an over-arching policy area to be addressed within key areas of development such as the Smart Specialisation Strategy and supported by a national-level partnership body, such as a reactivated NCEI.

- **Broaden the training offer for SMEs and include a stronger focus on training supporting more green and sustainable business practices.** A need remains to provide a transparent and well-publicised training programme for SME skills, including skills for green and sustainable business development (Box 15.13). This should be the basis of a government commitment in the upcoming National Development Strategy.

Box 15.13. The MicroPitch Business Plan Competition: An example from the Caribbean

The MicroPitch Business Plan Competition is part of the Boost Your Business programme held in the Caribbean. MicroPitch brings together entrepreneurship training and a business competition that gives founders and SMEs the opportunity to build their capacity across specific themes and enter a competition to present their ideas and progress to a jury of business experts.

MicroPitch is about supporting existing businesses to improve through a format that highlights specific priorities aligned to regional policy priorities. In 2021, these included: 1) digitalisation and e-commerce; 2) green and sustainable business practices; and 3) business management and financial planning. By offering training as the lead-in to the competition, there is an added incentive to engage and increased visibility of successful SMEs and the priority themes that can come with the promotion of both the competition and the winners.

KIESA already runs a number of business competitions, and these themes could be integrated into these competitions or fairs, alongside capacity building through practical training for entrants. This would offer a potentially simple route to creating practical training with active promotion of key policy priorities, such as greening, sustainability and the circular economy to the business community.

Source: MicroPitch Caribbean (2021[106]).

- **Further strengthen the provision of skills intelligence** at the national level with continual improvement of the barometers, including the systematic provision of gender-disaggregation across all areas of data collection, in line with requirements for harmonisation with Eurostat.
- **Implement comprehensive monitoring and evaluation** of all government-financed enterprise skills programmes to better understand the impact of policy actions on SMEs' performance and growth and provide additional data to feed into the Kosovo skills intelligence barometers.

Innovation policy for SMEs (Dimension 8b)

Introduction

Supporting innovation and building a knowledge economy is increasingly becoming a priority for the WBT region, and globally. Recognising the link between innovation and productivity and its contribution to higher value-added economic output and competitiveness, many governments have started to emphasise the creation of an environment conducive to innovation and knowledge development. However, equal attention must be given to enhancing innovation capacity at the firm level.

The economy of Kosovo, in its early stages of building an innovation ecosystem, can further leverage interregional and international co-operation in progressing its innovation agenda, creating regional innovation systems and encouraging cross-border co-operation to boost research and development (R&D).

Kosovo's progress in fostering innovation in SMEs has been limited since the last assessment and the economy only marginally increased its score from 2.40 in 2019 to 2.47 in 2022, owing to some progress in strengthening an ecosystem conducive to innovation and start-ups. As a result, Kosovo continues to be among the lowest-ranked economies in this dimension (Table 15.24).

Table 15.24. Kosovo's scores for Dimension 8b: Innovation for SMEs

Dimension	Sub-dimension	Thematic block	Kosovo	WBT average
Dimension 8b: Innovation for SMEs	Sub-dimension 8b.1: Policy framework for innovation	Strategic approach	3.20	3.81
		Implementation of innovation policy	2.52	3.31
		Co-ordination of innovation policy	2.52	3.30
		Weighted average	**2.72**	**3.46**
	Sub-dimension 8b.2: Government institutional support services for innovative SMEs	Incubators and accelerators	2.71	3.27
		Technology extension services for established SMEs	1.40	2.14
		Weighted average	**2.19**	**2.82**
	Sub-dimension 8b.3: Government financial support services for innovative SMEs	Direct financial support	3.26	3.81
		Indirect financial support	1.20	2.26
		Weighted average	**2.44**	**3.19**
	Sub-dimension 8b.4: SMEs and research institution collaboration and technology transfer	Innovation voucher schemes and co-operative grants	2.00	2.85
		Institutional infrastructure for business-academia co-operation	2.48	2.99
		Intellectual property rights	2.52	3.05
		Weighted average	**2.30**	**2.95**
Kosovo's overall score for Dimension 8b			**2.47**	**3.18**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Kosovo's capacity to build a knowledge economy and implement innovation-supporting policies remains limited. Despite some progress in developing a framework for SME innovation, policies remain high level without clear targets or an implementation plan. Plans to establish a Fund for Innovation and Entrepreneurship have not yet materialised, impeding the economy's implementation capacity for innovation. Some progress has been made to create an ecosystem. The authorities have supported the development of a number of regional innovation centres and the Innovation and Training Park in Prizren, which aims to provide incubation services and assistance for R&D activities, has launched its operations.

Financial support remains highly limited. In late 2021, the authorities announced a new SME support package which foresees EUR 1.15 million in grants for start-ups and innovation projects. Overall, investments in R&D remain marginal, though a full picture is not available in the absence of reliable statistical data. The authorities operated a voucher scheme in 2018 and 2019, but it has been paused as government funding was repurposed towards Kosovo's response to COVID-19. Lastly, some progress has been made to strengthen intellectual property protection.

Table 15.25 provides an overview of the specific actions undertaken in response to the recommendations for this dimension made in the previous assessment.

Table 15.25. Kosovo's implementation of the SME Policy Index's 2019 recommendations for Dimension 8b

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Adopt an innovation strategy and carefully monitor its implementation	Even though a new National Strategy for Innovation and Entrepreneurship (2019-2023) was adopted in 2019, it lacks a strategic focus and an action plan. The development of a Smart Specialisation Strategy, which started in 2019, is still ongoing.	Limited
Invest more in R&D and use competitive project-based funding	Public investments in research remain marginal at 0.1% of GDP, and despite high-level plans to establish an Innovation and Entrepreneurship Fund, no concrete actions have been taken to date. In addition, while the adoption of the Law on Innovation and Entrepreneurship is still pending, there is no legal basis to establish such a fund. The availability of financial support schemes remains highly limited, though a small-scale programme in support of SMEs more generally was announced in late 2021.	Limited
Improve the design of support instruments	No progress has been made. The voucher scheme, which was available in 2018 and 2019, has not undergone any evaluation or impact assessment, and there is no indication that the small-scale new, generic SME programme has been designed in line with best practices and in co-ordination with stakeholders.	Limited

The policy framework for SME innovation needs to be further enhanced

Kosovo has only made little progress in strengthening the policy framework in support of innovation, as the existing strategic approach lacks clear policy priorities, targets and implementation mechanisms. Even though a new Strategy for Supporting Innovation and Entrepreneurship (2019-2023) was adopted in 2019, it only provides high-level guidance on developing a knowledge-based economy, as the framework does not entail any action plan for concrete implementation measures. Work on preparing a Smart Specialisation Strategy commenced in 2019 in line with the European Commission's Joint Research Centre's methodology. While an analysis identifying scientific priorities has been completed and a communication mechanism to enable stakeholder consultation has been put in place, progress remains slow.

Co-ordination of the policy framework remains highly fragmented across various ministries and advisory bodies following a government reshuffle in 2020. The MIET manages a dedicated budget for innovation activities, while aspects of innovation, science and technology transfer have been reallocated to the Ministry of Education, Science, Technology and Innovation. There is no clear co-ordination body in place, further underlining Kosovo's lack of a strategic approach to innovation and limited track record in implementing relevant policies. The National Council for Innovation and Entrepreneurship's mandate, established in 2017, has expired, while a new Scientific Innovation Council, under the auspices of the Ministry of Education, Science, Technology and Innovation, was in the process of being established as its successor at the time of writing.

Lastly, Kosovo's implementation capacity remains limited amid a lack of a dedicated implementation agency, but the Kosovo Government Programme (2021-2025) envisages the creation of an Innovation and Entrepreneurship Fund. There is no evidence of concrete actions to pursue this ambition; however, a draft

Law on Innovation and Entrepreneurship, initiated in 2018, would form the legal basis for establishing such an agency. The Kosovo Government Programme (2021-2025) also envisages improvements in the collection of innovation-related statistical data, and there are plans to apply for participation in the European Innovation Scoreboard[55] during the next assessment period.

The innovation ecosystem, albeit growing, is limited to start-up support

Multiple incubators exist throughout Kosovo, with the most prominent ones being the Innovation Centre Kosovo and Gjirafa Lab, which, however, continue to be dependent on international partners. The Innovation Centre Kosovo, founded in 2012, offers training, mentoring and other support services, with a specific focus on ICT development, and incorporates a matchmaking business angel club. In addition, the government has provided financial support to a number of innovation centres, including VentureUP at the University of Pristina and the Djakova Innovation Center, both of which offer incubation services. A third innovation centre in Ferizah has been established since the last assessment but remains largely non-operational.

One main development since the last assessment is the creation of the Innovation and Training Park in Prizren, which was formalised in May 2020 when Kosovo signed an agreement with the German Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ) to establish the new business park on the premises of the former Kosovo Force (KFOR) military camp area. Both governments committed a total of EUR 12.5 million to develop the park in the first few years. The Innovation and Training Park's vision is to offer a range of services, particularly for enterprises operating in ICT, agro-business and creative industries, and to provide co-working and office space, coupled with vocational training opportunities and support for R&D. By the end of 2021, the Innovation and Training Park was hosting eight tenants, including the Makerspace Innovation Center Prizren, a vocational training provider, and a centre of excellence.

Support for more mature enterprises seeking innovation, such as technology extension services, remains largely unavailable.

Financial support for innovation remains highly limited

Little progress has been made in offering financial support to foster innovation. Financial assistance schemes remain largely absent, and the aforementioned vision to establish a dedicated Innovation Fund is yet to materialise. In the autumn of 2021, the authorities announced a new financial support scheme to increase export readiness and job creation. Out of a total of EUR 3.65 million, EUR 1.15 million is envisaged to support start-ups, spin-offs and innovative projects. While this is a welcome and important step toward introducing tailored financial support for innovation activities, the exact mechanism, scope and objective of this pilot remain somewhat unclear. Results will be evaluated during the next assessment period.

Furthermore, no progress has been made to introduce indirect financial support for innovation. Some tax incentives exist for purchasing ICT equipment since 2018; however, there are no targeted measures to encourage investment in R&D or other innovation-related activities.

Small-scale support exists to encourage linkages between academia and businesses, but further efforts are needed to encourage more investment in R&D

Kosovo currently does not collect data on investment in R&D, but public funding for scientific research remains chronically low at around 0.1% of GDP (European Commission, 2021[27]), significantly below the 0.7% target mandated by law. The Ministry of Education, Science, Technology and Innovation offered small-scale innovation vouchers in 2018 and 2019, both fully and co-funded of up to EUR 5 000, aimed at supporting small-scale business projects to engage expertise, among others, from scientific research institutions. In total, EUR 1.6 million have been allocated to this initiative, but funding was repurposed in 2020 to support the COVID-19 response, and the programme has not been revived since. In total, over

130 enterprises benefited, but interest decreased substantially in the second year, suggesting limited awareness and absorption capacity of enterprises. There are no co-operation grants or equivalent available.

Kosovo's institutional infrastructure to encourage engagement between businesses and research facilities remains limited. However, the innovation centre at the University of Pristina, as well as the operationalisation of the Innovation and Training Park in Prizren, both of which have some focus on research, are important steps to provide space for exchange and to increase collaboration in the medium term.

Lastly, in 2019, Kosovo adopted amendments to the Law on Patents, which brought the economy's framework for intellectual property protection somewhat closer to European standards. In addition, legislation on patents, trademarks, industrial design and others is currently under preparation, but has not yet been adopted, nor has legislation to address the restructuring and staffing needs of the Industrial Property Agency, which would significantly increase its enforcement capacity. The Industrial Property Agency carries out some limited awareness-raising activities; however, overall understanding of the importance and benefits of intellectual property protection among businesses remains low.

The way forward for Dimension 8b

- **Enhance the strategic framework for innovation.** Developing a detailed innovation policy framework, designed in consultation with all stakeholders, would enable Kosovo to prioritise innovation activities, identify existing bottlenecks in a targeted and tailored manner, and maximise resources. This should be coupled with an action plan with measurable targets as well as a clearly defined mandate for all the public bodies involved to ensure implementation capacity and accountability. Swift progress in developing the Smart Specialisation Strategy should be a government priority.
- **Further expand the collection of innovation-relevant statistical information.** Further efforts should be made to deliver on the ambition to join the European Innovation Scoreboard, as outlined in the Kosovo Government Programme (2021-2025). In particular, efforts should be made to report on gross domestic expenditure on research and development (GERD), which will be critical to monitoring both public and private spending on innovation and help the economy to improve in this area. Continuous participation in the EC-OECD's *STIP Compass Database*,[56] for instance, could help to develop statistical data collection in line with international best practice methodology, and with expert guidance.
- **Increase financial support for innovation and research to boost research and development investments.** Timely adoption of the draft Law on Innovation and Entrepreneurship would provide the legal foundation for operating an Innovation and Entrepreneurship Fund. Such a fund could be designed as the main vehicle to implement the authorities' innovation policy framework (see the first recommendation), subject to sufficient funding allocation to ensure operational capacity and security for the coming years. The fund should be designed in close consultation with stakeholders and build on lessons learned from existing financial support schemes. External advice and capacity building, like elsewhere in the region, could further help to ensure that the new fund serves its purpose in an effective, efficient and well-governed manner.

SMEs in a green economy (Dimension 9)

Introduction

Since SMEs, on aggregate, have a significant environmental footprint (small firms account for 50% of greenhouse gas [GHG] emissions in the world (ITC, 2021[107])), it is essential that the governments of the WBT region include them in their environmental considerations to achieve the net-zero goal for GHG emissions. On the one hand, like any other economic entity, SMEs face the consequences of environmental degradation, which can generate specific challenges for their survival and growth. On the other hand, and more importantly, SMEs can be a source of innovation and solutions to develop the technologies needed to address environmental challenges. New green markets, such as the circular economy, can also create new business opportunities for SMEs. Even without moving into new markets, SMEs can potentially improve the performance of their business by realising efficiency gains and cost reductions by greening their products, services, and processes. In this regard, tailored policies, incentives and instruments are necessary to enable them to participate in the green transition, as SMEs face a number of barriers (financial, informational, etc.) in their greening efforts, and more so than large firms (OECD, 2021[108]).

For a small and landlocked economy like Kosovo, boosting economic growth that would not come at an environmental cost is particularly pertinent, particularly in the post-COVID-19 context. The pandemic has put additional pressure on Kosovar SMEs and their greening efforts, primarily due to issues with liquidity maintenance and access to finance. Well-coordinated and targeted financial and technical support will be required to overcome challenges in adopting sustainable practices.

While Kosovo's performance in SME greening has slightly improved since the last assessment (when it was 1.92), it remains quite low (2.05), below the WBT average (Table 15.26).

Table 15.26. Kosovo's scores for Dimension 9: SMEs in a green economy

Dimension	Sub-dimension	Thematic block	Kosovo	WBT average
Dimension 9: SMEs in a green economy	Sub-dimension 9.1: Framework for environmental policies targeting SMEs	Planning and design	2.70	3.87
		Implementation	2.55	2.81
		Monitoring and evaluation	1.58	2.47
		Weighted average	**2.40**	**3.06**
	Sub-dimension 9.2: Incentives and instruments for SME greening	Planning and design	1.90	3.06
		Implementation	2.00	3.02
		Monitoring and evaluation	1.00	2.12
		Weighted average	**1.77**	**2.85**
Kosovo's overall score for Dimension 9			**2.05**	**2.94**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Environmental policies that target SMEs are not included in Kosovo's Private Sector Development Strategy (2018-2022) but should be covered in the upcoming National Development Strategy. The circular economy should also be boosted with the new Integrated Waste Management Strategy. Nevertheless, only limited progress has been achieved in implementing greening measures since the last assessment due to poor co-ordination between relevant stakeholders and insufficient funds. Access to green finance has been recently enhanced thanks to international partners' programmes. Other incentives and instruments to encourage SMEs to engage in greener practices remain scarce in Kosovo (Table 15.27).

Table 15.27. Kosovo's implementation of the SME Policy Index 2019 recommendations for Dimension 9

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Introduce SME greening measures in the strategic documents and related action plans	The soon-to-be-adopted National Development Strategy should have a specific focus on environmental policy and include elements from the United Nations (UN) Sustainable Development Goals and the European Commission's Green Deal in this regard. Some SME greening measures were also introduced in the Integrated Waste Management Strategy. The SME Development Strategy does not include SME greening measures.	Limited
Focus on raising awareness and providing advice and guidance to SMEs on adopting environmentally sound practices	No actions have been taken in this regard.	No progress
Enhance financial support for SME greening	Some financial support programmes funded by international partners are available to SMEs, such as through the recently established Kosovo Credit Guarantee Fund (KCGF). However, the government has not established other financial incentives to encourage SME greening.	Limited

Incremental progress has been achieved in including environmental policies targeting SMEs in Kosovo's strategic framework

While Kosovo's Private Sector Development Strategy (2018-2022) does not include any greening objectives, environmental policies relevant to SMEs are covered in some strategic documents. Namely, sustainable and green economic development is one of the pillars of the National Development Strategy (2016-2021). The revised strategy for the upcoming period is under preparation in accordance with the Kosovo Government Programme (2021-2025), which has a special focus on environmental policy, in particular air quality, waste and water management and biodiversity protection. The new strategy should also include elements of the UN Sustainable Development Goals and the European Commission's Green Deal.

Moreover, the Strategy for Environmental Protection (2013-2022) and the Strategy for the Development of the Energy Sector by 2030 both envisage energy efficiency improvements in the Kosovar private sector. The recently adopted Integrated Waste Management Strategy (2020-2029) should also accelerate the green and circular transition (Box 15.14).

Box 15.14. SMEs and the circular economy in Kosovo

SMEs are important for achieving objectives regarding the circular economy, both by making their business operations more circular and by contributing to the innovation that can strengthen circularity across economies. As the circular economy is gaining momentum in Kosovo, SMEs, which represent the largest share of enterprises in the economy, should lead the way in the transition from a linear to a circular economy.

While there is no specific policy framework for the circular economy in Kosovo, the Integrated Waste Management Strategy (2020-2029) and its Action Plan (2020-2022) indirectly cover the circular transition. The strategy outlines three main objectives: 1) raising awareness of the importance and benefits of managing and recycling waste; 2) encouraging innovation to prevent waste generation; and 3) creating reuse and recycle systems based on extended producer responsibility schemes.

So far, the circular economy has not been the focus of financial and non-financial incentives to support SMEs in their greening efforts. Promotion of circular economy concepts has remained limited during the assessment period.

Sources: OECD (2021[108]; 2021[6]).

While the private sector is involved in the development of green policies, limited co-ordination of measures hampers proper implementation

The Ministry of Environment, Spatial Planning and Infrastructure, the Agency for Energy Efficiency and the Kosovo Environmental Protection Agency (KEPA) are responsible for developing and implementing SME greening policies. Although there is no specific body in charge of the co-ordination between different institutions and stakeholders in this area, the Ministry appoints working groups for the drafting and planning of strategic documents. Municipalities, the private sector and NGOs are regularly consulted in this regard.

Implementation of green policies during the assessment period has remained limited overall. Although a yearly budget of EUR 400 000 is dedicated to projects in relation to the green economy, mainly for awareness-raising activities, it has not materialised in any concrete activities during the assessment period.

On a positive note, some projects funded by the international development co-operation partners, such as the United Nations Development Programme's Ecotourism project (2020-2022), aim to build back better following the COVID-19 pandemic through greener recovery. The project focuses on greening Kosovo's tourism sector through public-private partnerships, coherent policy, a sustainable tourism strategy and a green accelerator programme for MSMEs in the tourism sector.

No significant measures have, however, been implemented to encourage energy efficiency improvements in the private sector. While the Agency for Energy Efficiency has a yearly budget (EUR 6.9 million), it is mainly targeted at large-scale projects, in particular in public buildings. Other measures included in the National Development Strategy (2016-2021), such as fostering the development of energy service companies (ESCOs) markets,[57] have not been translated into concrete actions. Monitoring and evaluation mechanisms for environmental policies targeted at SMEs also remain non-existent.

Some financial incentives are available for SME greening, whereas non-financial tools to encourage this transition remain scarce

Since the last assessment, Kosovo has not established mechanisms to provide financial incentives and instruments to encourage SME greening. While the National Energy Efficiency Fund was established in 2019, it does not cover SMEs.

Some financial support programmes supported by international partners are nevertheless available to SMEs. The recently established KCGF signed an agreement in November 2021 with the KfW to support MSMEs for green investments (EUR 6 million grant), in particular energy efficiency, resource efficiency and investments in renewable energy. In 2021, the EBRD, co-financed by the European Union and bilateral international partners through the Western Balkans Investment Framework, launched a EUR 2 million loan to Kreditimi Rural i Kosoves (KRK), a microfinance institution focusing on rural areas, to boost energy efficiency investments. Moreover, the Millennium Foundation Kosovo launched in 2020 the Women Energy Entrepreneurs Programme, with the amount of EUR 1 million. The programme combines technical assistance with investment grants to support the growth of women-owned businesses in Kosovo through efficient energy use. While these new support programmes should boost energy efficiency and eco-innovation among SMEs, there is no available data on their uptake.

Information-based instruments, such as awareness-raising campaigns or capacity-building workshops to address the barriers related to the lack of awareness by SMEs on green opportunities, have not been

conducted. As in the previous assessment, regulatory instruments, environmental certification and green public procurement policies, which would incentivise SMEs to adopt greener practices, remain non-existent in Kosovo.

The way forward for Dimension 9

- **Step up the implementation of SME greening measures.** Green policies are included in different strategic documents, but they have rarely been translated into concrete actions and activities. Given the cross-cutting nature of SME greening policies, effective co-ordination among the relevant stakeholders is essential for successful implementation. While Kosovo 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 already in charge of SME policy implementation. The government should also ensure that sufficient resources are allocated to implement activities on green practices.
- **Introduce awareness-raising activities and provide advice and guidance to SMEs on adopting environmentally sound practices**. Activities to disseminate guidance on good practices and outreach programmes should be undertaken to promote eco-friendly practices. Workshops, training, industry fairs, distributing successful case studies and fostering co-operation over environmental issues could be particularly successful in disseminating information and generic advice on applying green practices. Targeted advisory services could also be provided directly to SMEs by a relevant public agency, such as KIESA or KEPA, or in collaboration with business associations for more direct outreach to help them identify greening possibilities and access resources. The Irish Green for Micro programme provides an example of such policies (Box 15.15).

Box 15.15. Climate advice to SMEs in Ireland

The Irish Green for Micro programme was rolled out nationwide in March 2021 to help prepare small businesses for the low carbon, more resource-efficient economy of the future. It is an initiative run by government-business support agencies (Local Enterprise Offices with support from Enterprise Ireland).

With the help of a Green Consultant, small businesses with up to ten employees can get free advice and technical support on resource efficiency, how to better understand their carbon footprint and how to implement an environmental management system to reduce costs and lower greenhouse gas emissions.

The programme, launched amid the COVID-19 pandemic, aims at a green recovery for small businesses. It is particularly suited for small businesses in construction, retail, manufacturing, textiles, food, electronics, plastics and packaging. It raises awareness of the many benefits developing a "greener" policy can offer businesses (increased cost savings, improved resource efficiency, reduced environmental footprint, opportunities for higher and additional value on products and services, increased access to customers, improved corporate image). The programme also shares best practices among small businesses in the economy.

Sources: Local Enterprise Office (2022[109]) and OECD (2021[108]).

- **Enhance financial support for SME greening.** First, the National Energy Efficiency Fund, established in 2019, could expand its scope and include specific financial programmes to support SME greening. The Fund could extend loans and loan guarantees to SMEs for energy efficiency measures or subsidise a share of consultancy costs to identify and implement resource efficiency measures. Second, the government might consider facilitating SME access to green finance by

connecting greening aspects to existing financial schemes. For instance, the government introduced a new financial support scheme in 2021 to increase export readiness and job creation.[58] This scheme could include a green criterion, such as the possibility of a grant component if SMEs plan to implement eco-innovative projects or purchase new machinery intended to improve resource efficiency.

Internationalisation of SMEs (Dimension 10)

Introduction

Expansion into foreign markets and SME internationalisation are key factors in boosting SME productivity and competitiveness on a global scale. Smaller economies in the region often struggle with competing internationally or even accessing foreign markets, often due to a lack of technical assistance or resources. Supporting export promotion, sustainable integration into global value chains (GVCs) and opening digital sales channels need to be supported through concrete policy actions and enhanced governmental support. With such support, SMEs can broaden their reach, improve productivity, and introduce innovative practices.

A small, import-dependent economy such as Kosovo needs to strengthen its exports by improving the quality and complexity of its export base. As one of the least restrictive investment destinations, Kosovo can leverage its position to foment FDI-SME linkages while supporting SMEs in their integration into multinational enterprise (MNE) supplier networks. Government support in capacity building and increasing absorption capacity is particularly important in boosting SMEs' productivity and, thus, their competitiveness, both domestically and internationally.

Kosovo has improved in this dimension, scoring 3.85, compared to 3.74 in the last assessment cycle (Table 15.28). The most significant advancements could be observed under the e-commerce sub-dimension, as the government implemented the Digital Empowerment Initiative and supported SMEs through the ACCESS project, both aimed at enhancing digitalisation processes. The government is in the process of reviewing key strategic documents for export promotion and SME development, which contributed to a minor decrease in the scores under the export promotion sub-dimension. Nevertheless, Kosovo performed above the regional average under most sub-dimensions.

Table 15.28. Kosovo's scores for Dimension 10: Internationalisation of SMEs

Dimension	Sub-dimension	Thematic block	Kosovo	WBT average
Dimension 10: Internationalisation of SMEs	Sub-dimension 10.1: Export promotion	Planning and design	3.95	4.61
		Implementation	3.95	4.24
		Monitoring and evaluation	3.67	3.65
		Weighted average	**3.89**	**4.23**
	Sub-dimension 10.2: Integration of SMEs into global value chains	Planning and design	3.89	3.88
		Implementation	3.97	3.57
		Monitoring and evaluation	3.00	2.70
		Weighted average	**3.75**	**3.49**
	Sub-dimension 10.3: Promoting the use of e-commerce	Planning and design	3.67	3.62
		Implementation	4.00	3.15
		Monitoring and evaluation	4.33	3.29
		Weighted average	**3.97**	**3.32**
Kosovo's overall score for Dimension 10			**3.85**	**3.80**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Kosovo has advanced on the previous assessment cycle's recommendations (Table 15.29), particularly in establishing cluster support programmes, which led to the formation of two clusters in the wood and metal processing industries. The economy also intensified its efforts in programme implementation to boost SMEs' export readiness and increase SME integration into GVCs. However, room for improvement in data collection remains. While Kosovo has a legal framework for the promotion of e-commerce and has enhanced its strategic orientation on digitalisation and e-commerce adoption, the programmes vary in effectiveness. There has been considerable progress in the overall digitalisation of the economy and access to online government services, including export promotion support. Nevertheless, e-commerce uptake remains low.

Table 15.29. Kosovo's implementation of the SME Policy Index 2019 recommendations for Dimension 10

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Focus on strong programme implementation and follow up through robust monitoring and evaluation	Kosovo advanced in the area of programme implementation. The government implemented the World Bank-supported Matching Grants Programme and the Market Access and Business Digitalisation Services for Kosovo Companies (ACCESS). Both programmes aim to further SME integration into GVCs and improve the quality of the export base by providing financial support and technical assistance. Further digitalising access to export promotion support could contribute to increased uptake and hence improved export capacity of Kosovar SMEs. There are monitoring and evaluation mechanisms in place for GVC programmes; however, the utilisation of the results remains limited. Data collection in the area of GVCs is non-existent.	Moderate
Increase efforts to develop programmes to support clusters of chosen sectors	The government identified three priority sectors: wood and metal processing; plastic; and furniture. It conducted sectoral studies on the possibilities of clustering. Kosovo formed clusters in the wood and metal processing sectors, and further analysis is planned for 2022-24.	Strong
Establish an operational and legal environment that can support the use of e-commerce	Kosovo has an EU-harmonised legal framework in place for the promotion of e-commerce. The Kosovo Digital Economy programme, introduced in 2018, aimed to improve digital connectivity within the economy. However, its implementation has been progressing slowly. The project will last until 2023, but Kosovo will miss key targets (World Bank, 2022[110]).	Limited

Kosovo strengthened its commitment to export promotion support by expanding KIESA's budget and its portfolio of services

Export promotion in Kosovo was governed by the National Development Strategy (2016-2021) (Government of Kosovo, 2016[77]). Upon its completion, the government started drafting a continuation of the strategy, due for adoption in the second half of 2022. In the meantime, the 2016-21 Strategy serves as the guiding document. Kosovo prepared a roadmap for the upcoming National Development Strategy, outlining key priorities, which include enhanced internationalisation. The strategy will also serve as the main strategic document governing the COVID-19 recovery, especially in boosting exports and supporting SMEs in their foreign expansion.

The agency responsible for SME internationalisation is KIESA. KIESA has a dedicated, autonomous Export Promotion Sector that deals with projects supporting SMEs. The government increased KIESA's budget allocation for export promotion: in 2019, EUR 585 000 of KIESA's operational budget was allocated to export promotion activities, while in 2020, the total amount allocated rose to EUR 600 000. An almost two-fold increase since 2018 (when the budget allocation was EUR 351 000) represents Kosovo's increasing commitment to the internationalisation of SMEs. This, in turn, allowed KIESA to expand its portfolio of available services. Apart from the continuous provision of services related to trade policy

information and commercial intelligence, economy representation at major trade fairs, export promotion, marketing, product development and training, KIESA offers services pertaining to networking platforms and product certification. Nevertheless, its human resources capacity remains low, with a modest increase from three to four employees working on export promotion. This can lead to a hindered execution of KIESA's broad mandate pertaining to overall SME support and subpar quality of services rendered.

Export promotion services are increasingly digitalised, reducing some of the administrative barriers to exports for SMEs

Since the last assessment cycle, the Government of Kosovo has made considerable progress in further digitalising the economy's export promotion services. SMEs can now apply for grants and export subsidies on line, as well as apply to participate in national and international trade fairs on line. Moreover, the availability of export promotion services for SMEs through the e-Kosova platform improved. This significantly reduces the administrative burden for SMEs, which is considered a significant obstacle to further export growth in Kosovo (Ministry of Trade and Industry, 2020[111]). The platform increases the government's transparency and inclusivity efforts, further facilitating monitoring and evaluation efforts. It does not, however, solve another major barrier to exporting, which is a lack of both capacities and interest in export, quoted by 79% and 61% of SMEs, respectively (Regional Cooperation Council, 2021[67]). At the time of assessment, Kosovar SMEs do not have access to online training on internationalisation, counselling or advisory services through the e-Kosova platform.

Kosovo developed new programmes to support SME-MNE linkages through cluster development and improving the supplier base

While Kosovo's foreign investment framework is conducive to stimulating FDI-SME linkages, as foreign firms are not subject to screening and are free to operate on equal grounds with local enterprises, the economy is still struggling to attract a quality export-oriented FDI. The FDI stock per capita and net in FDI inflows[59] are among the lowest in the Western Balkan region (EBRD, 2022[112]; OECD, 2021[6]), and export-led FDI has remained scarce (European Commission, 2021[113]). Rather than a legal framework, other impediments, such as electricity supplies, informality and weak contract enforcement, might be the reasons behind low FDI in Kosovo (European Commission, 2021[113]), further hindering SMEs' indirect participation in GVCs through FDI-SME linkages.

The FDI attraction in the economy falls under KIESA's responsibility. The government included the attraction of quality FDI as one of the key priorities in several strategic documents. With a shared goal of increasing SMEs' capacities to collaborate with potential investors and MNEs, the National Development Strategy (2016-2021), which, despite its expiration, still governs SMEs' internationalisation efforts, and the Kosovo Government Programme (2021-2025)[60] (Government of Kosovo, 2021[38]) both include provisions on expediting standards and certification development, identifying sectors for smart specialisation and creating linkages between the education system and the labour market. The legal framework for investment activities is to be governed by the Law on Sustainable Investments,[61] which, at the time of assessment, was being reviewed by the government.

Cluster formation and development are key elements of Kosovo's strategy to integrate SMEs into GVCs. Kosovo plans to do so by establishing an institutional framework in support of industrial cluster development and facilitating SME involvement with larger enterprises. The adopted approach first consists of identifying and then supporting seven functional clusters through grants and subsidies. Since the last assessment cycle, Kosovo has conducted sectoral studies on the value chains in the wood-processing industry, plastics and furniture sectors to explore industrial clustering opportunities. The government's goal is to stimulate the creation of new enterprises, supported by existing ones, and to encourage technology and knowledge transfer within the industrial cluster. To date, Kosovo has formed industrial clusters in the wood and metal processing sector, with 28 and 47 SME members, respectively.

Kosovo also made notable advancements in implementing new programmes to enable interconnectedness between SMEs and larger enterprises through both financial and non-financial support. The Matching Grants Programme,[62] a grants and co-financing initiative of the Ministry of Industry and Trade and KIESA, aims to increase the export readiness of SMEs and the supplier quality of local SMEs. The programme can cover up to 90% of the project activity, up to EUR 10 000 for MSMEs. In 2019, the focus of the programme was expanded to include standardisation, certification and accreditation to comply with international standards. More recently, the programme has been restructured to more aptly respond to SME needs in light of the COVID-19 pandemic, including support for procuring production equipment and machinery and tools for digital enhancement.

In addition, in collaboration with the Austrian Development Cooperation, the Government of Kosovo is implementing the Market Access and Business Digitalisation Services for Kosovo Companies (ACCESS). It aims to facilitate SME internationalisation through export promotion activities and assistance in adhering to international standards. The project will support KIESA in enriching and further developing its database of export-oriented ICT service providers by capacitating the companies to access new markets and creating networking opportunities between Kosovar SMEs and Austrian partners. The project will also focus on SME certification, particularly relating to meeting international digital standards for ICT service providers domestically.

Both programmes strive to create linkages between SMEs and MNEs, enhancing industrial clustering or strengthening business-to-business (B2B) matchmaking.[63] However, KIESA's focus on international trade fair participation as the main channel to create opportunities for SMEs risks to limit to have limited impact on fomenting of effective MNE-SME linkages.

Kosovar SMEs have made progress in digitalising operations, but the uptake of e-commerce has decreased

Kosovo has a regulatory framework that governs e-payments and e-commerce, which is aligned with EU standards. The current regulation was adopted in 2012 and 2013. The Law 04/-L094 on Information Society Services and the Law 04/L-155 on Payment Systems make electronic documentation legally equivalent to traditional physical documents and electronic signatures. No changes in the legal framework have been observed in this cycle. Since the previous assessment, the strategic framework was expanded and now includes the Programme of the Government of Kosovo, adopted in 2021, which confirms support for advancing the focus to further development of foreign trade and e-commerce. As an indication of increased commitment, KIESA revised its targets to include intensified digitalisation and e-commerce promotion. The agency implemented Digital Empowerment Initiative to further help SMEs in their digitalisation efforts by providing financial support. (KIESA, 2020[78]); (KIESA, 2021[114]) MSMEs in Kosovo are eligible for grants to assist them in digitalising operations, with special emphasis on enterprises run by women, underrepresented minorities and individuals from disadvantaged areas. The level of subsidies depends on the company's turnover and can range from a 50% subsidy to up to 90% (KIESA, 2021[114])The aforementioned ACCESS project also serves as a vessel to promote digitalisation initiatives, including e-commerce.

Considerable improvements in the economy's digital connectivity were brought by the World Bank's KODE initiative, which directly contributed to an increase in the number of people with access to high-speed Internet[64] and the number of public institutions connected to the Internet.[65] While digitalising the economy has gained momentum since the last assessment cycle, the adoption of e-commerce has decreased. According to Balkan Barometer, 17% of surveyed companies used the Internet to sell their goods and services in 2021 (Regional Cooperation Council, 2021[67]) compared to 30% in 2019 (Regional Cooperation Council, 2019[115]). Similarly, in 2019, in the case of 43% of surveyed Kosovar's companies' sales, less than 5% was generated through an online channel (Regional Cooperation Council, 2019[115]), while in 2021, that percentage increased to 62% (Regional Cooperation Council, 2021[67]).

Thus, despite some improvements in implementing e-commerce programmes, there seems to be little progress in increasing the adoption of e-commerce practices among SMEs. Little change can also be observed in the information accessibility in the area of e-commerce since the last assessment cycle. The e-Kosova platform, though a comprehensive portal facilitating access to numerous government services, does not have a dedicated e-commerce segment to apply for digitalisation and e-commerce-related support. A dedicated platform where SMEs could learn about e-payment and e-commerce opportunities could contribute to increasing the uptake and adoption of e-commerce practices.

The way forward for Dimension 10

- **Continue and expand the digitalisation of export promotion activities**. Kosovo has already made important advances in digitalising export promotion support, allowing SMEs to apply for grants and programmes on line, which significantly streamlined the previously cumbersome procedures. Nevertheless, in light of the COVID-19 pandemic, the majority of export promotion activities in Kosovo had to be cancelled, as the infrastructure to conduct them on line was lacking. This points to a pressing need to develop a digital environment for SMEs to improve their capacity remotely. Therefore, expanding digitalisation efforts to online training, virtual counselling and online export support for SMEs would further reduce the administrative burden, streamline the process and reduce the cost for enterprises (Box 15.16).

Box 15.16. Digitalising export promotion support: Lessons from Costa Rica

ProComer is a trade promotion agency in Costa Rica, often ranked as the best export promotion agency in the world. Apart from containing a broad array of information on trade facilitation, export statistics and market studies, it also offers various digital tools at SMEs' disposal. The digital tools include training on export readiness, one-stop shops for customs facilitation, as well as company registration. The online training and capacity building aims to assist SMEs in their export capacity, inform them about relevant regulations and policies domestically and internationally, and help them increase the value added of their export offer. Digitalising the entire export promotion system in Costa Rica significantly streamlines the process while also reducing the cost by up to 90% (ProComer, 2021[116]).

By digitalising a large majority of export promotion activities, especially capacity building and support services for SMEs, ProComer facilitated access to available programmes and became more inclusive to microenterprises and SMEs with limited resources, as all of ProComer's digital tools are provided free of charge. As Costa Rica enjoys a high level of digital connectivity, digitalising export promotion services increased the outreach of ProComer, which can now cater to a higher number of SMEs located across the economy. Furthermore, when the COVID-19 pandemic halted or moved all commercial activity on line, Costa Rican SMEs were not left without export support during such challenging times. On the contrary, they had access to a variety of support programmes and information available through the ProComer portal.

Kosovo is on the right track to streamlining and digitalising its export promotion support. The recent digitalisation of the grant application process allowed SMEs to apply for funding and support programmes on line and was a noteworthy first step toward a more inclusive and streamlined export service. Extending this practice to other types of export promotion support, especially training and capacity building, would provide a greater outreach for KIESA's programmes, thus also potentially increasing their uptake. Moreover, digitalising export promotion programmes by including online mentoring and training further reduces the administrative burden of organising in-person advisory services for KIESA while also cutting participation costs for SMEs.

Source: ProComer (2021[116]).

- **Collect the relevant data on the integration of SMEs into global value chains.** Consistent data collection would strengthen the monitoring mechanisms in place and provide a measure of progress for the government. A transparent and public database of SME activities and the government support received in GVC activities is vital to building the government's accountability and public trust.
- **Create a dedicated segment on e-commerce opportunities and support programmes.** Kosovo could leverage its e-Kosova platform, which has already digitalised many government services, to allow SMEs to apply for digitalisation and e-commerce support and inform SMEs about programmes promoting e-commerce practices and relevant policies and developments. Having a dedicated online platform solely for e-commerce would boost the government's transparency efforts and contribute to enhancing SMEs' trust in e-payments and online sales channels.

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Notes

1. Publication of Labour Force Survey Results for Q4 2021 cannot be published according to the Calendar of KAS Publications 2022 due to delays in data collection in the field. The latest available data are from Q1 2021. There is no indication as to when the updated data will become available.

2. The midterm evaluation of the Kosovo Education Strategic Plan (2017-2021) does not include any information on the implementation of key competences or entrepreneurial learning (Mehmeti, Boshtrakaj and Mehmeti, 2019[119]).

3. This law was originally scheduled for 2018 and was rescheduled for 2021 as evidenced in the most recent Economic Reform Programme 2021-2023. No update is yet available on the progress of adoption.

4. The Strategy for Youth (2019-2023) advocates start-up support and setting up a Co-ordination Body for Supporting Entrepreneurship among Young People. As yet, there is no further information on this proposed body.

5. See information contained in the European Training Foundation publication on quality assurance in Kosovo at https://www.etf.europa.eu/sites/default/files/2021-04/quality_assurance_in_vet_kosovo.pdf.

6. For more information on the pre-university curriculum frameworks, see https://masht.rks-gov.net/en/korniza-e-kurrikules-e-arsimit-parauniversitar.

7. It is interesting to note that in the 2011 curriculum framework, the Life and Work curriculum area is allocated around 7% of curriculum time across primary and secondary education, while in vocational education, this increases to 47% of the time because technical subject allocation is included. See p. 40 of http://www.ibe.unesco.org/fileadmin/user_upload/archive/curricula/kosovo/kv_alfw_2011_eng.pdf

8. Examples of practical entrepreneurial experience include the Upshift programme (see https://www.unicef.org/kosovoprogramme/upshift) and activities such as makerspaces and careers activities delivered through the After School Support for Teens Program (ASSET) (see http://asset-ks.org/index.html). VET apprenticeships are also available, but it is not clear whether they explicitly develop entrepreneurial competences.

9. See http://alled.eu/en/category/resources-en/ to access translations in Serbian and Albanian.

10. For more information, see http://alled.eu/en/alled2-officially-launched-entrecomp-in-albanian-and-serbian-language/.

11. Smartbits is included in the teacher training catalogue and is now part of the Busulla platform at https://busulla.com/.

12 For more information on how the legal framework established through the Law on Higher Education supports university collaboration, see p.41 in the ALLED2 report, *Towards Industry 4.0 in Kosovo* which explains the development process for this triple helix cluster model (ALLED2, 2022[44]).

13. This was introduced as part of the implementation framework of the Kosovo Strategy for Better Regulation.

14. For more information, see https://mpms.rks-gov.net/recica-mori-pjese-ne-takimin-e-komisionit-per-ekonomi-punesim-tregti-industri-ndermarresi-dhe-investime-strategjike/.

15. This was a commitment of the Kosovo Government Programme (2021-2025); see p. 24 of Government of Kosovo (2021[38]).

16. For more information, see https://balkangreenenergynews.com/procredit-bank-in-kosovo-rolls-out-certified-green-building-finance/.

17. This is led by Kosovo Women's Chamber of Commerce, linked to the G7 Training on Women Empowerment though the Digital Transformation Business Consultant Council in Kosovo, "Women Go Digital"; see https://www.facebook.com/bcckosovo.

18. For more information, see https://abgj.rks-gov.net/al/lajmi_single/904.

19. The government is seeking to learn lessons through the experiences of the pandemic through a study commissioned and supported by the Friedrich Ebert Stiftung, *Inclusiveness of the Government Response to the COVID-19 Crisis: Who Was Left Behind?*. This showed that the government response negatively impacted some groups of women, including informally employed women, single mothers and informal women farmers. On the other hand, women entrepreneurs in the formal economy experienced a positive impact (Gashi and Gashi, 2022[118]).

20. For more information, see https://biznesi.rks-gov.net/

21. According to the assessment inputs one bankruptcy case was recorded for 2017; three were recorded in 2018; two in 2019; one in 2020; and one in 2021.

22. The SME Test is a policy tool promoted by the European Commission as a means to fully examine and respond to potential impacts of a regulation on SMEs. Examination of SME aspects in RIA is the starting point of the SME Test methodology, and acts as a filter for policies which could have an important impact on SMEs. If the regulation is considered to have a high enough impact on SMEs, the process moves towards extensive consultation with stakeholders, assessment of impacts and preparation of mitigation measures. For more information, see: https://ec.europa.eu/info/sites/default/files/br_toolbox-nov_2021_en_0.pdf.

23. The previous council was housed and co-ordinated by the Ministry of Trade and Industry. The Decision on the Reorganisation of the Council places it under the chairmanship of the prime minister, and enlarges its membership to all relevant line ministries, international partners institutions (the European Bank for Reconstruction and Development, the United States Agency for International Development, etc.) and business associations.

24. The Agency for Information Society had prepared a draft Strategy for Digital Governance for 2016-2020, but the Office for Strategic Planning of the Prime Minister's Office judged that such a strategy should be considered complementary towards the Strategy for the Modernization of Public Administration, and thus the strategy was not adopted, leading to a lack of co-ordination between different government bodies in conducting digital government reforms (Open Data Kosovo, 2021[66]).

25. Having a functional e-payment system is a necessary precondition to being able to complete procedures which require the payment of administrative taxes and fees fully on line. It allows the development of services from a maximum sophistication of Level 3, to Level 4 (transactional services), according to the following categorisation:

    1) Information: Web pages provide the user with informative material for the transaction of a demand.

    2) One-way interaction: Web pages provide the applications in electronic form and the user has the ability to download, fill and deposit them to the public sector.

    3) Two-way interaction: Apart from the informative material, the user has the ability to fill an electronic form and submit their data electronically.

    4) Transaction: At this stage, the electronic gate provides the user with the possibility to fulfil demands, complete transactions.

    5) Personalisation: In the fifth stage, the supplier of services takes actions with the fundamental objective to make the electronic platform friendlier to the user. In addition, the supplier of services can upgrade the services or provide the services automatically without the citizen needing to take any action (European Commission, 2006[117]).

26. Based on the combined share of “completely satisfied” and “tend to be satisfied” responses to the Balkan Business Barometer survey’s question: Could you please tell me how satisfied are you with each of the following in your place of living – Digital services currently provided to business by public administration?

27. The once-only principle aims to ensure that users of digital services only need to provide certain information to the government once, which is then shared by various administrations through the government’s interoperable data exchange network.

28. Regulation (EU) No. 910/2014 on electronic identification and trust services for electronic transactions in the internal market, or the eIDAS regulation, establishes the European framework for electronic trust services and the use of e-ID. For more information, see: https://digital-strategy.ec.europa.eu/en/policies/eidas-regulation.

29. If the KBRA fails to answer a request within a prescribed time frame as detailed in the relevant legislation, consent to the request is automatically conferred.

30. For more information on the National Agency for Information Society of Albania, see the Digital Society policy dimension of OECD (2021[75]).

31. A federated digital identity system allows users to connect to different platforms using different digital identity management systems, thanks to attributes that are scattered across these systems.

32. In the National Development Strategy (2016-2021), the government identified 575 public services provided to businesses, a relatively high number compared to other WBT economies.

33. Through the Initiative for Digital Empowerment, 28 SMEs took advantage of training in the areas of e-commerce, digital marketing and software.

34. The government list seven portals containing information on privately provided BSSs.

35. Accordingly, in procurement procedures covered by the PPL, tenders submitted by domestic bidders which contained solely domestic products and services were given preference over bids submitted by bidders with foreign products and services if the difference in prices of those tenders was not greater than 10%. Second, if the criterion for the award of the contract was the lowest price, the advantage was given to the domestic bidder with domestic products and services over the tender submitted by a foreign bidder if the price proposed by the domestic bidder was not more than 15% higher than the bid submitted by the foreign bidder.

36. Rules and Operational Guidelines for Public Procurement, Article 19.

37. Rules and Operational Guidelines for Public Procurement, Article 18.1.

38. PPL, Article 52 (1).

39. PPL, Article 87.

40. For more information, see https://nced-ks.com/meetings/council-meetings.

41. For information on the government regulation outlining the responsibilities of the National Council for Economy and Investment, see https://nced-ks.com/storage/app/media/uploaded-files/Regulation%20on%20the%20work%20of%20National%20Council%20for%20Economic%20Development.pdf.

42. For more information, see https://kiesa.rks-gov.net/.

43. See ALLED2 project information at http://alled.eu/en/.

44. See https://sitp.rks-gov.net/. The Labour Market Barometer automatically collates real-time data from the following statistical sources: Employment Agency of the Republic of Kosovo; Kosovo Agency of Statistics; Tax Administration of Kosovo; Civil Registration Agency; Ministry of Education and Science; Ministry of Labour and Social Welfare; Ministry of Internal Affairs; Business Registration Agency; Agency for Vocational Education and Training and Adult Education; University of Pristina; Kosovo Accreditation Agency; and the National Qualification Authority.

45. The first phase of development was supported by the United Nations Development Programme (UNDP) Kosovo and the Helvetas-EYE Project, while subsequent transformation into the Kosovo Labour Market Barometer has been supported by the ALLED2 project, which is funded by the European Union with co-funding from the Austrian Development Cooperation and implemented by the Austrian Development Agency.

46. For more information, see http://alled.eu/en/edu-net-2/.

47. See two reports available for 2019-20 and 2020-21 at http://alled.eu/en/category/resources-en/.

48. For more information, see https://smartkosova.rks-gov.net/.

49. For more information, see https://www.heraskosovo.org/.

50. See the Smart Specialisation (S3) platform for Kosovo from the Joint Research Centre at https://s3platform.jrc.ec.europa.eu/kosovo#:~:text=Smart%20Specialisation%20in%20Kosovo*,-Kosovo%20registered%20in&text=Once%20begun%2C%20Kosovo's%20S3%20process,original%20Innovation%20Strategy%20in%202012.

51. For more information, see https://kiesa.rks-gov.net/page.aspx?id=1,60.

52. The Kosovo Digital Economy (KODE) Project, which arose as a result of the World Bank and Ministry of Economic Development of Kosovo dialogue, is reflected in the Kosovo Economic Reform Programme and in the National Development Strategy (2016-2021). For more information, see https://kodeproject.org/en/home-2/.

53. For more information, see https://kiesa.rks-gov.net/page.aspx?id=1,134,464.

54. For more information, see https://startupkosovo.org/.

55. The annual European Innovation Scoreboard provides a comparative assessment of research and innovation performance of the countries of the European Union and its regional neighbours. It allows policy makers to assess the relative strengths and weaknesses of national research and

innovation systems, track progress, and identify priority areas to boost innovation performance. See the regional chapter on Innovation for SMEs (Dimension 8b) for further information.

56. STIP stands for science, technology and innovation policy. For more information on the EC-OECD STIP Compass, see https://stip.oecd.org/stip/.

57. ESCOs offer services for implementing and financing energy efficiency projects, including energy auditing, design and engineering, equipment procurement, construction, installation, commissioning, measurement and verification (M&V) of energy and cost savings, operations and maintenance (O&M), facility management and energy services.

58. This support will be allocated to support SME investments in new products and services, support for start-ups, spin-offs and innovative projects as well as subsidies to purchase new machinery.

59. In 2019, net FDI inflows represented 3.8% of Kosovar GDP (OECD, 2021[6]).

60. The Kosovo Government Programme (2021-2025) is a broader document communicating the main priorities of the government.

61. The new law on Sustainable Investments combines the provisions of the Law on Foreign Direct Investment and the Law on Strategic Investments.

62. The Matching Grants Programme is implemented through the CERP amounting to EUR 14.30 million, as a loan provided by the World Bank. The Ministry of Industry, Entrepreneurship and Trade is responsible for implementation.

63. During the assessment period, KIESA participated in matchmaking between 29 MNEs and SMEs.

64. From a baseline of 274 156 people in 2018, the number increased to 383 763 in 2020 (World Bank, 2022[110]).

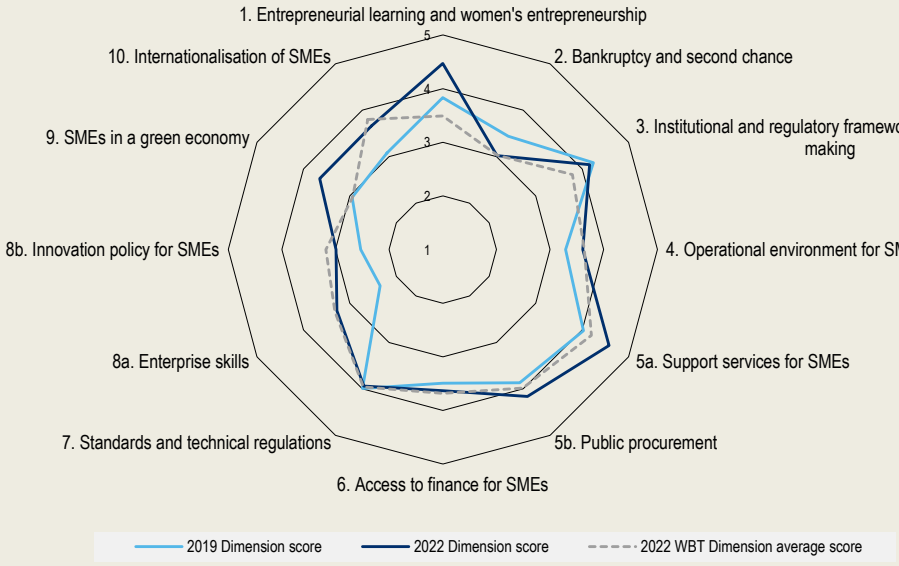
65. From a baseline of 0 in 2018, the number increased to 100 in 2020.

16 Montenegro: Economy Profile

This chapter covers the progress made by Montenegro in implementing the Small Business Act (SBA) for Europe over the period 2019-21. It starts with an overview of Montenegro's economic context, business environment and status of its EU accession process. It then provides key facts about small and medium-sized enterprises (SMEs) in the Montenegrin economy, shedding light on the characteristics of the SME sector. It finally assesses progress made in the 12 thematic policy dimensions relating to the SBA during the reference period and suggests targeted policy recommendations.

Key findings

Figure 16.1. Small Business Act scores for Montenegro (2019 and 2022)



Note: WBT: Western Balkans and Turkey.

Montenegro has made progress in implementing the Small Business Act (SBA) since the publication of the previous report – the *SME Policy Index: Western Balkans and Turkey 2019* (Figure 16.1). The economy continues to provide an environment conducive to business and is receptive to the needs of small and medium-sized enterprises (SMEs). Montenegro has achieved its highest average scores in the following areas: entrepreneurial learning and women entrepreneurship; institutional and regulatory framework for SME policy making; support services for SMEs; public procurement; and SMEs in a green economy, where it also outperforms the WBT average.

Main achievements

- **Strong emphasis has been placed on developing both policy and practical implementation of entrepreneurial learning at the system level**, providing a clear progression in implementing entrepreneurial learning across all levels of lifelong learning in Montenegro. Steps have also been taken to establish system-level co-ordination in women's entrepreneurship and to improve evaluation. The new strategy is driving continued improvement of women's entrepreneurship, with a 4.6% increase in the share of women business owners from 2018 to 2020 and an increase of 10% in the share of women engaged in self-employment over the same period.
- **Implementation of the 2018 Strategy for the Development of Micro, Small and Medium-Sized Enterprises (2018-2022) advanced well despite the COVID-19 pandemic.** Co-ordination of implementation and monitoring and evaluation has also been reinforced. The latter has been achieved through the creation of a dedicated Working Group for SMEs within the reformed Council for Competitiveness chaired by the Ministry of Economic Development, which is responsible for monitoring the strategy's implementation.
- **Provision of business support services (BSSs) considerably advanced, augmenting the number and scope of support programmes for SMEs**. New BSSs, such as grants, export

financial support, information and communication technology (ICT) and resource efficiency trainings, are now available to SMEs. In addition, there was a considerable increase in the number of SMEs benefiting from these services since the previous assessment cycle.

- **Access to finance has been facilitated by a strong fiscal response of the Montenegrin authorities to soften the economic impact of the COVID-19 pandemic**. Access to credit has remained relatively stable amid a robust legal and regulatory framework, now fully aligned with Basel III requirements and ongoing consolidation of the banking sector. The state-owned Investment and Development Fund has continued to play a crucial role in facilitating lending, and plans are underway to establish a state Credit Guarantee Fund to help alleviate continued high-level risk perceptions by lenders, especially concerning smaller enterprises.
- **A stronger focus has been placed on implementing policies to improve enterprise skills**, which has reaped benefits through increases in the provision of training for start-ups to drive the digital economy and support growth. In response to the COVID-19 pandemic, there has been a rapid adaptation to online provision of training and increased investment in training to support SME digitalisation.
- **SMEs' greening efforts have been further supported.** Montenegro's strategic framework has increasingly included environmental policies targeting SMEs, the implementation of which has been done in a timely fashion for the most part. The government has also adopted a whole-of-government approach to creating synergies between greening initiatives through its newly established Green Economy Working Group. Financial instruments have been made available to SMEs through the new Eco Fund, governmental initiatives and international partners' support. Other tools have equally been introduced, such as awareness raising or assistance in implementing international environmental standards.
- **The strategic framework for export promotion and global value chains, with a special emphasis on cluster formation and development, has been strengthened.** SMEs now have access to more capacity building, a broad range of information, as well as amplified financial support, aiming to improve the supplier base in the economy. However, these measures currently proposed by the government, though apt, might prove insufficient in reaching this objective, as they lack tangible support for overcoming technical barriers to trade.

The way forward

- **Develop insolvency prevention policy measures, including a fully-fledged early warning system.** The revocation of the Law on Consensual Financial Restructuring of Debts to Financial Institutions left a gap in the insolvency framework dealing with preventive measures. This gap could be filled with an alternative law on out-of-court debt settlement or a hybrid preventive insolvency procedure based on a pre-packaged reorganisation plan agreed with creditors out of court and filed to court only for confirmation. Including a fully-fledged early warning system is also recommended as SMEs tend to underestimate the importance of maintaining a sound financial status and avoiding risky decisions.
- **Build the public administration's capacity to understand businesses' needs when designing digital services**. While digitalising existing public services is an effective way to save time for businesses and improve the efficiency of existing administrative procedures, the government may wish to adopt a proactive approach to redesigning services around the needs of businesses, making services more efficient, delivering more public value and engaging in a broader digital transformation of the public sector. The full implementation of the "once-only" principle will allow this re-engineering of services to deliver their full benefits.
- **Improve monitoring and evaluation of digital services for businesses, including company registration.** Low satisfaction rates of digital services for businesses, as well as limited

monitoring and evaluation mechanisms, show a need for more targeted data collection. The government should look to make improved, regular and obligatory monitoring of satisfaction a key objective of the overall development plans for the e-Uprava and e-Firma portals, where services are concentrated. When improving feedback channels, it would be important to ensure differentiated data collection for feedback by businesses. To go a step further, production-related data can be collected to understand the underlying reasons for businesses' satisfaction or dissatisfaction with a given service and identify areas for improvement.

- **Develop a comprehensive financial literacy strategy**. The newly created National Committee for Financial Education Development should develop a financial literacy strategy in a timely fashion. It should be based on the findings of the regional assessment and include benchmarks and regular monitoring and evaluation mechanisms. This strategy should address both measures for entrepreneurs and the broader public, including students, and should suggest a clear implementation mechanism and body responsible for its execution. Finally, an action plan should be elaborated to accompany the strategy.
- **Introduce measures to stimulate collaboration between research institutions and the private sector.** Further efforts to increase co-operation (and make it more visible) are needed to boost investments into research and development (R&D) and build the foundation for a knowledge economy. The operationalisation of the pilot technology transfer office, fully staffed and equipped, together with an action plan to expand the network and raise awareness about the opportunities of the services provided, would be an important milestone. Soft measures to incentivise researchers to engage with private businesses, such as opportunities for professional exchanges with the business community and evaluation of research and legislative incentives for commercialisation, should also be considered.

Economic context and role of SMEs

Economic overview

Montenegro is a service-based, upper-middle-income economy with a population of 621 306 as of 2021, making it the smallest of the Western Balkans and Turkey (WBT) economies. Its per capita gross domestic product (GDP) by purchasing power parity in stood at USD 18 259 in 2020 (in constant 2017 international dollars), having shrunk by roughly USD 3 300 since 2019, but remains the second-highest in the WBT region after Turkey (World Bank, 2022[1]). Montenegro is dominated by the services sector, employing approximately 74.1% of the population. In comparison, industry employs approximately 18.4% and agriculture only 7.5%, with the top sectors in terms of value added to GDP being retail trade (12.5%), agriculture (7.6%), the public sector (7.5%), real estate (6.4%) and construction (6.2%) (MONSTAT, 2021[2]). Montenegro depends on capital inflow to support its economy and particularly relies on its tourism industry, which contributes far more to GDP and employment in Montenegro than in the other WBT economies (32% of GDP compared to 14.9% Western Balkan average[1] and 9.5% EU average) (OECD, 2021[3]). In 2018, Montenegro held the second-highest share of travel and tourism contributions to total employment in the region at 7.68%, more than double the WBT average of 3.4%. However, the World Bank projects that the share of tourism to total employment will slightly decline to 7.1% in 2022 (World Bank, 2022[4]).

Montenegro's lack of an independent monetary policy after unilaterally adopting the Euro in 2002, coupled with its strong dependence on capital inflows, makes the economy highly vulnerable to external shocks and business cycle fluctuations. Both the 2008 financial crisis and the Eurozone crisis shed light on the economy's market volatility, with GDP contractions at dramatically higher rates than neighbouring economies at 5.8% and 2.4% in 2009 and 2012, respectively (World Bank, 2021[5]). In 2020, heavy reliance on both domestic and foreign tourism made the economy greatly susceptible to the effects of COVID-19 measures, such as border closures and mobility restrictions, causing an 83.2% drop in tourist arrivals (OECD, 2021[3]), ultimately leading to a 15.3% contraction in GDP for 2020, the steepest decline in Europe (Box 16.1). However, the economy rebounded with a striking 12.3% of GDP growth in 2021, fuelled by a strong recovery in foreign tourist overnight stays (nearly triple those in 2020), retail sales and manufacturing output (Table 16.1) (IMF, 2022[6]; European Commission, 2022[7]; EBRD, 2021[8]). Nevertheless, as Russian and Ukrainian citizens account for a large portion of tourism in Montenegro (28% of overnight stays in 2018 and remaining significantly high in 2021 at 21.3% in the wake of the pandemic), large losses in tourism are expected as a consequence of the war in Ukraine (MONSTAT, 2021[2]).

Box 16.1. Montenegro's COVID-19 recovery programme

In terms of economic impact, Montenegro, where tourism contributes far more to GDP and employment than in the other WBT economies (32% of GDP compared to 9.5% EU average), was hit especially hard by border closures and mobility restrictions caused by the pandemic, leading to an 83.2% drop in tourist arrivals. Driven by the acute losses in the tourism sector, Montenegro's decline in GDP for 2020 was severe at -15.3%, with unemployment rising to a high of 18.4%.

As part of its recovery, Montenegro provided five economic support packages to mitigate the impact of the COVID-19 pandemic, the first having been launched in March 2020 for the amount of EUR 100 million, with the last having been presented in April 2021 for the amount of EUR 166 million. The sum of the combined economic support packages totalled approximately EUR 1.85 billion for both short-term fiscal measures and long-term sustainable development goals envisioned until 2024. The government also provided specific economic support measures throughout the pandemic:

- **Subsidies**: In order to preserve existing jobs and provide assistance for businesses during COVID-19, Montenegro introduced support measures for employers, employees and the self-employed, including salary subsidies worth 50% to 100% of the gross salary of the employed until June 2021 and salary subsidies for new employment until December 2021. Montenegrin packages also targeted vulnerable populations with one-off financial assistance for pensioners on the lowest pension and beneficiaries of family material support.
- **Tax measures**: Montenegro implemented a relatively wide set of responses to COVID-19 with deferrals of tax payments and salary contributions and obligations for up to 90 days until June 2021, flexible tax-debt repayments including no interest for late payments of tax arrears, a 60-day deferral of payment for customs duty and value-added tax (VAT) for discontinued companies due to the pandemic, extended reduced VAT rate of 7% to catering and accommodation services and VAT exemptions for donations of medical goods to public entities.
- **Loans**: Montenegro introduced loan repayment moratoriums for individuals and businesses in all banks, microcredit institutions and the Investment and Development Fund (IDF) between March 2020 and August 2021, further expanding the scope of eligible businesses in April 2021. The Central Bank also allowed individuals whose earnings dropped more than 10% due to the pandemic to extend the repayment period of their loans by up to five years.
- **Credit lines**: A Credit Guarantee Fund was announced in 2021 and is expected to be established by the end of 2022 with an expected initial capital of EUR 10 million. The Fund's services will be aimed at entrepreneurs; micro, small and medium-sized enterprises (MSMEs); and agricultural producers, which are recognised as the group with the most difficulties accessing financing by credit institutions.

Although numerous short-term economic support measures helped mitigate immediate economic damage, structural issues, primarily with regard to the public health sector, employment, social protection and private-sector support, were exacerbated by the pandemic and remain in need of reforms.

Sources: OECD (2021[3]; 2021[9]); European Commission (2021[10]; 2021[11]).

Table 16.1. Montenegro: Main macroeconomic indicators (2016-2021)

Indicator	Unit of measurement	2016	2017	2018	2019	2020	2021
GDP growth[1]	% year-on-year	2.9	4.7	5.1	4.1	-15.3	12.4
National GDP[2]	EUR billion	3.88	4.298	4.882	4.917	4.23	..
GDP per capita growth[2]	% year-on-year	2.9	4.7	5.1	4.1	-15.2	..
Inflation[1]	% average	0.1	2.8	2.9	0.5	-0.8	2.5
Government balance[1]	% of GDP	-3.6	-5.3	-3.9	-2	-11.1	-1.9
Current account balance[1]	% of GDP	-16.2	-16.1	-17.0	-14.3	-26.1	-9.2
Exports of goods and services[1]	% of GDP	40.6	41.1	42.9	43.8	26.0	43.2
Imports of goods and services[1]	% of GDP	63.1	64.5	66.7	65.0	61.0	62.7
Net foreign direct investment (FDI)[1]	% of GDP	9.4	11.3	6.9	6.2	11.2	11.2
External debt[2]	% of gross national income (GNI)	141.0	146.0	144.1	148.8	200.6	..
International reserves of the National Bank[1]	EUR million	753	847	1050	1367	1739	1749
Gross international reserves[1]	Ratio of 12 months imports of goods and services moving average	3.6	3.7	4	5.1	8.2	6.8

Indicator	Unit of measurement	2016	2017	2018	2019	2020	2021
Unemployment[1]	% of total active population	18	16.4	15.5	15.4	18.4	16.9

Sources: 1. European Commission (2022[7]); 2. World Bank (2022[12]).

Montenegro's limited room for discretionary fiscal spending and excessive reliance on the state to stimulate the economy have contributed to a widening of external and internal imbalances as well as indebtedness (World Bank, 2019[13]). Substantial imbalances existed before the pandemic, with current account deficits exceeding 14% of GDP for over a decade. However, the COVID-19 crisis exacerbated them significantly, with the balance plummeting to -26.1% in 2020 due to increased COVID-19-related public spending (European Commission, 2021[11]). Nevertheless, the economy saw strong rebounds in the wake of its economic recovery, with deficits decreasing to only -1.9% in 2021, which is stronger than pre-pandemic levels.

Although imports of goods and services decreased modestly by only 4 percentage points from 2019 to 2020, exports' contribution to GDP plummeted by 17.8 percentage points as the tourism sector accounted for roughly half of total exports, leading to a 65.1% increase in Montenegro's trade deficit of 35%. However, Montenegro's exports recovered to roughly pre-pandemic levels in 2021, lowering the deficit to only 19.5% (European Commission, 2021[14]). The economy's vulnerability to external shocks is compounded by its relatively undiversified export base, of which goods, mostly products susceptible to price fluctuations such as metals, machinery and equipment, accounted for 23% of total exports in 2020 (MONSTAT, 2021[2]). Moreover, Montenegro's total service exports are typically dominated by travel and tourism services, which are also highly susceptible to external shocks, as witnessed during the latest crisis, which led to an approximate 43.7% decrease in travel-related services exports from 65% in 2019 to 21.3% in 2020 (World Bank, 2022[15]).

However, large infrastructure projects aimed at enhancing trade routes that can help diversify its GDP base have increased in the last decade and are expected to continue, particularly in the transport and energy sectors. For example, Montenegro's train system is receiving a EUR 20 million loan from the European Investment Bank (EIB) to rehabilitate the line running from Bar to Vrbnica on Serbia's border, improving trade links with Serbia and Romania while also promoting tourism (EIB, 2021[16]).

Despite the positive effects, the heavy public spending on infrastructural improvements burdened the economy's debt, peaking in 2019 due in part to continued construction on the Bar-Boljare highway connecting Belgrade and the Adriatic port of Bar. Debt was initially expected to stabilise with a surplus of 5-6% of GDP in 2020 following the completion of the first phase of construction and a thriving tourism sector. However, the collapse in GDP and the unavoidable increase in COVID-19-related spending worsened the situation, ultimately steepening the economy's external debt ratio to the fourth highest in the world, with a 59.6% increase since 2016 in terms of percentage of GDP, reaching 200.6% in 2020 (EBRD, 2017[17]; World Bank, 2022[12]).

The financial sector in Montenegro was hit hard by the pandemic but sustained a strong recovery throughout 2021. Bank loans increased 5.8% and 6.9% year on year in January and February 2022, respectively. Credit growth at the household and corporate levels also increased by 2% year on year, while the non-performing loan ratio was sustained at 6.2% in 2021, primarily due to an increase in bank loans. Although representing only 17.8% of the total credit, non-resident credit surged by 71% in 2021, while non-resident deposits accounted for 27% of the 24.3% year-on-year increase in commercial bank deposits, which reached a record high of EUR 4 billion (85.7% of GDP) in October 2021 (European Commission, 2022[7]), (European Commission, 2022[18]). Consumer prices increased by 0.3% month on month in December 2021, while the annual increase was 4.6% compared to December 2020, influenced primarily by prices for agricultural products, solid fuels and passenger transport by air. On average, consumer prices were 2.4% higher in 2021 than in 2020 (MONSTAT, 2022[19]).

Montenegro's unemployment rate had been improving since 2016, driven by past GDP growth, having reached its greatest low in over a decade in 2019 at 15.4%. Still, COVID-19 exacerbated underlying structural problems of the Montenegrin labour market, like high informality, with some estimates putting informal employment as high as 23-33% or one in three jobs, and low employment of youth, women and low-skilled workers leading the unemployment rate to reach its highest level since 2013 in 2020 at 18.4% (World Bank, 2017[20]; MONSTAT, 2021[2]). However, unemployment rates have seen a new decline in 2021, standing at 16.9%. Montenegro's youth unemployment rates of those between 15 and 24 have increased from 16.2% in 2018 to 21.2% in 2020 and remain significantly higher than the EU average of 16.8% (MONSTAT, 2021[2]; Eurostat, 2021[21]).

Although the percentage of women in the workforce is close to that of men at 45.3%, GDP per capita for women reached only 86% of the national average GDP, compared to 114% for men, revealing continued gender inequalities in the labour force. Women's contributions to the economy in Montenegro are often unpaid, with estimates of unpaid work and domestic care exceeding that of men by 92% (UNDP, 2021[22]). Moreover, the share of long-term unemployed in Montenegro is very high (74.5% of all unemployed), and the long-term unemployment rate is over five times higher than in the European Union (13.4% vs 2.4%) (MONSTAT, 2021[2]; Eurostat, 2020[23]). Although an ageing population and high emigration rates also remain problematic for the region's workforce, Montenegro holds the lowest emigration rate in the Western Balkans at 9% and is one of the two Western Balkan Six economies to attract migrants from neighbouring economies (OECD, 2022[24]). Only 15.8% of its population is over 65, moderately less than the European Union's population over 65, which stands at 20.8% (World Bank, 2022[25]).

Business environment trends

Despite the difficult circumstances surrounding the COVID-19 pandemic, significant reforms continued to be implemented that improved the business environment in Montenegro. Important progress was made in reducing local tax and fee burdens for businesses and establishing a registry of fiscal and para-fiscal charges to facilitate business processes and increase transparency (European Commission, 2021[14]). Digital services have continued to increase since the last assessment, with a total of 317 services offered through the e-Uprava portal for legal entities in 2021. New systems were established for the electronic registration of single-member limited liability companies, electronic fiscal invoices, digital management and security printing of excise stamps, which contribute to combating informality. The economy also introduced its first electronic public procurement system in 2021, allowing for increased quality and transparency in the public procurement process and improving the overall regulatory environment, which remains one of the most open economies for investment according to the OECD FDI Regulatory Restrictiveness Index. Its score has decreased from 0.028 in 2016 (OECD, 2018[26]) to 0.024 in 2020, significantly lower than the OECD average of 0.63, indicating that the economy has lessened trade barriers and maintains only a handful of restrictions, notably in the maritime, TV and radio broadcasting, and legal sectors (OECD, 2020[27]).

Furthermore, although corruption remains a hurdle for businesses across the WBT region, Montenegro has made some progress in its anti-corruption efforts. Under its new management, the Anti-Corruption Agency (ACA) demonstrated a more proactive approach to improving its communication and outreach activities toward the general public, media and civil society and in addressing the caseload pending from previous years (European Commission, 2021[14]). Since the last assessment, ACA's headway has led Montenegro to rise from being perceived as the most corrupt of the WBT economies to the least corrupt in the region. Although its score of 46 (out of a possible 100) in Transparency International's Corruption Perception Index has not changed, it is now the highest in the region: as of 2021, it remains in 64th place out of a total of 180 ranked economies (Transparency International, 2022[28]). However, corruption remains prevalent in many areas, and ACA's priority-setting, selective approach and the quality of its decisions remain an issue of concern (European Commission, 2021[14]).

Although improving, Montenegro's business environment still has several key impediments and obstacles to business development, which are acknowledged in the economy's latest Economic Reform Programme (ERP) (Box 16.2). The pandemic negatively impacted the business environment, as evidenced by a 23% decline in the number of registered new businesses in 2020 and temporary efficient policy responses, such as those implemented to control the number of bankruptcies during the pandemic. Montenegro's business environment is still adversely impacted by long-term structural deficiencies, such as informality, sub-optimal regulations (with inconsistent enforcement) and weak governance, all of which impede a hospitable business environment. Moreover, access to finance remains a substantial impediment for businesses, particularly for SMEs, as credit risks remain high, alternative financing options remain limited and traditional financing institutions continue to require heavy collateral and credit histories. Furthermore, although state influence on markets is diminishing in Montenegro, the economy still has a relatively large state-owned enterprise (SOE) sector compared to its neighbours, many of which are inefficiently run and rely on financing from the government and international banks, leading to greater financial losses for the government as well as market distortions and an uneven playing field for the private sector, particularly SMEs (OECD, 2021[3]). While the Agency for Protection of Competition has been progressive in halting state aid to sinking state-owned businesses, notably national airlines, and new mechanisms have been set up to supervise the implementation of reforms to improve SOE management, further investments in national holdings have been made while private investor interest in concessions has simultaneously contracted (European Commission, 2021[14]).

Box 16.2. Economic Reform Programmes

Since 2015, EU accession candidates have been obliged to produce annual Economic Reform Programmes that outline clear policy reform objectives and policies necessary for participation in the economic policy co-ordination procedures of the European Union. The ERPs aim to produce concrete reforms that foster medium and long-term economic growth, achieve macroeconomic and fiscal stability and boost economic competitiveness. Since their initial launch, ERP agendas have been required to include structural reform objectives in key fundamental areas:

- public finance management
- energy and transport markets
- sectoral development
- business environment and reduction of the informal economy
- trade-related reform
- education and skills
- employment and labour markets
- social inclusion, poverty reduction and equal opportunities.

In addition to these essential fields, and as the objectives of EU policies continue to evolve to include cross-cutting sustainable sectors, the structural reform agendas of ERPs have embraced new commitments to progressive policy reforms since the last assessment that also cover:

- green transition
- digital transformation
- research, development and innovation
- economic integration reforms

- agriculture, industry and services
- healthcare systems.

Once submitted by the governments, ERPs are assessed by the European Commission and European Central Bank, opening the door for a multilateral policy dialogue with enlargement candidates to gauge their progress and priority areas on their path to accession. Discussions and assistance on policy reforms take place through a high-level meeting between member states, EU institutions and enlargement countries, through which participants adopt joint conclusions that include economy-specific guidance for policy reform agendas.

The findings of the *SME Policy Index 2022* provide an extensive technical understanding of the progress made on business sector-related policy reforms that are key to the ERPs of the EU accession candidates at both the regional and economy-specific levels. The SBA delves into the specific barriers to progress in ten policy areas essential to applying the larger objectives of the ERPs, like boosting competitiveness and economic growth to SMEs in the region.

Source: European Commission (2021[11]).

EU accession process

Montenegro began its EU accession journey in 2008 when it submitted its application for EU membership. The Stabilisation and Association Agreement (SAA) came into force in September 2010, and Montenegro was granted EU candidate status in December 2010. Since then, Montenegro has advanced relatively rapidly along the accession path compared to most Western Balkan economies. Accession negotiations began on 29 June 2012, and as of January 2022, Montenegro has opened 33 out of 35 negotiating chapters, of which 3 chapters (Chapter 25 on Science and Research, Chapter 26 on Education and Culture and Chapter 30 on External Relations) have been provisionally closed. No changes in the degrees assigned to Montenegro's preparation of the chapters have been noted since the 2020 enlargement report; however, at the Intergovernmental Conference held in June 2021, Montenegro officially accepted the revised enlargement methodology that emphasises credible fundamental reforms, stronger political steer, increased dynamism and predictability of the process (European Commission, 2021[29]).

According to the European Union's 2021 enlargement report for Montenegro, the economy is moderately prepared on enterprise and industrial policies that help encourage a hospitable environment for SMEs. Since the last enlargement report, Montenegro has made some progress on aligning its Industrial Policy (2019-2023) on combating late payments with the EU *acquis* through amendments to the Law on Deadlines for Settlement of Monetary Obligations, which are expected during 2022. However, Montenegro still needs to reinforce efforts to ensure inter and intra-ministerial co-operation on a technical and political level, which can help avoid overlapping mandates and inconsistencies within national strategies and programmes, including the Industrial Policy of Montenegro (2019-2023), the Smart Specialisation Strategy of Montenegro (2019-2024) and the ERP (2021-2023) (European Commission, 2021[14]). In this regard, Montenegro should concentrate on:

- focusing on the continued implementation of the revised Industrial Policy (2019-2023), in co-operation with relevant stakeholders and in view of the COVID-19 special measures
- accelerating legal alignment with the *acquis*, notably by adopting amendments to the Law on Deadlines for Settlement of Monetary Obligations
- enhancing efforts to ensure continuous co-ordination of the revised Industrial Policy (2019-2023) with other national key strategies.

Further progress in the accession process and Montenegro's eventual joining of the European Union will strongly depend on the economy further aligning itself with the benchmarks concerning the rule of law set out in Chapters 23 and 24 on Judiciary and Fundamental Rights and Justice, Freedom and Security, respectively. The closing of chapters will be provisionally halted until both chapters are addressed. The findings and recommendations published in the *SME Policy Index 2022* can help provide the monitoring and guidance needed for Montenegro to meet the requirements related to several critical chapters of the *acquis* and ultimately further its negotiations for accession to the European Union.

EU financial support

The European Union remains the largest provider of financial assistance to Montenegro, helping the economy realise its reform processes and endeavours that bring it closer to the *acquis*. The European Union's financial support to the economy and the region has been provided through both temporary support, such as COVID-19 assistance packages, as well as long-term investment programmes and funds through the Instrument for Pre-accession Assistance (IPA), EIB loans, Western Balkans Investment Framework grants and more.

In addition to a total of EUR 504.9 million provided to Montenegro by the European Union between 2007 and 2020 under the Instrument for Pre-accession Assistance I and II, the European Union is providing an additional EUR 22.2 million under IPA III for the period 2021-27 to upgrade environmental management systems, improve transport systems by promoting environmentally friendly transport modes, and provide technical assistance for the management, monitoring, evaluation, information and control of IPA-related activities (European Commission, 2021[30]). Of this funding, 6.3% (EUR 1.4 million) has been allocated to a joint EU, European Bank for Reconstruction and Development (EBRD), and Government of Montenegro project to help SMEs access know-how to develop their competitiveness and address their immediate business needs. The project will also fund the establishment of a Single Access Point (SAP) for SMEs in Montenegro and strengthen the capacity of the Ministry of Economic Development to better serve SMEs through policy development, enhancing SME support programmes, and launching a one-stop-shop web portal.

In 2020, the European Union pledged EUR 9 billion for the Western Balkans as part of a new economic and investment plan to support sustainable connectivity, human capital, competitiveness and inclusive growth, and the twin green and digital transitions. In addition to infrastructural funding for Montenegro's rail and road routes with Serbia and Albania, the economic and investment plan also foresees a Trans-Balkan Electricity Transmission Corridor that will provide electricity transmission to Montenegro and updated waste management systems for the economy. Montenegrin SMEs will also be able to benefit from the scheme's increased funding to the Western Balkans Guarantee Facility (European Commission, 2020[31]).

The European Investment Fund has also played a key role in financing the business landscape in Montenegro. It has invested EUR 100 million to support Montenegrin companies since the start of the pandemic and invested an additional EUR 50 million at the end of 2021 to support the faster recovery of the local economy from COVID-19 and help accelerate the green transition and climate adaptation of SMEs (EIB, 2021[32]).

The European Union has been crucial in financially supporting Montenegro in the wake of COVID-19. The economy received EUR 60 million of the European Commission's EUR 3 billion Macro-Financial Assistance (MFA) package for enlargement and neighbourhood partners, which aims to help them limit the economic fallout of the COVID-19 pandemic. Montenegro received the second MFA payment in June 2021 after fulfilling the programme's policy conditions in the areas of public finance management, financial stability, good governance and the fight against corruption, improvements in the business environment, and social protection (European Commission, 2020[33]). The economy has also received EUR 130 million of the European Union's Team Europe EUR 3.3 billion COVID-19 economic recovery support package to the region (European Commission, 2021[34]).

Montenegro was also the first candidate economy to join the European Union's Competitiveness of Enterprises and Small and Medium-Sized Enterprises Programme (COSME) in 2014, under which it benefits from support for entrepreneurship and entrepreneurial culture, access to finance for SMEs and access to markets (European Commission, 2021[35]). The economy has participated in the European Union's Research and Innovation programmes since 2008 and is part of the Horizon 2020 programme, allowing it access to the project's EUR 95.5 billion budget to help develop projects and technologies and conduct research and activities that will contribute to tackling global challenges. Its participation in the SME portion of Horizon 2020 is high for the economy's size, with 323 applications, 122 participants and 64 signed grants for a total of EUR 4.62 million of EU funding distributed primarily to higher or secondary education institutions (30.9%), followed by public bodies (28.4%) and private, for-profit enterprises (23.4%) (European Commission, 2021[36]). In 2021, the economy signed an additional Association Agreement to the Horizon Europe programme, promoting closer research and innovation co-operation with the European Union.

SMEs in the domestic economy

Although the Law on Accounting of Montenegro was updated in 2021, the classification of SMEs, as defined by Article 6 of the law, has remained unchanged since the last assessment (Government of Montenegro, 2021[37]). The categories conform to the EU standard definition of SMEs by employee size but diverge on the other criteria concerning annual income and assets (Table 16.2).

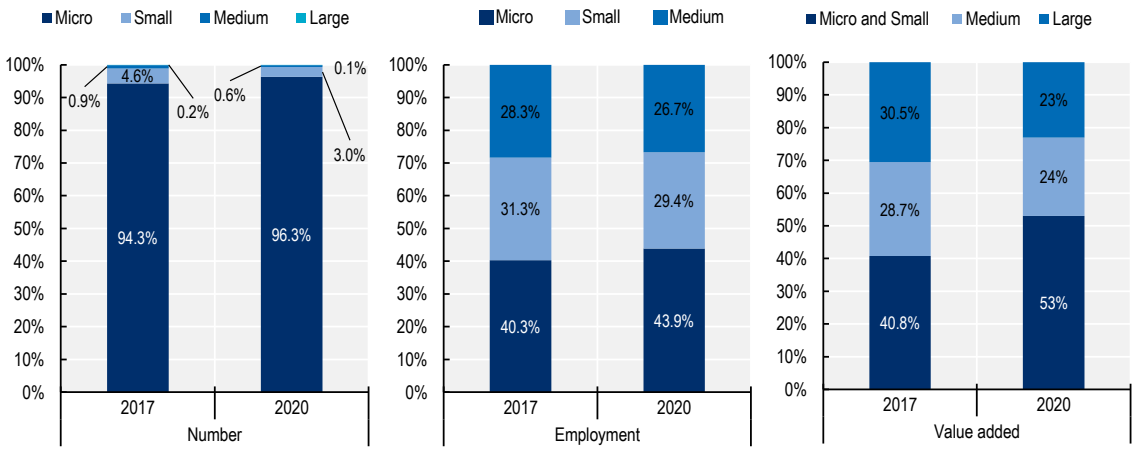
Table 16.2. Definition of micro, small and medium-sized enterprises in Montenegro

	EU definition	Montenegro definition
Micro	< 10 employees = EUR 2 million turnover or balance sheet	≤ 10 employees ≤ EUR 700 000 total annual income or ≤ EUR 350 000 total assets
Small	< 50 employees = EUR 10 million turnover or balance sheet	< 50 employees ≤ EUR 8 million total annual income or ≤ EUR 4 million total assets
Medium-sized	250 employees = EUR 50 million turnover = EUR 43 million balance sheet	< 250 employees ≤ EUR 40 million total annual income or ≤ EUR 20 million total assets

Source: Government of Montenegro (2021[37]).

In 2020, Montenegro's 37 217 MSMEs accounted for 99.9% of all enterprises in the economy, increasing by almost 7 000 since 2017 and roughly 12 100 since 2013 (MONSTAT, 2021[38]). The breakdown of Montenegrin enterprises by size was 96.3% micro and small enterprises, 2.98% small enterprises, 0.6% medium enterprises and only 0.1% large enterprises in 2020 (MONSTAT, 2021[38]). The number of microenterprises increased by roughly 2 percentage points since 2017, absorbing the 1.5-percentage-point decrease in small enterprises and the 0.3-percentage-point decrease in medium enterprises. Large businesses also decreased during the same period, albeit slightly, at a 0.1-percentage-point reduction. The same trend was noted regarding employment in SMEs, with microenterprises noting a 3-percentage-point increase in employment, while small enterprises saw an approximate 2-percentage-point decrease and medium enterprises saw a 1.5-percentage-point decrease between 2017 and 2020 (Figure 16.2).

Figure 16.2. Business demography indicators in Montenegro (2017 and 2020)



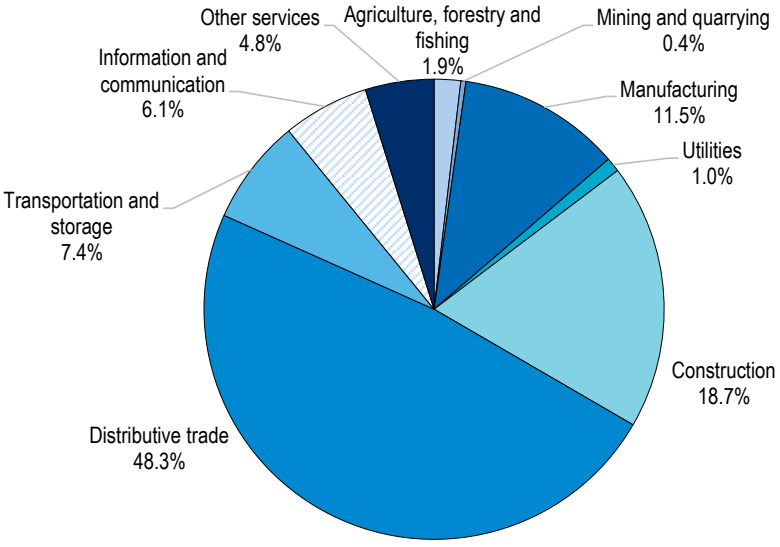
Note: Data for the share of employment in large enterprises was not provided by the Government of Montenegro.
Source: Data received by the Government of Montenegro in this assessment cycle - Customs Administration of Montenegro, (MONSTAT, 2021[38])

Although the economy's total gross value added in 2020 was approximately EUR 385 million less than in 2019 due to the effects of the COVID-19 pandemic on businesses, MSMEs in Montenegro accounted for 77% of the economy's gross value added in 2020, a 4-percentage-point increase from 2019 and a 7.5-percentage-point increase compared to 2017 (MONSTAT, 2021[2]). The role of women in Montenegro's business environment has continuously increased over the last decade: SMEs owned by women in Montenegro increased by 4.6% from 2018 to 2020, with a 10% increase in the share of women engaged in self-employment over the same period.

The makeup of SMEs by sector in Montenegro has seen slight changes in the sectoral distribution of SMEs in Montenegro since 2017 (Figure 16.3). The distributive trade sector, which includes wholesale, retail trade, and the repair of motor vehicles and motorcycles, remains the overwhelming industry of SMEs in the economy at 48% but saw the greatest decrease in the number of enterprises since 2017 at a 2.6-percentage-point decline. The construction sector follows as the second-highest number of SMEs in Montenegro and witnessed the most notable increase in the number of enterprises since 2017, at a 2.2-percentage-point increase. Slight decreases were also noted in the manufacturing, utilities, mining and quarry sectors, while small increases were noted in information and communication; other services; and agriculture, forestry and fishing sectors.

Geographically, about 36% of enterprises were located in Podgorica in 2020, followed by 15.5% in the municipality of Budva and 9.2% in the port city of Bar (Table 16.3). The number of enterprises in Podgorica decreased by approximately 2 200 (1% of total businesses in the capital) from 2017 to 2020. On the other hand, the municipality of Budva saw a remarkable surge of about 2 200 businesses, a 3.7-percentage-point increase since 2017. Microenterprises accounted for most new companies in Budva, increasing by 65% alone. The number of microenterprises in the municipalities of Petnjica, Tivat and Gusinje also saw notable increases of 56%, 37.4% and 30%, respectively.

Figure 16.3. Sectoral distribution of SMEs in Montenegro (2020)



Source: Data received by the Government of Montenegro in this assessment cycle - Customs Administration of Montenegro.

Table 16.3. Number of registered companies in Montenegro by municipality and size (2020)

Municipality	Enterprise size, by number of persons employed					Share of the total number of enterprises	
	0-9	10-49	50-249	250+	Total	2017	2020
Andrijevica	68	0	0	-	71	0.24%	0.19%
Bar	3 350	79	9	-	3 440	9.48%	9.23%
Berane	564	12	6	-	582	1.71%	1.56%
Bijelo Polje	1 236	45	7	-	1 290	3.60%	3.46%
Budva	5 650	101	13	-	5 768	11.75%	15.48%
Cetinje	740	26	0	-	768	2.35%	2.06%
Danilovgrad	604	27	8	-	639	1.77%	1.72%
Gusinje	30	0	0	-	31	0.08%	0.08%
Herceg Novi	2 709	60	12	-	2 780	7.65%	7.46%
Kolašin	231	13	0	-	244	0.74%	0.65%
Kotor	1 365	47	8	-	1 420	4.15%	3.81%
Mojkovac	160	0	0	-	164	0.49%	0.44%
Nikšic	1 881	76	19	-	1 979	6.16%	5.31%
Petnjica	28	0	0	-	30	0.07%	0.08%
Plav	126	0	0	-	128	0.35%	0.34%
Pljevlja	588	22	0	-	615	1.95%	1.65%
Plužine	31	0	0	-	32	0.11%	0.09%
Podgorica	12 780	486	129	24	13 419	37.00%	36.02%
Rožaje	629	15	0	-	646	1.92%	1.73%
Šavnik	36	0	0	-	38	0.13%	0.10%
Tivat	1 709	42	0	-	1 754	4.30%	4.71%

Municipality	Enterprise size, by number of persons employed					Share of the total number of enterprises	
	0-9	10-49	50-249	250+	Total	2017	2020
Tuzi	76	0	0	-	83	0.12%[1]	0.22%
Ulcinj	1 159	29	0	-	1 193	3.44%	3.20%
Žabljak	135	6	0	-	141	0.45%	0.38%
Montenegro	35 885	1 103	229	38	37 255	100.00%	100.00%

Notes: Although municipal-specific data on large enterprises of more than 250 employees are unavailable for some regions, Montenegro has a total of 38 large enterprises, 24 of which are located in Podgorica.
1. 2019 data used in place of 2017 data for the municipality of Tuzi.
Source: MONSTAT (2021[39]).

Assessment

Description of the assessment process

The SBA assessment cycle was virtually launched on 7 July 2021, when the OECD team shared the electronic assessment material, comprised of questionnaires and statistical sheets, accompanied by explanatory documents.

Following the virtual launch, the Ministry of Economic Development, which acts as the SBA Co-ordinator nominated by the European Commission, distributed the link to the assessment material to the appropriate ministries and government agencies and the statistical sheets to the Statistical Office of Montenegro (MONSTAT). These institutions compiled the data and documentation between July and September 2021 and completed the questionnaires. Each policy dimension was given a self-assessed score accompanied by a justification. The OECD team received the completed questionnaires and statistical data sheets on 1 October 2021 and then began an independent review.

The OECD reviewed the inputs and requested additional information on certain elements from the Ministry of Economic Development. For several dimensions, virtual consultation meetings with key dimension stakeholders were organised from end-October to mid-November 2021. The meetings aimed to close any remaining information gaps in the questionnaires.

A virtual preliminary findings meeting with Montenegro was held on 26 November 2021 to present and discuss the preliminary *SME Policy Index 2022* assessment findings and initial recommendations for Montenegro. At the same time, it served as an opportunity to seek the views of a broad range of policy stakeholders on how SMEs are affected by current policies and to gauge what more can be done across different policy areas to improve SMEs' performance and competitiveness in Montenegro, particularly in the post-COVID-19 context.

The meeting allowed the OECD to validate the preliminary assessment findings. The draft SME Policy Index publication and the Economy Profile of Montenegro were made available to the Government of Montenegro for their review and feedback in February 2022.

Scoring approach

Each policy dimension and its constituent parts are assigned a numerical score ranging from 1 to 5 according to the level of policy development and implementation, so that performance can be compared across economies and over time. Level 1 is the weakest and Level 5 the strongest, indicating a level of development commensurate with OECD good practice (Table 16.4). For further details on the SME Policy Index methodology and how the scores are calculated, as well as changes since the last assessment cycle, please refer to Annex A.

Table 16.4. Description of score levels

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

Entrepreneurial learning and women's entrepreneurship (Dimension 1)

Introduction

Entrepreneurial learning raises learners' skills and develops the mindsets needed to change their lives and the world around them through entrepreneurial action for social and economic impact. It is the basis for empowering learners to know they can generate the creative ideas needed in the 21st century.

Women's entrepreneurship should be prioritised to support women's economic and social empowerment and drive improved stability and social and economic growth. It can also enable closing gender gaps in the workforce, supported by equality and gender impact analysis of policies affecting family care and social protection.

Montenegro has placed a strong emphasis on developing both policy and practical implementation of entrepreneurial learning at the system level, providing a clear progression in the implementation of entrepreneurial learning across all levels of lifelong learning.

Montenegro's entrepreneurial learning and women's entrepreneurship score has increased to 4.47 (Table 16.5) from 3.83 in the last assessment. This high score results from Montenegro further strengthening the depth and quality of entrepreneurial learning, building on its role as one of the regional leaders in this area. In women's entrepreneurship, it has taken steps to establish system-level co-ordination and improve evaluation.

Table 16.5. Montenegro's scores for Dimension 1: Entrepreneurial learning and women's entrepreneurship

Dimension	Sub-dimension	Thematic block	Montenegro	WBT average
Dimension 1: Entrepreneurial learning and women's entrepreneurship	Sub-dimension 1.1: Entrepreneurial learning	Planning and design	4.75	3.43
		Implementation	4.62	3.51
		Monitoring and evaluation	4.34	2.73
		Weighted average	**4.61**	**3.33**
	Sub-dimension 1.2: Women's entrepreneurship	Planning and design	5.00	3.97
		Implementation	4.11	3.83
		Monitoring and evaluation	3.50	3.11
		Weighted average	**4.26**	**3.73**
Montenegro's overall score for Dimension 1			**4.47**	**3.49**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

There have been significant developments in both policy and practice across both sub-dimensions. In entrepreneurial learning, the new Strategy for Lifelong Entrepreneurial Learning (2020-2024) (Government of Montenegro, 2020[40]) plots the path forward to build on and increase the quality of existing good practices, with a renewed focus on co-working entrepreneurship with wider European key competences, modernisation of the higher education curriculum, developing more and stronger education-business partnerships at all levels and ensuring a clear career pathway into entrepreneurship.

For women's entrepreneurship, the new Strategy for the Development of Women's Entrepreneurship of Montenegro (2021-2024) (Government of Montenegro, 2021[41]) is driving continuous improvement, with a

4.6% increase in the share of women business owners from 2018 to 2020 and an increase of 10% in the share of women engaged in self-employment over the same period[2] (Table 16.6).

Table 16.6. Montenegro's implementation of the SME Policy Index 2019 recommendations for Dimension 1

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Expand teacher training on entrepreneurship key competences to cover all teachers at all levels of education	Significant efforts have been made to expand teacher training and provide high-quality guidance on entrepreneurial learning, supporting training for teachers and school directors across primary, secondary and vocational education and training (VET) to introduce entrepreneurship key competences using EntreComp. All materials supporting key competence development in compulsory education and training are now accessible via a centralised website – www.ikces.me.[1]	Strong
Share good practices to create a positive image of entrepreneurship among young people	The visibility of entrepreneurial learning has increased through multiple actions, such as the database of practices available at www.ikces.me and a range of multi-stakeholder national events to promote lifelong entrepreneurial learning. The third National Strategy for Lifelong Entrepreneurial Learning (2020-2024) places a specific priority on further actions to promote visibility and exchange of good practices.[2]	Strong
Ensure that public universities modernise their curriculum by integrating entrepreneurship competences	New practices to develop entrepreneurship competences have been introduced, though more work remains to impact all areas of the curriculum. The higher education sector is involved in several projects focusing on entrepreneurial learning, such as REBUS (REady for BUSiness) involving the University of Montenegro,[3] which has supported integration into technical and information and communication technology-related courses, or the Student Business Hub[4] programme led by the careers centre of the University of Montenegro.	Moderate
Institutionalise the National Partnership for Lifelong Entrepreneurial Learning	The National Partnership is now formally recognised by the government as a working group of the National Competitiveness Council led by the Minister for Economic Development.	Strong
Foster an ecosystem for women's entrepreneurship	Multi-stakeholder policy partnership has been formalised through the Council for Competitiveness Working Group on the Economic Empowerment of Women. The structure provides evidence of broad-based institutional and stakeholder engagement, and it is explicitly supporting the implementation of the Strategy for the Development of Women's Entrepreneurship of Montenegro (2021-2024).	Strong
Strengthen the monitoring and evaluation of women's entrepreneurship support initiatives	At the strategy level, there is an evaluation report on the implementation of the 2015-2020 Strategy, and this was used to develop the new 2021-2024 Strategy. While good practice can be seen in initiatives funded by international partners and future actions are identified in the new strategy, there remains insufficient programme-level evaluation and an overall lack of gender-disaggregated statistical data at the system level.	Limited

1. This website has been developed through the Integration of Key Competences into Education and Quality Assurance Systems in Montenegro project, implemented within the framework of the EU-Montenegro Joint Programme for Education, Employment and Social Policy, as part of Action 2 to improve the education system and Activities 2.1 to improve the quality of education through key competences and quality determination, with a particular focus on science, technology, engineering and mathematics disciplines. For more information, see http://eesp.me/o-programu/ (accessed on 21 January 2022).
2. See Strategic Objective 3.2 of the National Strategy for Lifelong Entrepreneurial Learning (2020-2024).
3. For more information, see https://www.ucg.ac.me/objava/blog/10/objava/50064-projekat-rebus- (accessed on 20 January 2022).
4. For more information, see https://www.ucg.ac.me/objava/blog/1025/objava/115513-dodijeljeni-sertifikati-polaznicima-programa-student-bussines-hub (accessed on 20 January 2022).

Stronger national prioritisation of entrepreneurial learning in education and training has been observed

The focus on entrepreneurial learning continues in Montenegro with the launch of the third National Strategy for Lifelong Entrepreneurial Learning (2020-2024). This new strategy builds on a comprehensive evaluation of the 2015-2019 strategy, which demonstrates the value of the continued approach to embedding entrepreneurship as a key competence at all levels of education and training, and quickly aligning to the EntreComp framework to guide and underpin national curriculum developments since it was launched in 2016.

The National Partnership is now formally recognised, which is a significant step forward. An informal multi-stakeholder National Partnership for Entrepreneurial Learning was first established in 2008, bringing together representatives from public, private and non-governmental organisation (NGO) sectors to support the successful and ongoing implementation of national strategies for entrepreneurial learning. Key national stakeholders have remained strongly committed to the National Partnership and practical implementation of the actions of the national strategies since the first strategy was launched in 2008, and the list of representatives in the new working group of the Competitiveness Council reflects this and includes both public sector, education, private sector, civil society and international partners agencies.[3] Since April 2021, this partnership is now officially recognised by the government as a working group of the Council for Competitiveness led by the Minister for Economic Development. This recognition is now leading to an expanded role for the National Partnership in developing the National Action Plan for Financial Literacy, explicitly linked to entrepreneurship and digital key competences.[4]

Montenegro made good progress on the integration of key competences into education and training

This assessment period has seen the launch and close of an EU-Montenegro Integration of Key Competences into the Education System of Montenegro project from 2019 to 2021, which has seen the development of a key competence framework, modularised programmes for secondary schools, teacher manuals and extensive supporting training programmes on the entrepreneurship competence for teachers and school directors across primary, secondary and VET. Evaluation of the 2015-2019 strategy shows that the entrepreneurship key competence has been introduced into the curriculum in 100% of primary, lower secondary and upper secondary schools and 50% of vocational secondary schools. This is supported by in-service training that has reached nearly 100% of all preschool, primary, lower secondary and upper secondary teachers. This impressive reach echoes the policy priority placed on entrepreneurial learning at the national level. The national strategy indicates support to sustain provision beyond the lifetime of the funded project, which ended in December 2021, and to address the lack of widespread provision of training on entrepreneurial learning within pre-service teacher training. Wider stakeholders are actively supporting this integration of entrepreneurship with a focus on closing skills gaps. The Chamber of Economy runs a range of actions,[5] including promoting and supporting the development of the dual education system. This encompasses both research and practical projects such as Erasmus+ funded student exchanges where students have opportunities to grow and practice their skills and knowledge in their field of studies at foreign companies.[6]

Graduate tracking mechanisms are still lacking at the system level

In Montenegro, the national labour force survey collates data on employment and unemployment rates by level of education, and tracking surveys have been piloted in both vocational and higher education (European Training Foundation, 2018[42]). However, there remains no co-ordinated approach at the level of the education and training system that collates data across all learners and graduates in the economy, either from the institution-level, national statistical data sources or via tracking surveys sent to students at regular intervals following graduation. This lack of a system-level approach creates a gap in skills intelligence linked to learning outcomes, employability of graduates, skills gaps and mismatches, and social inclusion, which could otherwise be used to regularly inform and shape the development and labour market alignment of the education and training system.

Practical implementation of entrepreneurship key competence in public universities is improving, but more is needed

Some progress has been made concerning the recommendations from the previous cycle (Table 16.6). Developing the entrepreneurship key competence in higher education continues to be emphasised through successive national strategies for both entrepreneurial learning and those more specifically addressing higher education (Government of Montenegro, 2021[43]). Pockets of excellence can be seen through

projects such as REBUS and e-VIVA, while the recent DigNest project aims to embed digital and entrepreneurial learning into the curriculum and involves both public and private universities alongside multiple stakeholders from the higher education ecosystem in Montenegro.[7] At the system level, there is now a requirement to include 25% practical education as a compulsory proportion of all study programmes in higher education; with this, there is an important opportunity to embed entrepreneurial learning outcomes into the practical curriculum content. The new strategy will monitor this to reach a target of 25% of non-economic courses at the public University of Montenegro that include the required 25% of practical education in study programmes and 55% of study programmes in the private University of Donja Gorica that include the compulsory proportion by 2024.

Co-ordination of the policy and implementation frameworks supporting women's entrepreneurship has been strengthened

An Expert Group on the Economic Empowerment of Women was established in April 2021[8] as one of the eight working groups under the National Council for Competitiveness. The main purpose of this group is to strengthen co-ordination of strategic documents related to the economic empowerment of women, particularly the new Strategy for the Development of Women's Entrepreneurship of Montenegro (2021-2024) (Government of Montenegro, 2021[41]). It builds on the 2015-2020 strategy, using a comprehensive evaluation of the past strategy to inform future direction and priorities. This new strategy links across to other relevant policies, including the new National Strategy for Gender Equality (2021-2025) (Government of Montenegro, 2021[44]), which highlights the importance of increasing the number of women entrepreneurs while emphasising the need to address wider social and economic barriers to gender equality. While system-level evaluation is following a positive trajectory, there is work remaining to address the lack of gender-disaggregated data relevant to women's entrepreneurship to provide a fuller understanding of the progress and impact of initiatives. As a positive step, the working group has adopted IWA34,[9] a set of global definitions for women's entrepreneurship developed by the International Organisation for Standardisation. To support practical implementation, the Competitiveness Council working group has translated this into the local language and developed national guidelines[10] on how these common definitions can guide and support work at the national and local levels.

Emphasis has been put on increasing access to women's entrepreneurship, particularly through digitalisation

Increased digitalisation of the economy is highlighted as an enabler for women's entrepreneurship in Montenegro through a recent United Nations Development Programme (UNDP) report (2020[45]). The new Strategy for the Development of Women's Entrepreneurship of Montenegro (2021-2024) (Government of Montenegro, 2021[41]) builds on previous work on the digital, green and creative economy sectors alongside plans to improve the digital literacy of women in business. Enhanced incentives for women-led businesses have been included in government finance programmes for small investments; there has been an introduction of international standards and support for digitalisation; and an increase in the financial grant intervention rate from 50% to 80% for businesses that are at least 50% women-owned (Government of Montenegro, 2021[46]). A national digital portal is now under development to co-ordinate and share knowledge and opportunities on actions supporting women's economic empowerment and is expected to be on line by mid-2022, through a collaboration between the Ministry for Economic Development and the UNDP,[11] linked to the Expert Group on the Economic Empowerment of Women.

The way forward for Dimension 1

- **Match pre-service teacher training provisions to the needs of the new framework for key competences** to consolidate and embed the work of the EU-Montenegro Integration of Key Competences into the Education System of Montenegro project. A focus on harmonising the new

developments within pre-service teacher training would ensure future-proofing of teacher competences. A good practice example from the United Kingdom is presented in Box 16.3.

Box 16.3. Matching initial and continuing teacher education to the needs of the new Curriculum for Wales (United Kingdom)

In the United Kingdom, the University of Wales Trinity Saint David has successfully integrated the development of the entrepreneurship key competence into pre-service teacher training programmes and a new Education Doctorate supporting continuing professional development for experienced educators. Participant feedback shows that those who participate in the programme go on to use EntreComp to underpin their own teaching or wider teacher training initiatives, such as head-teacher training for the new curriculum led by Wales' National Academy for Educational Leadership.

The approach taken first places explicit focus on teachers' professional and entrepreneurial competences, using learning outcomes from EntreComp, to build an understanding of the relevance of this key competence. The courses developed also introduce knowledge and practical application of the entrepreneurship key competence for learners across diverse subject areas and with cross-curricular relevance. The university has embraced the EntreComp framework as a guide for this work, matching it with the new Curriculum for Wales, which emphasises four purposes of learning, including supporting learners in becoming "enterprising, creative contributors, ready to play a full part in life and work."[1]

Montenegro has been an early pioneer of the EntreComp framework and has placed a significant focus on the development of the entrepreneurship key competence across lifelong learning. Yet, no pre-service teacher training includes this as an explicit focus. This example illustrates how the design, delivery and assessment of pre-service and in-service teacher training courses can be matched to the needs of a new national curriculum framework.

1. For more information on the Curriculum for Wales, see https://hwb.gov.wales/curriculum-for-wales (accessed on 20 January 2022).
Sources: Welsh Government (2017[47]); Penaluna, Penalune and Polenakovikj (2020[48]); Weicht and Jonsdottir (2021[49]); McCallum et al. (2018[50]).

- **Develop a system-level approach to graduate tracking from vocational and higher education**, identifying a designated lead institution to move this forward. This should take account of the EU roadmap towards European-level graduate tracking in support of the European Education Area by 2025, including the recommendation for a European Graduate Survey and linked administrative data (European Commission, Directorate-General for Education, Youth, Sport and Culture, 2021[51]). An example from Finland could provide a roadmap on how to develop this (Box 16.4).

Box 16.4. Higher education graduate tracking measures in Finland

In Finland, responsibility for higher education graduate tracking lies with both the government and universities.

There is clear co-ordination of the tracking data, pulling information from both administrative and survey sources. The tracking is created from a combination of administrative data co-ordinated by Vipunen (Education Statistics Finland), while universities lead the implementation of graduate tracking surveys co-ordinated through the Aarresaari network of university career services. The information gathered is also used as the evidence base for policy decisions. Since 2021, the results of the graduate survey data are also used to inform public funding decisions, with graduate tracking determining 2% of performance-based funding for universities and 3% for universities of applied sciences.

Using graduate tracking to understand the employment and social outcomes of graduates from vocational and higher education can offer powerful evidence on the alignment of the education and training system to the needs of the labour market, in particular in smart specialisation priority sectors. In turn, it enables informed decisions to be made on updating learning programmes, improving career guidance, and reducing skills gaps.[1]

1. For more information on the European Commission Expert Group on Graduate Tracking, see https://education.ec.europa.eu/education-levels/higher-education/quality-and-relevance (accessed on 20 January 2022).
Source: European Commission (n.d.[52])

- **Develop a system-level approach to monitoring women's entrepreneurship, including gender-disaggregated data** co-ordinated in partnership with the Statistical Office of Montenegro. This process should harmonise with relevant international standards, including UN gender indicators[12] and Eurostat. Measuring the rate, form, and growth of women's entrepreneurial activity is crucial to achieving a more complete understanding of how women entrepreneurs contribute to the economy and society and supporting evidence-based public policy (Meunier, Krylova and Ramalho, 2017[53]).
- **Launch a single portal for women's entrepreneurship in Montenegro to bring together information and resources at the national level**. This would increase access and visibility of the support for this career option available to women. The portal could be a part of a wider portal addressing entrepreneurship and enterprise skills (see a related recommendation in Dimension 8a on enterprise skills) or be a bespoke portal. It should bring together information and resources from across all types of relevant stakeholders and providers, which can also support a greater understanding of gaps or duplications of provisions. A portal in Germany could serve as a good example in this regard (Box 16.5).

Box 16.5. Germany provides a national portal that gathers support for women entrepreneurs from a wide range of actors

In Germany, the Bundesweite gründerinnenagentur (BGA) is a federal agency that acts as a national one-stop-shop offering support and information on women's entrepreneurship, widely regarded as the primary voice and policy lead for women's entrepreneurship.

Established by three federal ministries,[1] BGA gathers offers from across the public, political, business and academic sectors for female-focused support services from all sectors and stages of business development, collating these into a centralised online portal available in six languages. This

comprehensive portal[2] gives users access to a database of trusted and evaluated advisory services, sources of financing, online training, an events calendar, regional networks and a wide range of regularly updated resources and guides on themes relevant to women entrepreneurs.

This example offers a practical demonstration of a comprehensive government-level approach to increasing access to and visibility of women's entrepreneurship by developing a multi-stakeholder portal that might collate support and services offered by government and non-government providers across Montenegro.

1. BGA is a joint project of the German Federal Ministry for Education and Research, the Federal Ministry for Family, Senior Citizens, Women and Youth and the Federal Ministry of Economy and Technology.
2. See https://www.existenzgruenderinnen.de/ (accessed on 20 January 2022).

Bankruptcy and second chance for SMEs (Dimension 2)

Introduction

Firms enter and exit the market as a natural part of the business cycle, and policies can ensure that such transitions occur in a smooth and organised manner. Well-developed insolvency procedures and regimes can protect both debtors and creditors, striking the right balance between both parties, for example. This is particularly relevant for smaller firms as they lack resources compared to bigger firms. Therefore, governments need to ensure that bankruptcy proceedings are efficient, ease reorganisation procedures (instead of bankruptcies) and ensure that those starting again have the same opportunities in the market they had the first time.

In Montenegro, as in other Western Balkan economies where SMEs represent a large share of the economy, effective liquidation and discharge procedures can allow entrepreneurs to reintegrate into the market. This was particularly relevant in the context of the COVID-19 pandemic, where a number of firms faced financial difficulties or were at risk of financial distress, particularly in the tourism sector (OECD, 2021[54]).

Montenegro regressed slightly in this dimension during the assessment period and is now scoring 3.02, which is at the regional average (Table 16.7). Although the amendments were made to improve the insolvency framework, the government revoked the Law on Consensual Financial Restructuring of Debts to Financial Institutions, leaving the legal framework for SMEs without the possibility of a formal out-of-court settlement.

Table 16.7. Montenegro's scores for Dimension 2: Bankruptcy and second chance

Dimension	Sub-dimension	Thematic block	Montenegro	WBT average
Dimension 2: Bankruptcy and second chance	Sub-dimension 2.1: Preventive measures		**2.50**	**2.74**
	Sub-dimension 2.2: Bankruptcy procedures	Design and implementation	3.37	3.47
		Performance, monitoring and evaluation	3.40	3.23
		Weighted average	**3.38**	**3.38**
	Sub-dimension 2.3: Promoting second chance		**2.00**	**1.96**
Montenegro's overall score for Dimension 2			**3.02**	**3.03**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Montenegro has backtracked somewhat since the 2019 assessment. A fully-fledged early warning system, which serves as a basis for fostering a financially healthy ecosystem for SMEs and might help potentially distressed SMEs during the post-COVID-19 context, is still missing (Table 16.8). In May 2019, the Law on Consensual Financial Restructuring of Debts to Financial Institutions was revoked. No new preventive policy measure was enacted, leaving a legislative gap in the prevention of the financial restructuring of SMEs.

The economy continued to work on insolvency prevention by introducing new support measures to SMEs (business advisory and mentoring services to improve SME financial management) during the COVID-19 pandemic. While there are no available data on the backlog cases, the number of bankruptcies totalled

785 cases in 2020, which is practically the same number as in 2019, reflecting, to some extent, the efficacy of the policy response to keep the private sector alive during the recession (Directorate-General for Neighbourhood and Enlargement Negotiations, 2021[55]). According to the assessment results, among the backlog cases for 2019 and 2020, around 81% were completed within six months, while 3% were completed in more than a year.

Shortened, simplified reorganisation proceedings for SMEs and debt discharge rules are still lacking in the legal framework on bankruptcy proceedings. Moreover, second-chance programmes for SMEs are nascent, limiting both the reintegration of honest entrepreneurs into the economy and the opportunity to change the current cultural stigma linked to entrepreneurial failure.

Table 16.8. Montenegro's implementation of the SME Policy Index 2019 recommendations for Dimension 2

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Develop a fully-fledged early warning system	An early warning system is still missing. However, Montenegro succeeded during the assessment period in reducing non-performing loans (NPLs)[1] thanks to the Law on Consensual Financial Restructuring of Debts, which improved the prevention of bankruptcies. Moreover, the government-provided advisory and mentoring services to SMEs regarding their long-term sustainable growth, even though these did not directly target the prevention of bankruptcies.	Limited
Further simplify parts of the bankruptcy legislation	No simplification measures, such as fast-track procedures or reorganisation processes, have been implemented nor planned during the assessment process.	No progress
Improve the legal framework and develop initiatives to reduce the cultural stigma attached to entrepreneurial failure	No progress has been recorded in reducing the cultural stigma attached to entrepreneurial failure. The legal framework still does not distinguish fraudulent bankruptcies from honest ones. Moreover, no initiatives promoting a fresh start were conducted during the assessment period.	No progress

Note: 1. High NPL ratios represent a significant threat to financial stability, with important systemic consequences. As such, efforts are commonly undertaken to contain the growth of NPLs and help resolve them when they reach problematic levels. Insolvency and creditor/debtor rights regimes are one of the complementary tools in the policy maker's arsenal for these purposes. For more, see World Bank (2021[56]).

Slight progress has been made regarding the insolvency legislative framework

Montenegro's insolvency legal framework is based on the 2011 Insolvency Act, which implements the United Nations Commission on International Trade Law (UNCITRAL, n.d.[57]). It provides a solid legal framework for formal court bankruptcy liquidation and reorganisation procedures. In December 2021, to enhance efficiency and simplify bankruptcy proceedings, the Parliament of Montenegro adopted the amendments to the Insolvency Act (see Box 16.6). The amendments are rather technical and introduce a new regime for licensing and appointment of bankruptcy administrators and a redefinition of their activities. The amendments also offer the option to creditors and debtors to file an appeal against a judge's decision if new conditions are not met. A significant addition is the formation of a Register of Bankruptcy Estate under the authority of the Central Registry of Business Entities, which would contain information on the bankruptcy estate, as well as monitor and update changes to the registered information. However, some important aspects to streamline the processes are yet to be addressed, such as fast-track reorganisation/liquidation or the digitalisation of insolvency procedures to shorten proceedings and better monitor and evaluate the protection of debtors' and creditors' rights in insolvency proceedings.[13]

Box 16.6. Amendments to Montenegro's insolvency regulations

The most recent changes to Montenegro's Insolvency Act, voted by Parliament on 29 December 2021, aim to further improve the law adopted in 2011, resolving implementation issues and introducing new regimes as follows:

- **Changes to the bankruptcy administration institute**: Amendments regarding rules on the appointment of bankruptcy administrators, their status throughout bankruptcy proceedings and relations with the Board of Creditors (BoC) are included. A bankruptcy administrator shall have to obtain a license after passing an exam and fulfil a set of conditions, including registration with the registry of licensed bankruptcy administrators. Bankruptcy creditors and debtors are entitled to file an appeal against a judge's decision to appoint a bankruptcy administrator.
- **Change in the structure of the BoC**: A judge may, upon the request of the majority of the BoC members, dismiss the obstructing member from her/his position.
- **Clarifications to the provisions that have been interpreted differently in the past**: Notably, Article 13 clarifies that presumption of bankruptcy occurs upon 45 days of the debtor's inability to settle its claim in the enforcement proceedings, regardless of the means of the enforcement. Furthermore, Article 168 clarifies the beginning day of the reorganisation plan, which was subject to different interpretations in practice.
- **Introduction of delivery of proceedings notifications to parties by email**.
- **Introduction of the obligation for secured creditors to file their claims in the preclusive period announced for the filing of unsecured claims**.
- **Registration of the bankruptcy estate as a legal entity at the business register**.
- **Introduction of a restriction payment clause in case of a reorganisation plan**, which requires all costs related to the court proceeding and the bankruptcy estate to be paid in 60 days upon the plan's confirmation and preceding its implementation.

Sources: JPM (2021[58]) and Parliament of Montenegro (n.d.[59]).

The current legal framework allows reorganisation within the insolvency procedure under the court's authority. Reorganisation is possible if it provides a more favourable settlement to creditors in relation to bankruptcy, especially if there are economically justified conditions for continuing the debtor's business. A reorganisation plan can be submitted simultaneously with a proposal for initiating bankruptcy proceedings or within 60 days from the date of the opening of bankruptcy proceedings. It can include debt rescheduling; change of maturity, interest rates or other loan terms, credit or other claim or security instrument; and debt write-off. However, the law determines the classes of settlement, while the creditors can only determine the level and conditions of claims in line with the plan.

Until 2019, under the Law on Consensual Financial Restructuring of Debts, the legal framework provided to the financial institution creditors and legal and natural person debtors the possibility of an out-of-court settlement agreement with its creditors through the process of mediation supervised by the Centre of Mediation. As part of a strategy known as the Podgorica Approach, the law aimed to reduce and recover non-performing loans (NPLs) (for more information on the causality, see the note under Table 16.8) (EBRD, 2022[60]). The economy succeeded in reducing the NPL ratio from 20.56% in 2013 to 5.11% in 2019 (the lowest since 2008); it currently (2020) stands at 5.89%, fulfilling the purposes of the law, as banks had no further interest in waiving their debt recovery (EBRD, 2022[60]; World Bank, 2022[61]). At the time of drafting, a replacement of the revoked law was yet to be adopted, leaving the legal framework for SMEs without the possibility of a formal out-of-court settlement.

In July 2020, the Law on Alternative Dispute Resolution was enacted under the EU Accession Framework, which provides alternative dispute resolution in civil law relations by mediation, early neutral assessment and other alternative dispute resolution methods. However, the law briefly refers to commercial disputes and does not include aspects such as the collective settlement of creditors' claims as an out-of-court settlement *per se*. Therefore, given the general purposes of the law, the effect on SMEs would be quite limited. Nevertheless, promoting a culture of mediation could be considered a constructive step toward out-of-court settlements between distressed firms.

Preventive measures are yet to be implemented

No major progress has been recorded in preventive measures since the last assessment. An early warning system is still absent in Montenegro. However, during the reporting period and the COVID-19 pandemic, solvent SMEs were offered a range of advisory and mentoring services, both by the government and international partners (see Box 16.1 on Montenegro's COVID 19 recovery programme). These services aimed to increase SMEs' competitiveness and improve their financial management, indirectly contributing to preventing their insolvency.

Second-chance programmes for failed entrepreneurs are still lacking

Similar to the previous assessment findings, Montenegro does not promote second-chance programmes that would encourage or ensure the possibility of reintegration of honest entrepreneurs into the economy. The Strategy for the Development of Micro, Small and Medium-Sized Enterprises (MSME Strategy) (2018-2022) highlights the importance of second-chance policies (Euprava, 2018[62]). However, no concrete measures have been included in the strategy's action plan, and no such measures have been planned. Furthermore, the legal framework does not distinguish honest from fraudulent bankruptcies, nor does it clearly define honest entrepreneurs.

The way forward for Dimension 2

- **Develop insolvency prevention policy measures, including a fully-fledged early warning system**. The revocation of the Law on Consensual Financial Restructuring of Debts to Financial Institutions left a gap in the insolvency framework dealing with preventive measures. Moving forward, this gap could be filled with an alternative law on out-of-court debt settlement, as in North Macedonia (Government of North Macedonia, 2014[63]) or with a hybrid preventive insolvency procedure based on a pre-packaged reorganisation plan agreed with creditors out of court and filed to court only for confirmation, as in Serbia[14] (Serbian Bankruptcy Supervision Agency, 2014[64]). The hybrid proceeding can have a court duration of a maximum of 90 days and does not have the deficiencies of similar[15] pre-insolvency proceedings, where if creditors do not vote for the plan of a currently solvent debtor (facing imminent insolvency), then by provision of the law, the court opens insolvency proceedings against the debtor.

  In addition, the inclusion of a fully-fledged early warning system is also recommended as SMEs tend to underestimate the importance of maintaining a sound financial status and avoiding taking risky decisions. If no appropriate corrective actions are taken on time, this may initially lead to financial distress and later to insolvency. EU Directive 1023/2019 introduces debtors' access to information on early warning tools (European Commission, 2019[65]) (see Box 16.7). Montenegro could build on its already well-developed mentoring and advisory services to extend its programmes to SMEs at risk of financial distress.

Box 16.7. Early warning systems in the European Union

Early warning tools may include different instruments: alert mechanisms when the debtor has not made certain types of payments; advisory services provided by public or private organisations; and incentives under national law for third parties with relevant information about the debtor, such as accountants, tax and social security authorities, to flag to the debtor a negative development.

In the European Union, there are two competing models for early warning systems:

1. **Self-assessment tool:** Creating tools for SMEs and entrepreneurs to anonymously assess their economic situation. The self-test tool can be a simple software application on a public website. SMEs and entrepreneurs have only to enter basic financial data about their business. The application will produce a preliminary diagnostic with recommendations for remediation actions, like searching for a specific business advisory or mentoring support service. The application conducts a financial ratios diagnostic analysis. The quality of the diagnostic analysis depends on the quantity and quality of the data intake by the entrepreneur.

   This model is useful as a quick financial health check and should be complemented with a business advisory support service by a public institution or access to a commercial or professional association.
2. **Intervention mechanism:** This includes a series of steps to remedy the distress situation under external supervision. The mechanism is based on an early warning signal triggered for the SME, identification of problematic areas causing financial distress and reporting to company management with recommendations to take remedial measures. The process to remedy the identified issues then follows through a series of interventions by different actors, aiming to avoid company insolvency. The process can include:
   - A company bookkeeper or external auditor spots an observation that may lead to financial distress. The early warning mechanism can be built on an obligation of the bookkeeper or auditor to inform the company's management of the issue.
   - If management does not take action to remedy the situation, there may be subsequent communications with the board or even at the shareholders' meeting.
   - If there is no adequate reaction of the enterprise organs, the mechanism can prompt the intervention of outside bodies, such as special mediation or even trigger a special preventive measure court procedure.
   - Finally, if there is no intervention, the system may provide for creditors' actions related to the use of alternative dispute resolution.

Public creditors can play a significant role in an early warning system as they can identify a delay in tax and social security payments – a warning that enterprises are experiencing financial difficulties. Information on late payments should be carefully used together with diagnostic analysis, as companies tend to only pay public debt to avoid early warning detection mechanisms.

Source: IMF (2021[66]).

- **Updating outdated bankruptcy proceedings.** Current moratoriums on repayment of debt due to COVID-19 interim measures should be used for modernising and upgrading existing legislation, e.g. introducing more digital solutions and facilitating the SMEs' reorganisations by solving current implementation issues. The effectiveness of the bankruptcy proceeding directly relates to court case duration, which could be reduced with digitalisation. If not solved on time, one debtor's

insolvency may trigger chained bankruptcies, which are typical for SMEs that usually do not have reserve funds to meet financial distress due to client non-payment. Updating bankruptcy and reorganisation proceedings in terms of shorter duration and better effectiveness, and higher claim recovery with better efficiency is crucial. This could be done by:

- **Digitalising liquidation proceedings by introducing e-auctions to sell assets from the bankruptcy estate**. By introducing e-auctions, the legislator solves the issue with determination of the fair market price for the sale of assets, which currently requires "subjective business evaluation", its acceptance, appeal, a proposal of a method of sale, approval method by the Creditors' Committee, appeal on the method of sale, distribution of proceeds and appeal of distribution and cost of the proceeding. The list of possible procedural deviations is lengthy, and the liquidation proceeding may go on for years. All these issues could be resolved by e-auction and automatic e-distribution. Creditors' rights are protected as claims are recovered from the best market price reached in a competitive bidding procedure. The digitalisation of the process also reduces the proceedings' costs related to management under the current liquidation procedure.
- **Improving the formal bankruptcy reorganisation proceedings.** This could be done by introducing legal provisions to solve obstruction to reorganisation plan voting by holdout and dissenting creditors. This is best solved by applying analysis of the creditors' best interests, which requires that creditors in reorganisation receive a higher recovery of their claim than what they would have received in liquidation. The insolvency judge should consider that in such circumstances, creditors who have voted against the plan have no material interest in doing so and should confirm the plan as if they had voted for the plan (cram down). Further to this, the law provides for multiple proposals of reorganisation plans. It is recommended to introduce confirmation of all voted plans, which provides the highest claim recovery for the lowest payment rank of creditors. The sale of a legal entity could be introduced as a specific reorganisation plan, which may meet several targets, including better recovery of claims than the sale of the legal entity in liquidation.
- **Introducing simplified bankruptcy proceedings for SMEs**. Micro and SMEs have small scales of business and simpler operations. It is thus recommended to consider admissibility to short-track proceedings for SMEs with a maximum debt of a certain threshold at the time of filing for bankruptcy. Only SMEs as debtors should be able to file for bankruptcy reorganisations. Requirements for restructuring plans should also be simplified. Administrative proceedings should be affordable for SMEs, and procedures should be simplified, e.g. there is no need for a Creditors' Committee. Restructuring plans should be confirmed by provision of the law if it provides for higher recovery in reorganisation than in liquidation proceedings and can avoid creditors' voting. Considering simplified procedures for such companies may considerably reduce the court case duration and save multiple jobs and potential severance social payments to the state.
- **Promoting second chance to honest entrepreneurs.** The economy should promote second chance as an option for honest entrepreneurs so they can start anew and thus reduce the cultural stigma related to business failure. The legal framework should provide for the debt discharge of honest entrepreneurs. The policy should clearly distinguish fraudulent from honest entrepreneurs and be widely promoted through public-awareness campaigns promoting a fresh start upon bankruptcy.

Institutional and regulatory framework for SME policy making (Dimension 3)

Introduction

A strong institutional and regulatory framework is the basis for SME policy making. SMEs are often disproportionately affected by regulatory changes and pay a higher price for legislative compliance, given their limited resources compared to larger companies. This is why, when designing policies that impact the private sector, policy makers should take into account the unique needs of SMEs, especially given their importance for the economy in terms of employment, value added and business demographics.

In Montenegro, SMEs represent a higher share of value added and employment (both over 70% in 2020) than the EU average, which is why it is particularly important to "think small first" when designing and implementing SME policies (European Commission, 2021[67]) (MONSTAT, 2021[38]). The COVID-19 pandemic heavily affected Montenegrin SMEs, particularly due to its impact on tourism. The pandemic also further exacerbated the other challenges that Montenegrin SMEs were exposed to, including in the informal economy.

Montenegro's score for Dimension 3 has deteriorated slightly since the previous assessment (when it was 4.24), mainly due to minor delays in implementation caused by the COVID-19 pandemic and relatively less ambitious developments in improving the business environment compared to the previous cycle. Nevertheless, Montenegro remains one of the top performers in the WBT region and has improved its score in certain sub-dimensions, driven by improvements in policy co-ordination and public-private dialogue (Table 16.9).

Table 16.9. Montenegro's scores for Dimension 3: Institutional and regulatory framework for SME policy making

Dimension	Sub-dimension	Thematic block	Montenegro	WBT average
Dimension 3: Institutional and regulatory framework for SME policy making	Sub-dimension 3.1: Institutional framework	Planning and design	4.44	4.28
		Implementation	4.20	3.96
		Monitoring and evaluation	4.84	3.81
		Weighted average	**4.40**	**4.03**
	Sub-dimension 3.2: Legislative simplification and regulatory impact analysis	Planning and design	3.88	3.84
		Implementation	4.28	3.47
		Monitoring and evaluation	3.24	2.95
		Weighted average	**3.95**	**3.48**
	Sub-dimension 3.3: Public-private consultations (PPCs)	Frequency and transparency of PPCs	4.76	4.00
		Private sector involvement in PPCs	4.04	3.92
		Monitoring and evaluation	2.60	3.10
		Weighted average	**4.04**	**3.79**
Montenegro's overall score for Dimension 3			**4.16**	**3.79**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Since the last assessment in 2019, Montenegro has reinforced the co-ordination of the implementation of the SME policy framework and monitoring and evaluation through the creation of a dedicated Working Group for SMEs within the Council for Competitiveness (Table 16.10). The restructuring of the Council for Competitiveness has strengthened public-private dialogue. The use of regulatory impact assessments has

led to moderate improvements. There remains, however, room for improvement in monitoring and evaluation in this sub-dimension.

Table 16.10. Montenegro's implementation of the SME Policy Index's 2019 recommendations for Dimension 3

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Ensure that the MSME Strategy is implemented effectively given its wide-ranging and ambitious objectives and measures	Despite delays caused by the COVID-19 pandemic, implementation of the strategy and its action plans advanced well during the assessment cycle (79% of planned activities were conducted in 2020). Since 2021, the implementation of the strategy is now overseen by the reorganised Council for Competitiveness. The Working Group within the Council, chaired by the Ministry of Economic Development, co-ordinates the work of various line ministries and public bodies charged with implementing the strategy's various activities. Monitoring is conducted regularly, and the strategy has been restructured to reflect the recommendations of the 2020 implementation report.	Strong
Enforce effective application of regulatory impact assessments (RIA)	The government of Montenegro has made efforts to promote the usefulness of RIA and improve administrative capacity for conducting effective and complete assessments (through training, seminars and other activities). However, despite a moderate improvement in the overall quality of RIA, visible through monitoring reports, challenges remain in several key areas. In addition, RIA continues to be perceived as a cumbersome obligation rather than a useful tool within the public administration.	Moderate

Implementation of the SME policy framework has advanced well, and co-ordination of SME policies has been strengthened

Montenegro continued the implementation of its main SME policy document: the Strategy for the Development of Micro, Small and Medium-Sized Enterprises (2018-2022). Monitoring reports show that despite slight delays, which can be attributed to the COVID-19 pandemic, the implementation of the MSME Strategy (2018-2022) continued at an overall effective pace throughout the assessment cycle. For instance, over 79% of the activities foreseen in the strategy and its action plan were implemented in 2020, compared to over 90% in 2019 (Ministry of Economic Development, 2021[68]).

The MSME Strategy (2018-2022) was restructured in 2021, following the recommendations of the 2020 monitoring report and the interim implementation report prepared according to the OECD development assistance methodology.[16] The 2020 monitoring report recommended restructuring the strategy's strategic goals. From the five initial goals, the strategy is now structured around three: 1) strengthening SME policies and improving the environment for the development of SMEs and entrepreneurship; 2) strengthening the competitiveness of MSMEs; and 3) promoting MSMEs and entrepreneurship, business linkages, and easier access to new markets (Ministry of Economic Development, 2021[68]).

Co-ordination of the implementation of the MSME Strategy (2018-2022) was strengthened through the creation of the Working Group for SMEs within the framework of the reformed Council for Competitiveness, chaired by the Ministry of Economic Development. The Working Group for SMEs is responsible for monitoring the implementation of the strategy and should benefit from the technical and analytical support of the Council for Competitiveness and its secretariat.

Montenegro's SME policy framework does not directly include goals related to combating the informal economy. While the MSME Strategy (2018-2022) has objectives related to improving the business environment,[17] therefore indirectly contributing to incentivising formal business operation, more specific goals targeting SMEs are absent. Informality, which mainly concerns informal wages and labour, is an important horizontal challenge for Montenegro, representing around 30% of GDP, and could pose specific challenges for SMEs, especially given the large share of employment they represent (European Commission, 2021[69]; OECD, 2021[3]).

MONSTAT collects basic demographic data related to SMEs. Other institutions, such as the Central Bank, collect data on access to finance. Some progress has been made since the last assessment regarding data collection on SMEs' participation in public procurement, which is expected to be expanded following the establishment of an e-procurement system. Data on SME greening, however, are lacking and could be further improved. Overall, inter-institutional co-ordination on data collection as well as the scope of the data collected on key indicators in the aforementioned areas could be further strengthened so as to improve the base for evidence-based SME policy making in Montenegro.

Efforts to improve the business environment have continued, and some progress has been observed in increasing the quality of RIA

Montenegro completed the implementation of its Regulatory Guillotine Action Plan in 2018, with overall implementation of 86% of the Action Plan's recommendations. The first strategic goal of the MSME Strategy (2018-2022) is to continue regulatory reforms to improve the business environment. This will be particularly important, as according to the latest Balkan Business Barometer survey, 80% of surveyed Montenegrin companies considered regulations to be an obstacle to doing business. Moreover, the share of surveyed businesses that consider that laws and regulations affecting their company are clearly written, are not contradictory and do not change too frequently has declined, from 51% in 2019 to 36% in 2020 (Regional Cooperation Council, 2021[70]).

The government launched an online portal (https://javninameti.gov.me/) in 2021 to identify and list all the fiscal and para-fiscal charges for businesses. The portal should help inform businesses of the different charges and fees they are subject to, and help the government reduce or eliminate various charges after evaluating their necessity.

The quality of RIA in Montenegro has somewhat improved since 2019, as shown by the monitoring reports published by the Ministry of Finance and Social Welfare. Namely, 68% of RIAs conducted in 2020 were noted as "done with quality", versus 61% in 2019 (Ministry of Finance and Social Welfare, 2021[71]). More specifically, progress was made in better defining problems and goals and assessing the fiscal impact of policies. Challenges remain, however, in that alternative options are not analysed when preparing RIA and RIA are not consistently shared with stakeholders during consultations (OECD, 2021[72]). Moreover, RIA is often conducted towards the end of the policy-making process, just before submitting draft legislation from a line ministry to the government for adoption, meaning that policy makers cannot properly make use of it throughout the process and are reluctant to make changes to draft legislation if the RIA shows the need to do so (Kačapor-Džihić, 2020[73]).

Although the RIA methodology contains a mandatory examination of a regulation's impact on SMEs, a full-fledged SME test[18] has not yet been implemented, despite being planned as part of the MSME Strategy (2018-2022). Montenegro's aggregate reporting on RIA, conducted by the Ministry of Finance, can be considered an example of good practice for other regional economies (Box 16.8).

Box 16.8. Montenegro's reports on the quality application of RIA

Conducting regular reporting of the RIA process with a focus on qualitative indicators is key to measuring progress in building institutions' capacities for conducting useful and evidence-based analysis.

Making full use of its quality control function, the Ministry of Finance and Social Welfare of Montenegro publishes regular reports on the state of the RIA process in Montenegro and the evolution of its quality.

As in some other WBT economies, these reports contain a statistical aggregation of all RIAs conducted as a share of all primary and secondary legislation adopted and the degree to which they meet the requirements for conducting RIA by line ministries. However, what makes Montenegro's reports stand

out is that the RIAs conducted are then divided into categories, showing what share of RIAs conducted was satisfactory in terms of quality in the areas of problem definition, goal definition, options definition, impact assessment, fiscal impact assessment, consultation with stakeholders and monitoring and evaluation. This kind of analysis allows the Ministry of Finance to measure the progress made compared to previous years in these different areas.

In the latest report, the ministry identified that 68% of RIA conducted in 2020 was noted as "done with quality" versus 61% in 2019, showing a slight improvement in overall quality. More specifically, the areas with the greatest room for improvement were options definition, impact assessment, fiscal impact assessment, consultations with stakeholders and monitoring and evaluation. This allows the government to focus its efforts on building capacity for conducting useful and effective RIA on these areas.

Source: Montenegrin Ministry of Finance (2021[71])

The institutional framework for public-private dialogue has been strengthened, but monitoring and evaluation of public-private consultations could be improved

In February 2021, Montenegro strengthened the role of its Council for Competitiveness, established in 2017, to make it the main platform for dialogue between the government, the business community and academia. Beyond fostering dialogue, the council is charged with analysing laws and procedures and making recommendations to the government for legislative changes. The goal is to improve the business environment and advise the government on the preparation of an annual programme of structural reforms for improving competitiveness, which is an integral component of Montenegro's ERP (2021-2023). The council's membership was expanded to include new members, such as the Women's Business Association of Montenegro. The council was placed under the presidency of the Minister of Economic Development, with the Minister of Finance and Social Welfare acting as deputy president. The council is also supported by a full-time professional secretariat providing technical, administrative and analytical support.

Since its restructuring, the Council for Competitiveness has hosted many meetings, including plenary meetings on key issues such as informality, innovation and improving the business environment. It has also provided inputs on important policy documents and legislation, including the Programme for Advancing Competitiveness and the Law on Intellectual Property. Apart from its plenary meetings, the council also has eight thematic working groups that meet weekly, including the Working Group on SMEs charged with co-ordinating the implementation of the MSME Strategy (2018-2022). The Council was also active in engaging the business community during the design of economic response measures to the COVID-19 pandemic. Overall, the Council is positively perceived as an inclusive platform by stakeholders, including SMEs, for which the restructuring provided significantly greater room for participation.

Montenegro has a functioning online portal for public-private consultations (PPCs), where all ongoing and concluded consultations are listed, along with their results. While the results of individual consultations are reported on and made publicly available, monitoring and evaluation of the overall use of the PPC process throughout government institutions is lacking. This makes it difficult to evaluate the overall use of PPCs by various institutions, their adherence to quality standards and their stakeholder engagement. External evaluations, such as the Balkan Business Barometer survey, have identified an increasing number of businesses expressing dissatisfaction with consultation procedures (40% of those surveyed in 2021 compared to 32% in 2019) (Regional Cooperation Council, 2021[70]).

The share of legislation adopted under extraordinary procedures, therefore bypassing the requirement for conducting a PPC, rose significantly in Montenegro from 2019 to 2020, and in 2020 represented nearly a third of all draft legislation sponsored by the government (OECD, 2021[72]). This development, coupled with

the fact that parliament is not informed of the results of consultations when they are conducted and a draft is submitted, poses a challenge to including stakeholders' views and concerns in the legislative process.

The way forward for Dimension 3

- **Concentrate efforts to improve regulatory impact assessment quality in priority areas.** The reports published by the Ministry of Finance and Social Welfare are a strong monitoring and evaluation tool, as they allow the government to identify priority areas on which to focus their efforts for capacity building and improving the quality of RIA. The most recent report identified the following areas as representing particular challenges: defining options, analysing the impact of policies, improving consultations with relevant stakeholders, and monitoring and evaluation. These should be prioritised for capacity-building support. Regarding consultations with stakeholders, an important first step would be to systematically share RIA reports with the participants of PPCs.
- **Introduce regular reporting on government use of public-private consultations and its results.** While reports on the results of individual consultations exist and are made public, there is no monitoring and evaluation of the overall public-private consultation process nor of the level of stakeholder engagement. Introducing aggregate reporting on the government's use of PPCs across various institutions and ministries should help evaluate the overall quality of PPCs and identify areas for improvement, similar to what is done with the reports on RIA. Reporting should also include indicators measuring the level of stakeholder engagement, particularly of businesses and SMEs, for legislation that concerns them. Albania provides an example of good practice from the region in this regard (Box 16.9).

Box 16.9. Albania's reporting on public-private consultations

As part of its new regulatory framework for conducting PPCs, introduced in January 2021, Albania strengthened the guidelines for monitoring and evaluation of PPCs conducted by all line ministries, as well as of the overall PPC process, monitored and evaluated by the Council of Ministers.

As of 2021, line ministers have begun publishing reports every six months summarising the PPCs that they have held. The reports are available on the online PPC portal (https://konsultimipublik.gov.al) and contain an exhaustive summary of all the PPCs conducted by the relevant institution.

The Council of Ministers prepares another report, summarising the content of the line ministries' reports and analysing the adherence of consultations to quality standards (based on the respect of the requirement to conduct PPCs, the duration of PPCs and accessibility to the public). Indicators measuring public participation and the share of comments accepted or rejected allow the government to assess overall stakeholder engagement in PPCs conducted by the government across various line ministries. The report also provides recommendations to improve the PPC process.

Montenegro could take inspiration from this system, as it would allow the government to measure the consistency of ministries' use of PPCs, but also the quality of the overall PPC process across different ministries.

Sources: Reports available on Albania's online portal for PPCs: https://konsultimipublik.gov.al; Council of Ministers of Albania (2021[74]).

Operational environment for SMEs (Dimension 4)

Introduction

From registering a company and obtaining a business licence to filing and paying taxes, SMEs interact with public institutions, physically or digitally, at all stages of their development. The operational environment in which they have to navigate is determined by the ease of using digital services, the number of procedures and the costs associated with their interactions with the government. Complex requirements imposed on businesses have adverse impacts on SMEs' abilities to operate, take advantage of market opportunities efficiently and grow.

For an economy like Montenegro, which was heavily impacted by the COVID-19 pandemic, increasing the availability of digital services for SMEs – including business registration and licensing – as well as improving the efficiency of administrative procedures – including tax compliance procedures – will be key to improving the operational environment by saving time and resources.

Montenegro's score has improved in this dimension since 2019 (when it was 3.29) due to progress in all sub-dimensions. Its performance in company registration has particularly increased (3.65 in 2022 compared to 2.93 in 2019) thanks to the simplification and digitalisation of procedures. Limited progress has been achieved in streamlining the business licensing system (Table 16.11).

Table 16.11. Montenegro's scores for Dimension 4: Operational environment for SMEs

Dimension	Sub-dimension	Thematic block	Montenegro	WBT average
Dimension 4: Operational environment for SMEs	Sub-dimension 4.1: Digital government services for SMEs	Planning and design	4.80	4.28
		Implementation	3.27	3.33
		Monitoring and evaluation	1.73	2.48
		Weighted average	**3.34**	**3.40**
	Sub-dimension 4.2: Company registration	Planning and design	4.70	4.42
		Performance	3.73	3.93
		Monitoring and evaluation	2.55	4.06
		Weighted average	**3.65**	**4.18**
	Sub-dimension 4.3: Business licensing	License procedures	4.00	3.88
		Monitoring and streamlining of license system	3.50	3.73
		Weighted average	**3.75**	**3.80**
	Sub-dimension 4.4: Tax compliance procedures for SMEs	SME tax compliance and simplification procedures	No scores	
		Monitoring and evaluation of SME-specific tax measures		
Montenegro's overall score for Dimension 4			**3.61**	**3.64**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Despite delays in the rollout of digitally enabled services for businesses, Montenegro has achieved important progress in key areas such as data interoperability between government registers as well as the availability of data sets on the government's open data portal. A new, comprehensive framework for digital government has been adopted and aims to significantly advance the digital availability of government services and horizontally guide the digital transformation of the economy. Given the new framework's ambitious goals, it will be important for the government to increase co-ordination and improve monitoring and evaluation mechanisms to allow for its effective implementation. Notable progress has been achieved in simplifying company registration processes by replacing lengthy procedures and introducing fully operational electronic registration, although it still needs to be made available for all types of companies. Guidelines for business licensing are clear and centralised on an online portal. However, the licensing streamlining process has been progressing at a slow pace, in particular concerning the electronic application of licences (Table 16.12). Unincorporated SMEs subject to the standard tax regime face a high tax burden, but self-employed entrepreneurs can benefit from a lump-sum tax regime that reduces tax compliance costs. Progress has been achieved in reducing tax compliance costs for SMEs by simplifying bookkeeping rules and implementing initiatives to improve tax literacy (Table 16.12). However, there is still scope to reduce and facilitate tax administration procedures for SMEs.

Table 16.12. Montenegro's implementation of the SME Policy Index's 2019 recommendations for Dimension 4

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Continue efforts to implement digital authentication or e-signatures in order to get services fully on line	There are currently five licensed providers of qualified electronic certificates for e-signatures in Montenegro, and qualified electronic certificates are widely used by businesses. The government has partially realised plans to create a national digital identity system and has begun rolling out national ID cards with electronic chips usable for e-signature that will promote and facilitate the use of e-signatures, namely by eliminating the cost barrier, although its use is limited to citizens.	Moderate
Establish monitoring mechanisms for the business registration process	Along with the introduction of electronic company registration, the Law on Electronic Government established the Council for e-Government in November 2020, which has the mandate to monitor electronic procedures, including company registration, propose measures to improve processes, consider professional issues and co-ordinate activities in this field. However, no monitoring reports are available so far.	Moderate
Finish streamlining the licensing procedures	Only limited progress can be reported with regard to the plan to simplify and review licensing procedures that started in 2017. The plan also aimed at enabling electronic services for each licence separately; however, it is currently only possible to electronically apply for 20 licences (out of the 302 available) on line. Moreover, the lack of an electronic payment system within the provision of digital services remains a major shortcoming, which affects the length and quality of services provided and the development of electronic services for licences.	Limited
Reduce compliance requirements for SMEs	Unincorporated SMEs can opt to pay a lump-sum amount of personal income tax, which reduces tax compliance costs. However, the functioning of the regime should be evaluated regularly from a tax policy perspective. Electronic tax payment is possible, and tax information is made available via an online portal (changes in legal regulations, reminders of deadlines for submitting tax returns, etc.). Montenegro introduced measures to increase tax literacy among SMEs.	Moderate

The rollout of digital services for businesses has slowed down in recent years, disallowing businesses to complete many key services fully on line

The implementation of Montenegro's Information Society Development Strategy (2016-2020) has experienced delays since the last assessment. In the 2019-20 monitoring cycle, 34% of the measures related to developing digital government[19] were partially implemented or not implemented at all. The main

reasons for the general delays across the strategy's different goals were chiefly attributed to insufficient institutional co-ordination, lack of resources, as well as the COVID-19 pandemic and subsequent redirection of resources and cancellation of some planned activities. Moreover, even though the pandemic pushed some administrations to digitalise their processes when interacting with users temporarily, and out of necessity, once the situation allowed, they reverted to old practices, requesting documents in paper form (Ministry of Public Administration, Digital Society and Media, 2021[75]).

Montenegro has an online portal for digital government services. The e-Uprava portal is managed by the Ministry of State Administration, Digital Society and Media (MJUDDM), but the digitalisation of existing services depends on line ministries and other relevant institutions. Many key services, such as filing and paying taxes and social security contributions, or services related to the cadastre, are not digitalised to the extent that they could be (OECD, 2021[72]). The aforementioned delays in implementation impacted the development of an e-payment system that currently does not allow for the payment of administrative fees (State Audit Institution, 2021[76]). Therefore, the level of sophistication[20] of digital services for businesses does not go beyond Level 3 (users can download forms, send emails to officials and interact on line, whereas for Level 4, they can also pay for services and perform other transactions on line, fully eliminating the need for physical presence to complete a service). The e-Uprava portal has a total of 317 services for legal entities; 49 are at Level 3, and the remaining 268 are at Levels 1 and 2. A unified system for the payment of administrative fees is currently being developed by the MJUDDM (Ministry of Public Administration, Digital Society and Media, 2021[77]), and the legal prerequisites have been adopted (European Commission, 2021[69]). Its development and implementation would allow Level 3 services to advance to Level 4 (State Audit Institution, 2021[76]).

The implementation and availability of digital services for businesses that depend on local administrations vary between the capital, Podgorica, and other local self-government units, an issue identified by the government that engaged in harmonising implementation at the local level (with support from international development co-operation partners, such as the UNDP). However, this will depend on the investment and maintenance capacities of local self-administrations, especially in terms of human resources (Kačapor-Džihić, 2020[73]).

Businesses' satisfaction with digital government services has fallen sharply since 2019 (from 63% to 27%) and is now below the regional average of 39%,[21] leaving significant room for improvement (Regional Cooperation Council, 2021[70]). This may partially be explained by the slow implementation progress in the previous period (OECD, 2021[72]), as well as by higher expectations driven by the increased need for digital services in the context of the COVID-19 pandemic. Businesses have also expressed concerns about the e-Uprava portal's lack of user-friendliness (European Commission, 2021[69]). Satisfaction rates might improve as the public administration enables more functionalities and the rollout of digital services continues. This perception might also reflect the fact that services are designed around the transposition of existing services into a digital format rather than designing services around the end needs of businesses. Increasing the availability of digital services presents a unique opportunity to redesign services to make them more efficient and better address the needs of the businesses using them.

Despite these delays, Montenegro has achieved important goals in the use of digital services and has made progress in interoperability and open data

Despite the delays in the implementation of the policy framework, important goals have been achieved. Namely, the number of services for legal entities available on the e-Uprava portal has increased more than fourfold, from 73 in 2016 to 342 in 2020,[22] and the number of total requests on the portal has risen by 8%, from 8 807 to 9 555 in the same period. Moreover, the strategy surpassed its target of 30% of legal entities using digital services, reaching 45% in 2020, with businesses being, in general, much better informed about the availability of digital services than citizens (Ministry of Public Administration, Digital Society and Media, 2021[75]; 2019[78]).

In 2020, Montenegro adopted the Law on Electronic Government (Official Gazette of the Republic of Montenegro No. 72/19) to further regulate citizens' and businesses' interaction with the public administration through digital means, as well as to strengthen the legal framework for the implementation of the once-only principle.[23] Implementation of the once-only principle has progressed thanks to advances in data interoperability and the integration of key national registries such as the central population register, the central business entities register, the tax administration register and others into the government's single system for electronic data exchange. The Law on Electronic Government also introduced a Council for Electronic Government, chaired by the Minister of State Administration, Digital Society and Media, whose mission is to improve the co-ordination of activities related to the digitalisation of government services and advise the government on policies related to the digital transformation of public services. The council held its inaugural meeting and became operational in September 2021 (OECD, 2021[72]). While it was established too recently to judge its effectiveness, its creation represents an intention to improve the coherence of digital government in Montenegro, a fundamental step for adequate steering and legitimacy of digital transformation efforts.[24]

The number of data sets on the government's open data portal (https://data.gov.me) has increased more than fourfold, from 39 in the previous assessment to 132 by the end of 2020 (Ministry of Public Administration, Digital Society and Media, 2021[75]), and the number of institutions publishing data on the portal doubled, from 8 to 16, over the same period (Government of Montenegro, 2022[79]). The government aims to greatly increase the number of institutions publishing data on the portal, as well as to promote the reuse of open data by businesses as a means of stimulating innovation. A Rulebook exists to ensure that datasets provided through the open data portal by public institutions are machine readable and provided in open format to allow for their reuse.[25] Data on SMEs' reuse of open government data are currently not collected. As part of the Open Data for European Open Innovation (ODEON) project, financed by the European Union through the Interreg Mediterranean Programme, the Chamber of Economy of Montenegro has been active in promoting the importance of institutions publishing data in an open format, as well as promoting the reuse of open data by businesses. In 2020, the Chamber published a study on the status of open data in Montenegro and pointed out that despite many encouraging developments, several key challenges remain, such as data collection and monitoring of the use of open data, publishing of open data by local administrations and the consistency of publishing data in an open format by institutions (Chamber of Economy of Montenegro, 2020[80]).

The government has adopted an ambitious new policy framework to drive forward digitalisation reforms that aims to improve co-ordination and monitoring and evaluation

Having taken into account lessons learnt from the Information Society Development Strategy (2016-2020), as well as recent global developments and trends in digitalisation, the government adopted the new Digital Transformation Strategy of Montenegro (2022-2026) in December 2021. The strategy takes a comprehensive approach to digital transformation and includes objectives such as further developing digital government services through the e-Uprava portal, advancing interoperability and data openness, and further supporting the digital transformation of Montenegrin businesses. The strategy aims to improve co-ordination by creating a national co-ordination body, modelled after digital coalitions that exist in other countries and involving the private sector and academia.

Moreover, the strategy aims to advance the implementation of interoperability through the government service bus, managed by the MJUDDM, by increasing the number of integrated registers from the current 12 to 250 by 2026. A notable challenge identified in the strategy is the reluctance of administrations to switch to using interoperable systems for data exchange, preferring to exchange data through traditional means.[26] The development of service-level agreements between service providers and the institution responsible for the data exchange system is identified as a key step to better defining the responsibilities of both parties and facilitating inter-administration data exchange (Ministry of Public Administration, Digital Society and Media, 2021[77]).

Monitoring and evaluation of digital services is a cross-cutting challenge in Montenegro

Various line ministries are not obliged to report on the development of digital government services to the MJUDDM, translating into a lack of ownership concerning policies seeking to develop digital services, as well as a lack of shared standards for service delivery (OECD, 2021[72]; Ministry of Public Administration, Digital Society and Media, 2021[77]). The Digital Transformation Strategy of Montenegro (2022-2026) aims to address these challenges by giving the MJUDDM a leading role in monitoring and evaluation and by making reporting of the strategy's implementation mandatory for line ministries.

Regarding the monitoring of digital service performance, currently, the rating of digital services is limited to a functionality in the e-Uprava portal, where users can rate their experience as satisfactory or unsatisfactory, a mechanism with limited overall usefulness (OECD, 2021[72]). The government is looking to better measure satisfaction with digital services for both citizens and businesses by conducting an updated survey with support from the European Union and the UNDP. While this is a welcome initiative, it does not constitute a systematic and targeted feedback system, which has yet to be developed.

The company registration process has been considerably simplified since the last assessment

Notable improvements have been made to the company registration process in Montenegro. In March 2019, the Competitiveness Council of Montenegro formed a working group mandated to analyse the company registration process to ease the number of procedures and enforce electronic registration, in line with the MSME Strategy (2018-2022). Several measures have since been adopted. First, a centralised registry of all fiscal and para-fiscal charges at the central and local levels was developed, increasing transparency for businesses. Second, the 16 different forms required to register a company, available in one-stop-shops in 8 regional tax administration units, were replaced with a single registration application. Third, the secondary legislation on electronic payment of administrative fees was adopted, ensuring the legislative prerequisites to introduce full electronic registration of companies, in line with the European Commission's 2020 recommendations (European Commission, 2021[69]). In this regard, the process of starting a business has been re-engineered and optimised, and fully digitalised since December 2020 for the registration of a limited liability company with a minimal capital of EUR 1 (https://efirma.tax.gov.me)[27] (OECD, 2021[72]). Users have all of the currently available digital certificates that are valid in Montenegro at their disposal, including digitally signed documents, which were not available in the previous cycle. However, the process of enabling electronic registration for all types of companies (other than limited liability companies), which was planned for mid-2021, has not been completed.

The ongoing streamlining process of company registration should ease the procedures and days required to start a business. According to the e-Firma website, the Central Register of Business Entities will have 3 days to take a decision on each application, which will then be officially delivered by mail to the applicant within 8 days (compared to 8 procedures and 12 days required to start a business in 2019) (World Bank, 2020[81]). Moreover, as part of the Business Registry Empowerment project funded by the European Union in the period 2014-20,[28] the Chamber of Economy has developed a registry integrating data from the Central Register of Business Entities and the Tax Office Authority to facilitate information access for businesses. The project has also created a transnational tool to connect business registries from Albania, Italy and Montenegro in order to increase SMEs' collaboration and competitiveness.

In line with the previous cycle's recommendation, the Council for Electronic Government also has the mandate to monitor and propose measures to improve company registration, but no reports are available on its activities thus far. The council should enable better co-ordination and compliance between company registration and other digital services.

While guidelines for obtaining business licences are clear, digitalised and centralised, only limited progress has been reported in streamlining procedures

The register of licences is available on the e-Uprava portal, and entrepreneurs have access to detailed information on the requirements, procedures and fees needed to obtain licences and permits (www.euprava.me/elicence1).[29] While the number of licences available on the portal has increased by 10% since the last assessment (275 in 2019 compared to 302 in 2021), the offered services are largely informational, and their availability and accessibility could be significantly improved. The business opinion survey shows that 41% of respondents considered it to be a big to very big obstacle in 2021 (OECD, 2021[72]; Regional Cooperation Council, 2021[70]). No co-ordination body at the national level oversees the licensing process; every authority is responsible for delivering licences under their mandate.

Only limited progress has been achieved in implementing the roadmap introduced by the government in 2017 to simplify and review the licensing process. While the roadmap specifically aims to enable electronic application for all licences, implementation has been slow: it is currently only possible to electronically apply for 20 licences, out of the 302 for which information is available on line. This slow implementation can be attributed to the lack of an electronic payment system for electronic services, which affects the efficient development of electronic services for licences. Montenegrin businesses' opinion shows that there is significant room for improvement in this regard, as 33% claim that the lack of digitalised process for the application and approval of licences is a big or very big obstacle (compared to only 5% in 2019), representing the largest share of respondents in the Western Balkans (Regional Cooperation Council, 2021[70]).

Delays in obtaining licences can be costly to entrepreneurs, adding uncertainty and additional costs to much-needed business transactions. According to the latest data available, 5 days are necessary to obtain an import licence, 6 days for an operating licence and 91 days for a construction permit; the first two are lower than the WBT averages (11, 24 and 72 days, respectively) (World Bank, 2019[82]). Nevertheless, the number of procedures, requirements, paperwork and cost for obtaining business licences are increasingly considered a big or very big obstacle by businesses in Montenegro (44% in 2021 compared to 39% in 2020 and 21% in 2019) (Regional Cooperation Council, 2021[70]). In addition, the excessive discretionary power of government officials and inconsistent application of regulations are increasing barriers for businesses in Montenegro, and more than one-third of them frequently need to rely on personal or private connections to solve problems. This is twice as much as in 2019[30] (Regional Cooperation Council, 2021[70]).

Montenegro has introduced a comprehensive set of tax measures to mitigate the impact of the COVID-19 crisis and support the economic recovery

The measures that were introduced were available to all businesses, including SMEs. Personal income tax (PIT) payments and social security contributions (SSCs) could be deferred, and interest was not charged on the deferred tax liabilities. VAT payments were also deferred, but only for businesses whose activity was suspended as a result of the COVID-19 restrictions. To support the economic recovery, expenditures related to health, education, science, religion, culture, sports and humanitarian activities have been recognised as expenses for PIT purposes up to a maximum of 3% of turnover (Government of Montenegro, 2021[83]). Unincorporated businesses that hire employees who have been unemployed for more than three months can benefit from an employer SSC exemption and a reduction in PIT liabilities. Finally, the government provided funds for financial assistance to businesses that introduced an electronic cash register.

Despite PIT incentives, unincorporated SMEs subject to the standard tax regime face a high tax burden

Self-employed entrepreneurs subject to the standard PIT regime, and in particular those with lower profits, face a high tax burden. PIT incentives are, however, available to unincorporated SMEs and businesses located in underdeveloped areas. The standard PIT rate was 9% in 2021, and a 13% city surtax is levied on top of that (two cities levy a city surtax of 15%) (IBFD, 2021[84]). The standard PIT base is turnover net of costs. However, a presumptive PIT base that is equal to 30% of turnover applies for self-employed workers who earn income from independent activities that are not their principal activity and who do not document expenses. Self-employed entrepreneurs are subject to a 34.3% SSC rate levied on their revenue, and the SSC base is capped annually at EUR 53 858. Thus, labour taxes paid by self-employed workers are levied at a flat rate. Overall, the tax burden on self-employed entrepreneurs is high, particularly for those with incomes below the SSC ceiling, and may therefore create disincentives to work in the formal sector.

Businesses that start an economic activity in a less developed region benefit from an eight-year exemption from PIT, but the maximum PIT exemption cannot exceed EUR 200 000. In addition, businesses that invest in an underdeveloped area and employ new workers for at least five years are exempt from PIT for up to four years.

Gig workers are subject to the standard PIT and the city surtax but pay lower SSCs. In contrast to regular self-employed entrepreneurs that pay SSCs at a rate of 34.3%, the rate for gig workers is 24%, which is the same as the employee SSC rate (IBFD, 2021[84]).

Corporate income tax incentives available to incorporated SMEs were abolished

Until December 2021, a reduced corporate income tax (CIT) rate of 6% applied to businesses that paid their CIT on time, encouraging tax compliance. The standard CIT rate was 9% in 2021, and losses may be carried forward for up to five years (Ministry of Finance and Social Welfare, 2021[85]). However, the law was amended at the end of 2021, abolishing these reliefs, and new progressive CIT rates were introduced: 9% for the taxable profits up to EUR 100 000, from EUR 100 000 to EUR 1 500 000 – EUR 9 000 plus 12% for the amount over EUR 100 000 and for taxable profits over EUR 1 500 000 – EUR 177 000 plus 15% for the amount exceeding EUR 1 500 000.

Self-employed entrepreneurs can benefit from a lump-sum tax regime that reduces tax compliance costs

The lump-sum amount paid by businesses is determined by complex rules, which may result in tax uncertainty. In addition, the simplified tax regime could create hurdles to growth. Businesses with an annual turnover of less than EUR 30 000 and that carry out specific business activities can request to pay PIT on an annual lump-sum basis. In 2020, 2 466 businesses benefited from this lump-sum tax regime (down from 3 054 and 2 902 in 2018 and 2019, respectively). The lump-sum amount depends on the type of business activity, the level of turnover and the level of expected taxable income that the business would have under the regular PIT regime.

Relatively high SSCs and low tax rates levied on personal capital income create a tax-induced incentive for SMEs to incorporate

The effective tax rate on distributed profits is low as a result of a low CIT rate and a low dividend withholding tax rate of 9% (IBFD, 2021[86]). Owner-managers of closely held corporations do not have to be remunerated in the form of a salary; instead, they can earn their income in the form of lower-taxed capital income. This tax-induced incorporation incentive comes at a significant tax revenue cost and implies that owner-managers will not be entitled to social benefits as they have not necessarily paid high SSCs. In

addition, corporations face higher non-tax costs than unincorporated businesses; thus, the tax-induced incorporation incentive could increase (non-tax) compliance costs for SMEs.

The VAT system does not currently foresee tax simplification procedures

The recently introduced electronic cash registers are a great opportunity to decrease VAT compliance costs for SMEs. Businesses have to register for VAT if their annual turnover is more than EUR 30 000 (it previously was EUR 18 000). Voluntary registration for VAT is possible for businesses with turnover below the EUR 30 000 threshold, provided they remain VAT liable for at least three years. In 2021, the standard VAT rate was 21% and the reduced VAT rate 7% (IBFD, 2021[86]). The recent introduction of electronic cash registers allows businesses to create, send, receive and sign invoices using an online service. This saves them time and reduces tax compliance costs; it also allows the tax administration to strengthen tax compliance and increase enforcement. The introduction of the electronic cash registers should be accompanied by training opportunities for SMEs.

Montenegro has made progress in reducing tax compliance costs for SMEs

SMEs benefit from simplified bookkeeping rules and are required to pay taxes on a monthly basis. Incorporated SMEs are required to submit simplified versions of a balance sheet, an income statement and a statistical annex. Moreover, under the lump-sum tax regime, unincorporated businesses are allowed to keep turnover books in electronic form only if they have been authorised by the tax administration to do so. PIT liabilities, including the lump-sum tax, are paid on a monthly basis. Corporations are also required to make tax pre-payments on a monthly basis.

Tax e-filing is mandatory for PIT, CIT and VAT purposes. However, tax e-filing may be a costly procedure for SMEs. All taxpayers have to purchase a digital certificate of EUR 110 to file their tax return on line, which can discourage tax compliance. While taxes can be paid electronically through any commercial bank, it is not compulsory to do so.

Several initiatives have been implemented to improve tax literacy, reducing compliance costs for SMEs. Information, such as changes in legal regulations and reminders of deadlines for submitting tax returns, is regularly published on an online portal. In addition, Montenegro has organised a “tax caravan” project in all major cities that provides guidance on taxpayers’ rights and obligations. These initiatives allow taxpayers to improve their knowledge about the functioning of the tax system and to increase tax literacy, thus reducing tax compliance costs.

The way forward for Dimension 4

- **Build the capacity of the public administration to understand the end needs of users when designing digital services**. While digitalising existing public services is an effective means of saving time for businesses and improving the efficiency of existing administrative procedures, going forward, it could be beneficial for the government to adopt a proactive approach of redesigning services around the final needs of businesses to make them more efficient and to deliver more public value. Box 16.10 provides more information on how to adopt a user-driven approach to service design and delivery. The full implementation of the once-only principle will allow this re-engineering of services to bring its full benefits.

Box 16.10. Keys to successful user-oriented service delivery

Successfully designing public services that are tailored to and are responsive to users' needs is a process that depends on several key factors, according to the OECD's Conceptual Framework for Analysing the Design and Delivery of Services:

- Firstly, **governments must consider contextual factors**, such as the political and administrative culture of a country, the technological context (availability of and widespread use of tools such as internet and ICT or electronic signatures in businesses), socio-economic and cultural factors. Embracing a digital by default approach risks excluding users who may be unable to complete services on line and need in-person support. Therefore, governments should understand how existing service delivery channels (websites, call centres, networks of service provision) can work together to provide inclusive access to services for all. Information shared through different channels (on line, in person, telephone) should be integrated to allow users to complete services end-to-end even if they change channels in the middle of the process.
- Secondly, **public sector service design should be guided by a philosophy that is based on inclusiveness of stakeholders, agile design and iteration**. In the case of digital services for businesses, this means that businesses, including SMEs, should be consulted proactively when designing services or adapting them to digital models. User feedback can also be collected ex post through monitoring and evaluation. An agile design philosophy allows governments to iterate on services and integrate user feedback throughout the service design and delivery process, as opposed to collecting feedback as a separate process.
- Lastly, **governments should enable the delivery of services based on a user-centric approach by taking a government as a platform approach**, giving civil servants the resources and tools necessary to drive this transformation. Concretely, this refers to establishing common standards for service delivery, empowering administrations with the ability and resources to explore, test and propose new services, developing reusable technical components (such as payments or identity), and establishing appropriate guidelines for public procurement to ensure the reflection of these principles when outsourcing.

Source: OECD (2020[87]).

- **Improve monitoring and evaluation of digital services for businesses, including company registration.** Low satisfaction rates of digital services for businesses, as well as limited monitoring and evaluation mechanisms, show a need for more targeted data collection. While the government does have plans to conduct an in-depth survey on satisfaction with digital services (similar to the one conducted in 2019), it should also look to make improved, regular and obligatory monitoring of satisfaction a key objective of the overall development plans for the e-Uprava and e-Firma portals, where services are concentrated. When improving feedback channels, it would be important to ensure differentiated data collection for feedback by businesses, and more specifically, to differentiate feedback by enterprise size class to see if SMEs experience specific challenges. To go a step further, production-related data (such as usage patterns, number of transactions, etc.) can be collected to understand the underlying reasons for businesses' satisfaction or dissatisfaction with a given service and identify areas for improvement. Norway's example (Box 16.11) could be useful to illustrate how monitoring and evaluation mechanisms could be integrated through the e-Uprava portal. The newly established Council for Electronic Government should keep these key considerations in mind and use its role of strengthening co-ordination and

monitoring implementation of digitalisation reforms to improve the available feedback channels. To ensure the quality and consistency of data, the Statistical Office of Montenegro could also collect data on the usage of digital services as official data.

Box 16.11. Norway's Altinn portal

Altinn (altinn.no) is Norway's digital one-stop shop for businesses and citizens. Launched in 2003, the portal has undergone several iterations and has developed into a one-stop-shop for digital services, providing over 1 000 digital services and forms, as well as a platform for government design and iteration of public services. The Brønnøysund Register Centre, as the institution responsible for managing Norway's digitalised registers, is in charge of managing and developing the platform, in co-ordination with line ministries and in consultation with end-users.

Altinn is connected to Norway's National Population Register and Register of Legal Entities, allowing it to monitor the use of the platform, as well as individual services, by both businesses and citizens dynamically. This allows the Norwegian government to identify potential gaps in service use as well as where additional outreach efforts might be necessary (among which business categories, in which geographic area, for example).

Altinn's success has led to it being used by 100% of businesses for filing tax returns and annual accounts and some 99% of businesses for declaring and paying VAT.

Altinn is an example of how the interoperability of government data can strengthen monitoring and evaluation. The platform has automatic access to key information about its users, as such information is collected automatically.

While this requires a high level of interoperability and data security, something which the WBT economies are working towards, it provides an example of how a platform for digital services can monitor the use of the services directly. Some WBT economies already collect data on the use of services through their portals automatically, and would benefit from expanding the range of indicators collected (in the case of businesses: size class, sector of activity, etc.) without necessarily making this data collection automatic (users could enter the information themselves initially).

Source: OECD (2020[88]).

- **Finish streamlining the process of electronic licensing and consider creating a central co-ordination body responsible for overseeing the licensing process.** While Montenegro has a functioning register of licences and is in the process of enabling electronic applications for all licences, competences in granting licences are still fragmented between different institutions. Montenegro could create a central co-ordinating body under the authority of digital government authorities that would be in charge of interoperability and data-sharing with the different institutions responsible for granting licences. Going further, to increase transparency, the body could be responsible for granting licences (those that do not require the competent authority's approval) and overseeing the overall licensing process. Moreover, electronic distribution and nomination of licence officers could also be introduced to distribute the workload equally among licensing officers to deal with requests faster. Introducing services based on ICT for SMEs could enhance their trust in government and reduce conflicts of interest. Montenegro could follow Albania's electronic licensing process (Box 16.12), which has proven to be effective as the majority of businesses claim

that in the process of obtaining licenses, the lack of a fully digitalised licensing is a minor obstacle or no obstacle at all (Regional Cooperation Council, 2021[70]).

Box 16.12. Albania's business licensing process

The licensing process is centralised and fully operational on line

In Albania, the National Business Centre (NBC), which operates as a one-stop-shop for company registration, is in charge of receiving applications for licences, permits and administrative authorisations, and submitting them to the relevant authorities as needed. The NBC is in charge of interoperability and exchange of data between public institutions. The process follows the "silence is consent" principle: if the NBC fails to answer a request within a prescribed time frame as detailed in law, consent to the request is automatically given. Since 2020, services for obtaining licences and permits are only accessible on line and are offered free of charge (https://qkb.gov.al/home).

Categories of licences

There are three categories of permits and licences for businesses. The first uses the applicant's self-declaration alone to evaluate whether the criteria are fulfilled. In the second category, the decision is based on self-declaration and documentary proof provided by the applicant. The third category of licences, in addition to the requirements of the second category, evaluates the fulfilment of the criteria using either an inspection, test, contest, interview, hearing or any other evaluation method. The NBC is the authority responsible for granting licences from Categories 1 and 2, and relevant ministries along with the NBC are responsible for granting licences falling under Category 3.

Electronic distribution and nomination of licensing officers

For all permit and licence requests (in person before 2020 and on line), the electronic system checks the documents and assigns applications randomly to an officer. Businesses can trace their application's status on NBC's website with their case number.

Overall, a digital system that randomly selects officials responsible for granting licences to businesses enhances the transparency of the business licence procedure. It helps to monitor and evaluate officials' compliance with their mandate, as well as distribute the workload equally among licence officers, allowing the administration to respond faster to requests.

Source: AIDA (n.d.[89]).

- **Rebalance the tax burdens of unincorporated and incorporated SMEs to limit the tax-induced incentives for SMEs to incorporate.** Montenegro could, for instance, lower SSCs, increase the progressivity of the PIT and increase the tax rates levied on capital income at the personal shareholder level.
- **Evaluate the tax burdens faced by different types of SMEs from a tax policy perspective, for instance, by using business tax returns.** In light of the new international tax framework that discourages CIT holidays, Montenegro should monitor the effective tax burden SMEs face and evaluate whether the CIT exemption could be replaced by expenditure-based tax incentives instead.
- **Assess the possible reforms to improve the design of the lump-sum tax regime.** The tax administration could simplify the rules that determine the lump-sum amount of tax that needs to be

paid to increase tax certainty for SMEs. Further analysis of this lump-sum tax regime could assess whether businesses are bunching below the EUR 30 000 threshold rather than growing into the regular PIT regime.

- **Assess whether there is scope to reduce and facilitate tax administration procedures for SMEs, for instance, through business surveys.** Montenegro could evaluate whether the monthly tax payment obligation leads to high compliance costs and whether tax pre-payments could be made less frequent instead for SMEs. Montenegro could also assess whether there is scope to further ease tax compliance for SMEs and whether the EUR 110 certificate could be paid by the tax administration instead.

Support services for SMEs (Dimension 5a)

Introduction

SMEs are more prone than larger companies to suffer from a lack of managerial and technical skills, sub-optimal technology, limited access to markets and information, and a lacking entrepreneurial skillset, which can hinder their growth. Business support services (BSSs) provided or supported by the government – ranging from general information and advice to training, mentoring and technical services – seek to address these challenges, thus providing a tool to boost SME productivity. While the COVID-19 pandemic had negative effects on the provision of BSSs across the globe, particularly those involving direct contact with SMEs, it also provided an opportunity to reduce the cost of participation for SMEs by moving part of the activities on line.

For an economy like Montenegro, where SMEs struggle with competitiveness, BSSs accessibility is vital to boost their productivity and stimulate further growth. A policy mix of financial and non-financial support proves most effective in the case of Montenegro, where access to finance and technical assistance has been negatively affected by the COVID-19 pandemic.

Montenegro has performed particularly well under this dimension, scoring a total of 4.58, above the average in the region (Table 16.13). Since 2016, Montenegro has seen continuous improvement under Dimension 5a. In 2016, it received a 2.95 score, while in 2019, a score of 4.03. The economy substantially improved its strategic framework for BSSs provision and made notable advancements in implementing *SME Policy Index 2019* recommendations. The scores reflect considerable progress for the economy, now positioned as one of the leaders in the region in the area of BSSs for SMEs.

Table 16.13. Montenegro's scores for Dimension 5a: Support services for SMEs

Dimension	Sub-dimension	Thematic block	Montenegro	WBT average
Dimension 5a: Support services for SMEs	Sub-dimension 5a.1: BSSs provided by the government	Planning and design	4.71	4.17
		Implementation	4.57	4.24
		Monitoring and evaluation	3.89	3.88
		Weighted average	**4.48**	**4.15**
	Sub-dimension 5a.2: Government initiatives to stimulate private BSSs	Planning and design	5.00	4.63
		Implementation	4.70	4.21
		Monitoring and evaluation	4.20	3.84
		Weighted average	**4.69**	**4.26**
Montenegro's overall score for Dimension 5a			**4.58**	**4.20**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Montenegro boosted its provision of BSSs since the last assessment cycle. The government reinforced the strategic framework for BSSs provision and designed and implemented new BSSs programmes in co-operation with local business organisations and associations[31] and international partners.[32] To ensure high quality among private BSSs, Montenegro introduced an accreditation requirement for private-sector consultants. However, there is still a need for a stronger feedback collection system regarding private BSSs.

Montenegro advanced on the last assessment cycle's recommendations (Table 16.14). It introduced a comprehensive analysis of supply and demand for BSSs and a review of the current landscape of support services available to SMEs in the economy. Furthermore, the government made significant improvements

in the accessibility of information, especially through the newly established SAP serving as a one-stop-shop for SME support.

Table 16.14. Montenegro's implementation of the SME Policy Index 2019 recommendations for Dimension 5a

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Conduct regular training needs analyses at the national level and an independent evaluation of business support services	Montenegro made progress with monitoring and evaluation of its BSSs supply. In 2019 and 2020, the government, together with the Chamber of Economy, conducted a comprehensive analysis of the supply and demand of BSSs among SMEs. The results were systematically transposed into future policy design. However, many BSSs programmes are systematically monitored mainly by external partners. Independent reviews of government-provided BSSs are not performed regularly.	Moderate
Provide easier access to information on business support services to stimulate SME uptake	Facilitating access to information about the BSSs supply has improved since the last assessment cycle. In 2021, the Ministry of Economic Development started the implementation of a Single Access Point containing centralised information relevant for MSMEs. The portal will include existing policies and programmes of support, regulatory framework changes and government activities in the area of SME support. The website is under construction with plans for launch in the second quarter of 2022. The project is supported through a direct EBRD grant.	Strong
Introduce a quality assurance mechanism for the private-sector consultants and trainers	Montenegro has made significant progress in introducing quality assurance mechanisms, namely the accreditation requirement introduced as a pre-requisite for co-financing. SMEs interested in private BSSs have to commit to hiring an accredited consultant to ensure a high level of services.	Strong

Montenegro advanced in building a comprehensive strategic framework for BSSs, emphasising the accessibility of information and private BSSs quality assurance

The government reinforced the strategic framework for BSSs provision and designed and implemented new BSSs programmes in co-operation with local institutions and external partners. In addition to the MSME Strategy (2018-2022), the Strategy for Lifelong Entrepreneurial Learning (2020-2024) and the Industrial Policy of Montenegro (2019-2023) regulate the BSSs provision in Montenegro. While the public provision of BSSs is thoroughly emphasised in Montenegro's strategic documents, private BSSs are not explicitly distinguished. Despite this, Montenegro has advanced in improving the capacity of incubators, business centres, and accelerators.[33] The government collaborates with private business centres and academia to provide SMEs with physical infrastructure and a conducive business environment, which has resulted in the construction of a technology park. If well developed, technology parks should facilitate access for SMEs, especially start-ups, to mentoring services, office space, networking opportunities and financing.

Since the last assessment cycle, Montenegro has also advanced a quality assurance mechanism for privately provided BSSs. In the Strategy for Lifelong Entrepreneurial Learning (2020-2024), Montenegro emphasises the use of accredited consultants while providing BSSs (Ministry of Economic Development, 2020[90]). This refers to the preparation of technical documentation, certification, development and implementation for digitalising operations and processes and consultancy services for innovation-related activities. The co-financing initiatives are subject to comprehensive quality control mechanisms, such as International Organisation for Standardisation (ISO) norms, occupational health and safety management systems and environmental standards. Nevertheless, privately provided BSSs are not subject to the same degree of scrutiny as those provided by the government. The beneficiaries are not required to submit their feedback on the services provided by accredited consultants. The lack of a formal feedback collection mechanism may result in lower quality and efficiency of private BSSs.

Progress was also made in developing a single information point for SMEs that should facilitate access to information about the BSSs supply. In 2021, the Ministry of Economic Development started the implementation of an SAP[34] project that aims to establish a one-stop-shop with centralised information on SME-related policies and support programmes, relevant regulatory framework changes and any government activities that pertain to the SME landscape in Montenegro. SAP is financed through an EBRD grant and should be fully operational in the second quarter of 2022 (EBRD, 2020[91]). At the time of assessment, the government has already identified the relevant content to include on the website, assessed SMEs' needs related to a one-stop-shop portal and is currently working on finalising the website's functionality. The project is set to increase the awareness and uptake of available BSSs, as well as streamline the information flow between the government and the private sector. The initiative constitutes an ample vehicle for SME outreach and a consolidated source of information for potential entrepreneurs. A single access portal streamlines the process of establishing and running a business, contributing to higher productivity within the economy.

Montenegro has considerably advanced in its provision of BSSs, augmenting the number and scope of support programmes for SMEs

The government of Montenegro has offered new BSSs available to SMEs, such as grants, export financial support, ICT and resource efficiency trainings. It, therefore, considerably increased the number and range of BSSs provided over the reporting period. According to data provided, in 2019 and 2020, the government administered 8 400 BSSs to SMEs.[35] The increment is also partially due to bolstered inter-agency co-operation between business associations,[36] the Chamber of Economy, the Employment Agency of Montenegro, the IDF, the Montenegrin Employers Federation and private providers. As a result, Montenegrin SMEs now have access to consulting services, training for start-ups, sector-specific BSSs, entrepreneurship training, conferences and seminars and grants for self-employment. Furthermore, in accordance with the strategic framework of the Industrial Policy of Montenegro (2019-2023),[37] the government also started providing services pertaining to the support of physical infrastructure for SMEs (Ministry of Economic Development, 2019[92]).

At the time of assessment, the Employment Agency of Montenegro is implementing a EUR 3.5 million project that provides grants for unemployed individuals to start an enterprise. The project enjoyed a relatively high uptake, with a total number of beneficiaries rising from 93 in 2019 to 215 in 2020 and 159 in 2021. However, despite the scheme's popularity,[38] there is little proof of the programme's long-term impact (the evaluation is conducted within the period of four months after granting the funds) or effectiveness (as the agency measures the number of grants and value of support, rather than long-term success of the self-employment projects undertaken by the beneficiaries). Supplementing financial support initiatives (see Dimension 6 on Access to finance), the IDF organises information sessions on starting a business (e.g. how to prepare a business plan, design an investment strategy, and register a business) and developing entrepreneurship skills and innovation strategies (IDF, 2020[93]). Motivational trainings have been put in place with the aim to empower youth and women entrepreneurs in particular (IDF, 2020[93]).

Montenegro also participates in capacity-building projects financed by integrational development co-operation partners. The European Union initiated the BoostMeUp[39] programme to help SMEs with product and idea development. The EBRD launched a new project that aims to increase BSSs provision in the economy, called "Supporting Entrepreneurship through Advisory Services and Information Services for SMEs,"[40] which aims to mentor SMEs in how to access technology and knowledge to build their capacity and improve their competitiveness. The EUR 1.75 million project is co-funded by the European Union and the Government of Montenegro through the IPA.

The COVID-19 pandemic had negative effects on the provision of BSSs, especially ones involving direct contact with SMEs – such as workshops and mentoring sessions. The less digitally advanced SMEs

missed out on training opportunities and support activities that were moved on line. The government acknowledged this impact in the Programme for Improving Competitiveness 2021; however, no additional measures were added to account for the damage done by the pandemic, apart from the support package ensuring SME liquidity and employment rolled out for the economy.

The government intensified its efforts to match the supply of available BSSs to the demand by conducting extensive analysis and gauging their training needs

In line with the *SME Policy Index 2019* recommendations, Montenegro emphasised analysing SMEs' needs and demand for BSSs to match the government's offer of support.

In 2020, the Chamber of Economy conducted a study on a prevailing mismatch between inadequate ICT skills among the population and the ICT skill set needed in the labour market. The study results showed a clear misalignment of the ICT education provided with the demand from the labour market – 97.3% of surveyed employers expressed difficulties finding employees with the required technology skills. According to the study, inadequate ICT skills or lack thereof are caused by insufficient training and gaps in the education system. Taking into account the results of the analysis, the government introduced new BSSs focusing on ICT capacity building to fill these gaps (Chamber of Economy of Montenegro, 2020[94]).

In addition, the Ministry of Economic Development conducted surveys on previous trainings and activities completed as well as current and future BSSs needs of SMEs. In 2020, a representative sample of 95 SMEs answered comprehensive questionnaires on the state of government's BSSs provision and their demand for particular training and services. Though the sample was relatively small, it included enterprises across sectors providing useful insights into their needs. Similarly, surveys are extensively used in Montenegro's monitoring and evaluation procedures. After each programme is completed, the beneficiaries must submit a satisfaction survey evaluating the services received. While it can give the government broader insight into potential improvements from the point of view of the beneficiary, satisfaction surveys lack a deeper, results-based analysis of the SMEs' performance after taking up the support scheme. The monitoring and evaluation processes are conducted systematically, and the results are published annually, adding to the government's transparency efforts.

The way forward for Dimension 5a

- **Intensify the efforts to monitor government-provided business support services by inviting an independent institution to conduct a review.** Though some BSSs programmes are thoroughly monitored, this process is usually left within the purview of international partners. Given that the BSSs are provided periodically, there is a need for systematised monitoring performed on a regular basis. The monitoring of BSSs could be improved by extending the evaluation period after the support has ceased, especially in the case of start-ups. Given the high death rate of microenterprises and SMEs in the first year of operations, monitoring their activity for shorter periods of time does not provide a full picture of a company's progress. By monitoring the long-term success rate of supported enterprises, the government can have a broader view of the effectiveness of the grants and technical assistance provided and adapt the level of support accordingly.
- **Extend the level of quality assurance and develop a system to collect feedback from beneficiaries of private BSSs to ensure accredited consultants cater to SMEs in their provision of support services**. Satisfaction surveys would give the government insight into the quality of private support services available to SMEs and provide an opportunity to better match the accredited consultants to specific SME needs (Box 16.13).

Box 16.13. The feedback collection mechanism of the Polish Agency for Enterprise Development

The Polish Agency for Enterprise Development (PARP) is a public organisation that serves as an umbrella agency for BSSs providers. The services are co-financed by the government and administered by a variety of private-sector providers, including business centres, incubators, NGOs and consulting firms. PARP is responsible for their accreditation and ensures the high quality of services provided. The agency places a strong emphasis on monitoring both the demand for BSSs and the results of the support granted.

PARP's activities are thoroughly monitored ex post, through reports after programme completion and satisfaction surveys sent out to SME beneficiaries. The assessment of the support provided through private-sector consultants is particularly significant to the agency's operations and the levels of co-financing provided. Reports and surveys are publicly available, allowing for a greater degree of public scrutiny. The results allow PARP to improve the quality of provided services and limit the possibilities for inefficient allocation of funds.

At the time of assessment, SMEs in Montenegro did not have a channel to communicate the outcomes or effectiveness of private BSSs they had received. Therefore, the government does not have insight into the quality of the private BSSs supported by the government, risking inefficiencies in budget allocation. Providing SMEs with an opportunity to express their satisfaction with the services of private consultants through surveys would enhance the government's evaluation scope. PARP's example serves as a good practice to observe how co-financing levels granted for private provision of BSSs can be altered based on the effectiveness of the services rendered.

Source: PARP (n.d.[95]).

Public procurement (Dimension 5b)

Introduction

Easy access to public procurement markets for SMEs and increased participation can boost competition by ensuring equal treatment and open access, thus promoting inclusive growth. Policy makers should therefore take into account the unique needs of SMEs, as they are disproportionally affected by complex procedures and often discouraged by the effort needed to take part in these procedures, while the outcome is uncertain.

The COVID-19 pandemic affected the public procurement market in Montenegro. The total value of contracts awarded in 2020 fell from EUR 608 million in 2019 to EUR 545 million (Directorate for Public Procurement Policy, 2021[96]). According to Montenegrin authorities, this decrease is one of the consequences of the pandemic (Directorate for Public Procurement Policy, 2021[96]). The government adopted some urgent measures, such as an interdiction to initiate new public procurement procedures, with the exception of procurement necessary for the functioning of the health system as well as procurement justified by national security interests or other emergencies.

Montenegro's score of 4.16 for Dimension 5b is the third-highest among all the assessed economies (Table 16.15) and is only slightly lower than the top two. This is an increase compared to 2019 (3.87). The increase is due to a recent improvement of public procurement legislation, the adoption of strategic documents, in particular defining actions concerning SME access and the establishment of a new e-procurement system.

Table 16.15. Montenegro's scores for Dimension 5b: Public procurement

Dimension	Thematic block	Montenegro	WBT average
Dimension 5b: Public procurement	Planning and design	4.13	4.16
	Implementation	4.80	4.15
	Monitoring and evaluation	2.60	3.27
Montenegro's overall score for Dimension 5b		**4.16**	**3.98**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Since the previous assessment, Montenegro has reinforced the legislative framework for public procurement. The new Public Procurement Law (PPL), the new Law on Public-Private Partnership as well as secondary legislation based on the two laws were all adopted at the end of 2019. In line with recommendations from the previous assessment (Table 16.6), the regulatory framework has been largely aligned with the *acquis*. The government also adopted the new Strategy for the Development of the Public Procurement System (2021-2025) (Directorate for Public Procurement Policy, 2021[97]) and established a new e-procurement system, obligatory for all contracting authorities and economic operators.

Table 16.16. Montenegro's implementation of the SME Policy Index's 2019 recommendations for Dimension 5b

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Further align national legislation with EU rules and international good practice	There has been important progress as regards provisions and practice in the field of public procurement: – The new PPL, based on 2014 EU Procurement Directives, as well as a number of implementing regulations, were adopted. The new e-procurement system was established, providing a fully electronic process of procurement.	Strong
Further reduce the administrative burden of participating in public procurements	The new PPL provides various instruments supporting the participation of SMEs in public procurement procedures by: a) introducing a standard form of self-declaration which is used as a preliminary proof of fulfilment of provisions on exclusion and criteria for qualification (selection) b) requiring, in principle, documentary evidence only from the bidder whose tender is considered to be the best c) permitting economic operators in subsequent procedures to use the same form, if the information remains relevant d) allowing contracting authorities to only request documents from economic operators that are not available in any state database or that are not already in the possession of the contracting authorities.	Strong
Increase the use of non-price criteria for awarding contracts to enable public buyers to receive the best value for money	The new PPL allows application of the lowest price criterion in strictly defined circumstances; the requirement to use additional price criteria should, however, be followed by educational activities and the promotion of non-price criteria through best practice examples.	Moderate
Monitor the way that simplified public procurement procedures are applied, particularly their transparency and competitiveness, below the threshold at which the Public Procurement Law (PPL) applies	The Directorate for Public Procurement Policy (DPPP) monitors the award of low-value contracts, those below the thresholds of application of the PPL, including contracts up to EUR 5 000: such a procurement must be published in the e-procurement system, and relevant information about the total value of the procurement is included in the DPPP's annual (and semi-annual) reports.	Strong

The public procurement market represents a significant part of the economy

The public procurement market amounted to 13.1% of GDP in 2020, reaching a total value of EUR 545 million (European Commission, 2021[69]). The average number of tenderers was 2.27 in 2020, higher than in 2019 (2.01) but significantly lower than in 2018 (3.14) (OECD, 2021[72]). The share of contracts awarded to foreign companies in Montenegro in 2019 amounted to 4.83% (10% of public procurement in terms of value).[41] In 2020, the value of contracts concluded with foreign contractors represented 14.16% of all public procurement contracts (only 0.55% of all contracts were concluded with foreign companies).[42]

The regulatory framework has been significantly modified to satisfy EU requirements

The new PPL adopted at the end of 2019 and applicable since 9 July 2020 is largely aligned with the *acquis* on public procurement. A few minor discrepancies remain, and a number of exemptions exceed what is permitted under the 2014 EU Procurement Directives.[43] The new PPL covers procurement in the public and utilities sectors above the thresholds of EUR 20 000 for supply and service contracts and EUR 40 000 for work contracts. Contracts valued under these thresholds are defined as a "simple" procurement and are exempted from the PPL and subject to simplified rules.

More emphasis is placed on supporting SMEs in accessing the public procurement market

The new Strategy for the Development of the Public Procurement System (2021-2025) aims, among others, to encourage the implementation of criteria related to green and sustainable procurement and increase the participation of SMEs in public procurement procedures.[44]

The new PPL supports the participation of SMEs in public procurement procedures in several ways. First, a subject of public procurement may be divided into lots according to the type, characteristics, purpose, place or time of implementation, taking into account the possibility of SMEs bidding. If contracting authorities have not divided the procurement into smaller lots, they should explain the main reasons why. Second, a standard self-declaration form containing most of the relevant information is used as preliminary proof of economic operators' fulfilment of the provisions on exclusion and criteria for qualification (selection).[45] Economic operators may use the same form in subsequent procedures if the information remains relevant and up-to-date. Contracting authorities should not request documents that are available in national databases or that they already have in their possession. Third, tenders or requests for participation may be submitted by groups of economic operators (consortia); some formal requirements concerning such groups are, however, required under the PPL.[46] Fourth, selection of the best tender must be based on the most economically advantageous tender criterion, and the price as the only criterion may be applied exceptionally.[47]

The PPL also contains a number of provisions related to sustainable procurement (as provided for in the EU Public Procurement Directives)[48] in terms of the description of the object of the procurement, qualification and award criteria, as well as contract performance conditions. For example, contracting authorities may require that goods or services conform to special environmental or social characteristics.[49] They may also require that in a given procurement procedure, participation only be open to economic operators whose primary purpose is the social and professional integration of persons with disabilities or disadvantaged persons.[50] Economic operators may be excluded due to a breach of binding environmental, social or labour legislation.[51] Social or environmental requirements can also be included among the contract award criteria,[52] and compliance with the relevant obligations is assessed to verify that a tender is not abnormally low.[53] Finally, provisions regulate the use of specific, simplified procedures for awarding contracts for social and other special services.[54]

The institutional set-up ensures the support of contracting authorities and economic operators

The Directorate for Public Procurement Policy (DPPP) (n.d.[98]), within the Ministry of Finance and Social Welfare, is the central body responsible for public procurement in Montenegro. The DPPP is responsible for drafting procurement legislation, ensuring its compliance with the *acquis*, monitoring contracting authorities' activities, and co-operating with international and other organisations. It offers legal advice and training to contracting authorities and economic operators, as well as support for the use of the e-procurement system. The new e-procurement system, the National System of Electronic Public Procurement (Directorate for Public Procurement Policy, n.d.[99]), is obligatory for all contracting authorities and bidders. It has increased the overall transparency and competitiveness of public procurement in Montenegro, as contracts awarded under the simplified public procurement regime[55] must also be published. The National System of Electronic Public Procurement includes functionalities from the publication of procurement plans and tender documents up to the submission of tenders and their opening.

Legal provisions enable economic operators to seek justice with an independent review body

Provisions on review procedures comply with the requirements of the *acquis*. The PPL provides a clear definition of decisions which may be challenged[56] as well as strict rules on deadlines. The Commission for

Protection of Rights in Public Procurement Procedures (CCPP, n.d.[100]) is an independent review institution composed of a president and six members, all appointed by the government. They serve a five-year term, with the possibility of reappointment. Review procedures have a maximum of three stages. Complaints are first reviewed by the contracting authority and then by the PPC. Complaints have to be accompanied by a fee equal to 1% of the estimated value of the procurement (but no more than EUR 20 000).[57] Complaints result in the automatic suspension of the entire procurement procedure until the CCPP has taken its decision. The CCPP's rulings should be adopted within a statutory time limit of 30 days from receipt of the complete documentation.[58] Finally, both the contracting authority and the economic operators may appeal against the CCPP's decision to the administrative court. In this case, provisions on suspension do not apply, and a contracting authority may sign a contract before the court adopts its ruling. Such a solution is compliant with the *acquis*.

The way forward for Dimension 5b

- **Facilitate meaningful application of quality criteria to enable the selection of the most economically advantageous tender**, as follow-up on the provisions restricting the freedom of contracting authorities in the application of the price-only criterion. There is a risk that, without sufficient support, contracting authorities will comply with those requirements by simply adding to the price another, equally simple application criterion, to formally comply with the PPL (Box 16.14). The DPPP should produce and share with contracting authorities operational tools such as commentaries, models and good practice examples explaining the criteria and how they could be applied to procure good value for money.

Box 16.14. Support to contracting authorities for applying non-price criteria

The EU Public Procurement Directive requires that contracts be awarded to the most economically advantageous tender from the point of view of the contracting authority. The most economically advantageous tender can be chosen based on price or cost alone, or on the basis of the price-quality ratio when non-price criteria are also taken into account. According to EU rules, preference between these two options is left to the discretion of the contracting authority. EU countries may, however, decide that contracting authorities may not use solely price (cost) or restrict it to certain categories of contracting authorities or certain types of contracts. Indeed, some countries use this option by introducing, for example, the maximum weight the price factor can have among the evaluation criteria. Other countries recommend a plurality of criteria to assess other elements of the offer than just the price.

Application of the price-quality criterion enables contracting authorities to obtain customised, innovative goods or services that perform better in terms of quality, with broader economic, social and environmental impacts.[4] Although more expensive when simply comparing the purchase price, procurement based on price-quality criteria may be more cost-effective in the longer term, when the full life-cycle cost is considered. The use of the best price-quality criteria instead of the lowest price is often recommended as a tool to help SMEs gain an equal footing to public contracts. It is assumed that while SMEs may be at a disadvantage in delivering off-the-shelf mass products, they may be able to offer higher-quality products or services or better adjust to the needs of the contracting authorities. However, application of non-price criteria is not simple. Contracting authorities often have difficulty formulating proper and meaningful quality criteria, including those involving strategic public procurement (green, socially responsible and innovative) and establishing a relevant link with the subject matter of the procurement. Central procurement institutions should help contracting authorities apply price-quality criteria by training them and providing examples of good practices or models.

In the **Slovak Republic**, the Public Procurement Office (PPO) is aware that non-price criteria are rarely used by contracting authorities due to a lack of knowledge for correctly applying them and for setting this type of award criteria. The Slovak PPO, therefore, established a Responsible Public Procurement project, financed by the European Economic Area and Norway Funds. The project's main goal is to increase awareness of price-quality criteria through methodologies and training to help contracting authorities set conditions correctly and thus increase value for money.

In **Poland,** the Public Procurement Office's website contains a section dedicated to disseminating good practices in the field of public procurement. Contracting authorities that are more experienced in applying quality criteria may share their experience with other procurement practitioners by participating in a contest organised by the PPO on the best examples of quality criteria. Winning submissions, chosen by the PPO, are published on the PPO's website with practical comments.

Before entry into force of the new Public Procurement Law, the dominant criterion for the selection of the best tender was the lowest price. The transition from almost exclusive application of the lowest price criterion to one where it can only be applied in very limited circumstances should, however, be followed by educational activities and the promotion of non-price criteria through best practice examples. Otherwise, this may lead to the automatic and formal application of non-price criteria where contracting authorities will just add one or two other criteria to the price to comply with the new requirements.

1. Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement and repealing Directive 2004/18, Article 67.
2. Ibid., Article 67(2).
3. Croatia, Lithuania and Poland.
4. See European Commission (2019, p. 64[101]).
Sources: OEAP (2019[102]); de Bas et al. (2019[103]); European Commission (2021[104]); Slovak Public Procurement Office (n.d.[105]); Polish Public Procurement Office (n.d.[106]).

Access to finance for SMEs (Dimension 6)

Introduction

Access to finance remains critical for economic growth and inclusive development, allowing companies to expand their operations and invest to gain efficiency and productivity. However, availability and affordability of credit typically strongly correlate with firm size, meaning that the smaller the company, the more difficult it is to access funding, thereby requiring targeted policy measures to encourage and complement the private-sector provision of financing without crowding it out.

Across the world, including in Montenegro, the COVID-19 pandemic suddenly increased pressure on firm finances, especially for smaller firms without large financial buffers. It brought access to credit to a sudden halt, requiring a swift short-term targeted policy response to shore up firm finances without, however, losing sight of more long-term measures to provide sustainable financing opportunities for small businesses.

Against this unprecedented background, Montenegro has made progress in facilitating SMEs' access to financing, improving its score from 3.49 in 2019 to 3.63 in 2022 (Table 16.17), owing in particular to strengthened banking regulation and the promotion of financial literacy. In a regional comparison, Montenegro continues to rank in the middle, well ahead of Albania, Bosnia and Herzegovina, and Kosovo[59], but somewhat lagging behind North Macedonia, Serbia and Turkey.

Table 16.17. Montenegro's scores for Dimension 6: Access to finance for SMEs

Dimension	Sub-dimension	Thematic block	Montenegro	WBT average
Dimension 6: Access to finance for SMEs	Sub-dimension 6.1: Legal and regulatory framework	Creditor rights	5.00	4.27
		Registers	4.90	4.63
		Credit information bureaux	4.00	4.37
		Banking regulations	3.60	4.09
		Stock market	4.00	3.23
		Weighted average	**4.40**	**4.20**
	Sub-dimension 6.2: Bank financing	Bank lending practices and conditions	2.60	3.23
		Credit guarantee schemes	1.40	2.61
		Weighted average	**2.12**	**2.98**
	Sub-dimension 6.3: Non-bank financing	Microfinance institutions	4.00	3.37
		Leasing	3.20	3.24
		Factoring	3.00	2.71
		Weighted average	**3.38**	**3.09**
	Sub-dimension 6.4: Venture capital ecosystem	Legal framework	2.00	2.73
		Design and implementation of government activities	1.70	2.57
		Monitoring and evaluation	1.00	1.47
		Weighted average	**1.65**	**2.40**
	Sub-dimension 6.5: Financial literacy	Planning, design and implementation	3.20	2.83
		Monitoring and evaluation	1.00	1.19
		Weighted average	**2.75**	**2.50**
Montenegro's overall score for Dimension 6			**3.63**	**3.68**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Since the previous assessment, access to finance has been facilitated by the Montenegrin authorities' strong fiscal response to mitigate the economic impact of the COVID-19 pandemic (Table 16.18). Access to credit has remained relatively stable amid a robust legal and regulatory framework, which is now fully aligned with Basel III requirements, and the consolidation of the banking sector is ongoing. The state-owned IDF continues to play a crucial role in providing subsidised access to finance, and plans are underway to establish a state Credit Guarantee Fund to help alleviate continued high-level risk perceptions by lenders, especially with regard to smaller enterprises, triggered by a lack of reliable sources to assess their creditworthiness. Microfinance has somewhat increased in recent years, but take-up of leasing and factoring, despite legal reforms, remains subdued. Equally, little progress has been made to stimulate venture capital or other equity-based financial instruments, though the establishment of a business angel network is a positive signal. Lastly, Montenegro participated in a regional financial literacy assessment, conducted in line with the OECD methodology, and subsequently established a National Committee for Financial Education Development, whose aim is to develop a national programme for financial education.

Table 16.18. Montenegro's implementation of the SME Policy Index's 2019 recommendations for Dimension 6

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Strengthen banking sector stability	The sector has undergone some consolidation since the last assessment as a result of strengthened supervision by the Central Bank of Montenegro and legislative reform to conform to Basel III standards. However, amid continuous competition and concerns over an increase in impaired loans, coupled with subsidised access to finance offered by the Investment and Development Fund, sound and sustainable banking practices could become increasingly undermined.	Moderate
Enhance credit information	Coverage of the cadastre has increased, and the cadastre has been digitalised; however, no progress has been made in incorporating additional financial data into the sources of the public Credit Registry, which would enrich the suite and quality of information available to creditors to assess the companies' creditworthiness. There are still no plans to establish a private credit bureau.	Limited
Introduce alternative equity-based finance	No progress has been made to introduce a dedicated legal or regulatory framework to support venture capital operations, and there has not been any progress either on plans for legislative reform to enable collective investment schemes. Preliminary work has commenced to introduce legislation for crowdfunding by 2024.	Limited

Lending is supported by a strong legal and regulatory framework, though reliable credit information remains a challenge

The financial sector in Montenegro benefits from a robust legal and regulatory framework in line with international best practices. The new Law on Resolution of Credit Institutions and Law on Credit Institutions, which – following some delay due to the COVID-19 crisis – both entered into force in early 2022, have brought regulations broadly in line with Basel III requirements, while some exceptions for exposure for SME lending have been maintained.

In 2019, Montenegro digitalised its cadastre, and its coverage has increased, from 75% in 2019 to 93% of Montenegro's territory at the end of 2021, with plans in place to include the remaining areas. The public Credit Registry is estimated to cover close to 100% of all borrowers, or 70% of all adults (Central Bank of Montenegro, 2021[107]). Despite plans to incorporate information from non-financial institutions and utility providers, at the time of writing, no such steps have been taken. According to the Credit Registry, the exchange of data with non-financial institutions is allowed but not obligatory. A continuous challenge remains the reliability of data due to limited audited financial statements and continuous challenges to verify linkages among counterparties. In combination, this limits the registry's ability to help enterprises to

build a robust credit history and facilitate reliable risk assessment. There are still no plans to establish a private credit bureau.

Some progress has been made to align capital market requirements to the *acquis*, and a new multilateral trading platform for developing companies, MTP GROW,[60] has been established. However, little information is available on the trading requirements of this market, and amidst overall inactivity of the Montenegrin Stock Exchange, there is no evidence that capital market finance is used by smaller companies. Montenegro has yet to join the regional SEE Link,[61] which may boost trading activity and raise awareness about this form of finance among enterprises.

The banking sector remains stable amid strengthened supervision and temporary crisis mitigation measures, but lending remains expensive

Conventional bank lending continues to dominate the financial sector, with 11 banks operating in Montenegro's small economy, down from 15 during the previous assessment. It remains largely foreign-owned, though the share of foreign banks has somewhat increased in recent years, partially owned to the merger between the foreign-owned Podgorička Banka with, at that time, the largest domestic CBK, while two small local banks have also ceased to operate. The increased local ownership of the banking sector may lead to more access to long-term lending, benefiting the domestic market. However, continued consolidation efforts will be required to maintain the stability of the industry.

Overall, the sector has remained relatively stable and has weathered the economic shock of the COVID-19 pandemic well. Owing to increased supervision and sound solvency and liquidity ratios during the pre-pandemic period, coupled with temporary crisis support measures, credit continued to grow and strongly rebounded in 2021 following some initial deceleration in 2020, at 6.6% year on year (European Commission, 2021[69]). The level of NPLs has remained relatively stable, at around 6.17% at the end of 2021 (Central Bank of Montenegro, 2021a[108]), and Montenegro has conducted an independent review of the asset quality to monitor the asset quality of the financial industry throughout 2020 and 2021, as per recommendation by the European Union and the International Monetary Fund (IMF). However, the level of impaired loans is expected to rise as temporary measures phase out.

The cost of finance remains expensive, in particular for smaller enterprises, as credit risks remain high, evidenced by the significant number of enterprises with frozen bank accounts. Coupled with the limitation of the Credit Registry, this constitutes a significant obstacle to access to finance for SMEs. To mitigate some of these pressures, the state-owned IDF offers several credit lines, including with the support of EU funds, to provide loans at subsidised interest rates and co-financing grants. It also administers some credit facilities provided by the government of Montenegro as part of its COVID-19 response. In 2020 alone, the IDF channelled over EUR 280 million into the Montenegrin economy, exceeding initially planned placement by over 40%. The IDF also implements a credit guarantee scheme to improve access to finance for micro and small enterprises, signed with the European Investment Fund under the COSME Loan Guarantee Facility programme in 2019 for an amount of EUR 75 million. To date, 60 loans have been approved, guaranteed in the amount of EUR 5.8 million, suggesting somewhat limited uptake. While the IDF remains an important policy tool to ease access to finance, some of its key features (its mandate; target beneficiaries – currently not exclusively SMEs; and additionality) could be improved and streamlined to ensure that resources are maximised and allocated to those the most in need.

In parallel, the Montenegrin authorities are planning to establish a national Credit Guarantee Fund. Work has commenced, with support from the EBRD, in establishing the overarching framework and roadmap for creating the Credit Guarantee Fund. The draft law is prepared and is expected to be adopted at the government session in spring 2022.

Access to alternative sources of finance remains below potential

Alternative sources of finance remain limited, and non-bank finance accounted for a mere 2.5% of financial sector assets at the end of 2020 (Central Bank of Montenegro, 2021a[108]). The new Law on Financial Leasing, Factoring, Purchase of Receivables, Micro-credit and Credit-guarantee Operations, developed with the support from the EBRD and introduced in 2018, has significantly strengthened the regulatory framework, providing legal certainty for factoring and purchase of receivables, which did not exist previously. It also puts this type of financial activity under the supervision of the Central Bank for the first time. However, thus far, the reform has not yielded any impact, suggesting limited awareness of these types of financial instruments. Microfinance is the most commonly used source of alternative finance, and assets increased from EUR 60 million in 2017 to over EUR 80 million in 2020. Leasing continues to be used predominately for vehicles, accounting for 0.8% of total financial assets in 2020. Factoring, in contrast, has decreased substantially, to less than EUR 1 million in assets in 2020, partially due to the existence of one factoring company which failed to obtain a license following the introduction of the new law (Central Bank of Montenegro, 2021[107]). Despite this short-term decrease in factoring activity, the new law provides more certainty for factoring providers and, if coupled with awareness raising, may support uptake in the medium term.

Similarly, equity-based finance remains nascent. There is no dedicated framework for venture capital activities in place, and venture capital remains undefined. Plans to introduce legislative reform to enable collective investment schemes have not progressed since the previous assessment. Two Montenegrin start-ups at the seed stage have received investments under the Western Balkans Enterprise Development and Innovation Facility's Enterprise Innovation Fund, but otherwise, early-stage investors are not operating in the economy (WB EDIF, 2021[109]). Efforts have been made to strengthen the innovation and start-up ecosystem (see Dimension 8b on innovation policy for SMEs), and in 2018 the Montenegrin Business Angel Network was established. However, its outreach and funding capacity remains limited. Crowdfunding is equally unregulated, but preliminary work has started to introduce dedicated legislation by 2024, which would further facilitate start-up financing. Finally, there are plans to introduce a legal framework to regulate securities token offerings, but no timeline has been set. This, if designed and implemented in line with international best practices, may further support access to finance for SMEs.

A new financial literacy strategy forms the foundation for further work

Some progress has been made to increase financial literacy. In 2019, Montenegro participated in a regional assessment of financial literacy levels in selected South East European economies in line with OECD methodology.[62] Accordingly, financial literacy remains relatively low, positioning Montenegro second to last in the overall ranking (OECD, 2020[88]). As a result, in 2020, Montenegro's Financial Stability Council established a new National Committee for Financial Education Development, tasked with developing a strategic and comprehensive national financial education development programme. Even though no concrete timeline has been set, this is an important step to streamline and co-ordinate existing initiatives to provide financial education training and include entrepreneurship in the national curriculum, which currently remains *ad hoc* and inconsistent.

The way forward for Dimension 6

- **Promote sustainable banking practices.** As Montenegro emerges from the economic shock of the COVID-19 pandemic, crisis support measures should be gradually phased out and replaced with more sustainable measures, targeting those segments of the private sector requiring the most support. This should include a review of the IDF's mandate and decision-making process, which should focus on additionality and crowding in of the private financial industry, thereby leading by example and promoting sound banking practices. Coupled with an independent credit guarantee scheme, designed and implemented in collaboration with private-sector stakeholders and international experts, this would help to alleviate the high level of perceived risks of smaller

borrowers. That would further support financial institutions to revisit their lending practices, leading to the introduction of more sustainable, inclusive and long-term access to finance.

- **Raise awareness about alternative sources of finance**. In co-operation with the financial service providers, implement an awareness-raising campaign and training opportunities to raise interest in and understanding of non-bank financial instruments, such as factoring. This would be an important step to ensure that the new legislation, which has greatly strengthened legal certainties for the supply of non-bank financial tools, will bear fruit and achieve its desired impact. Dissemination of information on alternative sources of funding should also be included in the new financial education strategy.
- **Pursue legislation to facilitate financing for start-ups.** Dedicated legislation to regulate crowdfunding would be an important element in Montenegro's strategy to create a thriving ecosystem for start-ups, facilitating early-stage financing for this type of company. In the medium term, Montenegro should consider a broader review of the early-stage and innovation financing spectrum and consider steps to attract international investors via dedicated venture capital legislation.
- **Develop a comprehensive financial literacy strategy.** The newly created National Committee for Financial Education Development should quickly develop a financial literacy strategy based on the findings of the regional assessment and including benchmarks and regular monitoring and evaluation mechanisms. The strategy should address both measures for entrepreneurs and the broader public, including pupils, set out an action plan and suggest a clear implementation mechanism and body responsible for its execution.

Standards and technical regulations (Dimension 7)

Introduction

Access to the EU Single Market is conditional upon compliance with EU regulations and directives, which, as part of the New Legislative Approach that was introduced in 2008, also increasingly rely on conformity to European standards. While standards and technical regulations can enable trade by defining (minimum) criteria for products and processes, they may also represent a barrier, particularly for SMEs. To lower these barriers, it is important for the WBT economies to have a national quality infrastructure system that is accessible and supportive to SMEs. At the same time, a high level of alignment of its regulations with the *acquis* is a pre-condition for recognition of its procedures and institutions by the relevant EU bodies and associations.

For a small open economy like Montenegro, creating an enabling policy environment that facilitates imports and exports is key for economic development. As the European Union is Montenegro's largest trading partner, accounting for 38% of Montenegrin exports (European Commission, 2021[110]), having legislation and quality infrastructure systems in place and aligned with European standards is of utmost importance (European Commission, 2021[110]).

With an average score of 3.94, Montenegro remains above the WBT average in this dimension (Table 16.19). The economy roughly maintained its overall score compared to 2019 (3.99), which can be considered a moderate improvement as the current assessment was slightly more comprehensive and included additional scoring aspects. While Montenegro continued its alignment with the *acquis*, there remains room for improvement, particularly in raising awareness about standards and increasing the participation of SMEs in developing them.

Table 16.19. Montenegro's scores for Dimension 7: Standards and technical regulation

Dimension	Sub-dimension	Thematic block	Montenegro	WBT average
Dimension 7: Standards and technical regulations	Sub-dimension 7.1: Overall co-ordination and general measures	–	**3.33**	**3.90**
	Sub-dimension 7.2: Harmonisation with the EU *acquis*	Technical regulations	3.91	4.38
		Standards	4.07	3.77
		Accreditation	4.22	3.89
		Conformity assessment	3.86	4.22
		Metrology	4.85	4.13
		Market surveillance	4.47	3.96
		Weighted average	**4.23**	**4.06**
	Sub-dimension 7.3: SME access to standardisation	Awareness raising and information	2.87	3.88
		SME participation in developing standards	2.50	3.21
		Financial support to SMEs	4.20	3.57
		Weighted average	**3.19**	**3.55**
Montenegro's overall score for Dimension 7			**3.94**	**3.96**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

While Montenegro's progress on this dimension has been limited, its quality infrastructure proved resilient during the pandemic and key services such as accreditation, standardisation and conformity assessment

remained operational, as many meetings and assessments were conducted remotely through digital means. Montenegro continued to implement its work plan in the different quality infrastructure areas according to the action and work plans, but major milestones such as attaining full membership of its standardisation body at the European Committee for Standardization/European Committee for Electrotechnical Standardization (CEN/CENELEC) and achieving multilateral signatory status with the European Co-operation for Accreditation (EA) remain to be completed.

Progress on the three recommendations made in the last assessment varies (Table 16.20). A single information source with key information about technical regulations, standards and conformity assessment processes for SMEs that intend to export to the EU Single Market has not yet been established. On a positive note, the Institute for Standardisation of Montenegro (ISME) increased the proportion of adopted European standards (CEN/CENELEC) from 71% to 86% (CEN/CENELEC, 2021[111]). This represents a 21% increase, which is the largest increase among all WBT economies. However, Montenegro started from a comparatively low adoption level, and opportunities for progress are more limited for economies with higher levels of adoption. Finally, after having applied for multilateral agreement signatory status with the EA in 2020, the Accreditation Body of Montenegro (ATCG) underwent the EA's pre-assessment for full membership in November 2021. It is expected that the full assessment and decision-making by the EA will be concluded during the year 2022.

Table 16.20. Montenegro's implementation of the SME Policy Index's 2019 recommendations for Dimension 7

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Establish a single source for information tailored to SMEs on standards, regulatory requirements and conformity assessment procedures for SMEs interested in exporting to the EU Single Market	There is still no single source of information for SMEs interested in exporting to the EU Single Market.	No progress
Increase the adoption rate of European standards	Adoption of European standards significantly increased, from 73% to 83%, during the assessment period.	Strong
Step up efforts to sign the EA Multilateral Agreement	In November 2020, the Accreditation Body of Montenegro formally applied for the European Accreditation Multilateral Agreement for the following accreditation schemes: testing and calibration, medical examinations, inspection, certification of management systems, and certification of products. Remote pre-assessment was carried out by the European Co-operation for Accreditation in November 2021.	Moderate

Some progress has been made regarding the quality infrastructure framework, but the related information has not yet been centralised

The latest National Programme of Accession to the European Union (2021-2023), the main guiding document with regard to harmonisation with the *acquis*, was published in June 2021 and includes the planned adoption of four new laws in the area of quality infrastructure. In addition to horizontal legislation, the document also includes adoption timelines for numerous sectoral legislations, both under the new and the old approach. Co-ordination between the different quality infrastructure institutions is the responsibility of the Ministry of Economic Development's Department for Competition, Internal Trade and Quality Infrastructure.

The information landscape on technical regulations, standards, and conformity assessment continues to be fragmented across several websites, as there is no single portal or contact point in place (see Table 16.20), which would benefit SMEs, especially those that tend to export, by centralising all the key

information. However, following the recommendation from the previous assessment, preparatory work has started on establishing such a portal.

Regional co-operation with quality infrastructure bodies in the region is of particular importance to Montenegro, one of the smallest economies in the Western Balkans. Such co-operation is carried out through the Working Group on Technical Measures[63] of the member economies of the Central European Free Trade Agreement, which meets once a year. In addition, the ATCG has signed bilateral co-operation agreements with other accreditation institutes from the WBT region. This has resulted in joint training and the exchange of technical assessors and experts, which is particularly valuable for a small economy like Montenegro, which has difficulty finding sufficient experts within its borders.

Harmonisation with the acquis *continues to advance, and the conformity assessment sector is growing strongly*

Montenegro's horizontal legislation in the area of quality infrastructure is mostly aligned with the *acquis*. One main exception is in the area of market surveillance, where a new law is under development to harmonise national legislation with the new EU Regulation 2019-1020. Regarding the non-harmonised area, Montenegro continued to implement its action plan for compliance with Articles 34-36 of the Treaty for the European Union during the reporting period (European Commission, 2021[69]).

The National Institute for Standardisation (ISME) continues to be an affiliate member of CEN/CENELEC, but the ISME formally applied for CEN/CENELEC full membership at the end of 2021. During the year 2022, ISME will be assessed by peer assessors authorised by CEN/CENELEC, and, if assessed positively, ISME may become a full member by the end of 2022. As a full member, Montenegro will be able to contribute directly to European standardisation as a voting member of the General Assembly. The standardisation legislation is aligned with the *acquis,* and the proportion of adopted European standards is now above 80% (CEN/CENELEC, 2021[111]), which is one of the membership criteria. ISME also has adopted a standardisation strategy that emphasises education on standards. Its staff also provides courses on quality infrastructure at a local university. The main challenge continues to be the lack of financial and human resources, as the ISME is operating with only 65% of the projected staff capacity (19 out of 29) and is lacking technical staff as well as funds for training its existing workforce (European Commission, 2021[69])

In the area of accreditation, the ATCG has been a full member of the EA since 2011, and the application process for a multilateral recognition agreement is currently ongoing (see Table 16.20). The ATCG has an annual work plan and accredited five additional conformity assessment bodies in 2021. It was able to remain largely operative during the COVID-19 pandemic, as remote audits were introduced to deal with the restrictions imposed by the government.

The number of accredited conformity assessment bodies has increased by 33% compared to the previous assessment cycle, from 33 to 44, which is slightly above the average growth in the region.[64] While all accredited conformity assessment bodies are listed on the ATCG's website, additional guidance information about the conformity assessment process could be provided. As many enterprises, particularly SMEs, are not yet familiar with conformity assessment, a guide describing all the necessary steps, from the start of the application to obtaining the certification, would help firms decide whether to apply for and for which standard to seek certification. See Box 16.15 for an example.

The Bureau of Metrology (BoM) is a full member of all major metrology associations (WELMEC, the International Bureau of Weights and Measures, and the European Association of National Metrology Institutes and EURAMET). Furthermore, BoM is also an associate member of the General Conference on Weights and Measures (CGPM), an observer at the Hallmarking Convention, as well a signatory of the CIPM MRA and Meter Convention. The Ratification of the full membership of Montenegro at the International Organisation of Legal Metrology (OIML) is in its final phase. BoM also further improved its internal process, as its management systems are ISO 9001-certified since March 2021, and its testing and

calibration operations are certified in accordance with the ISO/IEC 17025 standard. Furthermore, Montenegro's legal measuring units, as well as the legislation on conformity assessments of legal measuring instruments, were amended to align with the *acquis* (European Commission, 2021[69]). The main challenge for the BoM is the lack of sufficient technical staff and its premises, which continue to be inadequate.

In the area of market surveillance, the current legislation is harmonised with the previous EU Regulation 2008/768 but not yet with the newest provisions from EU Regulation 2019-1020. A proposal for the harmonisation of national legislation has been prepared but not yet adopted. Due to the COVID-19 pandemic, which requested a shift in focus of the surveillance authorities, the number of product inspections decreased from 6 701 in 2019 to 1 658 in 2020. In 2021, inspections slightly increased again to 1888. The Directorate of Inspection Affairs publishes its annual work plans as well as information about unsafe products on its website.

Box 16.15. Providing concise and clear information about product regulations and conformity assessment procedures: The European Union's Blue Guide

To create a better understanding of its product rules and their application, the European Union created the so-called Blue Guide. This guidebook, while being very comprehensive, is structured along actors and the different quality infrastructure pillars (e.g. conformity assessment, market surveillance), which allows the reader to quickly find the required information. The chapter on conformity assessment describes the certification process in a very user-friendly way through a flow chart that depicts the different steps required, from the technical documentation to market placement of the product.

The rather complex process of conformity assessment is explained and depicted concisely and clearly graphically, which is particularly useful for SMEs which, compared to large firms, may not have specialised staff familiar with quality infrastructure processes.

Montenegro and other WBT economies often lack such informative materials, and firms are thus often left to dredge through the legislative text or other complex, technical material. This may represent an information barrier for SMEs. Having process flowcharts and guides like the one described above available in the local language is one way to overcome such barriers for SMEs that want to get their products or processes assessed and certified.

Source: European Commission (2016[112]).

A financial support programme for standardisation is in place, but web-based information about standards remains restricted to the basics

The provision of information and awareness raising about standards has slightly improved since the last assessment. The ISME has recently published an excerpt of its standards catalogues, which provides a summary of key standards documents in the local language. Furthermore, the ISME lists the basic benefits of standardisation on its website and provides regular training. However, practical guides about the different steps for implementing standards or case studies about successful cases of certified companies are not available. Such a guide would allow firms to easily identify what type of documentation is required and how difficult and lengthy a certification process would be in their specific case. This would help them decide whether they are ready to seek certification or whether additional preparatory steps are required first. ISME has recently developed an SME Action Plan defining the activities to be carried out in the forthcoming period with the aim of further increasing awareness about standards for SMEs. In this context, ISME also plans to develop an SME guide, as mentioned above.

There are no specific incentives in place to increase the participation of SMEs in the creation of standards, but the establishment of a specific technical committee for SMEs is foreseen. While digital committee meetings have lowered the barriers to participation during the pandemic, costs for participation may rise again when physical meetings resume. Hence, further efforts are needed to assure that SMEs' participation in standards development is further intensified in the future.

Regarding the financial support for the implementation standards, the Ministry of Economic Development continues to run its competitiveness programme, which reimburses up to 70% of eligible costs for micro and small enterprises, and up to 60% for medium-sized enterprises, with the maximum amount of EUR 5 000 and EUR 4 000 respectively (). Both the number of SMEs benefiting from this programme as well as the invested amount have continuously increased, from 35 firms in 2018 to 127 in 2021. Furthermore, an internal evaluation of this programme is currently being planned by the Ministry of Economic Development. It is positive to note that financial support for this programme, despite the pandemic, almost tripled in 2020 compared to 2019.

Box 16.16. Montenegro's two-sided support programme for the introduction of international standards

The implementation of international standards continues to be a challenge for many SMEs in the WBT region. Two widely stated problems are:

- the lack of conformity assessment bodies (CABs) in the region or economy for the specific sector or technology, which is particularly a problem in smaller economies
- high implementation costs to get certified.

Montenegro's programme line for the introduction of international standards, introduced in 2018, is a very positive example, as it addresses both of these challenges. The programme line is part of a larger competitiveness programme of the Ministry of Economic Development that encompasses a total of 17 support lines. Two of the programme's components address both the supply of conformity assessment services as well as its demand:

1. The first component provides financial support to CABs by reimbursing up to 70% of the accreditation costs incurred. The support is limited to costs related to accreditation services for a series of international and European standards (ISO/IEC 17020, ISO/IEC 17025, ISO/IEC 17029, ISO/IEC 17021 -1, ISO/IEC 17024, ISO/IEC 17043, CEN/TS 15675, EN ISO 15189) and is only provided if the CAB successfully earned the accreditation certificate from the national accreditation body, the ATCG.
2. The second component provides financial support to SMEs by reimbursing up to 70% of the certification and recertification costs of management system standards (i.e. ISO 9001, ISO 14001 and OHSAS 18001). The funds can be used for hiring consultants to help the company prepare the technical documentation required for the certification as well as for staff training.

Funding is capped at EUR 5 000 per firm on both components. To promote female entrepreneurship, in particular, this programme reimburses up to 80% of the costs for female-led firms (compared to 70% for other firms). While being comparatively small, with total funding of EUR 765 000 between 2018 and 2000, a total of 217 SMEs benefited from the programme during that period. In 2021, the programme lines yielded EUR 250 000.

Overall, this programme can be regarded as a best practice because it simultaneously applies to the supply and the demand of conformity assessment services, thereby addressing the two main bottlenecks of small economies, namely insufficient local CABs and funding constraints for SMEs.

Source: Ministry of Economic Development (2018[113]).

The way forward for Dimension 7

- **Finalise the creation of a centralised information portal for exporters, which provides key information on standards, regulations and the conformity assessment process**. Following this recommendation from the previous report, the Ministry of Economic Development has started to prepare such a website, but the process is not yet complete. The website, once established, should incorporate all the horizontal quality infrastructure laws, technical regulations of at least the priority sectors, as well as information about accredited conformity assessment. Currently, this information is scattered across different institutions' and ministries' websites. A central information and contact point that provides this information in a user-friendly manner would be beneficial for companies that intend to access the EU Single Market.
- **Focus and uphold efforts to become a full CEN/CENELEC member and European Co-operation for Accreditation-Multilateral Agreement (EA-MLA) signatory.** While the full membership application to the CEN/CENELEC and the MLA process with the European Co-operation for Accreditation have been initiated, additional efforts and adaptations will likely be required to fully meet the requirements of both institutions. Swift implementation of these requirements and the completion of the application processes should therefore be a priority in the coming years. Recognition of Montenegro's standardisation and accreditation by these European institutions would be a significant step in further improving Montenegrin firms' access to EU and global markets.
- **Increase financial and human resources for quality infrastructure institutions.** While there have been positive developments in harmonising national legislation with the *acquis*, this also increasingly shifts the focus towards the policy. In line with recommendations from the previous EU enlargement report (European Commission, 2021[69]), the allocation of additional staff and financial resources for the different quality infrastructure institutions would be desirable, as this was identified as a constraining factor in all quality infrastructure pillars during the assessment.

Enterprise skills (Dimension 8a)

Introduction

SMEs, the cornerstone of job creation, provide a significant share of employment, with two out of three employed people working for an SME, acting as an engine for social development and economic growth. Yet to drive growth and reduce the tendency for start-ups to result in lower-paying jobs, SMEs need to invest in skills, digitalisation and innovation to boost productivity and higher-paid employment. However, they need additional support to do so, as they may lack the resources and capacity to invest in training for managers and employees. They can be supported by relevant government-financed training, however, to close skills gaps and upskill the workforce. This is emphasised when it comes to greening businesses, for example, where the opportunity for sustainability in SMEs may be limited by a lack of awareness and skills or potential costs of actions for greening.[65] Supporting SMEs through developing enterprise skills can create far-reaching impacts for families, local communities and countries.

Montenegro scores 3.28 for its support of enterprise skills (Table 16.21), which shows an improvement since the last assessment period. This higher score illustrates the stronger focus on implementation, which has reaped benefits through increased training for start-ups to drive the digital economy and support growth. In response to the COVID-19 pandemic, there has been a rapid adaptation to online provision of training and increased investment in training to support SME digitalisation.

Table 16.21. Montenegro's scores for Dimension 8a: Enterprise skills

Dimension	Thematic block	Montenegro	WBT average
Dimension 8a: Enterprise skills	Planning and design	3.17	2.86
	Implementation	4.00	3.85
	Monitoring and evaluation	1.67	2.67
Montenegro's overall score for Dimension 8a		**3.28**	**3.32**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Montenegro has made notable advances in the area of smart specialisation and has included a focus on SME skills linked to the priority areas for smart specialisation within its Smart Specialisation Strategy of Montenegro (2019-2024) (Government of Montenegro, 2019[114]). Government-financed programmes supporting SMEs have been expanded, with an increased focus on digitalisation and green economy alongside adaptations towards online delivery modes to address the challenges brought by the COVID-19 pandemic (Table 16.22).

Table 16.22. Montenegro's implementation of the SME Policy Index 2019 recommendations for Dimension 8a

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Ensure systematic evaluation of the effectiveness and impact of existing training programmes	There is evidence of evaluation of some initiatives, but evaluation is not yet a specific requirement for all government-funded training programmes. As a result, there is no comprehensive, system-level evaluation covering all programmes.	Limited

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Consider the need for tailored training for start-ups	Government start-up programmes led by the Employment Agency of Montenegro have been maintained alongside ongoing mentoring support for SMEs seeking to innovate and/or scale their business. Support for early phase start-ups relevant to smart specialisation sectors was introduced in 2021 via the Innovation Programme (2021-2024).	Moderate
Increase the training offer to enhance SMEs' competitiveness	A diverse range of training is now available to support growth and internationalisation, particularly related to themes supporting the green and digital economy.	Moderate
Better co-ordinate training needs analyses	A pilot national training needs analysis has been conducted by the Ministry of Economic Development across a sample of the SME population, intended as a preparation stage to design standardised training for different target groups.	Moderate

Better skills intelligence is being gathered, but improvements are needed to develop a national skills intelligence framework

Montenegro does not yet have a national skills intelligence framework. Progress has been made with the design of a training needs analysis methodology, which was tested through a pilot with a sample of SMEs in 2020, led by the Ministry of Economic Development and members of the National Partnership for Entrepreneurial Learning. This mapped current and future skills training needs, and the resulting analysis provided recommendations on SME training priorities as part of the actions from the Strategy for Lifelong Entrepreneurial Learning (2020-2024) (Government of Montenegro, 2020[40]). However, there is no clear roadmap towards the co-ordinated development of a national skills intelligence framework to provide the analysis needed for evidence-based policy making across relevant policy areas. Commitments are fragmented across different policy areas, including the Strategy for Lifelong Entrepreneurial Learning (2020-2024),[66] the Smart Specialisation Strategy Operational Plan (2021-2024) and the new Innovation Fund.[67]

There should be a consistent approach across enterprise skills policies

While strategies closely linked to the Smart Specialisation Strategy of Montenegro (2019-2024) (S3), such as the Innovation Programme (2021-2024) and the ERP (2021-2023), provide in-depth detail on how their work supports the S3 priority sectors, wider policies also relevant to smart specialisation are not fully aligned to the skills needs of S3 implementation. The Industrial Policy of Montenegro (2020-2023) does not include detailed links with S3 priority sectors; the 2021 Programme for Competitiveness of the Economy identifies the need for alignment with S3 but does not indicate how it will seek to achieve this. Similarly, the Strategy for Entrepreneurial Lifelong Learning (2020-2024) highlights the importance of enterprise skills development but does not link this to S3 sectors. This demonstrates an ongoing need to ensure dialogue and co-ordination across government ministries and with stakeholders to ensure a joined-up approach to policy making and S3 implementation (Bolognini, 2021[115]), which, while evident during the Entrepreneurial Discovery Process, should be increased to support practical implementation.

There is a need to open up access to information and support for SMEs

There has been an expansion in the provision of financial and non-financial support for the development of SMEs and enterprise skills in the economy. Through the available training, there is more focus on resource efficiency, digitalisation of businesses and employees' digital skills, with the circular economy as an emerging theme that the government is addressing but is not yet fully addressed in the provision of SME training.[68] Financing through the annual government programme to support economic competitiveness[69] has been increased, providing wider access to sources of finance for start-ups and existing businesses. Similarly, funding for mentoring services for SMEs has been continued, which provides advice and support on themes such as digitalisation, innovation and investment readiness to

existing businesses. Alongside these, there is a commitment to finance and support for innovative start-ups through the Innovation Fund, which will come on line in 2023,[70] and ongoing support by the Ministry of Economic Development in partnership with NGOs and private-sector actors.[71] As yet, there is no support provided for social entrepreneurship in Montenegro.

Moving forward, opening up access to support will be important. There is currently no single online portal bringing together information on government support, resources or wider events and opportunities available to support the start-up and growth of enterprises and their employees. Information is available through different portals, but these are fragmented, and there is no one-stop-shop approach.[72]

Strong progress has been made towards smart specialisation

There have been significant developments in the design and implementation of the S3 in Montenegro. The Entrepreneurial Discovery Process (EDP) was concluded in 2018, and the first Smart Specialisation Strategy of Montenegro (2019-2024) was launched in mid-2019 confirming four strategic sector priorities for the economy.[73] It is the first national Smart Specialisation Strategy launched in the region and was positively assessed by the European Commission in December 2019.[74] Implementation is supported by the Council for Innovation and Smart Specialisation, set up in August 2019[75] as a high-level body to maintain and deepen synergies across relevant ministries and to engage actors.[76] The new S3 Operational Plan (2021-2024) and Action Plan (2021-2022) were adopted in December 2021 (Government of Montenegro, 2021[116]), alongside a call for new members of the Council for Innovation and Smart Specialisation. Following the first phase of S3 implementation, the Council has been reformed[77] with an expanded mandate covering increased funding for the S3 action plan for 2021-2022 and implementation of the Innovation Fund,[78] established as a new legal entity in September 2021. The Secretariat for the Council will be strengthened with support from the UNDP. The Joint Research Centre (JRC) is providing an ongoing advisory role to the Ministry of Economic Development, which now leads S3 implementation and chairs the Council.[79]

Within the strategy, there is a specific action line related to professional skills development with a target towards improved levels of qualifications in S3 priority domains, while the need for new education programmes supporting workforce development, including re-skilling and upskilling, is highlighted across the S3 Action Plan and in a specific Objective 2.1 (Government of Montenegro, 2021[116]). This focus on skills reflects the broad-based engagement from stakeholders, including companies and clusters active within the priority sectors, during the strategy development process. The high level of stakeholder involvement was facilitated through sectoral focus groups established during the EDP process, which were seen as crucial to overcoming scepticism across the business community, a potential barrier to the successful implementation of smart specialisation (Bolognini, 2021[115]).

The way forward for Dimension 8a

- **Create a single portal for enterprise skills to open up access to information and support for start-up and skills development**, bringing together sources of finance, advice, training and resources from government and non-government actors. This could be a portal that includes a section for women's entrepreneurship (as identified in a recommendation for Dimension 1 on Entrepreneurial learning and women entrepreneurship).
- **Ensure consistent focus on SME skills within the Smart Specialisation Strategy of Montenegro (2019-2024), its operational plans and related policies** through sustained inter-ministerial dialogue and increased engagement of stakeholders, particularly representatives from SMEs active in the S3 priority sectors and the related value chains.
- **Designate a body to lead the co-ordination and development of an action plan for SME skills intelligence.** The lack of system-level skills intelligence remains a gap in Montenegro, and a co-ordinated approach is needed to understand current and future skills needs. This would support

better alignment of lifelong learning and SME training provision based on labour market needs. Defined indicators for SME skills intelligence can guide future monitoring and evaluation related to SME skills at all levels. This work should be linked to the priority domains identified in the S3 and should be supported by consistent gender-disaggregated data gathered from government-financed SME support and training actions. An example of strengthening skills intelligence can be seen in Kosovo, illustrated in Box 16.17.

Box 16.17. Statistical barometers used to strengthen the skills agenda in Kosovo

In Kosovo, a set of statistical barometers has been developed to strengthen the skills agenda and establish a national approach to skills intelligence. The three barometers so far established are: 1) the Labour Market Barometer, which collates information and analysis from 12 institutional data sources;[1] 2) the VET Barometer, which collates 200+ variables from 20 VET schools; and 3) the Skills Barometer, launched in December 2021, which will collect 3–5-year forecasts of skills needs from businesses in Kosovo to inform government and other institutions.

The challenge in Kosovo has been to ensure sustainability for the work initiated through funding from international partners. The Labour Market Barometer is a portal collecting information, resources and data on current and future skills needs for the labour market and creates strong collaboration between diverse partner institutions relevant to the skills agenda. The system is now managed by the Employment Agency, after a two-stage development phase supported by the UNDP and Aligning Education and Training with Labour Market Needs (ALLED^2), a project of the Austrian Development Agency. ALLED^2 developed the Skills Barometer in co-operation with the Kosovo Chamber of Commerce (KCC), and commitment is now finalised between KCC, the Ministry of Education and the National Council for VET to conduct the barometer every three years. The VET Barometer grew from pilot research into the provision across VET schools in the economy and now offers online information and analysis based on systematic data collection that can be transferred to relevant national agencies.

This example shows a pathway to shaping a national skills intelligence framework at the system level based on the need to support evidence-based policy making using robust information on skills mismatch and future skills needs. The actions stemmed from initiatives funded by international partners toward sustainable action led by a partnership of public and private-sector institutions. It builds a consistent approach and strengthens co-operation between different institutions, which is already a strong feature of the landscape in Montenegro.

1. See https://sitp.rks-gov.net/ for a list of the national institutional databases used to create the Labour Market Barometer.
Sources: Government of Kosovo (n.d.[117]); (ALLED2, n.d.[118]; 2021[119]).

Innovation policy for SMEs (Dimension 8b)

Introduction

Supporting innovation and building a knowledge economy are increasingly becoming a priority for the WBT region, and globally. Recognising the link between innovation and productivity and its contribution to higher value-added economic output and competitiveness, many governments have started to emphasise the creation of an environment conducive to innovation and knowledge development. However, equal attention must be given to enhancing innovation capacity at the firm level.

Montenegro's mainly small but open economy can further leverage inter-regional and international co-operation in progressing their innovation agendas, creating regional innovation systems and encouraging cross-border co-operation to boost R&D.

Against this background, Montenegro has made progress in promoting innovation among SMEs, improving its score from 2.53 in 2019 to 2.99 in 2022 (Table 16.23). The most progress has been made in enhancing the innovation policy framework and implementation capacity. As a result, Montenegro has somewhat closed the gap with the leading economies in this dimension, namely Turkey and Serbia.

Table 16.23. Montenegro's scores for Dimension 8b: Innovation policy for SMEs

Dimension	Sub-dimension	Thematic block	Montenegro	WBT average
Dimension 8b: Innovation policy for SMEs	Sub-dimension 8b.1: Policy framework for innovation	Strategic approach	4.04	3.81
		Implementation of innovation policy	3.00	3.31
		Co-ordination of innovation policy	3.52	3.30
		Weighted average	**3.42**	**3.46**
	Sub-dimension 8b.2: Government institutional support services for innovative SMEs	Incubators and accelerators	3.24	3.27
		Technology extension services for established SMEs	1.04	2.14
		Weighted average	**2.36**	**2.82**
	Sub-dimension 8b.3: Government financial support services for innovative SMEs	Direct financial support	3.56	3.81
		Indirect financial support	2.32	2.26
		Weighted average	**3.06**	**3.19**
	Sub-dimension 8b.4: SMEs and research institution collaboration and technology transfer	Innovation voucher schemes and co-operative grants	2.52	2.85
		Institutional infrastructure for business-academia co-operation	2.92	2.99
		Intellectual property rights	2.52	3.05
		Weighted average	**2.68**	**2.95**
Montenegro's overall score for Dimension 8b			**2.99**	**3.18**

State of play and key developments

Montenegro is a modest innovator, as classified by the European Innovation Scoreboard,[80] which included Montenegro for the first time in 2020. Montenegro performs relatively well in providing an environment conducive to innovation, but limited investments in R&D, standing at 0.5% of GDP in 2018 (latest data available), significantly hinder the development of a knowledge economy (European Commission, 2021[69]). Montenegro has further strengthened its legal and regulatory framework for innovation, including for smart specialisation, and policy co-ordination has improved. Implementation capacity has also increased through the establishment of a dedicated Innovation Fund in 2021. However, at the time of writing, it is still in the process of becoming fully operational. Efforts have been made to strengthen the institutional support infrastructure, and the construction of the central unit of Montenegro's first Science

and Technology Park in Podgorica has commenced. Financial incentives have been introduced to stimulate business-academia collaboration, and the establishment of a technology transfer unit has been initiated. Overall co-operation between academia and the industry remains, however, subdued.

Table 16.24 provides an overview of measures Montenegro has taken in response to the recommendations for this dimension made in the previous assessment.

Table 16.24. Montenegro's implementation of the SME Policy Index's 2019 recommendations for Dimension 8b

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Improve the co-ordination of innovation policies	Following the adoption of the new Smart Specialisation Strategy of Montenegro (2019-2024) in 2018, the Council for Innovation and Smart Specialisation was established in 2020, tasked to oversee the design and implementation of innovation policy, advise the government, and co-ordinate across ministries. The council has also overseen the process of establishing the Innovation Fund, which, once fully operational, is expected to further consolidate innovation policy measures.	Strong
Improve the design of instruments and decision-making processes	Through the establishment of the Council for Innovation and Smart Specialisation, a single body has been created to oversee the funding for innovation-related policy measures, which is expected to improve the complementarity and co-ordination of policy measures. In addition, the Innovation Fund will benefit from international expertise and capacity building, thereby introducing best practices in programme design, selection and implementation.	Moderate
Scale up financial support for innovative SMEs	The Collaborative Programme for Innovation, piloted in 2018, has continued to be implemented, and a Competitiveness Voucher scheme was piloted in 2020. The Programme for Innovation 2021-2024 introduces several programme lines to support development of the innovations, covering the whole cycle of the innovation development – from the idea to the readiness of the innovation to be placed on the market. Once the Innovation Fund becomes fully operative, additional financial support schemes for innovation are expected to be introduced and scaled up. Some tax incentives to support research and development have also been introduced.	Moderate
Further advance business-academia collaboration	Construction of the Science and Technology Park (STP) in Podgorica commenced in 2020, but completion has been delayed. The development of a strategic plan for the development of the STP will be revised with the support of the UNDP expert in 2022, while a roadmap for the establishment of a technology transfer office has been developed.	Limited

Innovation is supported by a robust legal and regulatory framework, and momentum has been built to strengthen implementation capacity

Good progress has been made to further strengthen the legal and regulatory framework for innovation policy since the previous assessment. The Strategy on Scientific Research Activity (2017-2021), adopted in 2017, has been complemented by the Smart Specialisation Strategy of Montenegro (2019-2024), which was adopted in 2018 and developed with the support of the European Commission's JRC. Montenegro is thus the first economy in the Western Balkans to develop such a strategy. For 2022, there are plans to start developing the successor to the Innovation Strategy, which expired in 2020. An evaluation of the implementation of the strategy, conducted in 2021, suggests the need to introduce clearer and more tangible objectives to ensure long-term sustainability and impact. To support the co-ordination of the strategic framework, in 2019, a dedicated Council for Innovation and Smart Specialisation was formed to oversee and inform policy implementation. Under the reformed legal framework for innovation, the new Council for Innovation and Smart Specialisation was established in 2021, which is a part of the officially adopted implementation framework for innovation and S3 (December 2021), harmonised with the DG JRC recommendations in the field.

Several steps have also been taken to enhance implementation capacity. In July 2020, the government adopted the new Law on Incentive Measures for Research and Innovation Development as well as the revised Law on Innovation Activity, thereby aiming to create an innovation-conducive environment supporting innovation and R&D. The improved legislative framework will form the legal basis for a number of financial and non-financial support mechanisms to foster innovation and R&D, including through an Innovation Fund, which was subsequently established in 2021 under the guidance of the Council for Innovation and Smart Specialisation. The Innovation Fund is planned to become Montenegro's main vehicle for innovation policy implementation and administer financial support schemes to stimulate innovation activity and technology development. The fund is yet to be fully operationalised and is receiving capacity-building support via the World Bank with funds from the EU funds, the UNDP and Norway, with the government also contributing.

An emerging institutional support structure provides support to start-ups and innovative companies

There are a number of incubators operating across Montenegro, including in Bar and Berane, while a new business centre was established in Cetinje in 2020. However, these mainly offer incubation office space with a limited focus on innovation. Montenegro's business angel network also offers some support to high-potential start-ups, as does the newly created DigitalDen initiative, launched in Podgorica in 2021, which provides incubation services for IT start-ups. The entrepreneurship centre Tehnopolis is Nikšic, one of three planned impulse centres that will eventually form part of Montenegro's envisaged four-institution-network-structured Science and Technology Park,[81] also continues to offer incubation services to early-stage companies. In 2020, it ran a pre-acceleration programme, BoostMeUp, under the auspice of the Ministry of Education, Science, Culture and Sports, providing training and mentoring to 19 innovative start-ups. The central hub, however, the flagship Technology and Science Park in Podgorica, remains under construction, with no timelines in place to establish the remaining two impulse centres in Bar and Pljevlja. There are no accelerators present in Montenegro, and technology extension services for more mature enterprises that seek innovations are non-existent.

Financial support for innovation remains fragmented but is expected to increase once the Innovation Fund is operational

Montenegro has made some progress in introducing small-scale financial incentives to stimulate innovation and investments in R&D. Based on the experience of a pilot co-operation grant scheme under Higher Education and Research for Innovation and Competitiveness in 2013/14, an Innovation Programme for Grants and Innovative Projects was launched in 2018, providing competitive co-operation grants to companies to develop innovative market-oriented products, services and technologies and supporting the transfer of innovative ideas from scientific research institutions to the market. In 2018, over EUR 730 000 were awarded to ten successful projects, three of which were proposed by R&D institutes. Between 2019 and 2021, with co-financing from the Ministry of Science, a further EUR 1 million was awarded. In addition, an Operational Programme for the implementation of the Smart Specialisation Strategy for 2020-2021 has been adopted, and more comprehensive finance schemes are expected to be launched once the Innovation Fund has become fully operational, with plans for a pre-acceleration programme and ICT cluster programme already in place.

Some progress has also been made in introducing indirect financial support. The Law on Incentive Measures for Research and Innovation envisages some tax incentives for promoting digitalisation, scientific research and projects employing qualified researchers, and at the time of writing, secondary legislation was underway to define the eligibility.

Further efforts are needed to stimulate collaboration between businesses and academia and to boost investments in R&D

Investments in R&D have increased in recent years but remain marginal at 0.5% of GDP, with only a fraction financed by the private sector (European Commission, 2021[69]). A Collaborative Programme for Innovation was announced in 2019, which envisaged awarding grants of up to EUR 100 000 to consortia comprised of R&D institutes and private companies, similar to a competitive co-operation grant scheme. However, there is no evidence of its implementation. In addition, with support from the European Union and France, a Competitiveness Voucher scheme was launched in 2020 to introduce SMEs to digitalisation and innovation and to initiate an innovation process in companies by promoting the use of external skills and openness to new technologies, offering co-financing of up to 80%, or EUR 8 000. Some 25 applications were received, of which 17 were awarded a voucher. The link to academia and R&D, however, is not evident.

The Smart Specialisation Strategy of Montenegro (2019-2024) envisages the establishment of a network of technology transfer offices. A roadmap for the establishment of the National Centre of Technology Transfer has been completed, and a pilot technology transfer office was established in April 2020 within the Centre of Excellence for Research and Innovation at the University of Montenegro, but it has not yet been fully operationalised. A full feasibility study is planned for 2022. In 2021, the second phase of the "Norway for You" project was launched, aimed at enhancing systematic support for innovations and SME development. The project specifically envisages the establishment of a technology transfer office, commencing with a pre-feasibility study to define its scope, services and organisational structure.

Lastly, Montenegro's legislation for intellectual property is in line with the *acquis*, but overall its track record remains poor, though enforcement capacity has increased in recent years. The intellectual property framework does not include specific provisions to incentivise collaboration between researchers and the private sector, or commercialisation.

The way forward for Dimension 8b

- **Swiftly operationalise the newly established Innovation Fund.** Timely operationalisation of the Innovation Fund, including capacity building and allocation of sufficient budget – while alternative funding sources are being sought – will be critical to further build momentum and successfully implement Montenegro's ambitious innovation policy framework. Strong performance of the Fund in its first full year of operation, including the launch of substantial and scalable financial products, will demonstrate the government's commitment to building an innovation support ecosystem and send a strong signal to the market.
- **Progress with the construction of the four-pillar network of the Science and Technology Park, with a strong focus on business-academia collaboration**. Completing the construction of the central hub in Podgorica will be an important milestone, but this should be coupled with a strategic plan to ensure that the services offered by the STP go beyond incubation services for start-ups to truly foster innovation and exchange between businesses and academia. It should be sufficiently funded. For this purpose, collaboration with stakeholders will be critical to designing the scope of services made available in the STP. Timelines should also be set to establish the remaining two impulse centres.
- **Introduce measures to stimulate collaboration between research institutions and the private sector.** Further efforts to increase and promote co-operation are needed to boost investments in R&D and build the foundations of a knowledge economy. The operationalisation of the pilot technology transfer office, fully staffed and equipped, together with an action plan to expand the network and raise awareness about the opportunities of the services provided, would be an important milestone. Soft measures to incentivise researchers to engage with private businesses,

such as opportunities for professional exchanges with the business community and evaluation of research and legislative incentives for commercialisation, should also be considered.

SMEs in a green economy (Dimension 9)

Introduction

Since SMEs, on aggregate, have a significant environmental footprint (small firms account for 50% of greenhouse gas [GHG] emissions in the world (ITC, 2021[120])), it is essential that the governments of the WBT region include them in their environmental considerations to achieve the net-zero goal for GHG emissions. On the one hand, like any other economic entity, SMEs face the consequences of environmental degradation, which can generate specific challenges for their survival and growth. On the other hand, and more importantly, SMEs can be a source of innovation and solutions to develop the technologies needed to address environmental challenges. New green markets, such as the circular economy, can also create new business opportunities for SMEs. Even without moving into new markets, SMEs can potentially improve the performance of their business by realising efficiency gains and cost reductions by greening their products, services and processes. In this regard, tailored policies, incentives and instruments are necessary to enable them to participate in the green transition, as SMEs face a number of barriers (financial, informational, etc.) in their greening efforts, and more so than large firms (OECD, 2021[121]).

For a small, tourism-dependent economy like Montenegro, boosting economic growth that would not come at an environmental cost is particularly pertinent, especially in the post-COVID-19 context. The pandemic has put additional pressure on Montenegrin SMEs and their greening efforts, primarily due to issues with liquidity maintenance and access to finance. Well-co-ordinated and targeted financial and technical support will be required to overcome challenges in adopting sustainable practices.

Montenegro has made substantial progress on this dimension since the last assessment – jumping from a score of 2.95 in 2019 to 3.65 in 2022 (Table 16.25). It is the second-best performer in the region after Turkey but still needs to scale up its incentives and instruments for SME greening in order to fully implement the related SBA principle (enabling SMEs to turn environmental challenges into opportunities).

Table 16.25. Montenegro's scores for Dimension 9: SMEs in a green economy

Dimension	Sub-dimension	Thematic block	Montenegro	WBT average
Dimension 9: SMEs in a green economy	Sub-dimension 9.1: Framework for environmental policies targeting SMEs	Planning and design	4.32	3.87
		Implementation	3.40	2.81
		Monitoring and evaluation	3.86	2.47
		Weighted average	**3.77**	**3.06**
	Sub-dimension 9.2: Incentives and instruments for SME greening	Planning and design	3.44	3.06
		Implementation	3.67	3.02
		Monitoring and evaluation	3.40	2.12
		Weighted average	**3.55**	**2.85**
Montenegro's overall score for Dimension 9			**3.65**	**2.94**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Montenegro's strategic framework has increasingly included environmental policies targeting SMEs. The government has been implementing green policies from the MSME Strategy (2018-2022) at a good pace, whereas some delays occurred regarding the realisation of measures planned under the Smart Specialisation Strategy of Montenegro (2019-2024). In line with previous recommendations (Table 16.26), Montenegro has adopted a whole-of-government approach to creating synergies between greening

initiatives through its newly established Green Economy Working Group. Financial instruments have been made available to SMEs through the new Eco Fund, governmental initiatives and international partners' support. The government has introduced other tools, such as awareness raising or international environmental standards programmes to support SMEs in their greening efforts. In contrast, regulatory instruments and green public procurement measures remain largely non-existent.

Table 16.26. Montenegro's implementation of the SME Policy Index 2019 recommendations for Dimension 9

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Adopt a whole-of-government approach to create synergies and avoid overlaps between greening initiatives	Montenegro is the only economy in the WBT region that has formed a Green Economy Working Group (GE WG) to promote green economic development and enhance greening activities. The Ministry of Economic Development is in charge of co-ordinating the GE WG and reports to the Secretariat for Competitiveness. Members of the working group include representatives of relevant ministries, as well as international institutions and partners, business associations and NGOs. However, more efforts are still needed to co-ordinate the wide range of activities, programmes and financial instruments to ensure they do not overlap.	Strong
Support the transition to a circular economy by facilitating partnerships between businesses	The Chamber of Economy of Montenegro, the Government of Montenegro and UNDP Montenegro have designed the Roadmap Towards the Circular Economy in Montenegro as part of a joint project, which ended in 2022. The roadmap should serve as a basis for the development of the Strategy for Circular Transition and its Action Plan, planned for the end of 2022. Several activities involving relevant stakeholders (including SMEs) have been organised as part of the roadmap development process (Box 16.18).	Moderate
Provide catalytic financial support to help SMEs adopt environmentally friendly practices	The government established an Eco Fund in 2020, which provides financial support to SMEs making investments to improve their environmental performance, although its budget and project scope remained limited at the time of drafting. A credit facility agreement was signed and aims to strengthen the Investment and Development Fund to support green investments. Other programmes also offer financial incentives. Nevertheless, co-ordination between all funds and programmes is necessary for proper implementation, monitoring and evaluation.	Strong

Greening policies targeting SMEs are increasingly mainstreamed into strategic documents, and implementation has progressed, albeit slowly

In addition to the MSME Strategy (2018-2022) and the National Strategy for Sustainable Development (NSSD) (2016-2030), Montenegro adopted the Smart Specialisation Strategy of Montenegro (2019-2024), which recognises the importance of green growth. The strategy envisages building a legal framework that encourages green investment and paves the way for future green investment programmes, in particular in the areas of sustainable agriculture and food value chain; energy and sustainable environment; sustainable and health tourism; and ICT as a horizontal dimension (see also Dimension 8a on Enterprise skills).

Moreover, two key laws – the Law on Innovation Activity and the Law on Incentives for the Development of Research and Innovation – adopted in 2020, which regulate the innovation policy framework and include directives on green investments and eco-innovation, are expected to provide a stronger impulse and accelerate eco-innovation in Montenegro. The aforementioned strategies and laws align well with the EU Green Deal priorities and the European Union's recommendations regarding Chapter 27 of EU membership negotiations, which deals with the environment and climate change (opened in 2018).

While implementation of measures planned under the aforementioned strategies is underway, funded both by the government and international funds, several activities have been delayed due to COVID-19. The MSME Strategy (2018-2022) has been implemented at a satisfactory pace; energy-efficiency projects have been supported, such as improving energy efficiency in public buildings (Government of Montenegro, 2021[122]) or the industry sector (Chamber of Economy of Montenegro, 2019[123]) and promoting good practices of socially responsible business through annual competitions (Government of Montenegro,

2021[124]). However, some activities have not been implemented, such as the promotion of eco-certification and green public procurement measures. Little progress has been achieved in realising the greening measures planned under the S3 Action Plan, namely increasing the innovative use of renewable energy sources and increasing innovative activities in waste recycling and valorisation. While an analysis report on scaling up energy-efficiency measures for SMEs in the manufacturing sector was prepared, no projects have been financed, and no renewable energy programmes were undertaken. Nevertheless, the government, the Chamber of Economy and the UNDP have designed a Roadmap Towards the Circular Economy in Montenegro based on the circular economy objectives of the NSSD (2016-2030) and the Smart Specialisation Strategy of Montenegro (2019-2024), which was published in April 2022 (Box 16.18).

Box 16.18. SMEs and the circular economy in Montenegro

SMEs are important for achieving nationwide objectives regarding the circular economy, both by making their business operations more circular and by contributing to the innovation that can strengthen circularity across economies. As the circular economy is gaining momentum in Montenegro, SMEs, which represent the largest share of enterprises in the economy, should lead the way in the transition from a linear to a circular economy.

The circular economy framework is being developed in Montenegro through the Roadmap Towards the Circular Economy in Montenegro, launched in April 2022, which is expected to serve as a guiding document for the development of the Strategy for Circular Transition and its Action Plan, planned for the end of 2022. It is modelled on similar documents developed in EU countries, as well as more recently in Serbia, and is harmonised with EU recommendations to fully align it with the European Union's guidelines on the circular economy (the Green Deal and the new Circular Economy Action Plan). As part of this project, online workshops have been organised on creating guidelines, mapping ongoing barriers and potential areas for improvement for the circular economy, and regrouping representatives of institutions from the central and local levels, international partners, NGOs and the private sector.

Financial incentives have been introduced to support SMEs in their circular transition, although their uptake by SMEs has remained limited. As part of the Programme for Improving the Competitiveness of the Economy for 2021, the Ministry of Economic Development has developed a programme line for stimulating the circular economy by co-financing the costs for wastewater treatment for SMEs and entrepreneurs. In particular, support has co-financed the costs of the following activities:

- Component I: Wastewater treatment in the agro-food industry, intended for entrepreneurs and microenterprises.
- Component II: Industrial wastewater treatment, intended for SMEs and hotels. The programme will finance 70% of eligible costs, with a maximum of EUR 10 000. The Ministry of Economic Development approves reimbursement of up to 70% of eligible costs (excluding VAT) for entrepreneurs, micro and small enterprises, and up to 60% of eligible costs (excluding VAT) for medium-sized enterprises, with the maximum amount set at EUR 10 000 (excluding VAT).

The scope of the Programme's support has been extended with the revised programme for 2022 and includes:

- Component III: Appropriate waste management through waste reduction and recycling.

Sources: Government of Serbia (2020[125]); Chamber of Economy of Montenegro (2020[126]); Government of Montenegro (2021[46]); OECD (2021[121]).

The first stage of the Hydrochlorofluorocarbons (HCFCs) Phase-out Management Plan (HPMP), which aims to reduce ozone-depleting substances in the servicing sector by 35%, was completed in 2020,

meeting the requirements of the Montreal Protocol.[82] In this regard, around 40 service companies were equipped with the supplies necessary to maintain refrigeration and air conditioning products. The total phase-out of Montenegro's HCFCs in the servicing sector is planned for 2025.

Strategies that target SME greening are monitored and evaluated, albeit not equally regularly. Implementation reports are available annually for the MSME Strategy (2018-2022) and every two years for the S3. The first implementation report for the NSSD (2016-2030) was under preparation at the time of drafting. Evaluation of the implementation of policies is undertaken and considered when revising action plans, as was the case with delays in implementing the MSME Strategy (2018-2022) policies that occurred with the outbreak of COVID-19. However, the collection of specific SME greening data is lacking in Montenegro, which hampers proper evaluation of the measures introduced.

A whole-of-government approach has been adopted to co-ordinate the work on SME greening policies

In Montenegro, the Ministry of Ecology, Spatial Planning and Urbanism, the Ministry of Economic Development and the Environment Protection Agency are in charge of environmental policies targeting SMEs. Successful co-ordination has been established through the Green Economy Working Group (GE WG), formed in April 2021. Its role is to promote green development through awareness-raising activities and co-operation with business associations; co-ordinate greening programmes and their funds between relevant stakeholders; and develop relevant policy documents. GE WG members include representatives of relevant institutions, international organisations and international development co-operation partners, business associations and NGOs. The GE WG is required to report to the government on its work programme and past activities every three months. The GE WG co-ordinated its first projects in 2021, in collaboration with the Eco Fund, which provided grants for solar panels to households and private companies.[83] The redesigning of the National Council for Sustainable Development at the end of 2021 is also expected to further contribute to the co-ordination of sustainable policies between relevant institutions, including green policies targeting SMEs. Moreover, a specific working group has been formed within the Central Bank to co-ordinate existing green projects and contribute to the greening of the financial system in accordance with the Bank's competencies, available instruments and resources.

The private sector has been increasingly involved in the development of greening measures

Business associations are increasingly involved in developing and implementing SME greening policies and their supporting instruments in Montenegro. In particular, the Chamber of Economy has been active in supporting the implementation of green policies through regular co-operation with the government, international institutions, business associations and the private sector. Since the last assessment, the Chamber of Economy has been instrumental in providing information and guidance to SMEs on adopting environmental practices. The Chamber of Economy has a committee on energy efficiency that organises regular roundtables on opportunities and instruments available to SMEs and provides reports and recommendations to all its members. For instance, events were organised on establishing eco-design requirements for space and water heating devices (Chamber of Economy of Montenegro, 2019[127]), the energy potential of biomass (Chamber of Economy of Montenegro, 2019[128]) and investments in renewables (Chamber of Economy of Montenegro, 2020[129]). The Chamber of Economy, in partnership with the UNDP, organises a "Green Days" conference annually, which aims to inspire businesses and governments to invest and build a greener economy (Green Days Montenegro, 2022[130]), and the Economic Conference Montenegro, which also tackle green economy topics.

A range of financial initiatives has been made available to support SMEs in their greening efforts

Great progress has been achieved since the last assessment in multiplying financial incentives available to SMEs to improve their environmental performance. Green aspects have not been included in post-COVID-19 economic recovery programmes, however.

In March 2020, Montenegro established an Eco Fund that provides financial support (tax incentives and grants) for the preparation, development and implementation of projects in the fields of preservation, sustainable use, protection and improvement of the environment; energy efficiency; and use of renewable sources. The Fund was established through a broad consultation process aimed at defining its priorities and scope of funding, which included SMEs both directly and indirectly via business association representatives. The Fund is financed by loans and donations, private funds and assistance from international development co-operation partners, as well as eco-fees, which are paid according to the polluter-pays principle.[84] However, the Fund's budget and the scope of its projects remained limited at the time of drafting. Its budget in 2021 was EUR 1.6 million, and as of 2022, it had provided financial support for the purchase of hybrid and electric cars to 26 recipients for a total amount of EUR 100 000 and for the installation of photovoltaics to 5 beneficiaries for an amount of EUR 88 000 (Eco Fund, 2020[131]).

Moreover, a EUR 50 million credit line and a EUR 400 000 technical assistance grant were signed in April 2021 by the French Development Agency (AFD) and the IDF to support investments in green projects. It aims to strengthen IDF in structuring a dedicated financing offer in line with the NSSD (2016-2030). The credit line is targeted at SMEs and municipalities, including in the most vulnerable regions of Montenegro. In 2021, the IDF also received a EUR 50 million loan from the EIB to support energy-efficiency practices among SMEs. Both programmes aim to contribute to the emergence of projects supporting a sustainable post-COVID-19 economic recovery (EIB, 2021[32]).

As part of the Programme for Improving the Competitiveness of the Economy for 2021, the Ministry of Economic Development has developed a programme line for stimulating the circular economy by co-financing the costs for wastewater treatment for SMEs and entrepreneurs (Government of Montenegro, 2021[46]) (see Box 16.18). The programme for 2022 also intends to support activities on waste management through waste prevention and recycling.

While financial incentives available to SMEs for their greening efforts have been introduced, evidence of SMEs benefiting from them remains sporadic and is available on a case-by-case basis for each programme implemented. It is unclear if the newly established GE WG will be in charge of reporting on all financial instruments to ensure that initiatives are not duplicated.

While some non-financial instruments are offered to SMEs to facilitate their green transition, regulatory instruments remain non-existent in Montenegro

In addition to financial incentives, the Government of Montenegro, in partnership with other organisations (such as the UNDP and the Foundation for the Development of Northern Montenegro [FORS Montenegro]),[85] has been providing SMEs with various information-based instruments to raise their awareness and secure their engagement on green initiatives. The Eco Fund has also been active in raising awareness on its activities and supported, along with the Chamber of Economy and other partners, the first hackathons dedicated to climate change (Climathon),[86] which took place in Podgorica in 2020 and 2021.

Moreover, the Ministry of Economic Development is implementing a programme introducing international environmental standards (such as ISO 14001) to address SMEs' environmental impact,[87] 30% of which had adopted ISO 14001 standards by 2020. However, regulatory instruments (such as performance standards, privileges in the permitting process or inspection frequencies), which could encourage

environmental management certification and reduce the administrative burden on SMEs, remain non-existent in Montenegro.

Lastly, although the MSME Strategy (2018-2022) envisages the introduction of environmental impact criteria in public procurement, this option has been insufficiently used in practice. Promisingly, since 2021, the Chamber of Economy has been implementing the EUR 400 000 project "Graspinno Plus", dedicated to increasing awareness and capacities for public administrations and enterprises to facilitate green public procurement. The Roadmap Towards the Circular Economy, designed in 2022, also recognises green public procurement as an important incentive to encourage greener practices among businesses.

The way forward for Dimension 9

- **Conduct regular monitoring and evaluation of different SME greening support programmes – particularly financial – to better adapt them to SMEs' actual needs and harmonise the programmes offered by different institutions**. The recently formed Green Economy Working Group could have the mandate to co-ordinate and monitor the different financial instruments to avoid overlaps, including between the National Council on Sustainable Development and the Central Bank Working Group. The GE WG could also be entrusted with improving and co-ordinating SME-specific greening data collection in co-operation with the Statistical Office of Montenegro, including the beneficiaries of financial support measures. This would help fill the gaps in greening support provision, better target the support provided and assess the impact of the financial support programmes through a thorough evaluation.
- **Consider introducing regulatory instruments into the SME greening policy mix.** First, Montenegro could envisage the introduction of performance standards as part of the Strategy for Circular Transition, planned to be developed at the end of 2022. For instance, the Fit for 55 proposals[88] by the European Commission, designed to help member states reduce emissions by at least 55% by 2030, include performance standards for building and transportation sectors, among others, which are of relevance to SMEs in Montenegro (European Commission, 2021[132]). Second, the government could introduce special regimes for low-environmental risk installations, the vast majority of which relate to SMEs, particularly those that have adopted environmental management systems. This would involve a shift from permitting requirements to standardised regulatory requirements, where activities that remain under certain thresholds are exempted from notification or face simplified and more standardised requirements for this. For instance, some countries use "general binding rules", which ensure standard conditions specific to a type of activity or a sector, either with obligatory notification of environmental authorities before engaging in an activity (such as in the Netherlands) or without such requirement (such as in the United Kingdom) (OECD, 2021[121]). The frequency and scope of inspections, monitoring and reporting, could also be reduced for those SMEs with a more successful environmental record.
- **Facilitate the transition to a circular economy through green public procurement**. Montenegro should build on the fact that the MSME Strategy (2018-2022) envisages the introduction of environmental impact criteria in public procurement to encourage potential SME suppliers to offer environmentally friendly goods and services. Introducing green public procurement measures would boost the demand for resource-efficient, durable, recyclable, repairable products and promote new business models that offer functionalities and services instead of selling products. While drafting the Strategy for Circular Transition, Montenegro could integrate green public procurement as a tool for the implementation of circular economy initiatives, as Denmark did in 2018 (Box 16.19).

Box 16.19. The Danish model of green public procurement

As part of Denmark's 2018 circular economy strategy, several initiatives were developed to promote green purchasing:

- **The Forum on Sustainable Procurement**: A national knowledge-sharing network where procurers from public and private organisations can keep updated on best practices, methods and tools for green procurement through a website, newsletters and various events.
- **The Partnership for Green Public Procurement**: A collaboration between frontrunner municipalities, regions and other public organisations committed to making extra efforts in partnership with other organisations to reduce their environmental impact from their procurement actions and drive the market in a greener direction.

These two initiatives appointed a joint secretariat for procurement in order to ensure co-ordination. Soon after, an additional task force on green procurement was developed to focus on the circular economy and has expanded to target – in addition to public institutions – private enterprises, including SMEs. Moreover, the Ministry of Environment established an annual event on green purchasing called the Green Procurement Week.

One of the main initiatives developed by the task force on green procurement was the creation of an online portal called "The Responsible Procurer", where procurers can find green criteria ready to copy and paste into tender documents for a number of product areas and total-cost-of-ownership tools for selected product areas.

The Danish government is set to prepare a number of new total cost and lifecycle tools and incorporate costs or revenues from waste management and resale into existing and new tools.

Sources: Ministry of Environment of Denmark (2022[133]) and OECD (2020[134]).

Internationalisation of SMEs (Dimension 10)

Introduction

Expansion into foreign markets and SME internationalisation are key factors in boosting SME productivity and competitiveness on a global scale. Smaller economies in the region often struggle with competing internationally or even accessing foreign markets, often due to a lack of technical assistance or resources. Supporting export promotion, sustainable integration into global value chains (GVCs) and opening digital sales channels need to be supported through concrete policy actions and enhanced governmental support. With such support, SMEs can broaden their reach, improve productivity, and introduce innovative practices.

For a small open economy such as Montenegro, sustainable development must be led by internationalisation, developing competitive export-led manufacturing and services sectors to foster robust growth and productivity performance. Montenegro's current integration into world trade has largely focused on relatively labour-intensive products that incorporate little domestic value added. The COVID-19 pandemic has put additional pressure on SMEs, particularly in the areas of limited resources, availability of technical assistance and maintaining liquidity. Therefore, a broad range of well-co-ordinated policies is required to boost SMEs' internationalisation and productivity while easing labour reallocation during the ongoing recovery.

Montenegro scored a total of 3.66, achieving progress since 2019 (when it scored 3.08) and placing it as one of the leaders in the region (Table 16.27). The economy has improved in the area of programme implementation across sub-dimensions since the last assessment cycle. The government undertook concrete steps to improve the economic conditions for SMEs aiming for international expansion, which is reflected in this cycle's score.

Table 16.27. Montenegro's scores for Dimension 10: Internationalisation of SMEs

Dimension	Sub-dimension	Thematic block	Montenegro	WBT average
Dimension 10: Internationalisation of SMEs	Sub-dimension 10.1: Export promotion	Planning and design	4.65	4.61
		Implementation	3.88	4.24
		Monitoring and evaluation	3.22	3.65
		Weighted average	**3.98**	**4.23**
	Sub-dimension 10.2: Integration of SMEs into global value chains	Planning and design	4.28	3.88
		Implementation	3.26	3.57
		Monitoring and evaluation	3.33	2.70
		Weighted average	**3.58**	**3.49**
	Sub-dimension 10.3: Promoting the use of e-commerce	Planning and design	3.22	3.62
		Implementation	3.00	3.15
		Monitoring and evaluation	2.33	3.29
		Weighted average	**2.93**	**3.32**
Montenegro's overall score for Dimension 10			**3.66**	**3.80**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Montenegro advanced in creating a strategic framework for export promotion and GVCs, emphasising cluster formation and development. While the monitoring of strategic documents has advanced, the

majority of targets are not quantified, hindering further efforts to evaluate support programmes and their impact.

Montenegro has made progress in providing capacity-building support for SMEs and amplified financial support, aiming to improve the supplier base in the economy. A positive development in the area of trade facilitation is the conclusion of the Support to Facilitation of Trade between Central European Free Trade Agreement (CEFTA) Parties, which resulted in mutual recognition of authorised economic operators programmes among CEFTA members. This will simplify customs and clearance procedures, which in turn, can augment trade volumes within CEFTA.

Despite the economy's overall advancement, there has been limited progress in reducing the reliance on international partners in both export promotion and GVC integration programmes. Furthermore, despite a number of measures introduced to promote e-commerce, limited progress has been achieved (Table 16.28).

Table 16.28. Montenegro's implementation of the SME Policy Index 2019 recommendations for Dimension 10

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Increase efforts to support export promotion	Montenegro introduced co-financing schemes for SMEs to develop their export capacity by participating in international fairs and events. The government provides co-financing for promotional material and educational and informational support.	Strong
Support global value chain integration for SMEs in priority sectors	Though Montenegro continues to amplify its cluster creation and development programme in priority sectors, limited progress has been made in encouraging linkages between multinational enterprises (MNEs) and SMEs. SMEs would benefit from technology transfers, improved supplier quality and process development due to co-operating with MNEs; therefore, to achieve the MSME Strategy (2018-2022) targets, the government should place a stronger emphasis on promoting MNE-SME linkages.	Limited
Develop programmes that promote e-commerce among SMEs according to the MSME Development Strategy Action Plan	Although the government outlined digitalisation and e-commerce targets in the MSME Strategy (2018-2022), the legal framework governing e-commerce is non-existent. Though Montenegro introduced co-financing and voucher schemes for SMEs to hire external consultants to oversee the digitalisation process, uptake remains low.	Limited

Montenegro strengthened the strategic framework for export promotion; however, a clearer value proposition for SMEs is needed

Export promotion in Montenegro is outlined in several strategic documents: the Industrial Policy of Montenegro (2020-2023), the NSSD (2016-2030) and the MSME Strategy (2018-2022). The economy does not have a dedicated export promotion agency: all export promotion activities are co-ordinated by the Directorate of Competitiveness Enhancement within the Ministry of Economic Development. Thus, the ministry itself is responsible for the implementation of the activities that specialised agencies would usually conduct. Potential risks of this centralised approach, where one entity is responsible for policy design, implementation and evaluation, include a lack of specialisation within the ministry and challenges reaching out to under-represented segments of the business population (e.g. SMEs, start-ups, young firms) due to the distance between the central government and local entrepreneurial communities. This, in turn, can negatively affect the uptake of support programmes.

Montenegro has increasingly recognised the need to improve its competitiveness. Government efforts to define framework conditions and provide SME-specific incentives have intensified. Since the previous assessment cycle, the strategic framework was further strengthened when the government adopted the new Programme for Improving Competitiveness, first in 2019, and the following year, an integrative part of

Montenegro's MSME Strategy (2018-2022), contributing to the achievement of strategic goals and development measures outlined in the Industrial Policy of Montenegro (2020-2023).

While the Programme is a good step in ensuring comprehensive support to enhance the export capacity of Montenegrin SMEs, this support remained largely underused[89] (the notable exception is assistance with product certification and standards compliance provided to 127 businesses in 2020). Moreover, the programme lines related to internationalisation[90] were recently removed, and 2021 funds have been redirected due to the COVID-19 pandemic. The focus was to prioritise maintaining SME liquidity and employment and ensure their survival rather than building their capacities for exports.

At the time of the assessment, the Ministry of Economic Development started implementing a new Programme for Improving Competitiveness (2022), with an allocated budget of EUR 5.2 million. The goals of the new programme include boosting investment, focusing on the digitalisation of enterprises and their adherence to international standards, while also stimulating the transition to a greener economy. The programme seeks to develop entrepreneurship within the economy and increase its export potential through tailored mentoring services.

Although SMEs have access to a broad range of informational support, they have limited awareness of the programmes available to them. The lack of a centralised support portal beyond the Ministry of Economic Development website causes fragmentation of information and reduces the uptake of services and co-financing initiatives.

Almost half of Montenegrin non-exporting companies quote lack of capacity as the main deterrent to internationalisation (Balkan Barometer, 2021[135]). This is in line with what is observed in global surveys, in which SMEs perceive difficulties related to accessing foreign markets and integrating into export distribution channels as the main obstacles to international expansion. Other impediments include scarcity of information on foreign market access rules and high costs of meeting product standards and certification requirements (WTO, 2016[136]). Thus, the measures currently proposed by the government, though apt, might prove insufficient, as they lack tangible support for overcoming technical barriers to trade. Given the low value add of the Montenegrin export base, which consists mostly of aluminium, bauxite and car transmissions, reorientation of production, retraining and assistance in shifting to higher value-added exports would allow SMEs to position themselves in international markets, all while leveraging their competitive advantage.

Monitoring and evaluation of export promotion programmes was enhanced, although measurable targets warrant further efforts

The government made progress in monitoring the implementation of the strategic documents and programme lines pertaining to export promotion. To monitor the implementation of a given programme line, the Ministry of Economic Development requires all co-financing beneficiaries to submit all documentation relating to the use of funds and the effects of implementing co-financed activities. The government also assesses the effectiveness of each strategy's initiatives using a set of clearly defined indicators (e.g. evolution of assortment, volumes and values of beneficiary's exports, productivity, increase in profitability, foreign market participation, number of employees, etc.).

Moreover, key stakeholders are increasingly being included in the policy design process. A good example is the Programme for Improving Competitiveness (2021), which was prepared in consultation with SMEs and took into account the evaluation of the effectiveness of support programmes in previous years.

Nevertheless, further efforts are needed to increase the transparency of the outcomes of the export programmes and strengthen the evaluation of the effectiveness and viability of provided services. The targets set by the government are not always quantified, thus hindering further monitoring efforts.

The government focused its efforts on cluster formation and development, although challenges within the supplier base remain

Cluster formation and development is a significant component of Montenegrin regional development and constitutes an integral part of the government's development policies, including the MSME Strategy (2018-2022), the Programme for Improving Competitiveness and the Industrial Policy of Montenegro (2020-2023). Montenegro's strategic framework governing the integration of SMEs into GVCs is directly tied to the Industrial Policy of Montenegro (2020-2023), which focuses on improving market access for SMEs by simplifying trade procedures, reducing technical barriers to trade, industrial clustering and strengthening export performance. While the strategy contains quantifiable goals pertaining to providing market information to SMEs and supporting their participation in international fairs, it misses an important component of GVC integration, which is strengthening the supplier capacities of local SMEs and promoting linkages between them and Montenegro-based MNEs.

In addition, the MSME Strategy (2018-2022) is also one of the governing pillars of SME integration into GVCs. The main measure pertains to cluster establishment and development, improving the capacity of existing clusters and the creation of vertical clusters,[91] especially in the sectors of agriculture and tourism. The former has the potential for increasing the value added of the export base, under the condition of it prioritising agricultural industrialisation and higher value-added products rather than commodities. A cluster approach can enable smaller-scale agricultural producers to engage in high-value agriculture through informational spillovers and consolidation of operations relating to certification, marketing and research (Asian Development Bank Institute, 2021[137]).

As Montenegro heavily relies on tourism, prioritising tourism clusters is a natural progression. However, they tend to focus more on regional development rather than GVC integration. In order to successfully integrate into GVCs through tourism clusters, Montenegrin SMEs would need to upgrade their capacity to better align with the supplier needs of MNEs (Fundeanu, 2015[138]; Asia-Pacific Economic Cooperation, 2019[139]).

The government amplified financial support for clusters during the assessment period and introduced the Programme for Cluster Development.[92] Since the last assessment cycle, there has been an increase in the number of clusters formed,[93] pointing to adequate support measures. There are currently 36 active clusters in Montenegro, mainly in agriculture and food processing, wood processing, tourism and the IT sector. While the programme is a source of ample financial incentives, non-financial support is lacking. SMEs with the intention of clustering do not have access to capacity-building programmes, skills-specific training, innovation centres or other forms of non-financial guidance.

Montenegro could build on the successful implementation of the cluster development programme co-funded by the European Union and the United Nations Industrial Development Organisation.[94] The project targeted SMEs in more disadvantaged regions in Montenegro and aimed to assist them in cluster formation. The clusters had an average of 15 producers registered[95] and were formed in sectors with a higher potential to move up the global value chain.

Building on linkages created by clusters and improving the suppliers' base to create linkages between SMEs and MNEs could have a positive spillover effect on regional development. In proportion to its size, Montenegro remains one of the region's largest recipients of foreign direct investment (FDI). Tourism, energy, construction, telecommunications and real estate are the sectors attracting the most FDI in the economy. The economy ranks high in the FDI Regulatory Restrictiveness Index and is less restrictive than an average OECD economy (OECD, 2021[3]). In 2020, the government established the Montenegro Investment Agency (MIA), which aims to further facilitate FDI through informational services about business registration processes and investment policies in the economy. More high-quality and informed investment leaves room for opportunity for SMEs operating in investment-prone market segments to connect to the supplier base of larger MNEs. Nevertheless, a limited export offer remains a challenge,

which leaves Montenegro more vulnerable to external price fluctuations of commodities exported. The government made limited efforts to diversify the export offer and upgrade SME capacities through Programmes of Improving Competitiveness 2019-2021; however, more tangible programmes aiming to upgrade the supplier base and move to higher-value activities are needed.

The majority of initiatives for integrating SMEs into GVCs are funded by international partners, which further increases Montenegro's reliance on external support

The majority of programmes for SME integration into GVCs are co-founded and co-ordinated by international organisations, the Enterprise Europe Network (EEN) and international partners. Little progress has been made in decreasing that reliance, and further efforts are needed to develop national programmes for development and internationalisation.

Since the last assessment cycle, Montenegro has strengthened its co-operation with the EEN and other inter-regional organisations to diversify a relatively narrow export base. The government implemented the Danube Transnational Programme[96] (DTB), which prioritises innovative and sustainable growth in the Danube region and promotes regional cohesion. DTB is well aligned with the Europe 2020 Strategy[97] and identifies the need for training and retraining of human capital in order to meet the challenges of integrating into new value chains. By participating in the project, Montenegrin SMEs have access to training and capacity-building programmes in engineering, ICT, automation, and robotics, which can provide them with a competitive advantage in the integration into GVCs. To promote intra-EU labour mobility with a dedicated focus on SME personnel, Montenegro is benefiting from the EU-funded project MobiliseSME.[98] The initiative promotes short-term secondments for Montenegrin SME staff within the European Union as a way to develop entrepreneurial and managerial skills. Although Montenegro's participation in internationally funded projects is notable, there is a need to develop more national programmes promoting SME integration into GVCs.

Despite introducing a number of measures, the lack of a strong legislative framework is hindering the promotion of e-commerce in Montenegro

In the Programme for Improving Competitiveness (2020), the Government of Montenegro introduced a number of measures[99] to promote e-commerce, including voucher schemes, co-financing and subsidies to be used for SME digitalisation, training and purchase of software and hardware (Ministry of Economic Development, 2020[140]). This is a welcomed effort, as in the last assessment, Montenegro had the lowest percentage of consumers purchasing on line (12%) and the lowest share of SMEs selling on line (9%) (OECD et al., 2019[141]). In the 2021 Programme for Improving Competitiveness, there is a two-fold increase in the budget for the digitalisation programme line,[100] showing an increased commitment to transforming Montenegro into a digital economy.

Digitalisation constitutes a priority across strategic documents in Montenegro. In the MSME Strategy (2018-2022), the government acknowledges the potential of e-commerce to increase competitiveness and create new business opportunities and identifies a clear goal to increase digitalisation levels. The Programme for Improving Competitiveness (2020) outlines co-financing the following initiatives: development and implementation of digitalisation solutions with the goal of business process automation; digitalisation of human resources management; and development and implementation of e-commerce practices, online sales, online customer support and supplier management (Ministry of Economic Development, 2020[140]).

Additional measures related to conducting research on SME e-commerce uptake, creating a database of companies using e-commerce in their operations, providing support to MSMEs to meet the e-Trustmark standards and organising informational and educational events on e-commerce have been foreseen since

the previous reporting period. However, the majority of these targets were not implemented in 2020, partly due to the COVID-19 pandemic.

Despite the initiatives being included in strategy documents, Montenegro's legislative framework for promoting e-commerce and e-payments in international trade is non-existent. Payments and transactions are governed by the laws and bylaws issued by the Ministry of Finance and Social Welfare, the Central Bank of Montenegro, and the Law on Payment Transactions. Current legislation does not cover media and information society services; therefore, the online landscape is governed by a set of broad regulations pertaining to payments and transactions. The lack of dedicated legislation hinders the development of e-commerce activities, particularly for SMEs, and therefore hampers their efforts to integrate into GVCs (WTO, 2018[142]). SMEs face an added burden of lower flexibility and increased costs of adapting to changing market conditions and adopting new technologies, which explains their low level of participation in e-commerce (OECD, 2019[143]).

More than ever, the COVID-19 pandemic underlined the necessity to have a comprehensive framework for SMEs and to create an environment in which they will succeed. The increase in online retail amounted to 12% during the pandemic and is expected to continue rising, which can serve as additional motivation for the government to accelerate the development of a functional e-commerce legislative framework. The economy has solid foundations to build on – 98.8% of SMEs use computers for their daily operations, and 99.5% have access to the Internet, signifying high demand and interest in digitalising SME operations (European Commission, 2021[67]).

The way forward for Dimension 10

- **Facilitate access to information on support services available to SMEs, encouraging their internationalisation.** The information on available SME support is fragmented and often published directly on the Ministry of Economic Development's or dedicated programmes' websites, limiting the availability of the information flow among SMEs. In order to increase the uptake of export promotion initiatives by SMEs, there is a need to raise awareness about potential opportunities in foreign markets and provide training on the expansion process. SMEs should have access to information about prospective export destinations and market reports with a comprehensive analysis of foreign markets, as well as barriers to entry and trade facilitation measures (Box 16.20)

Box 16.20. ProColombia: An export promotion approach in Colombia

Colombia has a specialised export promotion agency that governs export and investment promotion, as well as tourism. Through its national and international offices, it provides comprehensive support to Colombian companies aiming to export and potential investors interested in the country. Its export promotion function focuses on designing market expansion strategies, identifying potential export destinations and designing action and business plans. In addition, ProColombia organises a number of events nationally and internationally to promote Colombian exports and raise awareness and recognition of the country's products.

ProColombia has a comprehensive website, which offers support for potential exporters. Portal de Exportaciones contains information on how to start exporting, available support policies of the government and ProColombia, trade statistics, market analysis and information on promotional events and trade fairs. The portal also contains user-friendly export guides, steps to follow and a variety of export tools available for exporters and potential investors and buyers. ProColombia also includes a business-to-business (B2B) online marketplace, where Colombian exporters can showcase their

products and be matched with a potential client. The portal is an effective vehicle for ProColombia's agenda of financial and non-financial export support and promotion.

Colombian companies, both larger enterprises and SMEs, have facilitated access to a broad range of in-depth information and tools at their disposal. ProColombia, apart from a comprehensive portal containing all support policies and programmes, has regional offices across the country and abroad, which broadens its outreach. Potential exporters have access to a number of capacity-building projects, training and skills development initiatives, as well as tailored consultancies to assess their potential and market opportunities. Potential exporters also have access to a cost visualisation tool, which assesses the logistics and trade costs of particular operations. There is a variety of educational events and programmes, both on line and in person, as well as access to assistance in participating in trade fairs independently or under the organisation's umbrella. By forming alliances with private and public partners, ProColombia expands its broad portfolio of services to stimulate the growth and development of the Colombian export base.

Facilitating access to information for Montenegrin SMEs is key to increasing the awareness and thus uptake of available support programmes. Compiling all information on internationalisation initiatives, relevant policies and grants in one easily accessible portal, as opposed to several websites, would raise awareness about the support granted by the government and private providers.

Sources: ProColombia (ProColombia, n.d.[144])

- **Reduce reliance on external development programmes.** Most of the services available to SMEs aiming to integrate into GVCs are funded by international partners, which lowers the sustainability and predictability of resources. The government should emphasise developing national support programmes to lower reliance on external funds and promote a sustainable and flourishing business environment.
- **Broaden the export offer of SMEs and enhance the supplier base in the economy to match the inflowing foreign direct investment.** In line with OECD's product-space analysis, Montenegro can improve its economic complexity by focusing on the production of base metals, electronic equipment, machinery and chemicals[101] (OECD, 2019[145]). These sectors align with the type of FDI Montenegro is attracting, increasing the opportunities for SMEs to be linked to the supplier network of MNEs. Establishing co-operation links between SMEs and MNEs would be of significant mutual benefit. For SMEs, it would mean greater integration into GVCs and access to training, expertise and technology. Linkages to MNEs would help improve the quality of national suppliers in Montenegro and would contribute to knowledge transfers in relation to compliance with international standards, management and innovation. To develop these linkages, Montenegro could reinforce MIA's mandate to formally include aftercare services and continue its proactive investor targeting campaigns. Cogent co-ordination between the Directorate for Competitiveness and MIA to increase its visibility and effectiveness is crucial.
- **Introduce non-financial support for SMEs aiming to form a cluster.** Montenegro has made significant progress in cluster development; however, to maintain it, SMEs need to have access to training schemes and capacity-building programmes, which would foment skills development and innovation. SME clusters would then be able to become suppliers for MNEs based in Montenegro and could integrate into GVCs more successfully. Introducing non-financial support into the policy mix to complement the subsidies and co-financing provided through the Programme for Improving Competitiveness (2020) would help maintain the progress achieved by Montenegro in the area of cluster formation and development. See (Box 16.21) for a relevant example from the Slovak Republic.

Box 16.21. Lessons from the Slovak Republic: Institutional support for clusters

In recent years, the Slovak Innovation and Energy Agency (SIEA) and the Ministry of Economy have complemented their financial support for cluster formation with increased involvement of public organisations, such as the Slovak Union of Clusters, which was included in designing support programmes for SMEs aiming to form a cluster and existing clusters. SIEA formed a working group together with representatives of industrial clusters in the Slovak Republic with the goal of introducing a Business Networking Support Scheme. SIEA also organises capacity-building activities, such as certification programmes, to assist clusters in improving their capabilities and integrating into GVCs.

Cluster development in the Slovak Republic is supported both with financial resources and non-financial support policies aiming to develop the skills and capacities of potential and existing clusters. Such a policy mix is beneficial for SMEs, who frequently lack the capabilities to successfully form a cluster with skills and technology transfer potential. Providing them with support programmes, training, and networking opportunities on top of financial support can result in effective integration into GVCs and regional spillovers.

Montenegro has achieved considerable progress in cluster development since the last assessment cycle. However, the support for SMEs with the intention of forming a cluster is limited to subsidies and co-financing. Though comprehensive and well-monitored, Montenegrin SMEs could benefit from non-financial programmes, fomenting skills development, expansion of capabilities, innovation, networking and B2B matchmaking. Introducing a dedicated entity for cluster support could ensure that SME stakeholders, as well as higher education institutions and public organisations, are included in the scheme design process.

Source: SIEA (n.d.[146]).

- **Develop a legal framework governing e-commerce and online services.** Targeted provisions on e-commerce would contribute to the efforts related to implementing the MSME Strategy (2018-2022). Higher levels of digitalisation and e-commerce uptake would improve the economy's competitiveness, attract more investment and generate more inclusive international trade linkages. Consumer protection, including payment infrastructure, needs to be well developed for e-commerce to become popular among SMEs and consumers alike. Aligning legal frameworks on e-commerce with the EU E-Commerce Directive would be a good step to start building digital trust. Capacity building on integrating a payment system, transactions and security would improve the region's perception and uptake of e-commerce. Having a dedicated institution or agency that co-ordinates e-commerce policy would streamline communication and standardise processes on a national level.

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Notes

1 The Western Balkan average for tourism contributions to GDP does not include Kosovo.

2 Statistics provided through the Tax Administration of Montenegro for the purposes of the SME Policy Index. They are not yet publicly available.

3 National stakeholders involved in the National Partnership for Entrepreneurial Learning, as a working group of the Competitiveness Council, include the following: Ministry for Economic Development; Ministry of Education, Sciences, Culture and Sports; Bureau of Education; Centre for Vocational Education; Chamber of Economy of Montenegro; Employment Service of Montenegro; University of Montenegro – Faculty of Philosophy; University of Montenegro – Faculty of Economics; University of Donja Gorica; Union of Employers of Montenegro; Montenegro Business Alliance; Union of Young Entrepreneurs; American Chamber of Commerce – Labour Relations Committee; Business Start-Up Centre Bar; Technopolis Innovation and Entrepreneurship Centre; EBRD; UNDP.

4 For more information, see Održana prva sjednica Savjeta za konkurentnost: Zajedničko djelovanje državnih institucija (For more information, see Održana prva sjednica Savjeta za konkurentnost: Zajedničko djelovanje državnih institucija (https://www.gov.me/).

5 The Chamber of Economy of Montenegro organises a wide range of open-access educational activities such as seminars, roundtables, presentations, workshops and conferences. These are intended for its members (companies and their employees) but also include student and youth participants looking to improve their skills by educating themselves. The topics of these activities are chosen by the private sector members and their purpose is to support industry demands for further insight into skills and contemporary topics and promotion of entrepreneurship. In 2021, a total of 80 educational activities were organised with over 4 800 participants.

6 For more information, see https://intervetwb.net/partners/.

7 For more information on DigNest, see https://dignest.me/; for more information on e-VIVA, see https://evivaproject.eu/ (accessed on 20 January 2022).

8 For more information, see Održana prva sjednica Savjeta za konkurentnost: Zajedničko djelovanje državnih institucija (https://www.gov.me/).

9 For more information on IWA 34, see https://www.iso.org/obp/ui/#iso:std:iso:iwa:34:ed-1:v1:en.

10 For more information, see https://www.poslodavci.org/site/assets/files/3107/uputstvo_za_primjenu_mest_iwa_34.pdf.

[11] Through the Digital Governance for Development Acceleration project, a collaboration between UNDP and the Ministry for Economic Development.

[12] For more information, see https://gender-data-hub-2-undesa.hub.arcgis.com/.

[13] The main deficiencies of the Insolvency Act are:

- Lack of legal provisions on solving obstruction of proposed reorganisation plan for voting by hold-out and dissenting creditors. Inadequate rules for selection and voting of several alternative reorganisation plans, which does not provide for best recovery of creditors' claims.

- The sale of debtor as a legal entity in bankruptcy liquidation is a good option, but single criteria sales based only on price bidding may lead to lower proceeds from the sale, similar to the sale of a bank portfolio of NPLs, and lower recovery of creditors' claims.

- No provision for simplified and shorter insolvency proceedings for the reorganisation of micro and small SMEs.

- Lack of promotion or support measures for second-chance programmes for SMEs.

[14] The Insolvency Law of Serbia, Article 158 provides for a pre-packaged hybrid bankruptcy reorganisation plan.

[15] The pre-insolvency proceeding was first enacted in Republika Srpska in 2016 and then introduced in 2021 in the rest of Bosnia and Herzegovina. The same pre-insolvency proceeding has been introduced in the new draft of the Insolvency Act of North Macedonia, which is expected to be enacted in 2022.

[16] A mid-term evaluation of the MSME Strategy (2018-2022) was conducted in late 2020 using the OECD-DAC methodology, which focuses on six standard criteria: 1) relevancy; 2) effectiveness; 3) efficiency; 4) influence; 5) sustainability; and 6) coherency.

[17] Such as: reducing the administrative burden, simplifying business registration, making the tax system more transparent and predictable, strengthening the analysis of SME aspects in RIA, and developing digital government services.

[18] The SME Test is a policy tool promoted by the European Commission as a means to fully examine and respond to the potential impacts of a regulation on SMEs. The SME Test methodology starts with an examination of the SME aspects in RIA and acts as a filter for policies which could have an important impact on SMEs. If the regulation is considered to have a high enough impact on SMEs, the process moves towards extensive consultation with stakeholders, assessment of impacts and preparation of mitigation measures. For more information, see: https://ec.europa.eu/info/sites/default/files/br_toolbox-nov_2021_en_0.pdf

[19] Under Goal 7 of the strategy – the development of electronic administration.

[20] The level of sophistication of online services can be divided into five levels:

1) Information: The web pages provide the user with informative material for the transaction of a demand.

2) One-way interaction: The web pages provide the applications in electronic form and the user has the ability to download, fill and deposit them to the public sector.

3) Two-way interaction: Apart from the informative material, the user has the ability to fill an electronic form and submit electronically their data.

4) Transaction: At this stage, the electronic gate provides the user with the possibility of fulfilling demands, of completing transactions.

5) Personalisation: In the fifth stage, the supplier of services make actions with the fundamental objective to make the electronic platform friendlier to the user. In addition, the supplier of services can upgrade the services or provide the services automatically without the need for the citizen to make actions (European Commission, 2006[148]).

[21] Based on the combined share of "completely satisfied" and "tend to be satisfied" responses to the Balkan Business Barometer survey's question: Could you please tell me how satisfied are you with each of the following in your place of living: Digital services currently provided to business by public administration?

[22] During 2021, the Government of Montenegro went through structural and organisational changes resulting in a decreased number of ministries and the withdrawal of certain electronic services.

[23] The once-only principle aims to ensure that users of digital services only need to provide certain information to the government once, which is then shared by various administrations through the government's interoperable data exchange network.

[24] Most OECD countries have established governance mechanisms where relevant representatives from public sector organisations participate in advising on the design and implementation of digital government strategies, and/or taking concrete decisions in terms of priority areas of work or funding for digital government implementation. For further information on the benefits of having sound governance frameworks for digital government, see OECD (2021[54]).

[25] To access the Rulebook, see: Pravilnik o načinu objavljivanja informacija u otvorenom formatu (www.gov.me).

[26] On paper or CD, or through peer-to-peer transfer.

[27] The e-Firma platform is the result of co-operation on company registration between the Revenue and Customs Administration, the Ministry of Finance and Social Welfare, and UNDP Montenegro, and is financed by the EU delegation in Montenegro.

[28] The project is implemented within the IPA CBC Program Italy – Albania – Montenegro. More information is available at https://bre.italy-albania-montenegro.eu/.

[29] Information on licences is available in Montenegrin and English.

[30] Some 38% of Montenegrins reported the excessive discretionary power of government officials and inconsistent application of regulations as being a big or very big obstacle to obtaining licences (compared to 17% in 2019), and 34% of business representatives reported that they frequently need to rely on personal or private connections to solve problems, compared to 14% to 2019 (Regional Cooperation Council, 2021[70]).

[31] The local business organisations and associations included the Chamber of Commerce, the Employers Federation, the Montenegro Business Alliance, the Business Start-Up Centre Bar and the Chamber of Economy.

[32] The international partners included the EEN and the EBRD.

[33] As indicated in the Industrial Policy of Montenegro (2020-2023).

[34] See https://www.ebrd.com/work-with-us/projects/tcpsd/14518.html

[35] That number is a result of calculating cumulative beneficiaries from 2019 and 2020. Beneficiaries are counted per every BSSs they use.

[36] In order to further strengthen the private sector's involvement in BSSs provision and beyond, the government has created the Council for Competitiveness. The Council consists of the Chamber of Commerce of Montenegro, the Union of Employers of Montenegro, the Council of Foreign Investors in Montenegro, the American Chamber of Commerce in Montenegro, the Montenegro Business Alliance and representatives from women-led business associations.

[37] The Industrial Policy of Montenegro (2020-2023) has dedicated budget lines for improving the capacity of business centres, incubators and competence building centres, and overall development of institutional infrastructure and support services for SMEs.

[38] The number of applications for the self-employment grant amounted to 1 034 in 2021.

[39] For more information, see https://boostmeup.me/

[40] For more information, see www.ebrd.com/news/2021/ebrd-eu-and-montenegro-enhance-smes-access-to-business-advice-and-information-services.html

[41] Data provided by Montenegrin authorities.

[42] Ibid.

[43] For example, financial, legal or other services in proceedings related to the privatisation of the economy, the procurement of election material, and tasks related to the development and adoption of planning documents as stipulated by the law governing spatial planning.

[44] The strategy proposes the organisation of a forum to establish a dialogue with the private sector and identify obstacles and challenges for participation in the public procurement market; the organisation of training to encourage and increase the capacity of SMEs to participate in public procurement; an analysis of the ability of economic operators to participate and respond in a proper fashion to the conditions applicable to public tenders and contracts; and the development of guidelines and documentation on how to do business with the public sector.

[45] In principle, supporting documents issued by public authorities or third parties are required only from the bidder with the best tender.

[46] Bidders submitting joint tenders should conclude in advance a contract on joint participation which regulates mutual rights and obligations, determines which member of the joint bid is the holder of the bid, which part of the procurement subject each of the members of the joint bid is in charge of, as well as their percentage share in the total value of the bid.

[47] In a negotiated procedure without prior publication; to award contracts on the basis of the framework agreement; in an electronic auction or a dynamic purchasing system; in procedures for social and other

specific services; and in the case of public procurement for the needs of defence and security or for the needs of diplomatic missions, consular offices, and military and diplomatic representatives abroad.

[48] Procurement in which environmental or social considerations are applied.

[49] PPL, Article 91.

[50] PPL, Article 25.

[51] PPL, Article 110.

[52] PPL, Article 118.

[53] PPL, Article 93.

[54] PPL, Chapter VII.

[55] Below the threshold of EUR 5 000, contracting authorities may directly award a contract to the selected economic operator, in the form of acceptance of the pro-forma invoice, fiscal bill or the contract. Between EUR 5 000 and EUR 20 000 (EUR 40 000 for works), contracting authorities may publish a request for submission of tenders on the National System of Electronic Public Procurement or by means of the National System of Electronic Public Procurement send a request directly to select economic operators (at least three), unless specific conditions are fulfilled, such as extreme urgency or lack of competition. The minimum time period for receipt of bids is three days and together with the bid, tenderers should submit a self-declaration about the fulfilment of conditions for participation. Contracting authorities may award simple contracts based on the lowest price only or price/quality ratio.

[56] PPL, Article 185.

[57] PPL, Article 188.

[58] PPL, Article 193.

[59] 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.

[60] MTP GROW market is a development market of the Montenegro Stock Exchange intended for newly established joint stock companies that do not meet two or more conditions for inclusion in the free market.

[61] This cross-border initiative aims to integrate regional equities markets without merger or corporate integration, using only technology that will enable participating stock exchanges to remain independent yet complementary and to allow investors an easier and more efficient approach to those markets through a local broker.

[62] This OECD report was based on a survey of levels of financial literacy in Bulgaria, Croatia, Georgia, Moldova, Montenegro, North Macedonia and Romania. It collected primary data using its globally vetted OECD/INFE Toolkit. In addition to calculating globally comparable financial literacy scores, the analysis covers financial inclusion and elements of financial well-being, paying particular attention to attributes of individual financial resilience.

[63] All six Western Balkan economies covered in this report form part of the CEFTA. Work in CEFTA is structured by committees, subcommittees and expert groups. The subcommittee on non-tariff measures

deals with all policy measures other than customs. This subcommittee includes an expert Working Group on Technical Measures, which discusses methods and tools to eliminate discriminatory non-tariff barriers and holds exploratory discussions on the mutual recognition of technical regulation. Furthermore, the group also discusses the implementation of aligned legislation with relevant EU legislation, World Trade Organization or other international agreements. Both the expert working group and the subcommittee meet once a year.

[64] This comprises 26 testing laboratories, 2 medical laboratories, 2 calibration laboratories, 9 inspection bodies, 2 certification bodies for product certification and 3 certification bodies for management system certification.

[65] Research shows that there may be additional costs associated with specific actions or achieving certain standards linked to improved sustainability, e.g. ISO standards or environmental standards. For example, this can be an implicit cost linked to the need for training and capacity-building for managers and employees to ensure full implementation of new processes or practices across the business. For deeper insight, see OECD's SMEs: Key Drivers of Green and Inclusive Growth at https://www.oecd.org/greengrowth/GGSD_2018_SME%20Issue%20Paper_WEB.pdf.

[66] See Operational Objective 2.1 on p. 34 of Government of Montenegro (2020[40]).

[67] The Strategy for Lifelong Entrepreneurial Learning (2020-2024) includes an action to establish a system-level framework for regular monitoring and analysis of SME training needs, building on the national training needs analysis (TNA) pilot. It mentions the potential for a sector focus within this, but this is not yet linked to S3 priority sectors. The S3 Operational Plan (2021-2024) highlights TNA as part of the process of building sector clusters and identifies the need for new education and training programmes. The Innovation Fund is responsible for setting up the performance monitoring and evaluation system for S3.

[68] Within the current government programme to support economic competitiveness, the circular economy is mentioned, but this is limited to the treatment of wastewater. Future plans by the government include the creation of a National Platform for the Circular Economy. See https://www.privrednakomora.me/projekti-aktuelnosti-saopstenja/kreiranje-smjernica-ka-cirkularnoj-ekonomiji

[69] For more information, see https://www.gov.me/dokumenta/2dd06bd7-cda2-4635-961c-d84cffe4a3eb

[70] For more information, see Priority Reform Measure 11, pp. 115 116, Montenegro's ERP (2021 2023) (Government of Montenegro, 2021[150]).

[71] For more information, see https://startupactivator.me/.

[72] For example, www.euroinfo.me is the government-led portal linked to the internationalisation of businesses in Montenegro, while there are also non-government websites, such as https://digitalizuj.me/ and https://www.umpcg.me/ that offer information and events.

[73] The four strategic sector priorities are: 1) sustainable agriculture and the food value chain; 2) energy and sustainable environment; 3) sustainable and health tourism; and 4) information and communication technologies (as a horizontal sector).

[74] For more information, see https://s3platform.jrc.ec.europa.eu/montenegro (accessed on 25 January 2022).

[75] In accordance with the Government Decision on the formation of the Innovation and Smart Specialisation Council, No. 80/08, 14/17 and 28/18, dated 1 August 2019.

[76] This was a recommendation from the 2018 final report of the specific support to Montenegro through the Horizon2020-funded Policy Support Facility. See https://ec.europa.eu/research-and-innovation/en/statistics/policy-support-facility/specific-support-montenegro-towards-entrepreneurial-innovation-ecosystems-montenegro

[77] Government Decision on the formation of the Innovation and Smart Specialisation Council, Official Gazette 078/21 on 19 July 2021.

[78] The Innovation Fund was introduced through the Law on Innovation Activity, which regulates the institutional, governance and financial framework for the innovation ecosystem in Montenegro. See the Law on Innovation Activities at www.gov.me.

[79] Smart specialisation and innovation policy portfolios are now under the responsibility of the Ministry of Economic Development. After a new government was established in December 2020, the overall number of ministries was reduced to 12 and the government portfolio for science now sits within the Ministry for Education, Science, Culture and Sports.

[80] The annual European Innovation Scoreboard provides a comparative assessment of the research and innovation performance of EU countries and their regional neighbours. It allows policy makers to assess relative strengths and weaknesses of national research and innovation systems, track progress, and identify priority areas to boost innovation performance. See the regional Dimension 8b chapter for further information.

[81] The Science and Technology Park is envisaged to be a four-institution based network with with a central base in Podgorica and three decentralised impulse centres in Nikšić, Bar and Pljevlja.

[82] Hydrochlorofluorocarbons (HCFCs) are gases used worldwide in refrigeration, air-conditioning and foam applications, but they are being phased out under the Montreal Protocol since they deplete the ozone layer. Recognising the potential benefits to the Earth's climate, in September 2007 the Parties decided to accelerate their schedule to phase out HCFCs. Developed countries have been reducing their consumption of HCFCs with an aim to completely phase them out by 2020. Developing countries agreed to start their phase-out process in 2013 and are now following a stepwise reduction until the complete phase-out of HCFCs by 2030. In this regard, Montenegro plans to complete its phase-out process before the Montreal Protocol's requirement.

[83] Public calls were held in 2021 for two energy efficiency financial support programmes: 1) public competition for the award of subsidies for the purchase and installation of a photovoltaic system; and 2) procurement of electric and hybrid vehicles. Funds for these calls were donated by the UNDP (EUR 100 000) as part of the "Development of Green Jobs in Montenegro" to encourage SMEs and agricultural farms to implement energy efficiency measures.

[84] The polluter-pays principle is a basic principle of all European environmental policies. It is specifically referred to in the EU Water Framework Directive, which establishes clear requirements concerning financing for water management in EU member states. The polluter-pays principle states that those who pollute should bear the costs of preventing damage to human health or the environment.

[85] UNDP's Growing Green Business in Montenegro project and FORS Montenegro's Green Economy and Green Entrepreneurship projects.

[86] A hackathon is an event that brings together experts and creates a collaborative environment for solving a certain problem. Climathon is a city-based programme that offers a clear pathway to action and interaction – an opportunity for cities and citizens to co-create local ideas to shared climate challenges.

[87] The Ministry of Economic Development approves the reimbursement of up to 70% of eligible costs, excluding VAT, for micro and small enterprises and up to 60% for medium-sized enterprises, with the maximum amount set at EUR 4 000 excluding VAT. Maximum support available for the enterprises whose founders and owners of at least 50% are women and/or persons younger than 35 is up to 80% of eligible costs excluding VAT, up to a maximum of EUR 5 000.

[88] The European Commission has launched the first tranche of its Fit for 55 measures that will support Europe's climate policy framework and put the European Union on track for a 55% reduction in carbon emissions by 2030, and net-zero emissions by 2050. The interconnected proposals cover areas of climate, land use, energy, transport and taxation to bring them into line with the targets agreed in the European Climate Law. For instance, proposed targets by 2030 include a 55% reduction of emissions from cars, a 50% reduction of emissions from vans, a 3% renovation of the total floor area of all public buildings annually and a benchmark of 49% of renewables in buildings. More information can be found at https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal/delivering-european-green-deal_en.

[89] In 2020, 127 businesses received a grant for standardisation, 2 for modernisation of production processes, 1 for the development of circular economy activities, 44 for the support of small-scale investments and 55 for the digital transformation of business operations.

[90] In 2020, internationalisation activities had a set budget of EUR 100 000, which was used for the reimbursement of up to 50% of eligible costs, excluding VAT, with a ceiling of EUR 4 000. The total budget for the introduction of international standards amounted to EUR 300 000 in 2020.

[91] Vertical specialisation clusters occur when imported inputs are used in the production of goods, which are further exported (Hummels, Ishii and Yi, 2001[147]).

[92] The programme has a dedicated budget of EUR 150 000. SMEs can apply for a reimbursement of up to 65% of total eligible costs of investing in tangible and intangible assets, as well as operation costs. Furthermore, the Ministry of Economic Development provides subsidies for the cost of improving the quality of products and services, product testing, packaging design, preparation of technical and technological studies and hiring national or international external consultants.

[93] The regulations in Montenegro define a cluster as a formation of three physical persons or entities. At the time of the assessment, there are 36 active cluster initiatives in Montenegro. In 2019, seven clusters received support amounting to EUR 69 595, while in 2020, EUR 83 920 was awarded to ten clusters.

[94] For more information, see https://www.unido.org/sites/default/files/2015-12/Montenegro_Brochure_FINAL2014pdf_0.pdf.

[95] Of the registered, 5 producers registered in the freshwater fish cluster, 17 in the olive oil cluster, 5 in the metalworks cluster and 34 in the wine cluster

[96] For more information, see https://www.interreg-danube.eu/.

[97] The Europe 2020 Strategy is a ten-year EU strategy for inclusive and sustainable growth. The Strategy has set targets covering employment, research and development, climate change, energy sustainability,

education, fight against poverty and social exclusion. Europe 2020 is financed by the Cohesion Policy funds and commits to a specific percentage of the funding to be spent on thematic objectives. The goal of the strategy is an innovative, efficient and sustainable Europe. For more information, see https://ec.europa.eu/regional_policy/en/policy/what/glossary/e/europe-2020-strategy.

[98] For more information, see https://mobilise-sme.eu/.

[99] The Programme for Improving Competitiveness envisages a maximum of EUR 3 500 for SMEs aiming to digitise their operations, supporting 55 SMEs in 2020.

[100] The amount doubled, from EUR 200 000 in 2020 to EUR 400 000 in 2021.

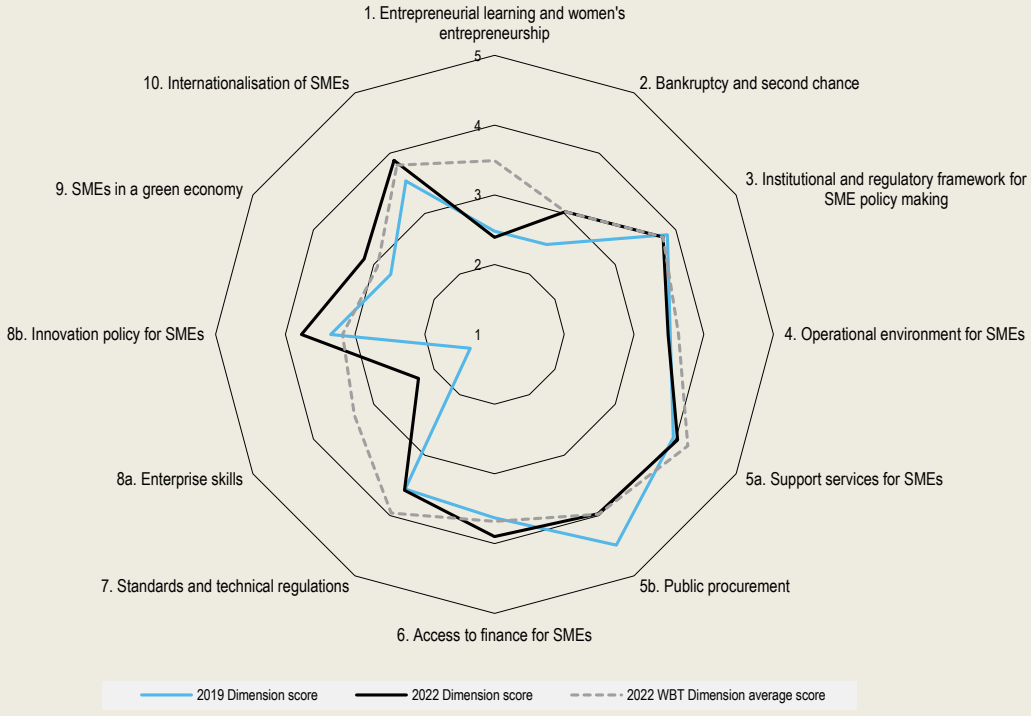
[101] The product-space analysis does not take into account intangible exports in services and tourism, which constitute a high percentage of Montenegrin exports.

17 North Macedonia: Economy Profile

This chapter covers the progress made by North Macedonia in implementing the Small Business Act (SBA) for Europe over the period 2019-21. It starts with an overview of North Macedonia's economic context, business environment and status of its EU accession process. It then provides key facts about small and medium-sized enterprises (SMEs) in the North Macedonian economy, shedding light on the characteristics of the SME sector. It finally assesses progress made in the 12 thematic policy dimensions relating to the SBA during the reference period and suggests targeted policy recommendations.

Key findings

Figure 17.1. Small Business Act scores for North Macedonia (2019 and 2022)



Note: WBT: Western Balkans and Turkey.

The Republic of North Macedonia (hereafter "North Macedonia") has made progress in implementing the Small Business Act (SBA) since the publication of the previous report – the *SME Policy Index: Western Balkans and Turkey 2019* (Figure 17.1). North Macedonia has achieved its highest average scores in the following areas: support services for small and medium-sized enterprises (SMEs); public procurement; access to finance; innovation policy; and internationalisation of SMEs. While in access to finance, innovation policy and internationalisation, North Macedonia outperforms the WBT average, the economy still needs to step up its efforts in entrepreneurial learning and women's entrepreneurship and enterprise skills.

Main achievements

- **The insolvency legislative framework has gradually been improving**. In March 2021, the economy completed a new draft of the Insolvency Act, which is set to be enacted in 2022. The draft law features some positive developments, such as introducing preventive measures (pre-insolvency restructuring proceedings and an early warning system) and the inclusion of provisions for shortened and simplified bankruptcy proceedings for SMEs. In addition, North Macedonia is the only economy in the region that digitalises liquidation procedures, which has led to decreases in the amount of time taken for bankruptcy

liquidation procedures, reducing the procedural costs and ensuring creditors' claims recovery are valued at best market rates.

- **North Macedonia has a strong legal and strategic framework for government provisions of business support services (BSSs).** The economy introduced various financial and non-financial support programmes targeting SMEs, aimed at improving their capacity and competitiveness. The private provision of BSSs is envisioned through additional support for business incubators and technology parks with the goal of creating an environment conducive to knowledge and technology transfers. In addition, the government introduced new co-financing schemes for SMEs seeking assistance from private-sector consultants.
- **Efforts to promote financial literacy have gained momentum.** North Macedonia adopted its first Strategy for Financial Education and Financial Inclusion (2021-2025), which aims to develop special educational programmes for various target audiences, in line with a core competency framework that is currently under preparation. While the impact of the new strategy will only be seen in the medium term, the centralised one-stop-shop for financial support continues to provide information on financial and non-financial services for enterprises, serving as a useful and easily accessible platform.
- **SMEs' greening efforts have been encouraged by facilitated access to finance**. As recommended in the previous cycle, the Development Bank of North Macedonia has become an important factor in fostering green lending to SMEs' projects, including as part of COVID-19 recovery programmes. Moreover, the recently adopted Plan for Accelerated Growth (2022-2026) is expected to provide a stronger impulse to greening measures with the introduction of several instruments to promote and finance SMEs' green projects, such as the Hybrid National Green and Digital Fund for SMEs.
- **Export promotion and SME integration into global value chains (GVCs) are highlighted in newly adopted strategic documents, further contributing to a stronger legal and strategic framework that encourages SME internationalisation.** By adopting a new Law on Strategic Investment and simplifying company establishment within free economic zones, North Macedonia made noteworthy advancements in developing an attractive environment for foreign direct investment (FDI). Moreover, in order to further foment linkages between domestic SME suppliers and multinational enterprises (MNEs), the government launched an online business-to-business (B2B) portal to match local suppliers with international buyers, therefore contributing to North Macedonian SMEs' participation in GVCs.

The way forward

- **Efforts are needed to boost entrepreneurship as a key competence across all levels of education,** building on the positive reforms of the vocational education and training (VET) curriculum aligned to EntreComp. Strong leadership should be provided through a multi-stakeholder partnership, guiding concrete government-led actions with a committed budget that supports curriculum reform, embedding practical entrepreneurial learning, development of teacher guidance as well as actions to expand pre- and in-service teacher training. Monitoring and evaluation are required to track efficacy and impact.
- **Urgent action is required to monitor and evaluate the progress, efficacy and impact of actions taken to support women's entrepreneurship**, to underpin the implementation of the recent women's entrepreneurship strategy. This should include a transparent monitoring and evaluation process, supported by urgent actions to enforce gender-disaggregated data via national statistics and government-funded programmes.

- **The institutional and regulatory framework for SME policy making has room for improvement.** Namely, a comprehensive strategy for simplifying legislation with the goal of improving the business environment, as has been adopted by other economies in the region, is absent in North Macedonia. The use of regulatory impact assessments to measure the effects of policies on SMEs and of public-private consultations to involve SMEs in policy making could also be further improved, namely by ensuring stronger quality control by the relevant oversight institutions.
- **Systematic training needs analysis is still lacking in North Macedonia**. Assessing the current SME landscape is done on an ad hoc basis without a strategic framework in place to ensure regular analysis of SMEs' needs. Similarly, systematic monitoring and performance-based evaluation of both public and private BSSs also warrants intensified efforts from the government.
- **Improve information provision and support services for SMEs who seek certification according to national, European or international standards.** While North Macedonia's legislation is comparatively well aligned with the European Union's technical regulations and quality infrastructure legislation, support services to firms should be expanded. One priority should be the establishment of a central web platform that lists all export-relevant sectoral and horizontal legislation and provides information about the standards and the conformity assessment procedures that firms need to follow to access the European Single Market. Furthermore, the creation of a larger programme (funded by international development co-operation partners or the government) to support SMEs that may not be able to self-finance investments related to conformity with standards would be important.
- **The lack of system-level skills intelligence remains a significant challenge.** A co-ordinated approach to understanding current and future skills needs could support policy planning and design toward better alignment of education to labour-market needs. Defined indicators for SME skills intelligence would guide future monitoring and evaluation related to SME skills at all levels.
- **Business-academia collaboration should be promoted with a systematic and targeted approach.** Efforts should include both demand and supply-side aspects, including raising awareness about collaboration opportunities and providing a targeted infrastructure stimulating exchange and financial incentives to boost collaboration as well as strengthening academic research excellence. An evaluation of the pilot voucher scheme, as well as a clear approach to the design and function of the Science and Technology Park, will be important elements, as is a review of the scientific research sector more generally.

Economic context and role of SMEs

Economic overview

North Macedonia is a small, upper-middle-income economy with a population of 2.07 million as of 2020 and a per capita gross domestic product (GDP) by purchasing power parity of USD 15 931 in 2020 (in constant 2017 international dollars), having shrunk by roughly USD 800 since 2019 (World Bank, 2022[1]). Compared to neighbouring economies, North Macedonia's economic activity sectors are relatively well balanced, with the services sector accounting for 57% of GDP, industry for 22.6% and agriculture for 9.1% in 2020, with annual decreases of 2.6% for services and 6.8% for industry and annual increases of 1.7% for agriculture in 2021. The economy's industrial sector is primarily based on manufacturing (13% of GDP), particularly in chemical products, basic iron, steel and ferro-alloys, machinery and textiles. North Macedonia's top sectors in terms of employment are services (employing 55% of North Macedonia's workforce), followed by industry (31% of the workforce) and agriculture (employing almost 14%) (MAKStat, 2021[2]).

North Macedonia's economy has shown steady growth since 2012, driven mainly by domestic consumption and exports (notably basic metals and textile products), with a slight drop in 2017, followed by another bout of continued growth. However, like all WBT economies, North Macedonia's economy was adversely impacted by the COVID-19 pandemic (Box 17.1), with a 6.1% decrease in GDP growth for 2020 brought on by a sharp decrease in remittances, which impacted adversely on household spending and a fall in investment (Table 17.1). However, the economy rebounded with a 4.2% GDP growth in 2021, fuelled by a strong recovery in the production of automotive supplies, a recovery of private consumption and the implementation of government support measures, and is expected to remain at 3.2% in 2022 (IMF, 2022[3]; European Commission, 2022[4]; EBRD, 2022[5]).

After a positive decline in external debt stocks in 2018, public spending in North Macedonia grew by approximately 15.2% from 2019 to 2020 due to unforeseen spending on COVID-19 mitigation measures and remains the second-highest in the region at 89.9% in 2020. Positive measures have been taken to alleviate public debt in recent years, including the repayment of a 2014 Eurobond in the amount of EUR 500 million in July 2021, reducing government and public debt by 4.46 percentage points and stabilising its position at under 60% in Q3 of 2021, a 3.1% reduction from Q2, thereby aligning itself with the Maastricht Criteria (Ministry of Finance, 2021[6]). North Macedonia is beginning to gear its public spending agenda towards energy efficiency projects, with plans to shut down all coal-fired thermal power plants, which account for approximately 50% of total electricity production and about one-third of consumption, by the end of 2027 under the National Energy and Climate Plan. In addition to being the first Western Balkan economy with structural plans to phase out coal, North Macedonia is also largely investing in renewables and gas-fired power capacity as a transitional fuel with a projected EUR 3.1 billion investment plan to establish approximately 1 600 MW of solar power plants, 600 MW of wind farms and 333 MW of hydropower plants. Other energy-efficient infrastructural projects are also on the agenda, such as a EUR 110 million investment for a 123 km-long gas interconnector pipeline with Greece that will have the capacity to transport roughly 1.5 billion cubic metres of natural gas annually (EBRD, 2022[5]).

Although the financial sector in North Macedonia saw poor performance in 2020 due to the pandemic, it sustained a decent recovery throughout 2021. Bank lending increased by 5.8% and 7% in Q3 and Q4, respectively, with credit growth during Q3 rising to 7.8% at the household level and 4% at the corporate level, while the non-performing loans ratio saw a minimal decrease of 0.2 percentage points since the previous year, settling at 3.1% in 2021 (European Commission, 2022[7]). Consumer prices increased by 8.8% month on month in March 2022, while the annual increase in 2021 was 3.2% compared to December 2020, influenced primarily by index increases on transport by 9%, restaurants and hotels by 5.9% and alcoholic beverages, tobacco and narcotics by 3.8%. Moreover, retail prices increased by 6% month on

month in December 2021, while the annual increase was 4.3% compared to December 2020, primarily due to increases in non-food industrial products, tobacco and agriculture products (MAKStat, 2022[8]).

Table 17.1. North Macedonia: Main macroeconomic indicators (2018-21)

Indicator	Unit of measurement	2016	2017	2018	2019	2020	2021
GDP growth[1]	% year-on-year	2.8	1.2	2.8	3.9	-6.1	4.2
National GDP[2]	EUR billion	9.466	10.03	11.25	11.182	10.879	..
GDP per capita growth[2]	% year-on-year	2.7	1	2.8	3.9	-6.1	..
Inflation[1]	% average	-0.2	1.4	1.5	0.8	1.2	3.2
Government balance[1]	% of GDP	-2.7	-2.7	-1.8	-2	-8.2	-5.4
Current account balance[1]	% of GDP	-2.9	-1.0	-0.1	-3.3	-3.4	-3.5
Exchange rate MKD/EUR[1]	Value	61.6	61.57	61.51	61.51	61.67	61.63
Exports of goods and services[1]	% of GDP	50.9	54.9	60.2	61.9	58.9	65.9
Imports of goods and services[1]	% of GDP	66.2	69	72.9	76.2	71.9	81.9
Net foreign direct investment (FDI)[1]	% of GDP	3.3	1.8	5.6	3.2	1.5	3.7
External debt stocks[2]	% of gross national income (GNI)	73.3	78.7	71.3	74.7	89.9	..
International reserves of the National Bank[1]	EUR million	2 613	2 336	2 867	3 263	3 360	3 643
Gross international reserves[1]	Ratio of 12 months imports of goods and services moving average	4.9	4.1	4.4	4.6	5.3	4.5
Unemployment[1]	% of the total population	23.8	22.6	21.0	17.5	16.6	15.8

Sources: 1. European Commission (2022[4]); 2. World Bank (2022[9]).

Despite the significant impact of the COVID-19 pandemic on the economy, North Macedonia's unemployment rate has continued to decrease, following a decade-long trend, settling at 16.6% in 2020 due in part to significant fiscal support provided to FDI and domestic companies in the post-pandemic period (OECD, 2021[10]). The unemployment rate further decreased to 15.3% ((European Commission, 2022[7])) in the fourth quarter of 2021. However, continuous progress in the overall labour force participation shadows underlying disproportionalities and inequalities, particularly concerning employment setbacks of youth and women. The 0.6% rise in the labour force and 0.7% year-on-year rise in the activity rate of the working-age population in 2020 overshadows the -1% drop in the female workforce and a slight decline in overall female activity rates (European Commission, 2021[11]). Women in North Macedonia were also hit particularly hard during the pandemic due to high participation in some of the most affected sectors, such as healthcare and the informal economy, and disproportionally increased home responsibilities among the majority of women (United Nations, 2021[12]). Youth unemployment also faced setbacks in 2020, rising to 35.4% for those 15-24 years, while employment declined by 16% year on year for the same age group (European Commission, 2021[11]). Unemployed youth in the 15-19 year age group decreased to pre-pandemic levels in 2021 after almost doubling in 2020, while unemployed youth in the 19-24 year age group remains approximately 50% higher than pre-pandemic levels in 2019 after a 150% increase in 2020 (Employment Service Agency, 2022[13]). Moreover, the share of long-term unemployed in North Macedonia is steep (74% of all unemployed in 2021), and the long-term unemployment rate as of 2017 was over six times higher than in the European Union (17.4% vs 2.4%) (Employment Service Agency, 2022[13]; MAKStat, 2018[14]; Eurostat, 2020[15]).

Box 17.1. North Macedonia's COVID-19 recovery programme

As part of its recovery, North Macedonia adopted five economic support packages to mitigate the impact of COVID-19, the first having been launched in March and April 2020, with the last having been presented in April 2021 in the amount of EUR 17.8 million. The cumulative sum of economic support packages totalled approximately EUR 1 billion for both short and long-term fiscal measures to maintain the liquidity of companies and jobs and support the financial sustainability of the economy and municipalities. Since the start of the pandemic, the government has implemented 106 policy measures covering financial, macroeconomic, banking and trade interests as well as movement, sanitary and health infrastructure changes to mitigate the effects of the pandemic:

- **Subsidies**: In order to preserve existing jobs and create new opportunities, North Macedonia provided financial assistance to companies affected by the crisis through monthly employment subsidies of between approximately EUR 235 and EUR 350 and 50% of salary contributions for employees in the tourism, transport, hospitality and other sectors affected by the pandemic.
- **Financial support to citizens**: The economy also implemented several cash support programmes to increase consumption and development of domestic economic activities, such as vouchers of MKD 3 000-6 000 for domestic tourism and purchases of Macedonian products and services, as well as vouchers of up to MKD 30 000 for trainings and courses for information technology (IT) and digital skills for those aged 16-29. Vulnerable groups, such as single parents, pensioners, passive job seekers, students, those over 64 years, independent artists, film workers, cultural workers and artists, also received payment cards worth a total of EUR 27.6 million.
- **Tax measures**: North Macedonia's tax response to COVID-19 was largely in line with other European economies, with exemptions of personal and corporate income taxes for self-employed, SMEs and enterprises COVID-19 susceptible sectors as well as reductions on import duties for sought after products like raw materials. The economy also implemented reductions of value-added tax (VAT) for restaurants, artisans, food and beverage services and exemptions of VAT for public donations, as well as a unique "weekend without VAT" under which more than 350 000 citizens were able to buy domestic products, services, computers and IT equipment worth up to MKD 30 000 without VAT for a period of three days, stimulating an injection of over EUR 170 million back into the economy.
- **Credit lines**: The Development Bank of North Macedonia provided an interest-free credit line worth EUR 54 million to all micro and small companies, which also offered a 30% grant for those companies that are run or founded by women, employ young people, are export-oriented or introduce innovation and digitalisation in their operations. The Development Bank of North Macedonia initially set up a EUR 5.7 million credit support (KOVID-1) option for SMEs in the form of interest-free loans with a 3-year repayment period and a grace period of 12 months. Under this scheme, microenterprises received loans between EUR 3 000 and EUR 5 000, small enterprises between EUR 10 000 and EUR 15 000 and medium enterprises between EUR 15 000 and EUR 30 000. A second credit line (KOVID-2) worth EUR 8 million, a third credit line (KOVID-3) co-funded by the European Union worth EUR 31 million, and a fourth credit line (KOVID-4) worth EUR 10 million were later opened to all industries impacted over 30% of revenues by the pandemic, specifically targeting enterprises in the field of tourism, transport, catering and event industry, private health facilities, sole proprietors and craftspeople from all industries.

Although numerous short-term economic support measures helped mitigate immediate economic damage, structural issues were exacerbated by the pandemic and remain key areas in need of reforms. In this regard, COVID-19 identified significant persistent challenges to North Macedonia's structural reform agenda, primarily with regard to further integration into global chains of higher technological value, continued clarification of the regulatory environment, increased innovation and logistical framework for its support, and support for moving towards sustainable energy infrastructure.

Sources: OECD (2021[10]; 2021[16]); Government of North Macedonia (2022[17]); European Commission (2021[18]; 2021[19]).

Business environment trends

The business environment in North Macedonia has seen some improvement since the last assessment, notably in reducing and clarifying the para-fiscal fees imposed on businesses by establishing a consolidated digital register of charges based on a comprehensive catalogue of electronic services provided on its e-portal. In an effort to streamline the number and complexity of charges for businesses, the government established a dedicated website that contains a clear list and value of the 377 para-fiscal charges that exist in the economy, but the burden is still to be reduced (European Commission, 2021[11]). North Macedonia also upgraded its national e-portal to include a total of 184 services, increasing public access and moderately improving the overall regulatory environment, which remains one of the most open economies for investment according to the OECD FDI Regulatory Restrictiveness Index. Its score remained 0.026 in 2020, significantly lower than the OECD average of 0.064, indicating that the economy has lessened barriers to trade and maintains only a handful of reciprocity restrictions, notably in the real estate and legal sectors (OECD, 2020[20]). Moreover, as the government provided major support packages during the pandemic, changes to the transparency of finances were also implemented. Information on fiscal measures and transactions, including amounts and beneficiaries, were made available on line, as was a clear overview of the implementation of financial aid packages. The economy's positive trend in public administration transparency has been reflected in its score in Transparency International's Corruption Perception Index, which has increased four positions since 2021 and is now 89th place out of a total of 180 ranked economies (Transparency International, 2022[21]).

Although improving, the development of North Macedonia's business environment is still hampered by several key structural deficiencies and obstacles, which are acknowledged in the latest Economic Reform Programme (2021-2023) (Box 17.2) as well as the national SME Strategy (2018-2023). North Macedonia's legal and regulatory environment remains complex and difficult for enterprises and investors alike to navigate, leading to inefficiencies in business support and development services. Institutional factors such as over-burdensome time and costs of contract enforcement, inefficient customs, unfair competition and limited use of alternative dispute resolution mechanisms continue to adversely impact the ease of doing business in the economy (OECD, 2021[10]). Financial challenges remain a substantial impediment for businesses, particularly access to finance for SMEs, as credit risks remain high, alternative financing options remain limited and traditional financing institutions continue to require heavy collateral and credit histories. While North Macedonia has made progress in improving access to finance through the Fund for Innovation, the gap still remains significant, especially in the context of limited private-sector alternatives to bank finance (OECD, 2021[10]). Moreover, although a new bankruptcy law is under preparation, institutional and legal obstacles such as public administration transparency and unnecessary time and costs for dispute proceedings are still an impediment to a conducive business environment (European Commission, 2021[11]).

The informal economy in North Macedonia, notably in the agriculture, construction, household services, wholesale and retail trade sectors, is the predominant impediment to a hospitable business environment., with some estimates as high as 37.6% of GDP and putting informal employment as high as 43% (World

Bank, 2017[22]). The skills, expertise and powers of tax officials, judicial efficiency, contract enforcement, transparency and lack of digital services remain key barriers to reducing the size of North Macedonia's informal economy. The large grey economy creates strong competition for registered businesses and erodes a potential tax revenue base to fund public programmes. Employees in North Macedonia's informal workforce also suffered disproportionally, particularly during the COVID-19 pandemic, as businesses were excluded from support packages and the workforce did not qualify for wage subsidies. The impact of the North Macedonia's informal economy, historically functioning through unregistered labour, partially undeclared wages, irregularities in the enforcement of the Labour Relations Act, non-issuance of tax receipts or invoices, and underreported turnover is now compounded by freelance work and digital services that remain difficult to follow. Although positive steps have been taken to increase the employability of the young workforce through the introduction of a dual VET project and plans to shorten the conversion period for contract permanence, the competitiveness of local companies will continue to be dependent on higher investments in human and physical capital (European Commission, 2021[11]).

Box 17.2. Economic Reform Programmes

Since 2015, EU accession candidates have been obliged to produce annual Economic Reform Programmes (ERPs) that outline clear policy reform objectives and policies necessary for participation in the economic policy co-ordination procedures of the European Union. The ERPs aim to produce concrete reforms that foster medium and long-term economic growth, achieve macroeconomic and fiscal stability and boost economic competitiveness. Since their initial launch, ERP agendas have been required to include structural reform objectives in key fundamental areas:

- public finance management
- energy and transport markets
- sectoral development
- business environment and reduction of the informal economy
- trade-related reform
- education and skills
- employment and labour markets
- social inclusion, poverty reduction and equal opportunities

In addition to these essential fields, and as the objectives of EU policies continue to evolve to include cross-cutting sustainable sectors, the structural reform agendas of ERPs have embraced new commitments to progressive policy reforms since the last assessment that also cover:

- green transition
- digital transformation
- research, development and innovation
- economic integration reforms
- agriculture, industry and services
- healthcare systems.

Once submitted by the governments, ERPs are assessed by the European Commission and European Central Bank, opening the door for a multilateral policy dialogue with enlargement candidates to gauge their progress and priority areas on their path to accession. Discussions and assistance on policy reforms take place through a high-level meeting between member states, EU institutions and

enlargement economies, through which participants adopt joint conclusions that include economy-specific guidance for policy reform agendas.

The findings of the *SME Policy Index 2022* provide an extensive technical understanding of the progress made on business sector-related policy reforms that are key to the ERPs of the EU accession candidates at both the regional and economy-specific levels. The SBA delves into the specific barriers to progress in ten policy areas essential to applying the larger objectives of the ERPs, like boosting competitiveness and economic growth to SMEs in the region.

Sources: European Commission (2021[19]); IMF (2019[23]).

EU accession process

North Macedonia was the first Western Balkan economy to sign a Stabilisation and Association Agreement (SAA) with the European Union in 2001, setting higher political, economic, trade and human rights reform principles that paved the way for the economy to align itself with the EU standards. Although the European Council had continuously recommended opening accession negotiations with North Macedonia since 2009, efforts to move the economy past candidate status, which it has held since 2005, were hindered by bilateral challenges concerning cultural, historical and linguistic disputes with Greece and Bulgaria.

After demonstrating its determination to advance the EU reform agenda and delivering tangible and sustained results, North Macedonia was the last of the five WBT economies to enter accession negotiations in March 2020, followed by a presentation of a draft negotiating framework to the member states in July 2020 (European Commission, 2021[11]). Although North Macedonia has yet to open any EU *acquis* negotiating chapters, bilateral co-operation with the European Union is expected to result in five working groups to establish a roadmap to accelerate the process of holding the first Intergovernmental Conference of North Macedonia with the European Union to open the chapters for memberships. Aside from a moderate increase in the level of preparation regarding Judiciary, and Fundamental Rights from some level of preparation to moderately prepared, no changes in the degrees assigned to North Macedonia's preparation of the chapters have been noted since the 2018 enlargement report. In 2021, the European Union adopted a revised enlargement methodology that emphasises credible fundamental reforms, stronger political steer, increased dynamism and predictability of the process, which will automatically apply to the negotiation procedures of the most recent accession candidates, North Macedonia and Albania (European Commission, 2020[24])

According to the European Union's 2021 enlargement report for North Macedonia, the economy is moderately prepared on enterprise and industrial policies that help encourage a hospitable environment for SMEs. The economy has done well to support the business sector during the COVID-19 pandemic with EUR 1.2 billion in assistance and restructured 370 para-fiscal changes that adequately supported the business sector's recovery. However, North Macedonia's enterprise and industrial policies are often overlapping in legislation and mandates of competent authorities leading to a complex and inefficient regulatory environment, while the Economic Growth Plan lacks impact indicators as well as systematic evaluation mechanisms that help reflect the needs of the business community (European Commission, 2021[11]). In this regard, North Macedonia should concentrate on:

- consolidating the institutional structure and mandates of the public bodies to ensure effective implementation, monitoring and evaluation of the strategies and policy measures
- continuing to implement, assess and renew the strategy and action plan to formalise the informal economy, with specific attention to its business environment component
- developing measures to increase the capacity of domestic companies to integrate into GVCs.

Further progress in the accession process will strongly depend on improved bilateral relations and co-operation on the 2017 Friendship Treaty with Bulgaria, as well as further alignment on benchmarks concerning the internal market and resource management set out in Chapters 2 and 33 on Freedom of Movement for Workers and Financial and Budgetary Provisions, respectively. The findings and recommendations published in the *SME Policy Index 2022* can help provide the monitoring and guidance needed for North Macedonia to harmonise its regulatory framework with that of the *acquis,* meet the requirements of the accession chapters once they are officially opened and ultimately further its negotiations for entry to the European Union.

EU financial support

The European Union is the largest provider of financial assistance to North Macedonia, helping the economy in implementing reforms that bring it closer to the *acquis*, particularly concerning strengthening the rule of law and improving public administration. The European Union's financial support to the economy and the region has been provided through both temporary support such as COVID-19 assistance packages as well as long-term investment programmes and funds through the Instrument for Pre-accession Assistance (IPA), European Investment Bank loans, Western Balkans Investment Framework grants and more.

In addition to a total of EUR 1.2 billion provided to North Macedonia by the European Union between 2007 and 2020 under the IPA I and II, the European Union is providing an additional EUR 14.2 billion to the region under IPA III for the period 2021-27 to improve rule of law, fundamental rights and democracy; increase good governance, *acquis* alignment, good neighbourly relations and strategic communication; speed up the green agenda transition and sustainable connectivity; increase competitiveness and inclusive growth; and support territorial and cross-border co-operation (European Commission, 2021[25]). The new IPA funding also contributes to the joint European Union and European Bank for Reconstruction and Development (EBRD) Western Balkans SME Competitiveness Support Programme that assists privately owned North Macedonian SMEs in meeting new EU regulations and understanding the improvement requirements in the field of environmental protection, occupational health and safety and product quality and safety through financing options (EBRD, 2021[26]). In addition to loan and grant opportunities under the programme, SMEs benefit from tailor-made technical assistance and know-how for project preparation and implementation, as well as grant incentives worth up to 15% of the total loan amount on successful project completion.

In 2020, the European Union pledged EUR 9 billion for the Western Balkans as part of a new economic and investment plan to support sustainable connectivity, human capital, competitiveness and inclusive growth, and the twin green and digital transition. In addition to infrastructural funding for North Macedonia's rail corridors with Serbia, Croatia and Bulgaria, significant wind park and solar power plant investments will be advanced in an effort to present North Macedonia's renewable energy landscape as a potential replicable example for the region. Furthermore, the European Union's support on a gas interconnection with Kosovo* and Serbia will help the economy's transition from coal, while funding for updated waste management systems will support sustainable and green infrastructure solutions. North Macedonian SMEs will also be able to benefit from the scheme's increased funding to the Western Balkans Guarantee Facility with the aim to strengthen the competitiveness of SMEs, enhance employment creation for youth in particular, and support innovation and green growth (European Commission, 2020[27]).

The European Union has been crucial in financially supporting the Western Balkans and North Macedonia in the wake of COVID-19. North Macedonia received EUR 220 million in grants and financing from the European Commission's EUR 3 billion Macro-Financial Assistance (MFA) package for enlargement and

* This designation is without prejudice to positions on status and is in line with United Nations Security Council Resolution 1244/1999 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence.

neighbourhood partners that aims to help them limit the economic fallout of the COVID-19 pandemic. The economy received the second MFA payment in June 2021 after fulfilling the programme's policy conditions to strengthen fiscal governance and transparency, fight corruption, enhance financial sector supervision, improve the business environment, and tackle youth unemployment (European Commission, 2020[28]). North Macedonia has also been the recipient of EUR 144 million of the European Union's Team Europe EUR 3.3 billion COVID-19 economic recovery support package to the region (EIB, 2021[29])

North Macedonia was also the third candidate economy to join the European Union's Competitiveness of Enterprises and Small and Medium-Sized Enterprises Programme (COSME) in 2015, under which it benefits from support for entrepreneurship and entrepreneurial culture, access to finance for SMEs and access to markets (European Commission, 2020[30]). The economy has also participated in the European Union's Research and Innovation programmes since 2007 and is part of the Horizon 2020 programme, allowing North Macedonia access to the project's EUR 95.5 million budget to help develop projects and technologies and conduct research and activities that will contribute to tackling global challenges. The economy has ramped up investments in the set-up of Technology Parks and Business Accelerators and possesses particular strengths in the fields of energy and health innovation. North Macedonia's participation in the SMEs portion of Horizon 2020 is particularly high, with 909 applications, 122 participants and 92 signed grants for a total of EUR 14.8 million of EU funding distributed primarily to private for-profit enterprises (35.4%), followed by higher or secondary education institutions (26.3%), and research organisations (18.6%). In 2021, the economy signed an additional Association Agreement to the Horizon Europe programme, promoting closer research and innovation co-operation with the European Union (European Commission, 2021[31]).

SMEs in the domestic economy

The classification of SMEs in North Macedonia remains unchanged since the last assessment and is defined by Article 470 of the Law on Trade Companies (Official Gazette of the Republic of North Macedonia, No. 215/21). The categories conform to the EU standard definition of SMEs by employee size but diverge on the other criteria concerning annual income and assets (Table 15.3).

Table 17.2. Definition of micro, small and medium-sized enterprises in North Macedonia

	EU definition	North Macedonia definition
Micro	< 10 employees = EUR 2 million turnover or balance sheet	< 10 employees ≤ EUR 50 000 gross annual income
Small	< 50 employees = EUR 10 million turnover or balance sheet	< 50 employees < EUR 2 million annual income or < EUR 2 million average total assets
Medium-sized	250 employees = EUR 50 million turnover = EUR 43 million balance sheet	< 250 employees < EUR 10 million annual income or < EUR 11 million average total assets

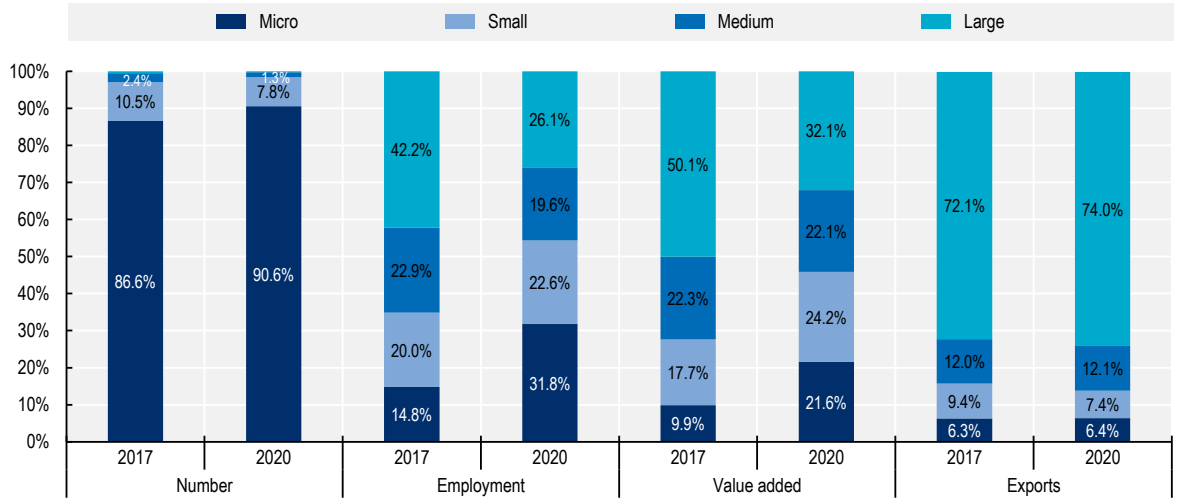
Source: Assembly of North Macedonia (2021[32]).

The breakdown of North Macedonian enterprises by size was 99.3% micro and small enterprises, 0.6% medium enterprises and only 0.1% large enterprises in 2020 (MAKStat, 2021[2]). In terms of enterprise size, microenterprises with fewer than ten employees dominate (90.6%), and most of them are in the field of trade. With 31.8% of the total employees hired, they created 21.6% of the total value added (Figure 17.2). Large enterprises with a share of only 0.3% and with engaged 26.1% of the employees generate 32.1% of the total added value within the business sector, mainly in the manufacturing sector (14.0%). However, small and medium enterprises hired 42.1% of the employees and created 46.3% of the total value in the business sector. In 2020, 74% of North Macedonia's formal workforce was employed by

micro, small and medium-sized enterprises (MSMEs) and created approximately 68% of the total value in the business sector, a 2% increase from 2019 and 7% increase from 2018 (MAKStat, 2021[2]).

Regarding fluctuations in business demography, the number of enterprises by size and employment remained largely stable between 2017 and 2020. On the other hand, micro and small enterprises increased their value added to GDP since the last assessment, albeit slightly by roughly 11.7 and 6.5 percentage points respectively. Medium enterprises noted a small contraction of 0.2 percentage points, while the value-added to GDP generated by large enterprises decreased by approximately 20 percentage points since 2017. Exports by enterprise size saw small but mixed changes, with microenterprises recording a 0.1 percentage point increase while large enterprises saw a rise of approximately 2 percentage points in exports from 2017 to 2020. Conversely, small enterprises noted a contraction of 2 percentage points, while medium enterprises' share of exports remained relatively constant. The role of women in the North Macedonian business environment is improving, with 20% of owners or managers in the IT sector being women, followed by engineering and food processing with 12% and all other industries with numbers below 7% (Innovation and Technology Fund, 2021[33]).

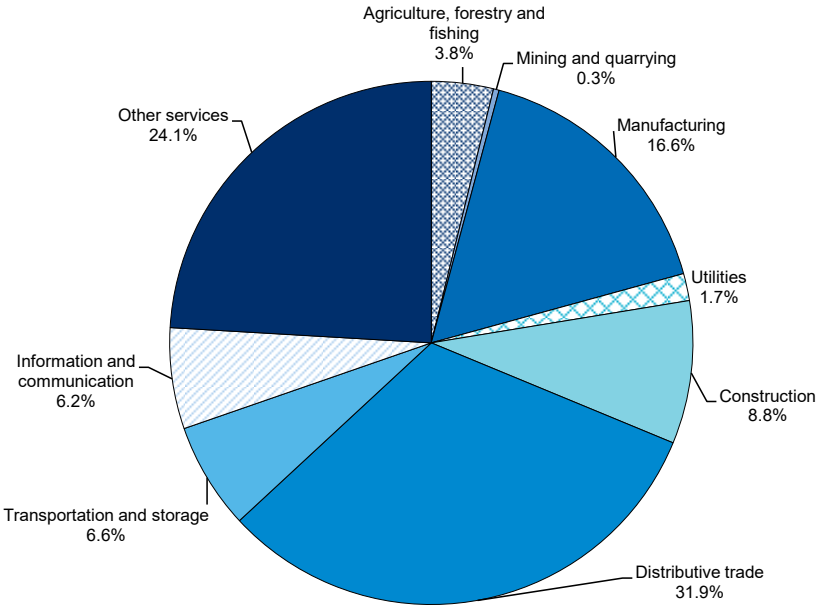
Figure 17.2. Business demography indicators in North Macedonia (2017 and 2020)



Source: Statistical Office of North Macedonia.

North Macedonia has seen slight changes in the sectoral distribution of SMEs since 2017 (Figure 17.3). The distributive trade sector, which includes wholesale, retail trade, and the repair of motor vehicles and motorcycles, remains the overwhelming industry of SMEs in the economy at 36.40% but saw the greatest decrease in the number of enterprises since 2017, at a 2.6% decline. Other services follows as the second-highest number of SMEs in North Macedonia and witnessed a slight 1% increase in the number of enterprises since 2017. Minor increases were also noted in the information and communication, manufacturing, utilities, and mining and quarry sectors, albeit all under a 1% difference.

Figure 17.3. Sectoral distribution of SMEs in North Macedonia (2020)



Note:: Data for agriculture was unavailable for the year 2020. The sector classification generally follows the Statistical Classification of Economic Activities in the European Community (NACE) Rev.2 classification of productive economic activities with the following exceptions: "Utilities" represents the sum of "Electricity, gas, steam and air conditioning supply" (D) and "Water supply, sewerage, waste management and remediation activities" I; "Distributive Trade" covers "Wholesale and retail trade; repair of motor vehicles and motorcycles" (F); and Other Services here consists of (I) Accommodation and food service activities, (L) Real estate activities, (M) Professional, scientific and technical activities, (N) Administrative and support service activities as well as (S) Other service activities. For more information, consult NACE Rev. 2 Classification.
Source: Statistical Office of North Macedonia

Geographically, about 39% of enterprises were located in Skopje in 2020, followed by 11.51% in the municipality of Polog and 10.95% in Pelagoina (Table 17.3). The number of enterprises in Skopje increased by approximately 1 600 from 2017 to 2020, a growth of 5.9%. With the exception of Polog, where the number of enterprises increased by 3.45%, the share of businesses in other districts remained largely unchanged between 2017 and 2020, with variations of under 1.8%. Nevertheless, the number of microenterprises in the entire territory of North Macedonia increased by approximately 1 460, or 90% of the total increase in businesses since 2017.

Table 17.3. Number of registered companies in North Macedonia by enterprise size and district (2020)

District	Year	Enterprise size, by employment					Share of total number of enterprises
		0*-9	10-49	50-249	250+	Total	
Skopje	2017	23 908	2 333	564	142	26 947	37.73%
	2020	25 393	2 405	607	143	28 548	39.07%
Vardar	2017	4 913	352	106	12	5 383	7.54%
	2020	4 851	350	104	13	5 318	7.28%
East	2017	4 950	464	180	21	5 615	7.86%
	2020	4 906	474	168	17	5 565	7.62%

District	Year	Enterprise size, by employment					Share of total number of enterprises
		0*-9	10-49	50-249	250+	Total	
Southwest	2017	6 711	408	109	10	7 238	10.13%
	2020	6 743	399	115	11	7 268	9.95%
Southeast	2017	5 365	483	110	12	5 970	8.36%
	2020	5 231	512	110	12	5 865	8.03%
Pelagoina	2017	7 392	515	131	26	8 064	11.29%
	2020	7 330	512	131	24	7 997	10.95%
Polog	2017	7 612	398	100	8	8 118	11.37%
	2020	7 849	451	101	7	8 408	11.51%
Northeast	2017	3 695	302	82	5	4 084	5.72%
	2020	3 710	302	74	6	4 092	5.60%
North Macedonia	2017	64 546	5 255	1 382	236	71 419	100.00%
	2020	66 013	5 405	1 410	233	73 061	100.00%

Note: *Including enterprises with an unascertained number of employees.
Sources: Republic of North Macedonia, State Statistical Office (2021[34]; 2018[35]).

Assessment

Description of the assessment process

The SBA assessment cycle was virtually launched on 7 July 2021, when the OECD team shared the electronic assessment material, comprised of questionnaires and statistical sheets, accompanied by explanatory documents.

Following the virtual launch, the Ministry of Economy, which acts as the SBA Co-ordinator nominated by the European Commission, distributed the link to the assessment material to the appropriate ministries and government agencies and the statistical sheets to the Statistical Office of North Macedonia (MAKSTAT). These institutions compiled the data and documentation between July and September 2021 and completed the questionnaires. Each policy dimension was given a self-assessed score accompanied by a justification. The OECD team received the completed questionnaires and statistical data sheets on 15 October 2021 and then began an independent review.

The OECD reviewed the inputs and requested additional information on certain elements from the Ministry of Economy. For several dimensions, virtual consultation meetings with key dimension stakeholders were organised from end-October to mid-November 2021. The meetings aimed to close any remaining information gaps in the questionnaires.

A virtual preliminary findings meeting with North Macedonia was held on 2 December 2021 to present and discuss the preliminary *SME Policy Index 2022* assessment findings and initial recommendations for North Macedonia. At the same time, it served as an opportunity to seek the views of a broad range of policy stakeholders on how SMEs are affected by current policies and to gauge what more can be done across different policy areas to improve SMEs' performance and competitiveness in North Macedonia, particularly in the post-COVID-19 context.

The meeting allowed the OECD to validate the preliminary assessment findings. The draft SME Policy Index publication and the Economy Profile of North Macedonia were made available to the Government of North Macedonia for their review and feedback during February and early March 2022.

Scoring approach

Each policy dimension and its constituent parts are assigned a numerical score ranging from 1 to 5 according to the level of policy development and implementation, so that performance can be compared across economies and over time. Level 1 is the weakest and Level 5 the strongest, indicating a level of development commensurate with OECD good practice (Table 17.4). For further details on the SME Policy Index methodology and how the scores are calculated, as well as changes in the last assessment cycle, please refer to Annex A.

Table 17.4. Description of score levels

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

Entrepreneurial learning and women's entrepreneurship (Dimension 1)

Introduction

Entrepreneurial learning raises learners' skills and develops the mindsets needed to change their lives and the world around them through entrepreneurial action for social and economic impact. It is the basis for empowering learners to know they can generate the creative ideas needed in the 21st century.

Women's entrepreneurship should be prioritised to support women's economic and social empowerment and drive improved stability and social and economic growth. It can also enable closing gender gaps in the workforce, supported by equality and gender impact analysis of policies affecting family care and social protection.

North Macedonia scored 2.39 for this dimension. During this assessment period, the economy has seen forward development in some areas, notably in the planning and designing of women's entrepreneurship. However, the progress was more limited in the area of entrepreneurial learning resulting in a slightly lower score than in the previous assessment when it achieved a score of 2.48 (Table 17.5).

Table 17.5. North Macedonia's scores for Dimension 1: Entrepreneurial learning and women's entrepreneurship

Dimension	Sub-dimension	Thematic block	North Macedonia	WBT average
Dimension 1: Entrepreneurial learning and women's entrepreneurship	Sub-dimension 1.1: Entrepreneurial learning	Planning and design	3.11	3.43
		Implementation	2.42	3.51
		Monitoring and evaluation	1.00	2.73
		Weighted average	**2.34**	**3.33**
	Sub-dimension 1.2: Women's entrepreneurship	Planning and design	2.60	3.97
		Implementation	2.96	3.83
		Monitoring and evaluation	1.00	3.11
		Weighted average	**2.46**	**3.73**
North Macedonia's overall score for Dimension 1			**2.39**	**3.49**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

The lagging development of education and training connected to entrepreneurial learning, as observed during the last assessment period, has continued. Some positive developments include reforms of the VET curriculum, which has seen enhanced inclusion of the entrepreneurship key competence, underpinned by EntreComp. The Innovation and Technology Fund has also introduced new support to expand programmes that foster entrepreneurial learning. Other developments are more limited, with little practical guidance available for teachers and fragmented pre-service and in-service training. There is also no evidence of an expanded focus on career guidance or higher education.

Progress can be seen in women's entrepreneurship with the launch of a new Strategy for Women Entrepreneurship Development (2019-2023) (Government of North Macedonia, 2018[36]) alongside a Memorandum of Co-operation between the government and the new National Platform for Women's Entrepreneurship. There is limited evidence, however, of active engagement through this memorandum and no regular monitoring or evaluation of actions set out in the new strategy (Table 17.6).

Table 17.6. North Macedonia's implementation of the SME Policy Index 2019 recommendations for Dimension 1

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Reactivate the established co-ordination mechanisms	There have been no developments during this assessment period in re-establishing co-ordination mechanisms relevant to entrepreneurial learning.	No progress
Build teachers' capacity to provide competence-oriented education	In 2019, the Bureau for Development of Education provided training for 2 000 teachers, and there is more recent evidence of teacher training to support the recent VET curriculum reforms. Wider examples are fragmented and are not system-level.	Moderate
Enhance the ability of career guidance professionals to provide entrepreneurship-oriented advice	There is evidence of integrating career guidance content into VET programmes. Progress does not appear to have been made at other levels of education.	Limited
Establish a formal co-operation mechanism for women's entrepreneurship	Progress has been made through the signing of a Memorandum of Co-operation with the new National Platform for Women's Entrepreneurship formed in 2020 to support the new Strategy for Women Entrepreneurship Development (2019-2023).	Moderate

A national policy focus on lifelong entrepreneurial learning should be reactivated

An Entrepreneurial Learning Strategy (2014-2020) (Government of North Macedonia, 2014[37]) was developed through a multi-stakeholder approach with the National Partnership for Entrepreneurial Learning. However, there has been no active implementation of this strategy since the last assessment period, and the mandate of the National Partnership expired in 2016. This has had a negative impact on the implementation of wider policies that highlighted this strategy as the main implementation route supporting actions for entrepreneurship education. The entrepreneurship key competence is highlighted within the 2018-2025 Education Strategy (Government of North Macedonia, 2018[38]), but there are no concrete actions attached to this area of work and the narrative within this document was linked to the now-defunct Strategy for Entrepreneurial Learning. More recent developments have also included reference to the entrepreneurship key competence.

The entrepreneurship key competence is not consistently introduced across all levels of education, training policy or curricula

Entrepreneurship education is delivered through a mix of mandatory or elective courses or as a cross-curricular competence. At the primary level, including lower secondary, the 2021 National Standard for Primary Education for first to ninth grades includes Technics, Technology and Entrepreneurship as the seventh cross-curricular competence area. It states that this competence should be delivered by being transformed into learning outcomes and associated assessment standards and included within most mandatory and elective courses. However, the Innovation course introduced in 2015[1] has been removed from the elective courses mentioned within this standard (Government of North Macedonia, 2021[39]).[2] There is a lack of information on how the cross-curricular competence defined in the new National Standard will be practically implemented into primary school teaching and learning through the cross-curricular approach.

In upper secondary education, entrepreneurship education continues to be included in elective courses for the first to third year and as a compulsory course in the fourth year, which is unchanged since the previous assessment period. In VET, the entrepreneurship key competence continues to be included in both professional and career education courses. Recently, this was expanded with the design of a new elective course providing practical entrepreneurial experiences through student engagement in student companies (Centre for Vocational Education and Training, 2021[40]), which used EntreComp to assist in developing the entrepreneurial learning outcomes. This offers a link to the themes of social innovation, social entrepreneurship and citizenship and was designed to allow active co-operation with municipalities and

the business sector. The Junior Achievement Company Programme is now accessible for all VET schools.[3] There is limited evidence of new developments within the higher education curriculum.

Alongside these core curriculum approaches, new support for entrepreneurship education has been introduced through the Innovation and Technology Fund, set up by the government to drive innovation activity. The Innovation and Technology Fund also set up The Young Minds Fund[4] to expand education programmes that develop innovation, creativity, and technology skills. It also funded established programmes, such as the innovative UpShift[5] programme, which delivers Sustainable Development Goals impact and social entrepreneurship learning through extra-curricular non-formal education in association with the United Nations Children's Fund (UNICEF); and Junior Achievement,[6] a programme supporting companies run by students in secondary education and VET. Junior Achievement collaborates with system-level stakeholders, including the Ministry of Education and the Bureau for Development of Education, and delivers student company programmes alongside teacher and leadership training. These programmes are not present in all schools, however, and the impact of this work is not reported.

Practical guidance should support the introduction of entrepreneurship as a cross-curricular competence

Alongside training, there is a need for system-level guidance to support teachers in the practical implementation of the entrepreneurship key competence as a cross-curricular key competence. Previously, the entrepreneurship key competence was introduced through stand-alone courses linked to innovation and entrepreneurship with textbooks available to support the curriculum.[7] The move to entrepreneurship as a cross-curricular competence entails a new focus on teachers to deliver this within most or all curricular areas, but there is limited evidence of plans to develop practical guidance to support this.

Pre-service and in-service teacher training to support the entrepreneurship key competence is fragmented

Training provision has been fragmented at all stages of teacher professional development. There is no current evidence of plans to introduce system-level training available to all teachers to support them in implementing entrepreneurship education. Previously, the Bureau for Development of Education[8] provided training in 2019 for 2 000 teachers on key competences, including the entrepreneurship key competence. Supported by the Innovation Fund, Junior Achievement North Macedonia delivered teacher training, but it was not available to all educators. European Erasmus+-funded initiatives, such as EntreCompEdu, also provided time-limited, online training for teachers during the COVID-19 pandemic.[9] There is no evidence of training available to higher education educators during the assessment period.

There are no clear mechanisms to influence the learning content of pre-service teacher training provision at the system level. The Pedagogical Faculty at the University St. Kliment Ohridski in Bitola includes one obligatory course on innovation and entrepreneurship for trainee teachers who will teach first to fifth grades of primary education.[10] While entrepreneurship is a priority at the education policy level, a learning process to develop an awareness of this key competence and how to implement it in teaching is not yet widely found among pre-service teacher training providers.

Women's entrepreneurship policy and stakeholder engagement have improved, but more work is needed

The Strategy for Women Entrepreneurship Development (2019-2023) (Government of North Macedonia, 2018[36]) was launched in 2019 with an Action Plan (Government of North Macedonia, 2019[41]) supporting these years. Non-government stakeholders were extensively involved in the design of the new strategy, and this strategy presented a significant step forward for the development of this policy agenda in the economy. However, there have been no multi-stakeholder national policy partnership meetings since 2020, and no insight on progress or results has been reported since its launch.

There is an ongoing strong informal partnership bringing together non-government stakeholders. Key stakeholders formed the new National Platform for Women's Entrepreneurship,[11] which was formally launched in May 2021 with support from European funding. In October 2021, the platform signed a formal Memorandum of Co-operation with the Ministry of Economy. This identifies the platform as the main social partner for policy-making and reform processes supporting women's entrepreneurship and identifies actions that the platform will implement to contribute to the implementation of the strategy, including an annual summit and awards for women's entrepreneurship. However, there does not appear to be ongoing engagement, consultation or shared decision making linked to implementing the strategy between the government and platform partners.

Key statistical data for women's entrepreneurship is not yet disaggregated by gender

It is not yet possible to identify gender among all population groups working as self-employed individuals or founders at the national level. The Action Plan for Implementing the Strategy for Women Entrepreneurship Development (2019-2023) targets the availability of gender-disaggregated data, addressing the founding of businesses and relevant registers for grants or other financial or non-financial support by 2019 to a complete database for women's entrepreneurship by 2020. This is still outstanding, with the lack of gender-disaggregated data having a significant impact on the evidence base through which decisions to support women's entrepreneurship can be made.

Strategies relating to women's entrepreneurship and entrepreneurial learning have not been monitored or evaluated

Across both the strategies for entrepreneurial learning and women's entrepreneurship, there is no evidence of monitoring or evaluation of the progress, results or impact of each strategy. The Entrepreneurial Learning Strategy (2014-2020) does not appear to have been implemented since 2017, and there is no evidence of evaluation since the strategy period ended in 2020. The Strategy for Women Entrepreneurship Development (2019-2023) is more recent, yet no public information is available on the progress of actions in the first few years of implementation. Planned actions, such as improving gender-disaggregated data by 2019, have not been achieved.

The way forward for Dimension 1

- **Reactivate the previously established policy and co-ordination mechanisms to support consistent development of entrepreneurial learning**. There is a need to create consistency and coherence across the implementation of entrepreneurial learning at different levels of education and ensure that there is a clear progression for learners to build on their development of the entrepreneurship key competence at each stage of their education. To achieve this, there should be clear co-ordination between all providers, both government and non-government, to communicate actions, map activity and share learning on implementation along different levels of lifelong learning, linked to different national strategies and led by different stakeholders. This work should contribute to and work towards a new strategic document shaping the development of lifelong entrepreneurial learning (see Box 17.3 for a relevant example from Montenegro).

Box 17.3. Building a national policy partnership in Montenegro

Montenegro has successfully brought together and sustained a multi-stakeholder policy partnership that drives the co-ordination and development of lifelong entrepreneurial learning, gradually increasing the focus on this policy area and resulting in progress on the practical implementation of entrepreneurial learning at all levels of lifelong learning.

The consistent partnership between government ministries and key national stakeholders was linked to the design and implementation of national strategies. The relevance and importance of participation were clear to each partner organisation and closely aligned to their organisational objectives, with a named representative from each organisation. The partnership was initially informal, and organisations worked together to place the focus on increasing the profile of lifelong entrepreneurial learning at the policy level and gaining recognition for their partnership approach. This finally resulted in formal recognition by the government in 2021 as a working group of the National Council for Competitiveness led by the Ministry of Economy.

The previously recognised national policy partnership in North Macedonia brought together a full range of partners and was linked to the national strategy, similar to Montenegro. While a new strategy may not be immediately possible, partners can still be brought together; they can link work to the different strategies that place a focus on actions supporting lifelong entrepreneurial learning, enhance the work of all partners in the field and work toward further recognition of a partnership approach at the national and governmental levels.

Sources: Government of Montenegro (2020[42]) and McCallum et al. (2018[43]).

- **Provide accessible training courses and guidance for educators on the entrepreneurship key competence across pre-service and in-service training**. Current provision is fragmented, and there is a potential that new policy developments in primary and VET education may not be sufficiently supported without clear educator guidance on implementation alongside comprehensive pre-service and in-service teacher training.
- **Provide formal recognition to a national partnership for women's entrepreneurship to strengthen cross-government and stakeholder engagement and co-ordination**. Women's entrepreneurship is a powerful driver for women's social and economic empowerment. In this light, there should be formal engagement of stakeholders and active informal networks brought together into a recognised national policy partnership involving government and non-government stakeholders. This can be achieved through regular and consistent engagement of the national multi-stakeholder government working group established during the strategy creation process, as well as wider action designed to bring this policy area into the heart of government decision making, such as including a gender-focused social partner linked to women's economic empowerment as an additional national representative engaged in policy dialogue through the National Economic and Social Council.[12]
- **Establish a transparent monitoring and evaluation process to support current and future women's entrepreneurship strategies**. This process should be implemented in line with the proposals in the current strategy, collated annually and reported on publicly, with explanations of where actions are not yet achieved, identifying sources of funding and contributing to an updated action plan to support improved implementation. This work should

be the designated responsibility of a recognised national policy partnership body involving government and non-government stakeholders.

- **Prioritise the introduction of gender-disaggregated data sources to support women's entrepreneurship**. This should implement the actions already defined in the current Strategy for Women Entrepreneurship Development (2019-2023) and should be in line with requirements for harmonisation with Eurostat.

Bankruptcy and second chance for SMEs (Dimension 2)

Introduction

Firms enter and exit the market as a natural part of the business cycle, and policies can ensure that such transitions occur in a smooth and organised manner. Well-developed insolvency procedures and regimes can protect both debtors and creditors, striking the right balance between both parties, for example. This is particularly relevant for smaller firms as they lack resources compared to bigger firms. Therefore, governments need to ensure that bankruptcy proceedings are efficient, ease reorganisation procedures (instead of bankruptcies) and ensure that those starting again have the same opportunities in the market they had the first time.

In North Macedonia, as in other Western Balkan economies where SMEs represent a large share of the economy, effective liquidation and discharge procedures can allow entrepreneurs to reintegrate into the market. This was particularly relevant in the context of the COVID-19 pandemic, where a number of firms faced financial difficulties or were at risk of financial distress (OECD, 2021[44]).

North Macedonia's performance on bankruptcy and second-chance policies has improved since 2019, mainly due to its simplified bankruptcy reorganisation and liquidation procedures that have started to bring first results. Its overall score improved from 2.49 to 3.03 and is performing at the WBT average (Table 17.7).

Table 17.7. North Macedonia's scores for Dimension 2: Bankruptcy and second chance

Dimension	Sub-dimension	Thematic block	North Macedonia	WBT average
Dimension 2: Bankruptcy and second chance	Sub-dimension 2.1: Preventive measures		**2.80**	**2.74**
	Sub-dimension 2.2: Bankruptcy procedures	Design and implementation	3.30	3.47
		Performance, monitoring and evaluation	3.40	3.23
		Weighted average	**3.36**	**3.38**
	Sub-dimension 2.3: Promoting second chance		**2.00**	**1.96**
North Macedonia's overall score for Dimension 2			**3.03**	**3.03**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

North Macedonia has made progress since the 2019 assessment. In March 2021, the economy completed a new draft of the Insolvency Act (Government of North Macedonia, 2021[45]) in co-operation with the World Bank's International Finance Corporation (IFC), which is planned to be enacted in 2022. The draft act features some positive developments, such as introducing preventive measures (pre-insolvency restructuring proceedings and an early warning system) and includes provisions for shortened and simplified bankruptcy proceedings for SMEs. However, it does not refer to SMEs' access to a second chance (Table 17.8).

During the assessment period, the Government of North Macedonia introduced interim economic response measures to deal with the COVID-19 crisis (Government of North Macedonia, n.d.[46]). In particular, it made it impossible for a debtor to initiate a bankruptcy procedure during the state of emergency and six months afterwards. The government also amended the Law on Obligations by regulating default interest rates (OECD, 2020[47]). In addition, it revised the credit risk regulation to encourage banks to temporarily restructure loans and relaxed the loan classification standards for non-performing loans. According to the

State Statistical Office of North Macedonia, the number of concluded bankruptcies has been declining, while reorganisation remains an underused alternative (Table 17.9).

Table 17.8. North Macedonia's implementation of the SME Policy Index 2019 recommendations for Dimension 2

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Develop a fully-fledged early warning system	A fully-fledged early warning system is not implemented yet. However, the new draft proposal for the Insolvency Act includes its definition and a regulatory basis to develop it.	Moderate
Finish drafting and implement the insolvency framework recommended by the IPA Project	The Bankruptcy Department at the Ministry of Economy of North Macedonia, supported by IFC/World Bank, drafted a new bankruptcy act. The public discussion procedure on the draft act was completed at the end of March 2021. Final discussion on the law is to be conducted in parliament.	Moderate
Conduct awareness campaigns to promote out-of-court settlements as a less expensive alternative to file for bankruptcy	No public awareness campaigns on promoting the benefits of out-of-court settlements were conducted during the assessment period. However, due to the COVID-19 pandemic, the government introduced interim measures to halt bankruptcy enforcement, limiting the potential impact/validity of this recommendation for the 2022 assessment.	n.a.
Enhance monitoring and evaluation processes of bankruptcy and second-chance policies	No changes have been introduced in monitoring and evaluation during the assessment period. However, monitoring and evaluation procedures are expected to be introduced as sub-law regulations of the new draft act.	No progress
Introduce policy measures granting a second chance for honest entrepreneurs	Second-chance policies for honest entrepreneurs were not developed during the assessment period. The legal framework still does not distinguish fraudulent bankruptcies from honest ones.	No progress

Note: n.a.: not applicable.

Table 17.9. Number of concluded bankruptcies and reorganisations in North Macedonia, 2017-21

	2017	2018	2019	2020	2021
Number of concluded bankruptcies	1 853	1 054	826	508	616
Number of reorganisations	14	18	5	5	9

Note: It should be noted that the lower cases in 2020 and 2021 could be due to the economic response measures adopted during the COVID-19 pandemic.
Source: Information provided by the government in the SME Policy Index 2022 questionnaire.

The insolvency legal framework has been gradually improving

North Macedonia's insolvency legal framework is based on the 2006 Insolvency Act, as amended until 2013, and the 2014 Law on Out-of-Court Settlement, which reflects best practices summarised in the United Nations Commission on International Trade Law (UNCITRAL) Legislative Guide on Insolvency Law (UNCITRAL, n.d.[48]). Bankruptcy proceedings may be initiated with regard to a debtor's property but may not be implemented with regard to a public legal entity or property owned by the state.

An accelerated out-of-court settlement procedure is currently available only "for small values", which does not require the appointment of a board of creditors if the value of a debtor's bankruptcy assets is under MKD 1 million (approximately EUR 16 200) and SMEs with fewer than ten employees. However, the number of beneficiaries has not been collected during the assessment period indicating that the use and efficiency of the accelerated settlement are yet to be determined. The shortened procedure must end within 60 days of its initiation and does not require the appointment of an insolvency practitioner.

The current framework allows a reorganisation procedure when the debtor is insolvent or where its inability to pay is imminent. The reorganisation plan does not require a pro-vote – instead, a judge convenes the creditors' assembly to discuss and vote on the proposed reorganisation plan. Alternatively, a plan may be filed after the main insolvency proceedings have been opened, at the latest, within 15 days prior to holding the first creditors' assembly (EBRD, 2021[49]). Moreover, if the creditors decide to liquidate the company, the bankruptcy assets are sold by e-auction.

North Macedonia is the only economy in the region that digitalises liquidation procedures (Box 17.4).

Box 17.4. The digitalisation of bankruptcy liquidation procedures in North Macedonia

The 2015 amendment of the Insolvency Act in North Macedonia introduced the option of e-auction sales of assets from bankruptcy estates. Following seven years of implementation of e-auction sales, evidence shows that the amount of time taken by bankruptcy liquidation procedures has decreased, and creditors' claims recovered at best market rates.[1] The main sale principles are defined in Articles 98-100 and Articles 189-196 as follows:

- The sale of the assets from the bankruptcy is done through e-auctions with public bidding.
- Parties interested in participating in e-auctions are required to pay a 10% bond/deposit of the book value of the asset. They then receive a Participant ID with which to bid. The ID is anonymous.
- The e-auction starts at a previously announced time and finishes in 30 minutes. All participants are automatically and electronically informed of the results of the auction.
- Two additional e-auction rounds can take place for any unsold assets. The process must be completed within 90 days of the decision on the sale of assets from the bankruptcy estate.
- The parties in the e-auctions have the right of appeal, which is resolved by a bankruptcy judge within three days of filing the appeal in court and is final.
- The shares of publicly traded companies from the estate are sold on the stock exchange.
- The initial price of an asset for bidding is not announced, and the auction starts from zero price.
- A proposal for the partial distribution of proceeds from the sale of assets may be submitted within eight days, upon completion of the e-sale, to the Board of Creditors to approve the costs of the procedure and distribution to creditors.
- There is an option for appeal on advance partial e-auctions and on final distribution to a bankruptcy judge, which is resolved by the judge within three days of filing the appeal in court and is final.

1. The time to resolve insolvency decreased from 1.8 years in 2016 to 1.5 years in 2020. The recovery rate increased from 44.6 cents on the dollar in 2016 to 48 cents on the dollar in 2020.

In February 2021, the government initiated a public discussion procedure for the new draft of the Insolvency Act (hereafter, the "new draft act"), developed with the support of the IFC and harmonised with the latest EU Directive 2019/1023 on preventive restructuring frameworks (European Commission, 2019[50]). The new draft act aims to establish a more efficient insolvency system by improving the regulatory framework, particularly by encouraging companies with difficulties to try to negotiate temporary debt relief and out-of-court debt settlement arrangements (Konstantinovic & Miloseski, 2021[51]). It also foresees the creation of an insolvency register under the Central Registry, the development of a code of ethics for bankruptcy administrators and professional standards for the management of the bankruptcy estate.

The new draft act introduces a new reorganisation procedure, where a plan can be proposed by a solvent debtor who faces imminent insolvency or by a creditor who has the prior consent of the debtor. The procedure provides a moratorium on enforcement of creditors' claims during the pre-insolvency procedure and is designed to be completed within 90 days from its initiation and can be prolonged for a maximum of another 30 days. The plan may perform financial restructuring of the debtor's venture, like debt-equity swaps, aimed at more favourable conditions for recovery of the creditors' claims. The reorganisation plan confirmed by the court is valid for all creditors (those who voted for the plan and those who did not).

This new pre-insolvency procedure is envisaged as an alternative measure to avoid liquidation. It is a hybrid proceeding in which the court approves the negotiated settlement between the creditors. An appeal may not be filed against the court confirmation. This aims to resolve problems encountered in other economies, such as Croatia, which has introduced pre-insolvency settlements between a debtor and its creditors that could be later annulled in a voiding procedure before the court (Maganic, 2015[52]).

With the introduction of this proceeding, North Macedonia's legal framework will provide access to two alternative restructuring proceedings for SMEs experiencing financial difficulties: 1) the existing out-of-court settlement (OECD et al., 2019[53]); and 2) the new hybrid pre-insolvency reorganisation.[13]

Preventive measures are being included in the new legislative framework

The new draft act includes the definition of an early warning system. Article 7 states that once a month, the Ministry of Economy will publish on its website a list of companies that have not made certain payments. The data collection will be made through various institutions, such as the Public Revenue Office or the Pension Insurance Fund. Following the publication of the data, the law states that the MoE will provide advisory services to the companies/debtors in financial difficulty. The implementation of preventive measures initiatives continued during the assessment period. The Agency for the Promotion of Entrepreneurship continued to provide mentoring services under the programme co-funded by the Japan International Co-operation Agency (JICA). As of 2019, 44 newly established SMEs[14] and 79 SMEs older than 3 years have received mentoring support, while 17 mentors have been trained and obtained the authorisation to work as mentors (APP, 2020[54]). These services aimed to increase SMEs' sustainability, competitiveness and improve their financial management, thus indirectly contributing to preventing their insolvency.

Second-chance programmes for failed entrepreneurs are still lacking

There have been no developments regarding second-chance programmes to secure the reintegration of honest entrepreneurs back into the economy. Debt discharge regulation in the new draft act has not evolved, and the existing policy has not changed, leaving SMEs with no access to a second chance. Furthermore, the debt discharge is currently possible only for sole-trader debtors and does not apply to SMEs. Moreover, the maximum time of full discharge is set to six years, which is a considerably long timeframe for entrepreneurs.

In addition, although the Strategy for the Development of Micro, Small and Medium-Sized Enterprises in North Macedonia (2018-2023) (Ministry of Economy, 2018[55]) highlights the importance of second-chance policies, it failed to suggest measures that would promote a second chance for honest entrepreneurs. Namely, the first two elements of its special "Programme 1.2 simplification of legal and regulatory environment" under Pillar I "Favourable business environment" (which are "1. Update of insolvency legislation; and 2. Establishment of an early warning system for SMEs and entrepreneurs with financial difficulties") were completed through the finalisation of the new draft act, whereas second chance remains neglected.

The way forward for Dimension 2

- **Finalise the adoption of the draft Insolvency Act**. The current draft Insolvency Act tackles many regulatory gaps. Therefore, the government should accelerate its adoption, initially planned for early 2022. Following the implementation of the draft Insolvency Act, the legislature should carry out an evaluation and address potential legal gaps.
- **Widen the scope of simplified bankruptcy proceedings for SMEs**. The current Insolvency Act and the new draft act provide limited simplified treatment only if a debtor's bankruptcy assets are under MKD 1 million (approximately EUR 16 200) and the SME has fewer than ten employees. Increasing the threshold and the size of businesses would allow more SMEs to benefit from simplified proceedings and reduce court case duration and administrative burden. In addition, the government needs to ensure that administrative proceedings are financially affordable for SMEs and the procedure is further simplified, e.g. re-evaluating the need for creditor committees for some cases (Box 17.5). Simplified and fast-track procedures are even more relevant in the aftermath of COVID-19 as they allow for a quicker reintegration of businesses into the economy and save social payments that might result from potential unemployment.
- **Promote second chance for SMEs and honest entrepreneurs**. The debt discharge is currently possible only for sole-trader debtors. The government should widen the scope and establish clear rules for debt discharge, particularly for SMEs, as is an example of good practice in the United States (Box 17.5). Moreover, the law should clearly distinguish fraudulent from honest entrepreneurs to allow for a quicker reintegration of honest entrepreneurs into the economy.

Box 17.5. US Bankruptcy Code Subchapter V: Small Business Reorganisation

In 2019, the United States adopted a new subchapter of its Bankruptcy Law, which regulates the Small Business Reorganisation Act (SBRA), where "small-business debtor" is broadly defined as a "person engaged in commercial or business activities that has aggregated non-contingent liquidated secured and unsecured debts as of the date of the filing of the petition in an amount not more than USD 2 725 620; exclusion from this rule is available for businesses with aggregated debt of up to USD 7.5 million due to COVID-19 Interim measures."

The new legislation comes at the time of COVID-19 to strike a balance between formal Bankruptcy Liquidation (Chapter 7) and Bankruptcy Reorganisation (Chapter 11) proceedings for small business debtors. The act lowers costs and streamlines the plan confirmation process to better enable small businesses to survive bankruptcy and retain control of their operations. The US SBRA significantly simplifies the court proceeding and places a maximum of three or five years of disposable income to be paid under the confirmed plan throughout the life of the plan's implementation. Initial statistics show that two-thirds of all filed Chapter 11 formal Court Reorganisations were transferred to SBRA filings. Initial data confirm that 80% of all filed plans are confirmed in 120 days.

Main principles

- No one but the debtor engaged in a non-publicly traded business activity (except if it complies with the aggregated debt level threshold defined in the law) can file a petition for small business reorganisation.
- No US trustee quarterly fees are paid.
- No exclusions in the proceeding: the debtor must file a plan within 90 days.
- No creditor committees: Creditor committees will not be appointed in Subchapter V cases unless ordered by the Bankruptcy Court for cause.

- No competing plans: The debtor has the exclusive right to file a plan, which must be filed within 90 days from the date of the bankruptcy petition unless extended for cause.
- No absolute priority: The debtor need not comply with the "absolute priority rule", which generally prohibits the owners from retaining equity unless all creditors are paid in full. A plan may be confirmed over the objection of one or more impaired classes of creditors. In order to obtain confirmation through a "cram down",[1] a debtor need only demonstrate that the plan is fair and equitable, does not unfairly discriminate and provides for the debtor's contribution of all of its projected disposable income.
- No disclosure statements: Disclosure statements are not required, although the plan must include information typically found in a disclosure statement, including a summary of historical operations, liquidation analysis and projections demonstrating an ability to make payments under the plan.
- No enforcement is allowed against the implementation of a cram down or a non-consensual confirmed plan, until the court case file is not closed (between three and five years from the plan confirmation).
- The debtor is in possession of its business, and the bankruptcy administrator only assists in assessing the viability of the business and facilitates the development of a consensual plan to reorganise the business.
- The appointed bankruptcy administrators have strong business qualifications and include lawyers, restructuring consultants and financial advisers with diverse backgrounds in such areas as business, law, accounting, turnaround management and mediation.
- Deferral of administrative expense payments: Administrative expenses that typically must be paid upon the effective date of the plan may be deferred over the life of the plan for up to five years.
- Discharge provisions: If the plan is confirmed with the consent of all affected creditors, the debtor will receive a discharge of its debts upon plan confirmation. For plans confirmed through "cram down", the discharge will take effect when all of the payments called for under the plan are made.
- Residential mortgage modification: The SBRA authorises a small-business debtor to modify a residential real estate mortgage to the extent that proceeds from the loan were used to fund the business, a form of relief previously unavailable under the Bankruptcy Code.

1. A cram down is the imposition of a bankruptcy reorganisation plan by a court despite any objections by certain classes of creditors. A cram down involves the debtor changing the terms of a contract with a creditor with the help of the court. This provision reduces the amount owed to the creditor to reflect the fair market value of the collateral that was used to secure the original debt.
Source: Bonapfel (2021[56]).

Institutional and regulatory framework for SME policy making (Dimension 3)

Introduction

A strong institutional and regulatory framework is the basis for SME policy making. SMEs are often disproportionately affected by regulatory changes and pay a higher price for legislative compliance, given their limited resources compared to larger companies. This is why, when designing policies that impact the private sector, policy makers should take into account the unique needs of SMEs, especially given their importance for the economy in terms of employment, value added and business demographics.

In North Macedonia, SMEs represent an important share of employment (73.9% in 2020) and value added (67.9% in 2020), both of which are higher than the EU average (MAKStat, 2021[2]). It is thus particularly important to "think small first" when designing and implementing SME policies. The COVID-19 pandemic has further exacerbated challenges that Macedonian SMEs face, such as high levels of informality and a heavy administrative burden.

At 3.79, North Macedonia's score for Dimension 3 has deteriorated very slightly since the previous assessment (when it was 3.86), mainly due to a lack of progress in monitoring and evaluation for regulatory impact assessment (RIA) and the lack of a plan for consistent and monitored legislative simplification (Table 17.10). However, North Macedonia has slightly improved its performance in some areas, such as in the overall policy framework, by including elements such as SME greening and innovation into its recovery plan.

Table 17.10. North Macedonia's scores for Dimension 3: Institutional and regulatory framework for SME policy making

Dimension	Sub-dimension	Thematic block	North Macedonia	WBT average
Dimension 3: Institutional and regulatory framework for SME policy making	Sub-dimension 3.1: Institutional framework	Planning and design	4.70	4.28
		Implementation	3.80	3.96
		Monitoring and evaluation	3.28	3.81
		Weighted average	**3.97**	**4.03**
	Sub-dimension 3.2: Legislative simplification and regulatory impact analysis	Planning and design	4.10	3.84
		Implementation	3.00	3.47
		Monitoring and evaluation	2.70	2.95
		Weighted average	**3.27**	**3.48**
	Sub-dimension 3.3: Public-private consultations (PPCs)	Frequency and transparency of PPCs	4.56	4.00
		Private sector involvement in PPCs	4.32	3.92
		Monitoring and evaluation	2.60	3.10
		Weighted average	**4.07**	**3.79**
North Macedonia's overall score for Dimension 3			**3.79**	**3.79**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

The COVID-19 pandemic forced North Macedonia to reorient resources initially allocated to the implementation of its SME Strategy (2018-2023) towards more immediate support for SMEs. Despite the delays caused by this development, concrete actions, such as a mapping of para-fiscal charges, have been carried out and the implementation of the policy framework has continued. An increase in financial resources for the SME implementation agency should allow it to pursue its agenda with more independence and consistency. The government has also adopted a plan for economic recovery seeking

to meaningfully support SMEs in their green and digital transitions. However, issues remain with the consistent and effective application of RIAs and PPCs, as both policy tools lack effective quality control (Table 17.11).

Table 17.11. North Macedonia's implementation of the SME Policy Index's 2019 recommendations for Dimension 3

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Ensure effective implementation of the SME Strategy given its wide-ranging and ambitious objectives and measures	As recommended in the previous assessment, the government strengthened the co-ordination of the strategy's implementation by establishing a co-ordination body in June 2019. While the implementation of the SME Strategy (2018-2023) advanced, important delays have been recorded as a result of the COVID-19 pandemic.	Moderate
Enhance the quality of the public-private consultation (PPC) process	Although the frequency that the government posts calls for PPCs on the dedicated online portal has improved and the share of laws passed by urgent procedure has somewhat declined since 2019, significant issues related to PPC quality control, transparency and regularity remain.	Limited

Despite delays, the implementation of the SME policy framework has continued, and institutional co-ordination of its implementation has been strengthened

North Macedonia continued to implement its SME Strategy (2018-2023) during the assessment period. Although the COVID-19 pandemic and subsequent reallocation of resources caused a delay in the implementation of the strategy – namely almost a third of the activities foreseen by the Action Plan for 2018-2020 were not implemented – several key objectives, such as strengthening co-ordination and implementing measures to improve the business environment, were achieved.

As recommended in the 2019 assessment, North Macedonia has strengthened the co-ordination of the implementation of the SME Strategy (2018-2023) by establishing a co-ordination body in June 2019. Under the leadership of the Ministry of Economy, this body is composed of members of the various ministries and public bodies responsible for implementing the strategy as well as representatives of chambers of commerce. While the co-ordination body monitors the strategy's implementation and reports on its progress to the government, these reports are internal and are not publicly available.

Implementation of North Macedonia's Strategy for the Formalisation of the Informal Economy (2018-2022) has continued, with reforms related to SMEs focusing on increasing incentives for businesses to operate formally, such as streamlining the registration and tax declaration process and rationalising charges. However, implementation of the strategy and its action plans has also experienced delays. Given North Macedonia's large informal economy, estimated to represent around 37% of GDP and taking on multiple forms,[15] the negative effects on businesses and society are significant (European Commission, 2021[57]).

Financial support to SME support programmes has increased, and a new framework for supporting the COVID-19 recovery has been adopted

The main implementation body for SME policies, the Agency for the Promotion of Entrepreneurship, saw its budget for support programmes for SMEs increase since the last assessment. Namely, the resources allocated to the voucher system for subsidised counselling rose by 79%, from around EUR 14 500 in 2018 to approximately EUR 26 000 in 2021, while the resources allocated to mentoring services for SMEs

increased more than threefold, from around EUR 9 700 to approximately EUR 35 600 over the same period. This increase is welcome and should continue so as to lessen the Agency for the Promotion of Entrepreneurship's dependence on international development co-operation partners' funding and allow for continued, focused support to SMEs in line with North Macedonia's policy goals.

To strengthen government support for recovery from the COVID-19 crisis, North Macedonia adopted the Plan for Accelerated Economic Growth (2022-2026). Through a variety of financial instruments and implementing bodies, the plan focuses strategic investments in areas that will accelerate the greening, innovative growth, digitalisation and the growth of human capital of North Macedonia's economy. SMEs are specifically mentioned as target beneficiaries of the plan's support programmes in these key areas.

While data are collected on SME innovation (through North Macedonia's participation in the Community Innovation Survey), there is room for improvement in data collection on SME digitalisation and information and communication technology (ICT) use and for indicators related to SME greening and bankruptcy. The continued development of SME-specific data collection will be key to evaluating the success of North Macedonia's ambitious support plans for SMEs in these policy areas.

Efforts have been made to simplify the business environment, but a more systemic approach is lacking

In consultation with the private sector, seeking to further simplify the business environment for SMEs, the government of North Macedonia carried out a mapping of the various para-fiscal charges due by SMEs. This exploratory analysis, conducted in December 2019, identified 377 para-fiscal charges due by SMEs to various institutions at the local and central levels. The Ministry of Economy presented the findings to the government and encouraged the different line ministries to rationalise or remove the charges where possible, in line with the government's aim to improve the business environment and increase incentives for businesses to operate formally. However, the level of para-fiscal burden has not yet decreased, and the government has not yet developed a methodology to better control the future introduction of para-fiscal charges, something which the private sector (through the Chamber of Economy of North Macedonia) has voiced as a priority.

Although this progress is encouraging and steps have been taken to promote entrepreneurship and facilitate business registration (see Dimension 4) in line with the relevant policy documents, such as the SME Strategy (2018-2023) and the Formalisation of Informal Economy Strategy, a comprehensive plan for amending and repealing legislation to improve the business environment is lacking.

The effective use of regulatory impact assessments to pre-emptively measure the impacts of policies on SMEs remains a challenge

As in the previous assessment, RIA is mandatory for all primary legislation in North Macedonia, provided it undergoes the regular legislative procedure. In practice, however, there is significant room for improvement regarding the consistent application of RIA, as in 2020, only around half of the draft laws subject to RIA were submitted to the government with an RIA report. Furthermore, the fact that line ministries most often conduct RIA towards the end of the policy-making process limits its potential usefulness (OECD, 2021[58]).

Despite slight improvements in the quality of RIA conducted since the last assessment, the overall quality of RIA in North Macedonia leaves significant room for improvement. While problems, policy objectives and reasons for state intervention are generally adequately defined, challenges persist in properly analysing options and calculating costs and benefits (OECD, 2021[58]). This lack of capacity for conducting the quantitative aspects of RIA is particularly troublesome for SMEs since they are often disproportionately affected by compliance costs compared to larger companies, which have more resources and thus more capacity to adapt to changes in the regulatory landscape. Although the government planned to introduce an SME Test[16] into the RIA methodology through the SME Strategy (2018-2023), this has not yet been

done. Furthermore, according to the government, SME aspects are considered in less than a quarter of RIAs that are conducted, chiefly due to the aforementioned limited capacity for conducting options analysis and cost-benefit analysis.

The Ministry of Information Society and Administration, charged with carrying out the quality control of RIA, is limited in its capacity to effectively fulfil this task. While it provides line ministries with opinions and guidance on how to improve RIA, this feedback is not binding and there is no guarantee that line ministries will always submit RIA for the Ministry's opinion consistently (OECD, 2021[58]). The Ministry is planning to conduct a survey of the public administration to identify the main challenges faced when conducting RIA across various line ministries, which can be considered a positive step in monitoring and evaluation of RIA's use across the government. The Ministry also conducts regular aggregate reporting on the use of RIA in the public administration, but this reporting is limited to analysing the respect of ministries' obligations to conduct RIA and does not look at the quality of RIA conducted across various ministries. Activities to improve RIA are limited in their scope, and could be broadened and intensified (OECD, 2021[58]).

Despite encouraging efforts to strengthen public-private dialogue, the quality of public-private consultations could be improved

With the aim of better engaging the private sector in the policy-making process, the Government of North Macedonia, through a memorandum of understanding with four chambers of commerce, established a platform for public-private dialogue as a forum for reviewing legislative proposals and discussing topics raised by the private sector. As part of this platform, an online portal for public-private dialogue (https://biznisregulativa.mk) was created (Box 17.6). This portal allows private-sector stakeholders to submit position papers for consideration by the government, and hosts events to further engage the private sector. The National SME Association, which the government planned to establish as part of the SME Strategy (2018-2023) to strengthen the voice of SMEs in public-private dialogue, has not been established.

Box 17.6. North Macedonia's Biznisregulativa.mk portal for public-private dialogue

With the aim of better engaging the private sector in the policy-making process, the government of North Macedonia, through a memorandum of understanding between itself and four chambers of commerce, established a platform for public-private dialogue as a forum for reviewing legislative proposals and discussing topics raised by the private sector. As part of this platform, the government and the chambers of commerce established an online portal (https://biznisregulativa.mk) to allow businesses and their representatives to submit policy proposals and opinions to the government.

The portal allows private sector stakeholders to submit position papers for consideration by the government. The platform for public-private dialogue also hosts formal meetings and events to further engage the private sector in the public dialogue. Since its creation, the Biznisregulativa portal has been quite active, with over 80 position papers submitted between 2018 and 2020 and more than 50 events organised, hosting over 1 000 participants, the majority of which were small and medium-sized enterprises.

Some examples of position papers submitted include requests for wage subsidies and tax exemptions related to the COVID-19 pandemic and suggestions for amendments to the draft Law on Waste Treatment. The platform for public-private dialogue and Biznisregulativa can serve as an example to other economies in the region of a platform that allows businesses to engage governments proactively, instead of the other way around, which is the usual approach (through mandatory public-private consultations), allowing the business community to propose policies directly and make their needs heard.

Source: Information provided by the government of North Macedonia. For more information, see: https://biznisregulativa.mk.

Despite efforts to strengthen public-private dialogue, significant challenges remain in ensuring the inclusiveness and effectiveness of the overall PPC process. First, while the share of legislation that is adopted through urgent procedure has decreased in recent years, it remains very high (around 42% in 2020) (European Commission, 2021[57]). This means that a significant share of legislation is adopted while bypassing the requirements for RIA and PPCs, limiting the extent to which stakeholders can voice their views on policy issues that could potentially have an impact on them. Moreover, although the frequency of the use of the single National Electronic Register of Regulations as an online portal for PPCs has somewhat improved since the last assessment, the portal is still underutilised, and line ministries' use of it is not consistent (European Commission, 2021[57]; OECD, 2021[58]). A key challenge in ensuring the effective application of PPCs in North Macedonia is that there is no systematic quality control or monitoring mechanism of the PPC process, meaning that the government cannot effectively identify and respond to the main challenges that various line ministries face in conducting effective PPCs (OECD, 2021[58]).

The way forward for Dimension 3

- **Strengthen quality control of regulatory impact assessment and improve its monitoring and evaluation.** To fulfil its role effectively, the Ministry of Information Society and Administration, in its capacity for ensuring quality control of RIA, should be vested with the ability to return RIA that are incomplete or of unsatisfactory quality to line ministries, with the aim of making its feedback binding or at least mandatory for consideration. Estonia can provide an example of good practice, as the Ministry of Justice of Estonia has the formal right to return RIA to line ministries if their quality is judged insufficient.[17] Regular, publicly available reporting on the use of RIA and its adherence to quality standards would allow the government to identify

where efforts to improve capacities for conducting effective RIA should be concentrated, as well as to measure progress between different line ministries. The reports prepared by the Ministry of Finance of Montenegro can serve as an example of good practice (Box 17.7).

Box 17.7. Montenegro's reports on the quality application of regulatory impact assessment

Making full use of its quality control function, the Ministry of Finance and Social Welfare of Montenegro publishes regular reports on the state of the RIA process in Montenegro and progress made in improving its quality.

As in some other economies in the WBT region, these reports contain a statistical aggregation of all RIAs conducted as a share of all primary and secondary legislation adopted and the degree to which they meet the requirements for conducting RIA by line ministries. However, what makes Montenegro's reports stand out is that the RIAs conducted are then divided into categories, showing what share of RIAs was satisfactory in terms of quality in the areas of problem definition, goal definition, options definition, impact assessment, fiscal impact assessment, consultation with stakeholders, and monitoring and evaluation. This kind of analysis allows the Ministry of Finance to measure the progress made in these different areas compared to previous years.

In its latest report, the Ministry identified that 68% of RIAs conducted in 2020 were "done with quality" versus 61% in 2019, showing a slight improvement in overall quality. More specifically, the areas with the greatest room for improvement were options definition, impact assessment, fiscal impact assessment, consultations with stakeholders, and monitoring and evaluation. This allows the government to focus its efforts on building capacity for conducting useful and effective RIA in these areas.

The other WBT economies would benefit from making their reports on the use of RIA more analytical, as the key to effective use of RIA as a policy-making tool lies beyond respect for formal requirements, requiring regular measurement of policy makers' ability to conduct detailed, evidence-based analysis in several areas.

Source: Montenegrin Ministry of Finance and Social Welfare (2021[59]).

- **Introduce monitoring and evaluation and reinforce the quality control of public-private consultations.** A dedicated institution (for instance, the Ministry of Information Society and Administration, or a centre-of-government institution) should be given a leading role in co-ordinating institutions' adherence to quality standards for PPCs, with the aim of harmonising the consistent use of PPCs across all relevant institutions. Regular and publicly available reporting can help measure the frequency of PPCs, their adherence to quality standards, as well as stakeholder engagement. A survey of the public administration to identify the main difficulties institutions have in conducting effective PPCs could also be a useful tool and could even be integrated into the aforementioned reporting system. Albania provides an example of good practice from the region when it comes to monitoring and evaluating the performance of the PPC system (Box 17.8).

Box 17.8. Albania's reporting on public-private consultations

As part of its new regulatory framework for conducting PPCs, introduced in January 2021, Albania strengthened the guidelines for monitoring and evaluation of PPCs conducted by all line ministries, as well as of the overall PPC process, monitored and evaluated by the Council of Ministers.

Starting in 2021, every six months, line ministries publish reports summarising the PPCs that they have held. The reports are available on the online PPC portal (https://konsultimipublik.gov.al) and contain an exhaustive summary of all the PPCs conducted by the relevant institution.

The Council of Ministers prepares another report, summarising the content of the line ministries' reports and analysing the adherence of consultations to quality standards (based on respect of the requirement to conduct PPCs, the duration of PPCs and accessibility to the public). Indicators measuring public participation and the share of comments accepted or rejected allow the government to assess overall stakeholder engagement in PPCs conducted by the government across various line ministries. The report also provides recommendations to improve the PPC process.

North Macedonia could take inspiration from this system, as it would allow the government to measure the consistency of ministries' use of PPCs, but also the quality of the overall PPC process across different ministries.

Sources: Reports available on Albania's online portal for PPCs: https://konsultimipublik.gov.al; Council of Ministers of Albania (2021[60]).

Operational environment for SMEs (Dimension 4)

Introduction

From registering a company and obtaining a business licence to filing and paying taxes, SMEs interact with public institutions, physically or digitally, at all stages of their development. The operational environment in which they have to navigate is determined by the ease of using digital services, the number of procedures and the costs associated with their interactions with the government. Complex requirements imposed on businesses have adverse impacts on SMEs' abilities to operate, take advantage of market opportunities efficiently and grow.

For an economy like North Macedonia, which was heavily impacted by the COVID-19 pandemic, increasing the availability of digital services for SMEs – including business registration and licensing – as well as improving the efficiency of administrative procedures – including tax compliance procedures – will be key to improving the operational environment by saving time and resources.

North Macedonia's performance in Dimension 4 remained relatively comparable to one from the previous assessment (when it scored 3.52) (Table 17.12). In the area of digital government services for SMEs, North Macedonia's score has remained constant (3.20 in 2019) due to a slow rollout of digital government services for SMEs and a limited progress in monitoring and evaluation. While there has been almost no change in North Macedonia's performance in company registration, progress has been achieved in streamlining business licensing, which rose from 3.35 in 2019 to 3.75 in 2022.

Table 17.12. North Macedonia's scores for Dimension 4: Operational environment for SMEs

Dimension	Sub-dimension	Thematic block	North Macedonia	WBT average
Dimension 4: Operational environment for SMEs	Sub-dimension 4.1: Digital government services for SMEs	Planning and design	4.40	4.28
		Implementation	3.27	3.33
		Monitoring and evaluation	1.73	2.48
		Weighted average	**3.22**	**3.40**
	Sub-dimension 4.2: Company registration	Planning and design	4.85	4.42
		Performance	3.80	3.93
		Monitoring and evaluation	4.80	4.06
		Weighted average	**4.62**	**4.18**
	Sub-dimension 4.3: Business licensing	License procedures	3.65	3.88
		Monitoring and streamlining of license system	3.85	3.73
		Weighted average	**3.75**	**3.80**
	Sub-dimension 4.4: Tax compliance procedures for SMEs	SME tax compliance and simplification procedures	No scores	
		Monitoring and evaluation of SME-specific tax measures		
North Macedonia's overall score for Dimension 4			**3.49**	**3.64**

State of play and key developments

Throughout the assessment period, North Macedonia made efforts to improve the rollout of digital government services for businesses. A new national portal for digital services has been established, greatly improving the ease of access for key services. North Macedonia has also strengthened its legal framework for the provision of digital services and the use of e-signatures through the adoption of three new laws. However, the overall level of availability of digital services remains low. Positive developments were

observed in the increasing amount of available open data, while more could be done to promote its reuse by the business community. While the company registration framework is well-designed, qualified electronic certificates,[18] issued by certified providers, are required to register a company on line, which increases the cost of the process and presents a technical barrier for some businesses. Along with the review of all para-fiscal charges, business licences are being streamlined and centralised on the digital services portal, which should increase their accessibility, transparency and predictability. Low-paid self-employed entrepreneurs can bear a high effective tax burden because of the way social security contributions (SSC) are designed. However, they can benefit from simplified tax regimes that reduce their tax burdens as well as their tax compliance costs. North Macedonia has implemented simplified tax administration procedures for SMEs and e-services for tax purposes are widely used (Table 17.13).

Table 17.13. North Macedonia's implementation of the SME Policy Index's 2019 recommendations for Dimension 4

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Continue to centralise and expand digital services, allowing SMEs to complete all processes on line	While the upgrade of the government's digital services portal (https://uslugi.gov.mk) is an encouraging step forward in the centralisation of digital services, many services remain purely informational, and the rollout of increasingly digitalised services is slow.	Moderate
Increase efforts to improve the monitoring and evaluation of digital services	No progress has been made on this front.	No progress
Continue efforts to centralise company registration and licensing under one-stop-shops	While business licensing is being integrated into the new digital services portal, there are no plans to include company registration.	Limited
Regularly monitor and evaluate tax simplification measures	North Macedonia implemented comprehensive measures to ease tax compliance for businesses during the COVID-19 crisis, including for SMEs, and is supporting the economic recovery through targeted tax measures. E-filing is widely used in North Macedonia, which is an effective measure to reduce compliance costs for SMEs. North Macedonia could use its business tax returns more effectively to evaluate from a tax policy perspective the tax burden that businesses face, as well as the functioning and design of the procedures that aim to simplify tax compliance for SMEs.	Moderate

Although a new online portal has improved the centralisation of digital services, many more services remain to be digitalised

In December 2019, the government launched an updated digital services portal (https://uslugi.gov.mk) to centralise the services offered on the domains of various institutions to improve the accessibility and efficiency of service delivery. Initially providing access to services for citizens only, from July 2021, the portal also provides access to services for businesses. While this is certainly an improvement, and the number of available digital services and users continues to grow, many of these services remain purely informational and cannot be completed fully on line, with businesses being able to complete only 26 services for legal entities fully on line, out of the 184 on the portal. Moreover, only 18% of total public services were accessible on the portal in 2020, leaving room for improvement regarding the centralisation of service access (Ministry of Information Society and Administration, 2020[61]).

A key issue in the consistency of the rollout of digital government services across different administrations is the lack of a harmonised approach and overall ownership of digital services by a single institution, as each institution is responsible for the development of its own services. This means that institutions develop services unevenly. Some digital services, such as taxation, are thus more digitalised and accessible than

others. This has been recognised as a challenge, and the government has formed two working groups, the first of which is co-ordinated by the Cabinet of the Prime Minister and aims to review legislation and address the reluctance of some administrations to digitalise their services and practices. The other working group is co-ordinated by the Ministry of Information Society and Administration and aims to lay the technical groundwork for increased digitalisation of government services (OECD, 2021[58]). The Ministry drafted guidelines for the modernisation of services and service delivery standards, which should help establish common standards for digital services. However, these guidelines have not yet been adopted.

Businesses' satisfaction with digital services declined from 56% in 2017 to 41% in 2021 (Regional Cooperation Council, 2021[62]), highlighting the urgency of accelerating the rollout of fully digitalised services for businesses in North Macedonia. The Public Administration Reform Strategy (2018-2022) foresees the introduction of monitoring and evaluation of the performance of digital services provided through the digital services portal, but this has not yet been implemented. The government, therefore, cannot properly measure the success of the digital services which are rolled out. The process of digitalising public services is an excellent opportunity to ensure that public services are adapted to the end needs of businesses and that rather than simply transposing the same administrative processes into a digital format, focus is given on how digitalisation can make services more efficient and save time and resources for businesses. North Macedonia is at an early stage of the rollout of its digital services, and this can be an advantage as it would allow the government to take a more proactive approach to re-engineering digital services.

The legal framework for enabling the delivery of digital services has been strengthened, but implementation has yet to follow

In 2019, North Macedonia passed several laws with a view to strengthening the legal framework necessary for the key enablers of digital government services for citizens and businesses. The Law on the Central Registry of Population and the Law on Electronic Management and Electronic Services were adopted to facilitate the interoperability of data between public institutions, while the Law on Electronic Documents, Electronic Identification and Trust Services gives equal legal value to electronic documents and e-signatures as traditional documents and signatures (OECD, 2021[58]).

The government is working on a draft National ICT Strategy, which should target accelerating the digitalisation of public services, advancing interoperability and improving the management of public digital infrastructure through the establishment of a Digital Agency of North Macedonia. While the development of a new policy framework to address these goals is encouraging, as they constitute the necessary enablers for the use of digital services, the latest draft does not address accelerating the deployment of digital services for businesses or how to improve the accessibility and delivery of digital services for businesses.

Despite the strengthening of the legal framework and developments in the policy framework, implementation is sluggish. While, as of 2021, 39 institutions were connected to the interoperability platform, data interoperability is only ensured at a basic level, with the integration of several key registers.[19] There is significant room for improvement in order to reach its potential and ensure the application of the once-only principle (European Commission, 2021[57]). Similarly, while the update of the legal framework for e-signatures aligns it with the *acquis*, namely the eIDAS regulation,[20] the uptake of qualified electronic certificates remains low, possibly due to the high cost of trust services, as well as to their technological requirements (purchasing and using the necessary software) (OECD, 2021[58]).

The availability of open government data has increased, but more could be done to promote its reuse by businesses

North Macedonia has completed the implementation of its Open Data Strategy (2018-2020), with an overall good degree of implementation (Open Government Partnership, 2021[63]). The number of datasets on

North Macedonia's open data portal has more than tripled since the last assessment (from 109 in 2019 to 324 as of February 2022), increasing the pool of public data that SMEs can potentially use to develop innovative products, and increasing the transparency and accountability of government (the number of institutions publishing open data on the portal increased from 27 to 63 over the same period) (Ministry of Information Society and Administration, 2022[64]).

The government has introduced criteria for open data formatting, annotation and structuring in order to facilitate its reuse. Detailed guidelines are available as part of the Open Data Strategy (2018-2020). Moreover, the Ministry of Information Society and Administration has been implementing activities such as training, seminars and capacity-building sessions to increase institutions' ability to publish open data and has developed a standardised general procedure for publishing open data by government institutions.

The government has also adopted and is implementing its Open Government Partnership National Action Plan (2021-2023), which focuses on transparency, anti-corruption, access to justice and the provision of public services. In this regard, the government has planned an activity to promote its online service portal in rural areas to improve the accessibility of digital services to farmers and agriculture workers. While this is an encouraging step towards promoting the use of digital services and fostering inclusion, it must be noted that the government has not made noteworthy efforts to promote the reuse of open data by businesses for the creation of innovative products.

The company registration process remains well-designed with no substantial changes since the last assessment

Company registration is undertaken at a single window through one of the 27 one-stop-shops operating under the Central Registry of the Republic of North Macedonia. While entrepreneurs can electronically register their company via http://e-submit.crm.com.mk/eFiling/en/home.aspx, a qualified electronic signature is required to use the e-registration portal. As such, the majority of entrepreneurs use the services of an authorised registration agent to prepare their company application, increasing the length and cost of registration (World Bank, 2020[65]). For example, 6 procedures and 15 days are required to start a business, compared to 4 procedures and 14 days, respectively, in the previous assessment. Nevertheless, costs remain rather low at 3.1% of income per capita (World Bank, 2020[65]). Efficient implementation of the recently adopted Law on Electronic Documents, Electronic Identification and Trust Services (2019), which aligns the legal framework of e-signatures with the *acquis,* should make online registration fully operational.

With the amendment of the Company Law in 2021 and the introduction of the "Special Limited Liability" company status, the founding capital of limited liability companies has been reduced to EUR 1, compared to EUR 5 000 previously. This change is expected to provide a push for entrepreneurship in North Macedonia.

Monitoring and evaluation mechanisms of company registration are in place and under the responsibility of the Central Register. Quarterly reports analyse the number of entities in the Trade Register in terms of company size, sector of activity and geographic location and take into account companies' feedback. While the objective of these reports is to simplify the registration procedure, no progress has been noted during the assessed period.

Digitalisation and streamlining of the licensing process are underway

North Macedonia is undertaking streamlining reforms to reduce the administrative burden on SMEs, including on business licensing.

While each administrative body is currently in charge of issuing licences according to their competences, centralising and digitalising all business licences on line is ongoing on the digital service portal (https://uslugi.gov.mk). The portal works as a one-stop shop for information and applying for all business

licences and has been made operational at the beginning of 2022. It also integrates the previous portal specific to import, export and transit permits (https://exim.gov.mk/EILWeb/startPage.jsf). This portal is a first step toward increasing the efficiency of the licensing process; the standardised and harmonised data will enable more comprehensive data exchange and interoperability in the future. This is a positive development, considering that around one-third of businesses in North Macedonia consider the lack of availability and accessibility of relevant information to be a big or very big obstacle to obtaining a business licence (Regional Cooperation Council, 2021[62]).

As planned under the Economic Reform Programme (2021-2023), all para-fiscal fees and charges for SMEs are being reviewed and streamlined and will be included as part of the digital service web portal. This process is being carried out by a working group, assisted by the EU Delegation in North Macedonia, and takes feedback from SMEs into consideration. The aim of the streamlining process is to simplify the system and establish a legal and operational framework of non-tax duties and para-fiscal fees, improve their transparency and predictability, and thus create a more favourable business environment. The process of amending the Law on Administrative Taxes started in September 2021 and should be completed at the end of 2022.

Promisingly, the number of procedures, requirements, paperwork and cost for obtaining business licences are decreasingly – albeit slowly – considered a challenge in North Macedonia; 36% of respondents claimed that they represented a very big or big obstacle in 2021, compared to 44% in 2019 (Regional Cooperation Council, 2021[62]). Nevertheless, the excessive discretionary power of government officials, inconsistent application of regulations and the (explicit or implicit) practice of giving bribes remain important challenges for around one-third of businesses[21] (Regional Cooperation Council, 2021[62]).

Some tax-related measures to mitigate the impact of the COVID-19 crisis and to support the economic recovery were targeted at SMEs

North Macedonia introduced a comprehensive set of tax measures to mitigate the impact of the COVID-19 crisis and to support the economic recovery. Corporate income tax (CIT) and personal income tax (PIT) payments for businesses were waived during the crisis. VAT filing and payment were deferred, and no interest was charged on the deferred liabilities (Official Gazette of the Republic of Macedonia, 2020[66]). In addition, North Macedonia subsidised a temporary reduction in employer SSCs for businesses that did not dismiss employees and that did not distribute dividends. Moreover, conditions for SMEs to qualify for the simplified CIT regime were loosened. Finally, in 2020 and 2021, corporations could carry forward losses up to five years, instead of the regular period of three years. Overall, these measures are broadly aligned with measures taken in countries around the world, although they tend to be somewhat wider in scope.

The design of SSCs can put a high effective tax burden on low-paid self-employed entrepreneurs

Self-employed entrepreneurs with low earnings face a higher effective tax burden than self-employed entrepreneurs with higher earnings because of the minimum SSCs that need to be paid. While the standard PIT rate in 2021 was 10%, the 2023 PIT reform will strengthen tax progressivity as taxable income exceeding MKD 1.08 million (approximately EUR 17 560) will be taxed at a rate of 18% instead. Self-employed workers pay a 28% SSC rate levied on net income (Official Gazette of the Republic of Macedonia, 2021[67]). The SSC base cannot be less than 50% of the average wage, which implies that minimum SSCs need to be paid, and cannot exceed 12 times the average wage. The minimum SSCs that need to be paid can result in very high effective tax rates for entrepreneurs with a low income and that can induce small entrepreneurs to operate in the informal economy. Once the tax administration is confident that it can avoid widespread non-compliance among self-employed entrepreneurs, it could consider levying SSCs on actual earnings rather than imposing a minimum.

There are no special tax rules for gig workers. They are taxed under the same rules that apply to self-employed workers and employees who work under a contract for occasional or temporary services. Whether or not this results in a taxation approach that is aligned with the specific characteristics of non-standard work remains an open question.

CIT incentives are available to incorporated SMEs and large businesses, but the period to carry forward losses is relatively short compared to common practice in the region

The standard CIT rate in 2021 was 10%. North Macedonia operates a dividend distribution CIT system, which implies that reinvested profits are deductible from taxable corporate profits; put differently, the CIT is levied only when profits are distributed (IBFD, 2021[68]). This regime is relatively uncommon; it is applied in Estonia and Latvia and to SMEs in Poland. Businesses located in special economic zones are exempt from CIT for ten years. In addition, a tax credit is available to businesses that install and use an electronic cash register. Finally, CIT losses can be carried forward up to three years, which is the shortest period among economies in the region, except for Albania, which has the same period. As young and/or innovative SMEs might have low profits and large investment, a short period to carry forward losses could create a tax-induced disadvantage for SMEs and other businesses to innovate, take risks and invest. North Macedonia should monitor the tax burden of young and innovative SMEs to assess whether introducing a longer right to carry forward losses could help businesses to grow.

Self-employed and incorporated SMEs can benefit from simplified tax regimes that reduce their tax burdens and their tax compliance costs

The self-employed can benefit from a lump-sum tax regime that reduces compliance costs. However, conditions to qualify for the regime can induce unincorporated SMEs to remain within the regime rather than to grow into the regular PIT regime. To qualify for the lump-sum tax regime, businesses cannot have turnover exceeding two annual average gross wages, cannot employ more than one employee (previously, they could not hire any employees at all) and have to operate in specific business sectors. PIT liabilities are fixed and set for one year, which is simpler than calculating liabilities under the standard PIT regime. However, the restriction on the number of staff creates a hurdle to hiring workers and, despite the reform that now allows employers to hire one employee, could continue to encourage businesses to hire informal employees.

Incorporated SMEs can also benefit from a simplified CIT regime that reduces the tax burden and compliance costs but, as it is very generous, comes at a significant revenue cost and creates tax avoidance opportunities. Under the simplified CIT regime, businesses with an annual turnover of less than MKD 3 million (approximately EUR 48 600) are exempt from CIT (Official Gazette of the Republic of Macedonia, 2021[69]). Moreover, businesses with annual turnover between MKD 3 million (approximately EUR 48 600) and MKD 6 million (approximately EUR 97 200) million benefit from a 1% rate levied on turnover instead of the standard 10% CIT rate levied on profits. Owner-managers are allowed to register multiple businesses under this regime. This is uncommon in international comparison as it stimulates tax avoidance; business owners might be induced to split up their businesses when they have to start paying CIT under the standard CIT regime. However, businesses operating in activities such as banking, insurance and gambling do not qualify for this regime. North Macedonia should prioritise the simplification of tax administration procedures over CIT exemptions to reduce the incentive for businesses to remain under the simplified CIT regime. Business owners that own multiple businesses operating in the same sector should not be allowed to qualify several times for the simplified tax regime. In addition, as small corporations barely pay CIT, the tax administration might be inclined loosen its efforts in auditing these businesses as they forego little CIT revenues. This further incentivises businesses to stay within the simplified regime rather than grow into the regular CIT regime.

The generous simplified CIT regime creates tax-induced incentives for SMEs to incorporate

The effective tax rate on distributed profits is low as a result of low CIT liabilities under the simplified CIT regime, a low statutory CIT rate and a low dividend withholding tax that is also levied at a rate of 10% (IBFD, 2021[68]). As labour income is taxed at relatively high rates, owner-managers of closely held corporations would want to receive their remuneration in the form of lower-taxed capital income instead of in the form of a higher taxed salary.

Few VAT simplification measures apply for SMEs

Businesses with annual turnover below MKD 25 million (approximately EUR 406 464) file VAT returns less frequently than larger businesses; however, no other VAT simplification measures are implemented for SMEs. Businesses with annual turnover exceeding MKD 2 million (approximately EUR 32 517) have to register for VAT and voluntary registration is possible for businesses with lower turnover. In 2021, the standard VAT rate was 18% and there were two reduced VAT rates of 5% and 10% (IBFD, 2021[68]). While businesses with annual turnover exceeding MKD 25 million file VAT returns on a monthly basis, smaller businesses have to submit VAT returns on a quarterly basis, which can reduce VAT compliance costs. North Macedonia could consider introducing additional measures to facilitate VAT compliance for SMEs, such as simplified input tax credit calculation schemes or cash accounting for VAT purposes.

SMEs benefit from simplified tax administration procedures, and e-services for tax purposes are widely used

While businesses under the regular PIT regime are required to hold an income book, an expense book, a book of fixed assets and an inventory, self-employed workers subject to the lump-sum tax regime are not required to hold books at all (Official Gazette of the Republic of Macedonia, 2021[67]). There is no special treatment for corporations, which are required to follow international accounting standards. The more burdensome requirements for corporations balance to some extent the favourable tax treatment they face compared to unincorporated businesses. SMEs subject to the simplified CIT regime pay taxes once a year, while the self-employed under the lump-sum tax regime make tax prepayments on a monthly basis like other businesses subject to PIT. North Macedonia could assess whether its tax administration procedures could be adjusted to the specific needs of SMEs, for instance, through business surveys.

While e-services for tax purposes are widely used in North Macedonia, reducing compliance costs for SMEs, the digital certificate required to file and pay tax returns on line is not free. The PIT, CIT and VAT can be paid through electronic banking, and business tax returns are filed electronically for PIT and CIT on an annual basis. But as the digital certificate is required to file and pay taxes, the two digital certificates used to determine the electronic identity of the business when filing tax returns and paying taxes on line are not free. These certificates are not delivered by the tax administration but by the Clearing House KIBS AD Skopje and Macedonian Telecom.

The way forward for Dimension 4

- **Build the capacity of the public administration to understand the end needs of users when designing digital services**. While digitalising existing public services is an effective means of saving time for businesses and improving the efficiency of existing administrative procedures, going forward, it could be beneficial for the government to adopt a proactive approach of redesigning services around the final needs of businesses, with a view of making them more efficient and delivering more public value. The full implementation of the once-only principle will allow this re-engineering of services to deliver its full benefits. Box 17.9 provides a framework for how governments should design digital services around the needs of users.

Box 17.9. Keys to successful user-oriented service delivery

Successfully designing public services that are tailored to and are responsive to users' needs is a process that depends on several key factors, based on the OECD's Conceptual Framework for Analysing the Design and Delivery of Services:

- Firstly, **governments must consider contextual factors**, such as the political and administrative culture of a country, the technological context (availability of and widespread use of tools such as internet and ICT or e-signatures in businesses) and socio-economic and cultural factors. Embracing a digital by default approach risks excluding users who may be unable to complete services on line and need in-person support. Therefore, governments should understand how existing service delivery channels (websites, call centres, networks of service provision) can work together to provide inclusive access to services for all. Information shared though different channels (online, in-person, telephone) should be integrated to allow users to complete services end-to-end even if they change channels in the middle of the process.
- Secondly, **public sector service design should be guided by a philosophy that is based on inclusiveness of stakeholders, agile design and iteration**. In the case of digital services for businesses, this means that businesses, including SMEs, should be consulted proactively when designing services or adapting them to digital models. User feedback can also be collected ex post through monitoring and evaluation. An agile design philosophy allows governments to iterate on services and integrate user feedback throughout the service design and delivery process, as opposed to collecting feedback as a separate process.
- Lastly, **governments should enable the delivery of services based on a user-centric approach by taking a *government as a platform* approach, giving civil servants the resources and tools necessary to drive this transformation.** Concretely, this refers to establishing common standards for service delivery, empowering administrations with the ability and resources to explore, test and propose new services, developing reusable technical components (such as payments or identity), and establishing appropriate guidelines for public procurement to ensure the reflection of these principles when outsourcing.

Sources: OECD (2014[70]; 2020[71]).

- **Improve inter-institutional co-ordination for digital service delivery.** While the creation of government working groups to address the uneven rollout of digital services across different institutions is a welcome first step, the end goal should be the creation of a road map for the accelerated rollout of fully digital public services, placed under the authority of a competent institution. For example, either the Ministry of Information Society and Administration or an appropriate centre-of-government institution with sufficient authority could take ownership of the process. Consideration could also be given to empowering the Digital Agency of North Macedonia with ensuring the technical implementation of the rollout, as specialised agencies or institutions have shown good results in other regional economies, such as Albania and Turkey. Given businesses' low satisfaction with digital services, the full digitalisation of key services for SMEs should be a priority.
- **Introduce monitoring and evaluation of digital service performance.** Introducing metrics to measure the success of digital services (such as frequency of use, user satisfaction or geographic availability for local administration services) will be key to improving them and

ensuring that they are relevant for businesses. To go a step further, production-related data (such as usage patterns, number of transactions, etc.) can be collected in order to understand the underlying reasons for business satisfaction or dissatisfaction with a given service and identify areas for improvement. Data collection on service performance should be constant and mandatory for each institution responsible for a given service, and oversight should be given to the institution charged with co-ordinating the delivery of digital services (see previous recommendation). Special attention should be given to making sure that data are disaggregated by enterprise size class, in order to identify whether SMEs face distinct challenges. Box 17.10 shares Norway's example of developing a monitoring and evaluation system through its online services portal.

Box 17.10. Norway's Altinn portal

Altinn (altinn.no) is Norway's digital one-stop shop for businesses and citizens. Launched in 2003, the portal has undergone several iterations and has developed into a one-stop shop for digital services, providing over 1 000 digital services and forms, as well as a platform for government design and iteration of public services. The Brønnøysund Register Centre, as the institution responsible for managing Norway's digitalised registers, is in charge of managing and developing the platform, in co-ordination with line ministries and in consultation with end-users.

Altinn is connected to Norway's National Population Register and Register of Legal Entities, allowing it to monitor the use of the platform, as well as individual services, by both businesses and citizens dynamically. This allows the Norwegian government to identify potential gaps in service use as well as where additional outreach efforts might be necessary (among which business categories, in which geographic area, for example).

Altinn's success has led to it being used by 100% of businesses for filing tax returns and annual accounts and some 99% of businesses for declaring and paying VAT.

Altinn is an example of how the interoperability of government data can strengthen monitoring and evaluation. The platform has automatic access to key information about its users, as such information is collected automatically.

While this requires a high level of interoperability and data security, something which the WBT economies are working towards, it provides an example of how a platform for digital services can monitor the use of the services directly. Some WBT economies already collect data on the use of services through their portals automatically, and would benefit from expanding the range of indicators collected (in the case of businesses: size class, sector of activity, etc.), without necessarily making this data collection automatic (users could enter the information themselves initially).

Source: OECD (2020[72]).

- **Improve the accessibility of e-signatures.** Now that the legal framework is in place for increasing the use of e-signatures, the government should focus its efforts on lowering the cost of obtaining qualified electronic certificates for e-signatures, in particular for company registration. This could, for instance, be done by rolling out electronic ID cards that contain qualified electronic certificates, as several regional economies have done.
- **Finish digitalising business licensing and consider creating a central co-ordination body responsible for overseeing the licensing process.** While North Macedonia is

digitalising business licensing in a Central Register, licences are still granted by different public institutions. North Macedonia could create a central co-ordinating body under the authority of digital government authorities in charge of interoperability and data-sharing with the different institutions responsible for granting licences. Going further, to increase transparency, the body could be responsible for granting licences (those that do not require the competent authority's approval) and overseeing the overall licensing process. Moreover, the government could introduce electronic distribution and nomination of licence officers to distribute the workload equally among licensing officers to respond to requests faster. Introducing services based on ICTs for SMEs could enhance their trust in government and reduce conflicts of interest. North Macedonia could follow Albania's electronic licensing process (Box 17.11), which has proven to be effective as the majority of businesses in Albania now claim that the lack of fully digitalised licensing process is a minor obstacle or no obstacle at all (Regional Cooperation Council, 2021[62]).

Box 17.11. Albania's business licensing process

The licensing process is centralised and fully operational on line

In Albania, the National Business Centre (NBC), which operates as a one-stop shop for company registration as well, is in charge of receiving applications for licences, permits and administrative authorisations, then submitting them to the relevant authorities as needed. The NBC oversees interoperability and the exchange of data between public institutions. The process follows the "silence-is consent" principle: if the NBC fails to answer a request within a prescribed time frame as detailed in law, consent to the request is automatically given. Since 2020, services for obtaining licences and permits are only accessible on line and are free of charge (https://qkb.gov.al/home).

Categories of licences

There are three categories of permits and licences for businesses. The first uses the applicant's self-declaration alone to evaluate whether the criteria are fulfilled. In the second category, the decision is based on self-declaration and documentary proof provided by the applicant. The third category of licences, in addition to the requirements of the second category, evaluates the fulfilment of the criteria using either an inspection, test, contest, interview, hearing or any other evaluation method. The NBC is the authority responsible for granting licences from Categories 1 and 2, and relevant ministries along with the NBC for granting licences falling under Category 3.

Electronic distribution and nomination of licensing officers

For all permit and licence requests (in person before 2020 and on line), the electronic system checks the documents and assigns applications randomly to an officer. Businesses can trace their application's status on NBC's website using their case number.

Overall, a digital system that randomly selects officials responsible for granting licences to businesses enhances the transparency of the business licence procedure. It helps to monitor and evaluate officials' compliance with their mandate, as well as distribute the workload equally among licence officers, allowing the administration to respond faster to requests.

Source: AIDA (n.d.[73]).

- **Evaluate the tax burdens faced by SMEs under the different simplified tax regimes.** The aim should be to design a coherent tax system that incentivises businesses to operate in the formal economy and SMEs to grow into the regular tax regime – for instance, by using business tax returns. North Macedonia could evaluate whether the conditions to qualify for the lump-sum tax regime prevent SMEs from growing into the standard PIT regime and whether it continues to stimulate indirectly the informal economy. It could evaluate tax return records to identify whether businesses bunch around the MKD 3 million (approximately EUR 48 600) and MKD 6 million (approximately EUR 97 200) thresholds. This would be an indication of the distortive impact of the very low tax rates for SMEs under the simplified CIT regime.
- **Rebalance the tax burdens of unincorporated and incorporated SMEs** to limit the tax-induced incentives for SMEs to incorporate, for instance, by moving to a less generous simplified CIT regime, increasing the dividend withholding tax, lowering SSCs and increasing the progressivity of the PIT. Tax-induced incentives to incorporate could be evaluated as part of the 2020-2023 Tax System Reform Strategy that foresees a review of foregone tax revenues.
- **Develop a comprehensive strategy to ease tax administration procedures for SMEs** by assessing the remaining hurdles for SMEs, for instance, through business surveys. North Macedonia could assess, for instance, whether there is scope to further extend e-services for taxpayers and whether the digital certificates could be paid by the tax administration to reduce the burden for SMEs.

Support services for SMEs (Dimension 5a)

Introduction

SMEs are more prone than larger companies to suffer from a lack of managerial and technical skills, suboptimal technology, limited access to markets and information, and a lacking entrepreneurial skillset, which can hinder their growth. Business support services (BSSs) provided or supported by the government – ranging from general information and advice to training, mentoring and technical services – seek to address these challenges, thus providing a tool to boost SME productivity. While the COVID-19 pandemic had negative effects on the provision of BSSs across the globe, particularly those involving direct contact with SMEs, it also provided an opportunity to reduce the cost of participation for SMEs by moving part of the activities on line.

In North Macedonia, where SMEs still struggle with competitiveness, BSSs are a key element in improving their productivity on a national and international level. Both public and private BSSs should be accessible and well-matched to the needs and demands of SMEs. A policy mix of financial and non-financial support proves most effective in the case of North Macedonia, where access to finance and technical assistance have been negatively affected by the COVID-19 pandemic.

North Macedonia scored 4.03 in this cycle (Table 17.14), which is a slight improvement compared to the previous assessment when it scored 3.96. Overall, the economy slightly lags behind the regional average in this dimension.

Table 17.14. North Macedonia's scores for Dimension 5a: Support services for SMEs

Dimension	Sub-dimension	Thematic block	North Macedonia	WBT average
Dimension 5a: Support services for SMEs	Sub-dimension 5a.1: BSSs provided by the government	Planning and design	3.57	4.17
		Implementation	4.14	4.24
		Monitoring and evaluation	3.89	3.88
		Weighted average	**3.92**	**4.15**
	Sub-dimension 5a.2: Government initiatives to stimulate private BSSs	Planning and design	4.00	4.63
		Implementation	4.50	4.21
		Monitoring and evaluation	3.40	3.84
		Weighted average	**4.13**	**4.26**
North Macedonia's overall score for Dimension 5a			**4.03**	**4.20**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

North Macedonia acknowledges the importance of BSSs for SME growth and development and included it as one of the main targets in its strategic documents. The government introduced numerous financial and non-financial support programmes for SMEs, though some were stalled by the COVID-19 pandemic. Progress in implementing recommendations from the previous assessment cycle is uneven and warrants more effort from the government (Table 17.15). There has been no progress in conducting regular and systematic training needs analysis among SMEs, leading to a risk of a mismatch between the demand and supply of BSSs. North Macedonia has moderately advanced supporting a functioning market of private-sector consultants, and introducing evaluation systems requires additional attention from the government.

Government initiatives for private BSSs provision remain fairly limited, despite moderate advancement. The SME Strategy (2018-2023) envisions supporting the private provision of BSSs through establishing technology parks and incubators and fomenting their linkages with academia, and increasing the quality and overall accessibility of BSSs.

Monitoring and evaluation remains a challenge for North Macedonia and warrants further efforts from the government.

Table 17.15. North Macedonia's implementation of the SME Policy Index 2019 recommendations for Dimension 5a

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Conduct regular training needs analyses (TNAs) to better adapt BSSs to SMEs' actual skills needs	North Macedonia does not conduct regular training needs analysis and has not conducted a demand and supply analysis of BSSs, risking a mismatch between SME needs and offered support services, and thus a low uptake.	No progress
Introduce an evaluation and performance measurement framework and formal feedback mechanisms for programme beneficiaries	There has been limited progress in implementing an evaluation and performance framework. The BSSs beneficiaries take a satisfaction survey, but details on whether the results are incorporated in future programme design are lacking.	Limited
Avoid duplication of BSSs and develop a sustainable market of private BSS providers	The Agency for Promotion of Entrepreneurship of the Republic of North Macedonia (APPRM) created a database of private consultants, but a sustainable market segment of private BSSs providers is still lacking. North Macedonia did not introduce an accreditation quality control mechanism for consultants, thus risking a less optimal quality of privately-provided BSSs.	Moderate

Despite a strong strategic framework for BSSs provision, implementation remains hampered, largely due to the COVID-19 pandemic

North Macedonia acknowledges the importance of BSSs for SME growth and development and included it as one of the main targets of the SME Strategy (2018-2023) (Ministry of Economy, 2018[74]) and Programme for Entrepreneurship Support, Competitiveness, and Innovation of SMEs 2020 (APPRM, 2020[75]). Both documents emphasise the importance of the availability of financial and non-financial support services for SMEs. Through the strategies, the government aims to provide SMEs with training, consulting, and education activities,[22] as well as improved access to finance.[23]

While its strategic framework allows for more substantial BSSs provision, the implementation of strategies and programmes in North Macedonia was affected by the COVID-19 pandemic, as funds were redirected to mitigate the effects of the crisis. This had a significant negative impact on the budget Agency for Promotion of Entrepreneurship of the Republic of North Macedonia (APPRM),[24] responsible for the public provision of BSS ranging from training, education initiatives, vouchers, co-financing and consulting services and tailored mentoring.[25] The reduced budget of APPRM also impeded the implementation process of its Action Plan to a certain extent, including external partners' accreditation of consultants and granting of loans. As direct contact between consultants and SMEs has been hindered, many services were moved on line. This was the case of the training of mentors within the APPRM, which allowed for the advisory services to continue unimpeded. Some 41 and 54 companies benefited from these services in 2019 and 2021, respectively.

A number of BSSs are also provided by the Fund for Innovation and Technological Development (FITD), especially those pertaining to SME and start-up innovation projects. In light of the severe negative impact the COVID-19 pandemic had on SMEs and start-ups, in particular, the FITD introduced its own support mechanism for SMEs, entailing both financial support and technical assistance to SMEs. Due to the amplified restrictive measures regarding the movement of persons and the organisation of large-scale events, FITD's in-person activities were also scaled back (Fund of Innovation and Technical Development, 2021[76]).

Lack of a systematic assessment of SMEs' training needs may result in inadequate long-term support for SMEs

Since the last assessment cycle, North Macedonia has expanded both the range of the types of services offered and the number of beneficiaries. New services include resource efficiency, digitalisation and IT. This diversification of the portfolio of services offered led in turn to an increase in uptake.

Nevertheless, North Macedonia lacks a broader systematic approach to analysing the domestic SME landscape and its needs and demand for support services. While private and public institutions perform sporadic assessments, a whole-of-government approach to supporting SMEs is incomplete. As a result, the government-provided BSSs might not adequately cater to SMEs' needs in the long run.

As a step in the right direction, FITD, in collaboration with a grassroots organisation, StartUp Macedonia, conducted an analysis of the start-up landscape in North Macedonia, assessing their BSSs demand and training needs. The results showed a strong need for sales growth assistance; 86.7% of respondents expressed a need for mentoring in that area, while 76% needed support in expanding to new markets (Fund of Innovation and Technical Development, 2021[76]). While the government addresses the needs in the short run,[26] the lack of a methodical approach to assessing SMEs' training needs and demand for BSSs at different stages of development risks less aptly targeted support for SMEs and potentially inefficient use of resources.

The government made no progress on conducting new market research, training needs surveys or analysis of entrepreneurial skills among SMEs. This weakens North Macedonia's commitment to increasing SME capacity. The government acknowledges the importance of entrepreneurship among SMEs and low levels of education at the time of assessment (ILO, 2019[77]); however, no concrete actions have been taken to measure entrepreneurial skills, training needs and BSSs needs among SMEs.

Despite the lack of a dedicated strategic focus on the private provision of BSSs, North Macedonia moderately advanced in supporting SMEs through co-financing and subsidies

While publicly provided BSSs are clearly outlined in strategic documents, private BSSs are not targeted to a great extent. While the SME Strategy (2018-2023) envisions establishing technology parks and incubators, they are mostly dedicated to boosting innovation rather than privately-provided support services for SMEs. This lack of a dedicated focus on private providers can partly explain why most BSSs are provided either by the government or international development co-operation partners rather than the private sector. Beyond financing, the international projects entail training consultants to assist SMEs in their development endeavours. The aforementioned mentoring initiative by APPRM, supported by JICA is a prime example of capacity building among SMEs through the services of internationally accredited consultants on the ground. In addition, the EBRD also provides hands-on advisory support through the Western Balkans SME Competitiveness Support Programme.[27] The German Gesellschaft für Internationale Zusammenarbeit (GIZ) also launched a new project that aims to improve the quality of BSSs in North Macedonia through enhanced knowledge and technology transfer and to establish accelerators and mentorship programmes.[28]

APPRM offers self-employment grants, co-financing and vouchers for subsidised consulting services.[29] The vouchers are contingent on using the services of consultants from a database of Entrepreneurship Advisers, who are authorised to work under the voucher scheme. The consultants who successfully passed the procedure to be included in the database can apply to participate, as authorised consultants, in the self-employment programme, which awards vouchers for the unemployed to start an enterprise. The beneficiaries are guided by consultants, who assist in the preparation of a business plan, company registration and coaching. The programme issued 1 534 and 1 747 vouchers for the unemployed in 2020 and 2021, respectively (APPRM, 2020[75]; 2021[78]). As unemployment remained high at 15.8% in 2021this measure is well targeted to lower unemployment in the economy and further incentivise entrepreneurship.

Grant recipients have access to information services and training in the first year of operations; however, the programme's effectiveness remains unproven due to a short monitoring timeframe. The uptake of other co-financing schemes offered by APPRM remains low across North Macedonia, as entrepreneurs gravitate towards the self-employment programme deemed as more beneficial.

Monitoring and evaluation systems are in place in North Macedonia, however with a limited scope of assessment

Since the last assessment cycle, there has been no change in North Macedonia's monitoring frameworks, and BSSs provision by the government is monitored to a limited degree. APPRM publishes annual reports on its performance, including the results from the satisfaction survey that SMEs are invited to take after benefiting from government-provided BSSs. This practice, however, does not constitute any systematic or targeted feedback systems on the impact of these services on SME performance. JICA conducted a confidential field survey of its specialised mentoring programme in 2019, but this remains the only independent review of government provision of BSSs since the last reporting cycle.

Similarly, the services of private-sector consultants are also monitored by the government to a limited degree, further leaving room for a sub-par quality of services provided. APPRM's efforts to keep track of the usage of private consultants by SMEs and the monitoring and evaluation mechanisms are also scant. While APPRM systemically uses satisfaction surveys also to receive feedback from privately-provided BSSs beneficiaries, it is unclear how the results are used in future support scheme design. As mentioned,, while these surveys can be a useful tool in measuring SMEs' feedback and identifying areas of improvement, they provide scarce information on the programmes' impact and effectiveness (Lopez Acevedo and Tan, 2011[79]). There is a need for a stronger evaluation mechanism framework for both public and private BSSs, which could help the government provide better targeted and more viable support policies for SMEs.

APPRM's self-employment scheme also warrants intensified monitoring efforts. At the time of this assessment, the agency has a set of indicators measuring the programme's effectiveness.[30] The success of the self-employment programme is measured by the number of businesses opened, the survival rate after one year and jobs created. While it is a notable basis for an efficient monitoring and evaluation mechanism, the one-year survival rate indicator falls short of providing a broader picture of a company's performance. One year is not indicative of long-term survival for a microenterprise. The survival rate in the majority of economies surveyed by the OECD is slightly above 60% after three years, 50% after five years and just over 40% after seven years (OECD, 2019[80]). Extending the monitoring of APPRM's self-employment grant beneficiaries to a period of up to three years and beyond would give the government a broader insight into whether or not the businesses created as a result of the grant are viable beyond the minimum survival period.

Since the previous assessment, the government established a Monitoring and Evaluation Unit responsible for efficient monitoring of the implementation of the Industrial Policy (2018-2027),[31] which is interconnected with the Programme for Entrepreneurship Support, Competitiveness and Innovation, the government's framework for the provision of BSSs. Though the Monitoring and Evaluation Unit is still in its early stages, this is a good first step for the government to introduce a separate entity tasked with monitoring and evaluation and increase its accountability for the adopted strategies while extending the scope of their assessment.

The way forward for Dimension 5a

- **Conduct regular training needs analysis to better adapt business support services to SMEs' actual skills needs.** Regular and consistent TNAs would help fill the gaps in BSS provision, better target the support provided and create more effective BSSs provision systems (see Box 17.12 for a good practice example from Turkey). While sporadic TNAs or

assessments can provide temporary insight into the domestic SME landscape, a systematic mechanism to analyse the demand for BSSs and their training needs can demonstrate the evolution of SMEs as the economy grows and develops. Furthermore, SMEs at different stages of development require a different set of skills and training; therefore, regular assessment is crucial.

Box 17.12. Turkey's approach to training needs analysis

Turkey's SME Development and Support Organisation (KOSGEB)'s Information Management and Decision Support Department is responsible for analysing the supply and demand for BSSs and SMEs' training needs. The assessments are conducted systemically, regularly and in a formalised manner. KOSGEB extends the evaluation practice to regional institutions to assess their institutional capacity to support SMEs on the ground. KOSGEB also conducts regular TNAs and updates the dedicated training portal accordingly. Analysis results are then used in future support programme design.

The regularity and consistency in conducting TNAs contribute to SME support measures being well targeted and successful in Turkey. In addition, KOSGEB collaborates with Regional Development Agencies in Turkey; therefore, their SME outreach is broader, allowing them a more comprehensive view of SME needs across the economy.

North Macedonia has the institutional capacity to conduct systematic research on training needs and demand for BSSs among its SMEs. APPRM could extend the research conducted by the FITD on the start-up landscape in North Macedonia and use a similar methodology to assess SME needs for BSSs. APPRM's website could be used to systematically publish results of analyses or to serve as a platform for SMEs to submit their opinions and express their evolving training needs on a regular basis.

Source: KOSGEB (2022[81]).

- **Develop a strong monitoring and evaluation mechanism to measure business support services' impact on SME performance**. Evaluation of the impact of BSS provision should be the crucial element in BSSs policy design. A framework to measure the performance of SMEs after having benefited from initiatives could provide valuable insight into both positive and negative effects of selected incentives, and demonstrate or confute the viability of BSSs provided. Extending the monitoring period for APPRM's self-employment scheme to up to three years could also provide the government with a more insightful view of the survival of newly formed businesses and the effectiveness of the grant scheme in reducing unemployment. Developing a publicly available database of success indicators to improve the government's insight into the efficiency of BSSs provided is the next step to ensure a stronger monitoring and evaluation system. The national SME Strategy (2018-2023) envisages the introduction of a thorough evaluation and performance measurement framework, as well as feedback mechanisms, to measure the actual impact of BSSs on SME performance and adapt the services on offer accordingly.

Public procurement (Dimension 5b)

Introduction

Easy access to public procurement markets for SMEs and increased participation can boost competition by ensuring equal treatment and open access, thus promoting inclusive growth. Policy makers should therefore take into account the unique needs of SMEs, as they are disproportionally affected by complex procedures and often discouraged by the effort needed to take part in these procedures, for an uncertain outcome.

As the public procurement legal framework in North Macedonia already contained all the tools and procedures for emergency procedures, no major legal changes were needed to respond to the COVID-19 pandemic (OECD, 2021[58]). The Public Procurement Bureau published instructions on the use of the negotiated procedure without prior notice (OECD, 2021[58]), and the government adopted a number of fiscal transparency measures and prohibited the publication of most non-essential procurements. Additional requirements on reporting of concluded contracts and publication of data were also introduced (OECD, 2021[58]). Accordingly, in 2020, there were 2 856 such contracts valued at approximately EUR 10 million (European Commission, 2021[57]).

North Macedonia's average score of 3.97 (Table 17.16) for this dimension is in line with the average score in the region. It is lower than the previous assessment's score (4.49) mainly due to limited progress in implementation and lack of collection and storage of information on economic operators by contracting authorities.

Table 17.16. North Macedonia's scores for Dimension 5b: Public procurement

Dimension	Thematic block	North Macedonia	WBT average
Dimension 5b: Public procurement	Planning and design	4.44	4.16
	Implementation	3.92	4.15
	Monitoring and evaluation	3.40	3.27
North Macedonia's overall score for Dimension 5b		**3.97**	**3.98**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

North Macedonia made moderate improvements in the implementation of the previous cycle's recommendations (Table 17.17). The new Law on Public Procurement (Ministry of Finance, 2017[82]) entered into force in April 2019. It implements the 2014 EU Procurement Directives and, except for some minor deviations, represents a high level of compliance with the relevant EU provisions. The Public Procurement Bureau (Public Procurement Bureau, n.d.[83]) prepared a new public procurement strategy covering the period 2022-26, whose main objective is to strengthen the position of SMEs in public procurement (Public Procurement Bureau, 2021[84]). An e-appeals function was added in April 2019 to North Macedonia's already advanced Electronic System for Public Procurement (Public Procurement Bureau, n.d.[85]).

Table 17.17. North Macedonia's implementation of the SME Policy Index's 2019 recommendations for Dimension 5b

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Further align national legislation with EU rules and international good practice	The new Law on Public Procurement (PPL) implements the 2014 EU Procurement Directives, in particular the concept of economically advantageous tender. New provisions enable contracting authorities to apply quality-related criteria instead of awarding contracts based only on the lowest price. The PPL contains, though, provisions that are problematic from the EU perspective, such as negative references and the "automatic" exclusion of economic operators. The PPL also fails to implement some instruments that are useful for economic operators, such as self-cleaning.	Moderate
Dedicate more attention to SMEs in strategic documents on public procurement	The Public Procurement Bureau prepared a draft of a separate strategy for the development of the public procurement system, which envisages a number of activities dedicated to strengthening the position of SMEs in public procurement, in particular producing guidelines, organising training, and strengthening monitoring and reporting. At the time of writing, the strategy has not yet been formally adopted by the government.	Moderate
Increase the use of non-price criteria by providing the contracting authorities with training, advice and examples of good practice	The Public Procurement Bureau provides support to contracting authorities in the application of non-price criteria by issuing various guidelines and other supporting tools promoting its application. Nevertheless, in practice, the lowest-price criterion remains the dominant criterion for awarding contracts.	Moderate

The public procurement market is relatively competitive, but cases of annulled procurement procedures are frequent

The public procurement market in North Macedonia accounted for 8% of GDP in 2020 (11% in 2019) and totalled 23% of the state budget (European Commission, 2021[57]). The average number of tenders submitted per procurement procedure (3.62) (OECD, 2021[58]) is higher than in some other economies in the region. However, cases of annulled public procurement procedures are relatively frequent (approximately 20% of all procurement procedures) (Public Procurement Bureau, 2021[86]), as are cases where contracts are concluded following procedures with only one participant (Public Procurement Bureau, 2021[86]). The main reasons for cancelling procedures are lack of tenders, serious errors in procurement documents prepared by contracting authorities as well as prices or contract terms that are less competitive than those normally offered on the market (Public Procurement Bureau, 2021[86]). Some 63% of contracts were awarded to SMEs in 2020 (compared to 61.44% in 2019) (Public Procurement Bureau, 2021[86]).

The legal framework was modified in order to transpose the 2014 EU Procurement Directives

The new PPL offers several provisions beneficial for SMEs. First, economic operators can join forces and submit a tender or a request to participate as a group without being required to assume a specific legal form of association.[32] Second, contracting authorities can divide public procurement contracts into lots based on objective criteria concerning the type, characteristic, purpose, time or place of execution, to take into consideration the possibility of SMEs participating in the tender.[33] If the contracting authority does not divide the procurement into lots in an open or restricted procedure, it is obliged to explain the main reasons why.[34] Third, contracting authorities are not allowed to apply requirements related to the economic and financial standing of suppliers or their professional or technical ability that are disproportionate to the subject matter of the public procurement, its complexity and value, or to the lot of the subject matter of the procurement in procurements divided into lots.[35] Fourth, public contracts are awarded based on the most economically advantageous tender,[36] in line with the 2014 EU Directive, and e-auctions are no longer mandatory.[37] The price cannot be used as the sole award criterion for the procurement of services for

software development, architecture or engineering services, or translation or consultancy services.[38] In practice, however, the lowest-price criterion remains the dominant criterion for the award of contracts.[39] There appear to be a number of reasons for the very limited use of non-price criteria, including: fear of change; preference to stick with well-understood procedures; and lack of practical training, guidance and resources needed to increase knowledge, understanding and confidence on the part of contracting authorities who may be concerned about the consequences of selecting and applying qualitative criteria incorrectly.

Finally, contractors can receive partial remuneration in advance.[40] In the case of contracting authorities from the public sector, the maximum amount cannot be more than 20% of the value of the contract. The amendment of the PPL adopted in April 2020 allowed contracting authorities to provide even higher advance payments without the need to request a bank guarantee from the contractor but only with regard to products related to fighting the COVID-19 pandemic.[41]

Some provisions of the PPL can, however, can create barriers in access to the public procurement market. In all procurement procedures, with the exception of small value and simplified procedures, economic operators have to submit a tender security (in the form of a bank guarantee amounting to a maximum of 3% of the tender value) or submit a statement on steadiness of the tender. If they withdraw their tender before the expiration of its validity period, do not accept correction by the tender committee of arithmetical errors in the tender, fail to sign the public contract in accordance with the requirements of the tender documentation and the tender submitted, or do not provide the performance guarantee, they lose the tender security (if it was required), and are excluded from the procedure. Exclusion concerns, though, not only the procedure in which they took part but also any procedures to be organised in future in the period not shorter than six months and no longer than one year. Exclusion results from a negative reference published on the Electronic System for Public Procurement's (ESPP) website. Its duration depends on the number of negative references received by a given bidder such a solution is not compliant with the *acquis.*

The PPL also contains provisions related to sustainable procurement (as provided in the EU Public Procurement Directive) and allows environmental or social considerations to be taken into account in describing the object of the procurement, defining qualification or award criteria or contract performance conditions. In particular, the PPL contains provisions concerning reserved procurement, i.e. allowing competition to be restricted to economic operators whose primary purpose is the social and professional integration of persons with disabilities or people from socially vulnerable groups,[42] the application of labels in the description of the object of the procurement (i.e. requiring that goods or services have special environmental or social characteristics).[43] Social or environmental requirements can also be included among the selection criteria for the best tender;[44] the bidder's compliance with relevant obligations concerning environmental protection, social policy and labour protection are also assessed in the procedures to verify whether a tender is abnormally low.[45] Finally, the PPL regulates specific procedures for social and other special services.[46]

The institutional set-up supports contracting authorities and economic operators in conducting public procurement operations and enables electronic procurement processes

The Public Procurement Bureau carries out tasks related to developing the public procurement system, including: monitoring and analysing the functioning of the public procurement legal framework and system, providing advisory and operational support to contracting authorities and economic operators, developing manuals and brochures, organising and conducting training activities, managing and developing the ESPP, preparing reports on public procurement procedures, managing the negative reference list, administrative control, and co-operating with international institutions, including co-ordination with the European Union. The Public Procurement Bureau also publishes annual reports on the functioning of the public procurement system.[47] These reports provide some statistical information on SMEs, such as the number of SMEs registered in the ESPP and awarded public contracts each year.

The public procurement system benefits from an advanced ESPP,[48] which is efficient and highly appreciated by users. All communication and exchange of information, requests to participate, and submission of tenders must be conducted through the ESPP, from which procurement documents can be downloaded. The ESPP has been upgraded and started using "red flags" for irregularities. It also started using electronic archives and electronic complaints mechanisms. The ESPP's e-appeals function became fully operational with effect from 1 April 2019.[49] The electronic procurement mechanism also enables easy tracking of COVID-19 related procurements as well as financial information on COVID-19 contracts.

Economic operators' rights in public procurement are protected by a review of appeal by an independent review body

The State Appeals Commission[50] is an independent, state-financed authority with the capacity of a legal entity. It is competent to resolve appeals concerning contract-award procedures, as prescribed by the PPL. Any economic operator with a legal interest in the award procedure that has suffered damage, or may suffer damage, as a consequence of a possible violation of the PPL, may initiate an appeal. The time limit for submitting an appeal is ten days from the triggering event. The limit is reduced to five days for simplified open procedures and small-value procurements. In both cases, time limits are compliant with EU requirements and good international standards. As a general rule, appeals are submitted electronically using the ESPP's e-appeals function. The e-appeals system covers the full appeals process, from submission of the appeal and supporting documents to payment of the relevant fees, submission of supplemental information, and publication of both the notification of the appeal and the decision of the State Appeals Commission. These new functionalities streamline the review process, save economic operators' time and money, and strengthen the overall transparency of the system.

The way forward for Dimension 5b

- **Complete the process of harmonising the Law on Public Procurement with the EU Public Procurement Directive**, in particular concerning the provisions related to "negative references" and the "self-cleaning" mechanism. Macedonian authorities should complete the process of harmonising the PPL by implementing the missing EU provisions, in particular those related to self-cleaning of economic operators (Box 17.13), as well as deleting or modifying provisions which are not EU compliant, such as those related to negative references.

Box 17.13. Self-cleaning of economic operators

Article 57 (6) of the 2014 EU Public Procurement Directive introduced provisions concerning "self-cleaning" measures. Accordingly, economic operators finding themselves in a situation where there are subject to exclusion from a procurement procedure can adopt compliance measures aimed at remedying the consequences of any criminal offences or misconduct and effectively preventing further occurrences of misbehaviour.

In accordance with EU requirements, the economic operator concerned may provide evidence that the measures it has taken are sufficient to demonstrate its reliability despite the existence of relevant grounds for exclusion.

For example, in **Slovenia**, the economic operator should prove that it has paid or undertaken to pay compensation in respect of any damage caused by the criminal offence; it has fully clarified the facts and circumstances by actively collaborating with the investigating authorities; and it has taken concrete technical, organisational and personnel measures that are appropriate to prevent further criminal offences. If the contracting authority considers those self-cleaning measures insufficient to prove the

reliability of the concerned economic operator, it should receive a statement from the contracting authority of the reasons for not considering those measures sufficient not to exclude the economic operator.

The new Law on Public Procurement does not contain provisions equivalent to this. To finish harmonising the law, provisions that provide an opportunity for bidders to prove their reliance to the contracting authority, notwithstanding the formal existence of grounds for exclusion as those presented above, should be prepared and adopted.

Source: Slovenian Public Procurement Directorate (2015[87]).

Access to finance (Dimension 6)

Introduction

Access to finance remains critical for economic growth and inclusive development, allowing companies to expand their operations and invest to gain efficiency and productivity. However, the availability and affordability of credit are typically strongly correlated with firm size, meaning the smaller the company, the more difficult it is to access funding, thereby requiring targeted policy measures to encourage and complement private-sector financing without crowding it out.

Across the world, including in North Macedonia, the COVID-19 pandemic suddenly increased pressure on firm finances, especially for smaller firms that do not have large financial buffers. It brought access to credit to a sudden halt, requiring a swift short-term targeted policy response to shore up firm finances without, however, losing sight of more long-term measures to provide sustainable financing opportunities for small businesses.

Since the last assessment, North Macedonia has made progress in facilitating SMEs' access to finance. Its score has increased from 3.63 in 2019 to 3.90 in 2022, amid advances in banking supervision and the establishment of a legal framework that facilitates venture capital. Major progress has been made in enhancing financial literacy (Table 17.18). As a result, North Macedonia is the highest performer amongst the Western Balkan economies, though exceeded by Turkey.

Table 17.18. North Macedonia's scores for Dimension 6: Access to finance for SMEs

Dimension	Sub-dimension	Thematic block	North Macedonia	WBT average
Dimension 6: Access to finance for SMEs	Sub-dimension 6.1: Legal and regulatory framework	Creditor rights	4.80	4.27
		Registers	4.60	4.63
		Credit information bureaux	5.00	4.37
		Banking regulations	4.40	4.09
		Stock market	3.80	3.23
		Weighted average	**4.60**	**4.20**
	Sub-dimension 6.2: Bank finance	Bank lending practices and conditions	3.60	3.23
		Credit guarantee schemes	2.40	2.61
		Weighted average	**3.14**	**2.98**
	Sub-dimension 6.3: Non-bank finance	Microfinance institutions	2.00	3.37
		Leasing	3.40	3.24
		Factoring	2.00	2.71
		Weighted average	**2.45**	**3.09**
	Sub-dimension 6.4: Venture capital	Legal framework	2.30	2.73
		Design and implementation of government activities	2.90	2.57
		Monitoring and evaluation	1.00	1.47
		Weighted average	**2.31**	**2.40**
	Sub-dimension 6.5: Financial literacy	Planning, design and implementation	3.60	2.83
		Monitoring and evaluation	1.00	1.19
		Weighted average	**3.08**	2.50
North Macedonia's overall score for Dimension 6			**3.90**	**3.68**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Access to credit is embedded into a solid legal and regulatory framework, and steps have been taken to further strengthen financial stability. However, financial intermediation remains low, and lending to SMEs, in particular, has decelerated in recent years. While the availability of credit information is robust, no progress has been made to overcome the outstanding impediments. The Development Bank of North Macedonia (DBNM) provides some credit relief in the form of subsidised SME credit lines, including support from international co-operation development partners. In addition, a new COVID-19 Guarantee Fund was established in 2021, replacing previous initiatives. It does not, however, have a tailored SME focus. While alternative finance continues to remain limited, partially due to an insufficient legal framework for microfinance and factoring, progress has been made to facilitate venture capital investments. Following a review of legal obstacles, a new Law on Alternative Investment Funds is under preparation. Lastly, in 2019, North Macedonia participated in an OECD regional assessment of financial literacy, which led to the adoption of the first Strategy for Financial Education and Financial Inclusion in 2021.

Table 17.19 provides an overview of the implementation of the recommendations for Dimension 6 made in the previous assessment.

Table 17.19. North Macedonia's implementation of the SME Policy Index's 2019 recommendations for Dimension 6

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Increase awareness of the various financing instruments	The Konkurentost platform provides some information about financial and non-financial support for entrepreneurs. However, these are sometimes outdated and only provide general information, with no details on the types of financial products nor their suitability, benefits or risks. The newly adopted Strategy for Financial Education and Financial Inclusion (2021-2025) envisages a comprehensive set of measures to boost financial understanding, which may increase awareness and understanding of alternative sources of finance in the medium term.	Limited
Complete the reform to create a specific legal framework for factoring	The new Law on Factoring is still pending adoption, currently planned for early 2022.	Limited
Improve the accessibility of registers for securities over movable assets	No actions were taken.	No progress
Consider reviewing the existing credit guarantee scheme to ease pressure on SMEs to provide collateral	The new state Guarantee Fund is an important milestone; however, it bears the risk of mainly being used by exporting companies and not specifically benefiting SMEs. Lack of private-sector participation in its design and implementation may further hinder uptake.	Moderate

Lending is supported by a strong legal and regulatory framework and comprehensive credit information

Access to finance is embedded into a well-developed legal and regulatory framework, regulated by the 2016 Law on Banking. The regulation was brought in line with Basel II requirements in 2017, while more recently, the National Bank of the Republic of North Macedonia has adopted a new methodology for managing liquidity risks and has enhanced its criteria for licensing banks, thereby bringing the regulatory framework in line with Basel III core principles for effective banking supervision. Additionally, on 1 October 2021, the European Commission adopted a decision assessing that the prudential, supervisory and regulatory requirements applied to credit institutions located in North Macedonia are equivalent to those applied in the European Union. Furthermore, in April 2021, a Memorandum of Co-operation was signed between the relevant authorities responsible for financial market supervision to establish a Financial Stability Committee. A dedicated law to permanently establish the committee and increase the

competencies of the national bank to lead the development and implementation of the macro-prudential and financial stability policies is currently under preparation. This will significantly strengthen financial stability, but may impact less sound financial sector players in the short term unless targeted mitigation measures are adopted.

Some impact can be witnessed by the National Bank of the Republic of North Macedonia's Denarisation Strategy. Adopted in 2018, it has resulted in a decrease in the share of foreign currency indexed loans from 46.4% in 2016 to less than 45% at the end of 2020 (European Commission, 2021[57]).

Lending is facilitated by a comprehensive system of credit information. A cadastre operated by the Real Estate Cadastre Agency is available on line and accessible to the public. In contrast, access to the register for pledges over movable assets (the Central Registry of the Republic of North Macedonia) continues to be available only upon request, thus limiting its usage. In addition, both a public credit registry and a private credit information bureau are operative. Coverage of the public registry has stagnated at around 41% of adults since the previous assessment, while the private credit information bureau has covered the entire adult population for several years, which was achieved by incorporating information from retail and utility providers, significantly widening coverage. Combined, these services provide effective tools for financial service providers to effectively assess the creditworthiness of loan applicants, even for clients with a less substantial credit history.

Little progress is evidenced with regard to access to capital market finance. A new Capital Markets Law, to bring legislation in line with *acquis*, is pending adoption in 2022, and even though special provisions envisage listing "small joint-stock companies", requiring a minimum capital of EUR 250 000, no listings have taken place. To encourage equity finance for small firms, in 2019, the Macedonian Stock Exchange signed an agreement with the crowdfunding platform Funderbeam, and since then, one domestic company has initiated fundraising via the platform.

Financial intermediation remains low and dependent on subsidised bank lending

Banks continue to dominate North Macedonia's financial sector, accounting for 80.5% of all assets at the end of 2020 (NBRNM, 2021[88]). The sector has managed the impact of the COVID-19 pandemic relatively well, though credit growth has decelerated compared to previous years, with the majority of lending continuing to go towards households. Non-performing loans continue to fall, standing at 3.4% at the end of 2020, owing to ongoing mandatory write-offs, further strengthened in 2019, and crisis mitigation efforts, which enabled more flexible loan repayments.

Overall, financial intermediation remains relatively low, and finance continues to be costly, especially for smaller enterprises amid strict collateral requirements and complex lending procedures. The share of SME lending has decreased further in recent years to 27%, down from 30% in 2018. The DBNM provides SME finance through credit lines at preferred interest rates, including via a new MKD 90 million (approximately EUR 1.5 million) SME fund, set up with support from the European Union in 2020, offering 0% interest working capital loans. In addition, a EUR 100 million credit line signed with the European Investment Bank in late 2021 supports SMEs and mid-caps that increase their labour force or that invest in the modernisation of equipment, energy efficiency or environmental protection, capped at 1.6% interest. While this comprehensive and timely support helped SMEs navigate through the economic shock, these highly competitive interest rates risk undercutting and crowding out commercial SME lending. Limited monitoring and evaluation of the DBNM's credit lines prevent a full impact analysis of its support. In addition to lending, North Macedonia also established a credit Guarantee Fund in 2021 to support its COVID-19 response, offering guarantees of up to 80%. The fund does not, however, specifically target SMEs, but is instead geared towards export-oriented companies. Previous credit guarantee schemes operated by the DBNM have ceased operations due to limited uptake.

Diversification of finance remains low

Alternative sources of finance remain highly limited, owing partially to insufficient regulation of non-bank finance instruments and insufficient awareness of the benefits of such products. Microfinance is not subject to regulation by the national bank and not available at a meaningful scale, but a small number of specialised microcredit institutions continue to support otherwise unbankable companies,[51] typically in the informal sector. A number of predominately local providers offer leasing. Uptake has somewhat increased in recent years, standing at EUR 103 million in assets in mid-2021, but remain mainly used for passenger vehicle funding. Factoring remains subdued, offered only by a handful of financial service providers. A new law drafted in 2018/19 with support from the EBRD to strengthen the legal framework for factoring, is still pending adoption, thereby limiting legal certainties around this type of financial instrument.

In contrast, progress has been made to develop equity-based finance. With support from the World Bank, North Macedonia undertook a comprehensive review of legislative obstacles to private investments. The Law on Investments, which governs venture capital and private equity activities, was amended in 2021 to remove the maximum threshold on the number of shareholders and reduce the minimum duration requirement for a fund. In addition, a new Law on Alternative Investments remained under preparation at the time of writing, and is planned to be adopted in 2022, to align the legislative framework for private equity and venture capital to the *acquis*.

Developing an ecosystem in support of innovation and start-ups remains a priority for North Macedonia. Under the framework of the Western Balkans Enterprise Development and Innovation Facility, the Enterprise Innovation Fund has invested more than EUR 6 million into five early-stage companies to date. Apart from these investments, there have not been any venture capital activities, but North Macedonia's now fully operational Fund for Innovation and Technological Development offers financial support for innovative start-ups, thereby laying the foundation for future seed investments. Business angel investments have dropped significantly in recent years, but CEED HUB Skopje, via its Business Angel Club, offers support to start-ups and matches them with potential investors.

Lastly, both crowdfunding and initial coin offerings remain unregulated.

Efforts to promote financial literacy have gained momentum

Progress is also evident with regard to enhancing financial literacy. In 2019, North Macedonia participated in a regional financial literacy assessment conducted by the OECD's International Network for Financial Education.[52] Accordingly, Macedonian respondents to the survey scored 56% of the maximum scores covering financial understanding, behaviour and attitude, putting it ahead of Romania and Montenegro but below four other South East European economies (OECD, 2020[72]). This assessment is an important policy tool to monitor financial literacy development and evaluate policy. Based on the results from the assessment, in 2021, North Macedonia adopted its first Strategy for Financial Education and Financial Inclusion (2021-2025). It aims to develop special educational programmes for various target audiences, in line with a core competency framework currently under preparation. This will serve as guidance for designing training and ensure consistency in the approach. Implementation of the strategy is overseen by a working group made up of representatives from the private financial sector, the regulator and civil society, which met in late 2021 for the first time. While the impact of the new strategy will only be seen in the medium term, the centralised one-stop shop for financial support[53] continues to provide information on financial and non-financial services for enterprises, serving as a useful and easily accessible platform. However, the platform falls short of providing detailed and continuously up-to-date information and does not provide educational or awareness-raising content.

The way forward for Dimension 6

- **Continue to introduce measures to strengthen financial stability.** The establishment of the Financial Stability Committee is an important step and should be institutionalised swiftly. Additional

steps should be considered to enable effective non-performing loan resolution and prepare the financial sector for an expected increase in impaired loans once the temporary measures phase out. This could include continuous improvements to the insolvency framework as well as a strengthened mechanism for financial mediation and out-of-court settlements.

- **Review the financial support schemes offered by the Development Bank of North Macedonia.** An evaluation of the impact and performance of the DBNM's activities would help identify bottlenecks and areas in which the DBNM can complement the private sector. The review should include plans to phase out highly subsidised financial support schemes, and to replace them with more sustainable measures, maximising impact and additionally. In this regard, the scale, mandate and governance of the new credit guarantee scheme should be revisited, establishing a more long-term mechanism including private-sector participation and building on lessons learnt from previous credit guarantee schemes.
- **Ensure timely adoption of the new Law on Factoring, including support for subsequent implementation.** Following the adoption of the law, a large-scale awareness-raising campaign, implemented in conjunction with financial service providers and private-sector associations, would help reach potential beneficiaries and disseminate information on the opportunities of non-bank financial services. Such information should also be updated on the https://konkurentnost.mk platform.
- **Develop an action plan to support the implementation of the new Strategy for Financial Education and Financial Inclusion (2021-2025).** Such an action plan should include clearly defined objectives and key performance indicators, various target audiences, clearly defined competencies of the relevant stakeholders, and a budget to implement it. A balanced composition of the Working Group between public and private sector representatives, as well as regular and effective monitoring of the implementation measures, will be critical to achieving impact and results.

Standards and technical regulations (Dimension 7)

Introduction

Access to the European Single Market is conditional upon compliance with EU regulations and directives, which, due to the New Approach Directives, also increasingly rely on conformity to European standards. While standards and technical regulations can enable trade by defining (minimum) criteria for products and processes, they may also represent a barrier to trade, particularly for SMEs. To lower these barriers, WBT economies need to have a national quality infrastructure (QI) system that is accessible to and supportive of SMEs. At the same time, a high level of alignment with the *acquis* is a pre-condition for recognition of an economy's procedures and institutions by the relevant European QI bodies and associations.

North Macedonia has the highest export exposure to the European Union of all the Western Balkan economies, as 77% of its exports go to the EU-27 (Eurostat, 2021[89]). Harmonisation of technical regulation and other QI elements such as standardisation, accreditation and conformity assessment with the *acquis* is therefore essential for North Macedonia's economy.

North Macedonia's scored 3.58 in this dimension (Table 17.20), which is a slight improvement compared to the previous cycle when the economy scored 3.50. The Macedonian QI remained largely operational during the COVID-19 pandemic, as accreditation and standardisation meetings and assessments were either conducted on line or under additional precautionary measures. Overall, while the improvements have been noted in several areas, North Macedonia remains below the WBT average in this dimension.

Table 17.20. North Macedonia's scores for Dimension 7: Standards and technical regulation

Dimension	Sub-dimension	Thematic block	North Macedonia	WBT average
Dimension 7: Standards and technical regulations	Sub-dimension 7.1: Overall co-ordination and general measures		**3.00**	**3.90**
	Sub-dimension 7.2: Harmonisation with the EU *acquis*	Technical regulations	3.91	4.38
		Standards	3.27	3.77
		Accreditation	3.89	3.89
		Conformity assessment	4.43	4.22
		Metrology	3.31	4.13
		Market surveillance	3.27	3.96
		Weighted average	**3.68**	**4.06**
	Sub-dimension 7.3: SME access to standardisation	Awareness-raising and information	3.80	3.88
		SME participation in developing standards	3.00	3.21
		Financial support to SMEs	4.40	3.57
		Weighted average	**3.73**	**3.55**
North Macedonia's overall score for Dimension 7			**3.58**	**3.96**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Progress in standards and technical regulations was limited during the assessment period. Of the three recommendations made in the previous assessment (Table 17.21), substantial progress has only been achieved in one, namely the adoption of a new product safety regulation in December 2020. Despite still not being completely aligned with the *acquis* (European Commission, 2021[57]), this new regulation is an important step forward in aligning horizontal QI legislation. To achieve full alignment with the *acquis*, the

corresponding by-laws and laws on technical requirements still need to be adopted. Furthermore, the enforcement capacities of the market surveillance agency are still insufficient (European Commission, 2021[57]) and need to be increased to ensure proper enforcement of this new law.

Information access on standards and technical regulation is still suboptimal, as there is no central portal and/or contact point available for companies seeking information about regulatory requirements from the European Union or other main trade partners. As briefly mentioned above, due to its large reliance on exports to the European Union, such a tailored information source, grouping together in one place all the key information about technical regulations, standards and conformity assessment, would be of high relevance to Macedonian firms.

Finally, the barriers to participation in technical standards committees have been lowered due to the introduction of digital meetings in response to the COVID-19 pandemic. This is a positive development that can be witnessed in all WBT economies, and the digitisation of standardisation should continue after the pandemic, as it lowers participation costs for SMEs. However, more still needs to be done, beyond digitisation, to further include SMEs in the standards development process.

Table 17.21. North Macedonia's implementation of the SME Policy Index's 2019 recommendations for Dimension 7

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Establish a single source of tailored information for SMEs on the regulatory requirements and conformity assessment procedures SMEs need to follow to export to the EU Single Market	No single information source is available. The Standardization Institute of the Republic of North Macedonia (ISRSM) has a section on SMEs, but it is restricted to standards. The Competition Department's website is not well maintained.	Limited
Encourage SMEs to get involved in the process of developing standards	The ISRSM introduced digital committee meetings during the pandemic. Other than that, there are no specific measures or financial support to enhance participation.	Moderate
Complete the alignment with the General Product Safety Directive and ensure there are adequate administrative capacities to enforce it	New product safety regulation was adopted on 18 December 2020 and is harmonised with EU Directive 2001/95 and partially harmonised with Regulation 768/2008.	Strong

On a regional level, North Macedonia advanced exchange on quality infrastructure but lacks a joint QI strategy and legislative action plan

While the National Programme for Accession guides the legislative harmonisation process, there is currently no national strategy or action plan in place that sets objectives for harmonisation with the *acquis*. The government is currently developing such a strategy, which is very important, as the last strategy dates from 2015. The quality infrastructure activities are co-ordinated by the Ministry of Economy's Internal Market Division, but there is no joint QI strategy in place, and the individual strategy documents on accreditation and metrology expired in 2020 and have not yet been updated.

Regarding the regional exchange on QI between Western Balkan economies, North Macedonia has been advancing co-operation during its current Central European Free Trade Agreement (CEFTA) presidency by fostering the development of mutual recognition agreements of technical regulation in selected priority sectors of CEFTA members (CEFTA, 2021[90]). However, discussions on this matter have not been concluded yet.

A new Law on General Product Safety was adopted, but staff reductions in accreditation and metrology may reduce enforcement capacities

Alignment of sectoral legislation with the *acquis* remains very low. National legislation in the area of machinery, lifts, low voltage, pressure equipment, portable pressure equipment, electromagnetic

compatibility, personal protective equipment, gas appliances, explosive atmospheres, and radio and telecom equipment is not yet aligned with the latest *acquis*. Similarly, the new Law on Product Safety, adopted in December 2020, is not yet fully aligned with EU legislation as corresponding by-laws and laws on technical requirements have not been adopted (European Commission, 2021[57]).

In standardisation, North Macedonia has maintained a high implementation rate of European standards (97%) (CEN-CENELEC, 2021[91]) and all conflicting national standards have been withdrawn. The Standardisation Institute of the Republic of North Macedonia (ISRSM) developed a strategy for 2020-22 with the support of the International Organisation for Standardisation (ISO). The strategy identifies various priority industries such as manufacturing, construction and agriculture and provides a long list of international standards, organised by industry, that the ISRSM aims to adopt during these two years. The strategy also provides calculations on the human and financial resources needs, concluding that they are sufficiently available. This is a bit surprising and potentially because they narrowly focus on standard adoption activities, thereby neglecting more long-term expenses such as capacity building. Regarding education on standardisation, ISRSM staff is providing some activities in civil engineering and construction, but there is no systematic engagement in standards education, and this is also not mentioned in the strategy. Educating firms, associations and the general public about the benefits and procedures of standardisation is important, as this knowledge is often not yet present in smaller companies that do not export. Lowering knowledge barriers may unleash unrealised potential of firms that previously have not considered getting their products or services certified for foreign, or even the local, markets.

There have not been any major developments in accreditation in North Macedonia. The Institute for Accreditation of North Macedonia (IARM) continues to have multilateral recognition agreements in five fields with the European Co-operation for Accreditation,[54] and at the moment, no further expansion is planned due to insufficient market demand for other accreditation fields. In response to the restrictions imposed by COVID-19, the IARM conducted remote inspections of conformity assessment bodies (CABs), but this practice was not employed for first-time assessments. The IARM's last strategic plan expired in 2020 and has not been updated.

The number of accredited conformity assessment bodies has increased by 26%, from 206 in 2018 to 259 in 2021, making North Macedonia the economy with the third most CABs in the region after Serbia and Turkey. In that context, it is worrying that the IARM's total staff decreased from 18 to 15 during the assessment period, which means that it has to supervise an increasing number of CABs with a decreasing number of staff.

Staff reduction was even more severe in the Bureau of Metrology, whose total staff decreased from 45 to 33 since the last assessment. While the Bureau of Metrology is a member of all major international metrology associations and there is metrology legislation in place, the institution lacks technical staff and an updated strategy.

In market surveillance, the regulative gap with the *acquis* continues to be among the largest in the region, as the current legislative framework dates back to 2007 and hence is neither aligned with EU Regulation 768/2008 nor with the newer Regulation 1020/2019. Market surveillance is carried out by the Department of Public Information, which lacks enforcement capacity and operates with an insufficient number of licenced inspectors, outdated equipment and insufficient funds to carry out product sample tests. Nonetheless, the number of inspections increased from 359 in 2019 to 428 in 2020 (European Commission, 2021[57]).

Financial support programmes for SMEs cover standards-related costs, but there are no specific initiatives to enhance SMEs' participation in developing standards

There has been some progress with respect to access to standardisation compared to the previous assessment, which is also reflected in the higher score in this sub-dimension. The ISRSM's website has a specific section for SMEs and provides basic information about the benefits of standards for SMEs as well

as instructions on how to find correct standards for firms. However, the guides and brochures in the local language are outdated, and the linked material from CEN/CENELEC is only available in English. More updated and translated material that provides information about the certification process would be desirable.

While there are no financial measures in place to increase the participation of SMEs in committees, training and meetings were held on line because of COVID-19. There is a discount on the standards' price for companies that participate in technical committees.

The Macedonian government has two programmes that provide financial support for the implementation of standards. The first is a voucher programme by the National Entrepreneurship Support Agency to provide financial support for implementation-related costs of standardisation. Some 58 firms benefited from this programme between 2019 and 2021 (APPRM, 2021[92]). In addition to subsidising implementation costs, firms have access to consultants that assist them. The second programme is the Ministry of Economy's Programme for Competitiveness, Innovation and Entrepreneurship, which co-finances certification for ISO standards for SMEs of up to 60% of total costs, but no more than MKD 100 000 (around EUR 1 600) (Ministry of Economy, 2021[93]). In 2019 and 2021, 12 and 11 firms benefited from this programme, respectively, which was paused in 2020 due to COVID-19.

The way forward for Dimension 7

- **Deepen co-operation of quality infrastructure areas through a joint strategy**. The different QI pillars have all developed a solid legislative and institutional framework, but the strategic documents in various areas are outdated. A joint strategy that aligns activities and provides clear targets for each of the six QI pillars is desirable. In this context, Serbia's Quality Infrastructure Strategy (2015-2020) represents a positive example from the region (see Box 17.14).
- **Ensure complete alignment with the EU General Products Safety Directive and adopt a new horizontal strategy or action plan for alignment with the *acquis*.** The level of legislative alignment with the *acquis* is comparatively low in North Macedonia, and an updated strategy or action plan that identifies unaligned legislation and sets a road map for adoption would be an important step to assure future alignment with the *acquis*.
- **Improve information sharing and SME participation through a centralised portal**. Information about the different QI areas remains fragmented across many different websites, making it hard for firms to learn about all the steps required to place a product on the EU Single Market. A central portal listing key legislation and guidance documents with links to the existing financial support schemes would be very useful for local firms that want to implement standards and export to the European Single Market.

Box 17.14. A joint QI strategy: Serbia's Quality Infrastructure Strategy (2015-2020)

Despite having an institution that co-ordinates the national QI activities (usually the Ministry of Economy), most economies in the WBT region lack a joint QI strategy. A joint strategy can be an important guide to identifying common as well as dimension-specific challenges, co-ordinating the activities of the different QI institutions, and setting joint as well as dimension-specific targets.

One notable exception in the region is Serbia, which has developed a five-year QI Strategy for 2015-20. The strategy starts by analysing the status quo in each of the QI pillars (technical regulations, standardisation, accreditation, conformity assessment, metrology and market surveillance). For some areas, this is done through a so-called SWOT (strength, weakness, opportunity and threat) analysis. This is then followed by a list of objectives per QI pillar. Finally, the QI Strategy is accompanied by annual action plans, which operationalise the strategy's more generic objectives into concrete,

measurable activities. Each activity lists the responsible entity, a timeline and the budget source from which the respective activity is financed.

This traditional combination of a multi-year strategy and annual action plans is a good approach to breaking large strategic goals down into smaller pieces and keeping track of them, which is particularly useful in a policy area like quality infrastructure, which includes so many different institutions. A successful QI strategy should set measurable objectives for the different pillars (e.g. standardisation, accreditation, metrology, etc.) and develop concrete activities that work towards these objectives. Furthermore, it needs to specify the human and financial resources required to implement the activities and specify who will monitor progress. In the case of QI, it is also important to define multi-dimensional goals and specify how the different institutions will co-operate with each other. The Serbian example incorporates most of these aspects and hence can be regarded as a best practice for the region.

A QI strategy would be particularly relevant for North Macedonia, as there were individual strategies for accreditation and metrology that recently expired. It is thus a good time to consider the idea of a joint strategy. Furthermore, the standardisation, accreditation, metrology and market surveillance bodies all lack financial and human resources, which means that efficient co-operation between them, governed by a joint strategy, is of particular importance.

Source: Ministry of Economy (2021[94]).

Enterprise skills (Dimension 8a)

Introduction

SMEs, the cornerstone of job creation, provide a significant share of employment, with two out of three employed people working for an SME, acting as an engine for social development and economic growth. Yet to drive growth and reduce the tendency for start-ups to result in lower-paying jobs, SMEs need to invest in skills, digitalisation and innovation to boost productivity and higher paid employment. However, they lack the capacity of larger enterprises to invest in training for founders and the workforce. They can be supported by relevant government-financed training, however, to close skills gaps and upskill the workforce. This is emphasised when it comes to greening businesses, for example, where environmental sustainability cannot be achieved within SMEs, as the potential is limited by lack of awareness and skills as well as the additional costs involved. Supporting SMEs through developing enterprise skills can create far-reaching impacts for families, local communities and countries.

In North Macedonia, 99.9% of all companies are SMEs and account for 74% of total employment in the economy, or three out of every four jobs. While the capacity for SMEs to generate new employment has grown since 2018 (European Commission, 2021[95]), SMEs in North Macedonia are contributing significantly less per person employed than the EU average. Enterprise skills development is needed to build capacity, sustain jobs and grow the social and economic contribution of SMEs, which is crucial to supporting

North Macedonia is emerging from the severe economic challenges posed by the COVID-19 pandemic. This assessment sees an increase in practical implementation, for example, through increased support for youth and social entrepreneurship, alongside more diverse training provision (though limited in reach). The improvements in this dimension are reflected in the higher score as North Macedonia scored 2.26 (Table 17.22), higher than in the previous cycle when the economy was at 1.40.

Table 17.22. North Macedonia's scores for Dimension 8a: Enterprise skills

Dimension	Thematic block	North Macedonia	WBT average
Dimension 8a: Enterprise skills	Planning and design	1.17	2.86
	Implementation	3.16	3.85
	Monitoring and evaluation	1.67	2.67
North Macedonia's overall score for Dimension 8a		**2.26**	**3.32**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

In North Macedonia, there is limited policy driving the provision of enterprise skills, while there has been no annual report on the implementation of relevant strategies. There has been recent policy progress focused on the smart specialisation process through the identification of priority domains and towards the formal development of a strategy. There is no system-level approach to monitoring results or evaluating the impact of government-financed training. As a result, there is little insight into the skills needs of the economy through consistently collected skills intelligence. Compounding this is a lack of central co-ordination to bring together fragmented strategy actions delivered by different public agencies (Table 17.23).

Table 17.23. North Macedonia's implementation of the SME Policy Index 2019 recommendations for Dimension 8a

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Develop a systematic approach to determining what training is needed, when and where	No advances have been made in the area of training needs analysis. There is an ongoing need, too, for a system-level skills intelligence framework linking education, training and the labour market.	No progress
Proactively provide SMEs with a wider array of learning opportunities	Provision of training and support is limited in reach and accessibility. There is no clearly defined co-ordination of training provision across policy or providers. Overall, provision appears to have expanded in some areas, such as internationalisation and the green economy but remains lacking in training to support digitalisation and sustainability.	Limited
Support SME internationalisation	The Fund for Innovation and Technology is providing a range of training and mentoring that includes a focus on internationalisation. There is limited evidence of internationalisation training through the APPRM with the introduction of funding for internationally focused business support and co-financing for enterprises to pay for the costs of ISO certification.	Moderate

The development of a co-ordinated approach to gathering skills intelligence is needed to support evidence-based policy making

Since the previous assessment, a lack of skills intelligence remains at the national level. There is no clear lead institution responsible for co-ordinating and collating the necessary data to provide the evidence base required to inform SME skills policy and programming; despite commitments in the SME Strategy (2018-2023), there has been no evidence of progress. There is an increasing need to support enterprise skills development for SMEs that would not otherwise prioritise training for employees, due to the COVID-19 pandemic having caused companies to further reduce their investment in human capital (European Commission, 2021[96]). While this work is currently driven by the SME Strategy (2018-2023) (Government of North Macedonia, 2018[97]), skills intelligence would help address skills gaps and combat rising youth unemployment resulting from the pandemic (International Bank for Reconstruction and Development / The World Bank, 2021[98]). It is critical to understand how government investment in skills intelligence can be best targeted for SMEs and how to align it with the preliminary list of smart specialisation priorities.[55] It is also important to consider how to develop the dual education model, highlighted by businesses and SMEs as having the potential for a longer-term impact on enterprise skills through sustainable human capital development (Srbinoski, Petreski and Petreski, 2020[99]).

Training and support for SMEs is fragmented and is not effectively promoted, with limited focus on digitalisation, internationalisation and sustainability

The provision of training and financial support is driven through the SME Strategy (2018-2023) (Government of North Macedonia, 2018[97]); however, there is limited public information on the progress of the implementation and results of this strategy. Overall, training provision for developing enterprise skills among start-ups, early-phase and growth enterprises appears limited and fragmented. Government-financed training for aspiring entrepreneurs at the pre-start-up stage is provided via the national Agency for Employment,[56] while APPRM provides a range of support for early-phase entrepreneurs, including access to business counsellors through a voucher scheme.[57] This programme is open via a budget-limited annual call, however, so year-round support may not be available due to budget limitations. APPRM also provides limited training for women entrepreneurs available nationally, activities to promote youth entrepreneurship and was a partner in a regional project supporting eco-innovation businesses.[58] APPRM also delivers the structured national mentoring programme for SMEs, implemented with the support of JICA since 2017,[59] and which, since the onset of the pandemic, has been successfully adapted to work on

line (classroom training in 2020 was finished on line, while the mentoring process was implemented using a combined onsite and online approach). These standardised mentoring services are designed to support company operational performance and increase their sustainability on the market. The Fund for Innovation and Technology (FITR) is also a key provider of start-up finance and training, with provision of start-up and growth mentoring for innovative enterprises,[60] alongside a range of financial support for innovative businesses and social enterprises.[61]

While the SME Strategy (2018-2023) and wider documents recognise the importance of training to support digitalisation, internationalisation and sustainability, there is limited practical training in these areas. Business leaders and SMEs have identified the importance of training subsidies to support upskilling of employees as a key driver for increasing internationalisation (Srbinoski, Petreski and Petreski, 2020[99]). There is limited evidence of training to promote internationalisation within open-access start-up support, though FITR is fostering the growth of innovative and internationally oriented companies through their business support programmes and schemes to help companies access global software services platforms,[62] alongside training supporting clusters and subsidies to support the costs of International Organisation for Standardisation (ISO) certification. APPRM is responsible for developing national training to support digitalisation and development of employees' digital competence, but this is still under development. With regard to sustainability, this is highlighted in the SME Strategy (2018-2023), but there is no evidence of available training.

Enterprises access information primarily via organisational websites and the central portal led by the government. Established in this assessment period, https://konkurentnost.mk is the new portal that targets existing enterprises; it provides tools, information and news related to support and funding calls for enterprises. It is run by the Ministry of Economy and supported by EU funding. It does not, however, bring in wider content from non-government providers, even if they receive government financing to run their activities. This portal shows significant potential and could be expanded to bring in information from both government and non-government actors to engage a wider audience, including women and young entrepreneurs.

The smart specialisation process is progressing with a strategy to be finalised in 2022, but SMEs have not yet been fully engaged

Progress was made in 2021 towards the development of the Smart Specialisation Strategy (S3), supported by a Joint Research Centre (JRC) workshop on the Entrepreneurial Discovery Process. The mapping exercise was completed in early 2020, and the four sectors identified were: smart agriculture and the food industry; the information-communication industry; Industry 4.0 (encompassing the mechanical, metal processing and automobile industry); and smart buildings and materials. The finalisation of the strategy is anticipated in 2022[63] and is feeding into the new National Development Strategy (2021-2041), for which the broad consultation process started in 2021.[64] S3 development is being led by the S3 Working Group, an inter-institutional grouping with members representing government, ministries and academia. System-level education and training actors are involved in this working group as well, but there has not yet been significant direct engagement with SMEs.

The involvement of SMEs is anticipated in the next phase of S3 development. Separate subgroups have now been established for each priority sector, which aim to strengthen mutual trust, promote new forms of co-operation, scan for potential areas for investment and refine approaches on how and what to invest in those areas. The European Training Foundation will provide support to assess skills implications for each priority sector, for which it will be important for the government to ensure the development of a full vision of the priority area in order to support the development of a more comprehensive understanding of current and future skills mismatches. There is also a need to focus on raising awareness among SMEs and the entrepreneur community and engaging them as key stakeholders in S3 development. Doing so would provide the insight and evidence needed to develop S3 actions focusing on enterprise and labour-market skills needed to take forward the priority sectors.

The way forward for Dimension 8a

- **Designate a lead organisation to design and co-ordinate an SME skills intelligence framework**, implementing the actions outlined in the SME Strategy (2018-2023). The lack of system-level skills intelligence remains a significant problem. A co-ordinated approach to understanding current and future skills needs could support better alignment of the education system to labour-market needs. Defined indicators for SME skills intelligence can guide future monitoring and evaluation related to SME skills at all levels (Box 17.15).

Box 17.15. Statistical barometers used to strengthen the skills agenda in Kosovo

In Kosovo, a set of statistical barometers has been developed to strengthen the skills agenda and establish a national approach to skills intelligence. The three barometers so far established are:

1. **Labour Market Barometer**, which collates information and analysis from 12 institutional data sources.
2. **VET Barometer**, which collates 200+ variables from 20 VET schools.
3. **Skills Barometer**, launched in December 2021, will collect 3–5-year forecasts of skills needs from businesses in Kosovo to inform the government and other institutions.

The challenge in Kosovo has been to ensure sustainability for the work initiated through international development co-operation partners' funding. The Labour Market Barometer is a portal collecting information, resources and data on current and future skills needs for the labour market and creates strong collaboration between diverse partner institutions relevant to the skills agenda. The system is now managed by the Employment Agency, after a two-stage development phase supported by the United Nations Development Programme (UNDP) and Aligning Education and Training with Labour Market Needs (ALLED2), a project of the Austrian Development Agency. ALLED2 developed the Skills Barometer in co-operation with the Kosovo Chamber of Commerce (KCC), and commitment is now finalised between KCC, the Ministry of Education and the National Council for VET to conduct the barometer every three years. The VET Barometer grew from pilot research into the provision across VET schools in the economy and now offers online information and analysis based on systematic data collection that can be transferred to relevant national agencies.

This example shows a pathway to shaping a national skills intelligence framework at the system level based on the need to support evidence-based policy making using robust information on skills mismatch and future skills needs. The actions stemmed from international partner-funded initiatives towards sustainable action led by a partnership of public and private sector institutions. It builds a consistent approach and strengthens co-operation between different institutions, which is already a strong feature of the landscape in North Macedonia.

1. See https://sitp.rks-gov.net/ for a list of the national institutional databases used to create the Labour Market Barometer.
Sources: Government of Kosovo (n.d.[100]); ALLED2 (n.d.[101]; 2021[102]).

- **Deepen the training offer for SMEs and place a focus on internationalisation, digitalisation and sustainability.** While there are commitments to upscale SME skills training within the current SME Strategy (2018-2023), this is not widely evidenced, and current provision is limited. There is a clear need to expand government-financed training support to ensure year-round access to support for entrepreneurs at different phases of development and to include training in key priority areas, such as sustainability, digitalisation and

internationalisation (Box 17.16). This can build on and complement the work being developed by the Chamber of Economy of North Macedonia to provide a six-month programme of lectures and discussion forums linked to enterprise development and skills development.[65]

Box 17.16. Supporting sector-based digitalisation in France

The Assembly of French Chambers of Crafts (APCMA) is a French public body and network of local chambers of crafts. It has developed four areas of innovative digital services to increase competitiveness, efficiency and proximity with customers. This offers a mix-and-match approach that can be tailored to the needs of enterprises:

1. **Digital training**: Craft companies are offered training courses on digital tools in four main areas: computer, digital, Internet and social networks. The aim is to develop digital competences among founders and employees and raise awareness of the need to integrate digital tools from the very start of the business for both administrative and commercial gain.
2. **Digital diagnosis**: APCMA offers personalised digital diagnostics for craft companies, where a business counsellor visits the company to carry out a digital inventory and advise on developing a digital strategy.
3. **Development of mobile applications (apps)**: These are intended to support the integration of SMEs into the digital marketplace. For example, APCMA created an app called "Choose my craftsman", which is a listing service based on the user's geolocation. CMA Aquitaine has created "Aqui-artisan", an app that communicates relevant news to artisans in the Aquitaine region.
4. **The creation of innovation poles**: These provide access to clusters as a route to create synergies and connections between professional organisations, innovation support and research laboratories.

Over time, APCMA has developed an offer that promotes digitalisation with a sharp focus on the administrative process as well as commercial success for these enterprises, with a flexible approach that could be adapted to different sectors. They are raising awareness on the need to acquire digital skills from the start of a business, and they offer training opportunities, digital diagnosis and digital strategy advice.

North Macedonia needs to focus on supporting digitalisation and developing digital competences across enterprises, and it will be important to ensure that it uses a flexible approach that can be adapted to the needs of each enterprise.

Sources: SME United (n.d.[103]) and APCMA (n.d.[104]).

- **Consider how to open up access to online information on training and support available to start-ups, early-phase firms and enterprises.** This could be achieved through expanding the existing enterprise portal at https://konkurentnost.mk or developing a bespoke portal. Within this development, there should be a focus on providing tailored content for women and youth entrepreneurs.
- **Design and implement a quantitative and qualitative monitoring and evaluation approach of government-financed SME training.** Comprehensive data, including gender-disaggregated data, will drive improvement in the quality and outcomes of government-financed training for enterprises. APPRM has made a good start through its annual reporting,[66]

but this needs to be deepened to: ensure impact is understood; include all government-financed provision; and provide evidence to support enterprise skills actions aligned with the development of the Smart Specialisation Strategy.

Innovation for SMEs (Dimension 8b)

Introduction

Supporting innovation and building a knowledge economy is increasingly becoming a priority for the WBT region, and globally. Recognising the link between innovation and productivity and its contribution to higher value-added economic output and competitiveness, many governments have started to emphasise the creation of an environment conducive to innovation and knowledge development. However, equal attention must be given to enhancing innovation capacity at the firm level.

North Macedonia can further leverage its well-developed institutional support structures for innovation by creating regional innovation systems and encouraging cross-border co-operation to boost research and development (R&D).

North Macedonia has made good progress in this dimension since the last assessment, improving its score further from 3.35 in 2019 to 3.77 in 2022, positioning it ahead of Montenegro but behind Serbia and Turkey (Table 17.24). Progress has been made in particular with regard to strengthening the institutional support structure and providing financial support schemes at scale and sustainable levels.

Table 17.24. North Macedonia's scores for Dimension 8b: Innovation policy for SMEs

Dimension	Sub-dimension	Thematic block	North Macedonia	WBT average
Dimension 8b: Innovation for SMEs	Sub-dimension 8b.1: Policy framework for innovation	Strategic approach	4.08	3.81
		Implementation of innovation policy	4.32	3.31
		Co-ordination of innovation policy	3.80	3.30
		Weighted average	**4.14**	**3.46**
	Sub-dimension 8b.2: Government institutional support services for innovative SMEs	Incubators and accelerators	3.86	3.27
		Technology extension services for established SMEs	3.00	2.14
		Weighted average	**3.51**	**2.82**
	Sub-dimension 8b.3: Government financial support services for innovative SMEs	Direct financial support	4.60	3.81
		Indirect financial support	2.70	2.26
		Weighted average	**3.84**	**3.19**
	Sub-dimension 8b.4: SMEs and research institution collaboration and technology transfer	Innovation voucher schemes and co-operative grants	3.50	2.85
		Institutional infrastructure for business-academia co-operation	3.04	2.99
		Intellectual property rights	3.00	3.05
		Weighted average	**3.22**	**2.95**
North Macedonia's overall score for Dimension 8b			**3.77**	**3.18**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

According to the European Innovation Scoreboard 2021,[67] North Macedonia is an emerging innovator. Despite some uncertainty over the economy's future strategic approach to innovation, owing to the expiry of its overarching Innovation Strategy (2012-2020) in 2020, significant progress has been made in innovation policy implementation capacity, and the FITD is now fully operational and implementing several

financial support programmes at scale. Nevertheless, overall investments in R&D remain low at 0.4% of GDP, and further efforts, including a thorough evaluation of support measures under the expired Innovation Strategy (2012-2020), are required to maximise impact and ensure sustainability (European Commission, 2021[57]). Efforts have also been made to strengthen North Macedonia's institutional support infrastructure, which now includes both incubators and local accelerators, and support is available beyond start-ups. In contrast, more needs to be done to stimulate collaboration between businesses and academia and the commercialisation of research, although the FITD has launched some pilot initiatives.

Table 17.25 provides an overview of measures implemented in response to the recommendations made in the previous assessment.

Table 17.25. North Macedonia's implementation of the SME Policy Index's 2019 recommendations for Dimension 8b

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Ensure sustainability and streamline existing innovation support programmes	The expiration of the World Bank Skills Development and Innovation Support Project, which provided significant support to the Fund for Innovation and Technology Development (FITD), provides some uncertainty over the fund's future operations. However, during the assessment period, the government of North Macedonia allocated a significant state budget (EUR 18.5 million in 2022), and the fund now operates at full capacity, greatly increasing its chances of becoming sustainable in the medium term.	Strong
Develop specific instruments for joint business-academia collaboration	Efforts to stimulate exchange and collaboration between businesses and academia have become a priority since the last assessment. In consultation with all relevant stakeholders, a pilot innovation voucher scheme was launched in 2020, generating solid demand and uptake. Design of a competitive co-operation grant scheme is underway.	Moderate
Improve monitoring and evaluation in all innovation programmes	In 2021, an independent assessment of the impact of state aid provided under the Economic Growth Plan (EGP) was conducted, implementing a comparative analysis of the impact and effectiveness of state aid provided under Pillars I and II of the EGP, compared to Pillar III, which was implemented by the FITD. It suggests good economic impact of FITD programmes under the EGP; however, it falls short of providing a comprehensive evaluation of the overall impact, efficiency and effectiveness of the FITD's various programmes.	Moderate

The policy framework for innovation needs to be updated, while implementation capacities have expanded

North Macedonia's Innovation Strategy (2012-2020) expired in 2020, though elements of innovation are reflected in the national Economic Reform Programme (2019-2021). A Smart Specialisation Strategy, developed with support from the European Commission's JRC, is expected to be adopted in 2022, thereby representing a continuation of the previous Innovation Strategy. In addition, preliminary work commenced in 2021 to develop a dedicated strategy for the development of artificial intelligence.

Implementation capacity has progressed substantially. The FITD, established in 2013, has been the main vehicle for the implementation of the Innovation Strategy (2012-2020) and continues to do so. The fund has become fully operational since the last assessment, doubling the number of employees to around 50. However, only a small proportion are full-time staff. The remaining expertise is outsourced, putting institutional stability and the building of long-term institutional knowledge and capacity at risk. The operationalisation of the FITD has benefited greatly from support from the World Bank, both for internal capacity building and funding, which enabled the launch of several financial support schemes. In total, the FITD has received over EUR 40 million, though World Bank support expired in 2021, making the FITD more dependent on government resources, thereby risking continuity unless sufficient funding is allocated or additional international development co-operation partners' support secured.

Co-ordination of innovation policy continues to remain complicated, with various line ministries overseeing the implementation of the innovation policy framework. A National Committee for Innovation and Entrepreneurship, based in the Prime Minister's Office, and an Inter-Ministerial Working Group for Innovation have been charged with overseeing the implementation of innovation policy. In addition, a National Start-up Committee was set up in early 2021 to develop a coherent approach to building a start-up ecosystem, though its focus is not on innovation.

An active institutional support structure provides support beyond start-ups

Progress has been made in creating an effective institutional support structure for innovative companies, which has been a priority under North Macedonia's innovation policy framework. As one of its first initiatives, the newly created National Start-up Council, comprised of both public and private-sector stakeholders, commissioned an assessment of the start-up ecosystem. This is an important step to further strengthen the institutional support structure provided to innovative SMEs. The study found that the ecosystem does not sufficiently focus on the broader spectrum of early-stage companies, thus requiring closer co-ordination between start-up support organisations to ensure synergies and complementarity of services. Subsequently, the council proposed a set of measures to boost start-ups, including better access to finance and legislative changes to attract investors, which, however, have yet to be addressed.

Five incubators operate in North Macedonia, providing co-working space, training, mentoring and networking opportunities for start-ups. Examples include the YES Incubator in Skopje – North Macedonia's oldest incubator, the BiTHub Bitola and the Business Impact Lab Skopje – which works together with Sparkasse Bank and offers office space and training to social entrepreneurs. CEEDHub Skopje also provides start-up support, while its Business Angel Club is formally registered as a Business Angel Network. While these institutions provide vital support to North Macedonia's start-up community, there is not always a clear link to innovation.

The FITD has been the driving force in the establishment of local accelerators in recent years, providing almost EUR 2 million to establish the Seavus Accelerator in Skopje, the X Factor Accelerator in Veles and the Business Technology Accelerator in collaboration with Ss. Cyril and Methodius (UKIM) University in 2018. They provide tailored pre-acceleration and acceleration programmes as well as early-stage funding, and so far have made investments in four companies. Another call to support accelerators is planned for 2022. In addition, in late 2021, the FITD, together with PricewaterhouseCoopers, launched the Catalyst Mentoring Programme to provide training for start-ups that have already developed a service. Technology extension services are available at a small scale and with financial support provided through the FITD during the previous assessment. These services benefit three providers.

Financial support for innovation has gained momentum

Good progress has been made in providing financial support to foster innovation activities. The FITD has played an important role in the government's Economic Growth Plan (2018-2020), and funding for the FITD has increased substantially since the last assessment amid increasing allocations from the state budget. Between 2015 and 2020, the FITD made more than EUR 40 million available, of which EUR 17.7 million were provided under the World Bank Skills Development and Innovation Support Project, which expired in 2021. In 2021, the FITD's funding stood at over EUR 12 million, significantly up from EUR 4 million in 2018, while EUR 18.5 million were planned for 2022.

Since its establishment, the FITD has launched seven[68] different finance schemes, ranging from co-financing grants for start-ups, commercialisation and the establishment of accelerators to grants for technology extension, as well as grants for technology development and innovation vouchers. In total, over 550 projects have been financed. In addition, the FITD launched a dedicated finance scheme to introduce innovative products and processes to respond to changing demands during the COVID-19 pandemic. The

FITD's latest programme, launched in 2021, offers co-finance grants for innovative projects to overcome the economic consequences of the COVID-19 pandemic and in healthcare.

In 2018, the FITD conducted an economic impact assessment, which was complemented by an external comparative impact analysis in 2021 on state aid in North Macedonia. They suggested that FITD schemes have had a substantial economic impact but also looked critically at grant size justification. To date, however, there has not been an independent evaluation, including lessons learnt, on the effectiveness, design and methodology of the FITD's programmes.

While significant efforts have been made to boost direct financial support for innovation, progress on introducing indirect incentives remains limited. Amendments to the Law on VAT in 2019 now include an exemption from value-added tax for scientific research activities, although there are no other indirect measures explicitly supporting R&D.

Further efforts are needed to stimulate collaboration between businesses and academia and to boost investments in R&D

Investment in R&D has remained stagnant at 0.4% of GDP since the previous assessment, with the private sector providing around one-quarter (European Commission, 2021[57]). Against this background, several pilot initiatives are currently underway to boost collaboration between scientific research institutes and SMEs. In 2020, following a series of stakeholder consultations, the FITD piloted an innovation voucher scheme to facilitate research projects between higher research institutes and SMEs. The scheme covers up to 80% of costs and is capped at MKD 500 000 (approximately EUR 8 000). Some 34 vouchers were awarded out of the 71 applications received. In addition, in 2021, the fund launched "FabLabs", an initiative to support young innovators and students with the services, technology and infrastructure of laboratories to develop their ideas. Work is also ongoing to design a competitive co-operation grant scheme.

Efforts are also underway to strengthen the infrastructure in support of collaboration. Following a feasibility study in 2018, the first phase of constructing a Science and Technology Park has started. In addition, INNOFEIT, the Centre of Technology Transfer and Innovations at UKIM University, was established in 2018 and also hosts one of the three new accelerators. It offers match-making services for businesses with researchers, access to laboratories, co-working space as well as pre-incubation support to start-ups. However, there is no systemic approach for providing technology transfer services, and overall, support remains limited.

Lastly, intellectual property protection does not include a specific focus on collaboration between researchers and businesses and does not have provisions to encourage the commercialisation of patents.

The way forward for Dimension 8b

- **Complete the development of the Smart Specialisation Strategy.** Timely adoption and implementation of the new strategy will be important to ensure the continuity of the innovation framework and maintain the momentum built over recent years. The new strategic framework should incorporate lessons learnt from the previous Innovation Strategy (2012-2020), while strengthened co-ordination across ministries would further increase implementation efficiency and impact.
- **Incorporate a strong element of monitoring and evaluation into the innovation policy framework.** A comprehensive evaluation of the performance of the Innovation Strategy (2012-2020) would help identify the bottlenecks that are hindering innovation, streamline policy measures, and ensure future activities target those areas where support is needed the most and impact is maximised. The impact assessments of FITD programmes have been an important milestone towards this goal; however, due to the increasing scope of FITD support schemes, a

more systematic approach to monitoring and evaluation is needed to ensure efficiency and effectiveness.

- **Promote business-academia collaboration in a systematic and targeted approach.** Efforts should include both demand- and supply-side aspects, including raising awareness about collaboration opportunities and providing a targeted infrastructure stimulating exchange and financial incentives to boost collaboration but also strengthening academic research excellence. An evaluation of the pilot voucher scheme, as well as a clear approach to the design and function of the Science and Technology Park, will be important, as is a review of the scientific research sector more generally.

SMEs in a green economy (Dimension 9)

Introduction

Since SMEs, on aggregate, have a significant environmental footprint (small firms account for 50% of greenhouse gas [GHG] emissions in the world (ITC, 2021[105])), it is essential that the governments of the WBT region include them in their environmental considerations to achieve the net-zero goal for GHG emissions. On the one hand, like any other economic entity, SMEs face the consequences of environmental degradation, which can generate specific challenges for their survival and growth. On the other hand, and more importantly, SMEs can be a source of innovation and solutions to develop the technologies needed to address environmental challenges. New green markets, such as the circular economy, can also create new business opportunities for SMEs. Even without moving into new markets, SMEs can potentially improve the performance of their business by realising efficiency gains and cost reductions by greening their products, services and processes. In this regard, tailored policies, incentives and instruments are necessary to enable them to participate in the green transition, as SMEs face a number of barriers (financial, informational, etc.) in their greening efforts, and more so than large firms (OECD, 2021[106]).

For a small economy with natural endowments like North Macedonia, achieving sustainable and green economic growth is essential, especially in the post-COVID-19 context. The pandemic has put additional pressure on North Macedonian SMEs and their greening efforts, primarily due to issues with liquidity maintenance and access to finance. Well-co-ordinated and targeted financial and technical support will be required to overcome challenges in adopting sustainable practices.

North Macedonia has improved its score under this dimension, from 2.72 in 2019 to 3.16 in this cycle, with the main progress achieved in scaling up its financial incentives for SME greening (Table 17.26). To fully implement the related SBA Principle 9 (Enable SMEs to turn environmental challenges into opportunities), North Macedonia will need to ensure effective implementation and monitoring of its greening measures.

Table 17.26. North Macedonia's scores for Dimension 9: SMEs in a green economy

Dimension	Sub-dimension	Thematic block	North Macedonia	WBT average
Dimension 9: SMEs in a green economy	Sub-dimension 9.1: Framework for environmental policies targeting SMEs	Planning and design	3.70	3.87
		Implementation	2.62	2.81
		Monitoring and evaluation	1.89	2.47
		Weighted average	**2.80**	**3.06**
	Sub-dimension 9.2: Incentives and instruments for SME greening	Planning and design	4.40	3.06
		Implementation	3.23	3.02
		Monitoring and evaluation	2.60	2.12
		Weighted average	**3.46**	**2.85**
North Macedonia's overall score for Dimension 9			**3.16**	**2.94**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

While the SME Strategy (2018-2023) includes environmental policies targeting SMEs, none of the measures planned has been implemented so far. Nevertheless, adopting the Plan for Accelerated Growth (2022-2026) should boost the greening of SMEs, particularly in their post-COVID-19 economic recovery. SMEs' greening efforts have been encouraged by facilitated access to finance, including in COVID-19 recovery programmes. However, non-financial tools to support environmental practices have rarely targeted SMEs, despite being envisaged in North Macedonia's legislation (Table 17.27).

Table 17.27. North Macedonia's implementation of the SME Policy Index 2019 recommendations for Dimension 9

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Adopt a whole-of-government approach to create synergies and avoid overlaps between greening initiatives	No developments have been recorded as regards this recommendation. There is still no co-ordinating body for SME greening policies, which hampers proper implementation and monitoring.	No progress
Support the transition to a circular economy through direct assistance to the SMEs operating in economic zones	The soon-to-be-adopted Waste Prevention Plan (2021-2031) aims to promote eco-efficiency, eco-innovation and a green (circular) economy. The Programme for Competitiveness, Innovation and Entrepreneurship for 2021 has also provided support to SMEs for energy efficiency and circular economy projects. However, no improvements have been noted on the economic zones side.	Limited
Facilitate access to finance for SMEs that aim to adopt environmentally friendly practices	Several financial initiatives were introduced in this assessment, including financial instruments support to enterprises affected by the COVID-19 pandemic. Moreover, the recently adopted Plan for Accelerated Growth (2022-2026) foresees two funds to finance green economy projects.	Strong

Green policies targeting SMEs are well-designed, but the lack of a whole-of-government approach hampers proper implementation and monitoring

In addition to North Macedonia's SME Strategy (2018-2023), which has a special focus on environmental policies,[69] the newly adopted Plan for Accelerated Growth (2022-2026) is expected to provide a stronger impulse to greening measures in the post-COVID-19 economic recovery with the introduction of several instruments to promote and finance SMEs' green projects. Elements of the green economy targeted at SMEs are part of several sectoral strategies[70], particularly the Waste Prevention Plan (2021-2031), adopted in 2021 after being delayed since 2018. The plan is harmonised with the Law on Waste Management (2021) and should encourage eco-innovation and accelerate the circular transition (Box 17.17).

Box 17.17. SMEs and the circular economy in North Macedonia

SMEs are important for achieving objectives regarding the circular economy, both by making their business operations more circular and by contributing to the innovation that can strengthen circularity across economies. As the circular economy is gaining momentum in North Macedonia, SMEs, which represent the largest share of enterprises in the economy, should lead the way in the transition from a linear to a circular economy.

While there is no specific policy framework for a circular economy in North Macedonia, the recently adopted Law on Waste Management (2021) addresses the circular economy and secondary raw materials and is fully harmonised with the *acquis* in this area. Moreover, the upcoming Waste Prevention Plan (2021-2031) is expected to accelerate the circular transition by reducing waste production and increasing levels of reuse, recycling, and recovery of products. An awareness-raising campaign on circular economy concepts is planned under the strategy, with a special focus on SMEs.

The circular economy has rarely been the focus of financial or non-financial incentives to support SMEs in their greening efforts. Nevertheless, the Programme for Competitiveness, Innovation and Entrepreneurship for 2021, implemented by the Ministry of Environment and Physical Planning, has provided financial support for a technical feasibility study for a few circular economy projects. The programme has also provided support for the training, implementation and certification of environment and energy management systems, which might be used as efficient tools upon which further, more

targeted circular economy activities can be built. Promisingly, the additional financial incentives introduced with the recently adopted Plan for Accelerated Growth (2022-2026) should encourage SMEs' circular transition.

Sources: Ministry of Economy (2021[107]); OECD (2021[106]; 2021[10]).

Several institutions[71] are involved in the conception and implementation of environmental policies targeting SMEs in North Macedonia, including private-sector representatives. However, the lack of an overarching body responsible for co-ordinating SME greening policies and corresponding funds hampers proper implementation and monitoring of activities undertaken by different institutions. A modest budget is dedicated for projects targeting public awareness, education and trainings in relation to the protection of the environment in general (around EUR 125 000).[72] According to the government, all measures planned under the SME Strategy (2018-2023) relating to the green economy have been postponed because of the COVID-19 pandemic, and the dedicated funds have been reallocated. The Green SME Development Strategy, one of the main activities foreseen in the SME Strategy (2018-2023), has not been prepared.

While monitoring and evaluation mechanisms are envisaged under the SME Strategy (2018-2023), the relevant authorities have not monitored environmental policies and measures, and no evaluation has been conducted.

Environmental advice and guidance have been provided to SMEs, and the private sector has been increasingly involved in this regard

Similarly to the 2019 assessment, SMEs in North Macedonia have been regularly offered environmental advice and guidance from the government, the Chamber of Commerce and local councils, which are all actively involved in providing SMEs with information and expertise in their greening transition. For instance, awareness on green policies for SMEs has been raised through the National Corporate Social Responsibility Award, which is organised annually by the Ministry of Environment and Physical Planning (MoEPP), and includes the environment as one of its categories.[73] North Macedonia's first Aarhus Centre[74] was set up in 2019 as a platform to engage citizens, governments and the private sector in a dialogue on environmental challenges, support public participation in the areas of energy, climate and environment and facilitate access to environmental information.

Moreover, activities to foster SME awareness of green policies have been increased since North Macedonia's involvement with the Green Climate Fund (GCF)[75] in 2019. Activities organised as part of the GCF readiness and preparatory support programme have proven effective tools to engage with and collect data on the private sector. Extensive consultations were organised with relevant stakeholders, including the private sector, to ensure alignment between chosen GCF priorities, relevant national strategies and ongoing efforts. Following these consultations, different activities were organised to raise awareness of the GCF, identify climate-financing opportunities, and map private actors with existing or potential roles in supporting climate action. The recommendations emanating from the undertaken activities should be available in 2022 and will aim to support the design of policies and related financial instruments (Green Climate Fund, 2021[108]).

A range of financial initiatives has been developed to support SMEs in their greening efforts and, to some extent, as part of COVID-19 recovery programmes

While implementation of green policies has been advancing slowly, solid progress has been achieved in multiplying financial incentives available to SMEs to improve their environmental performance.

Through its Programme for Competitiveness, Innovation and Entrepreneurship (2012-2021), the MoEPP provided financial and technical support to 839 SMEs for renewable energy, energy efficiency, and, more

recently – in 2021, circular economy projects[76] (Box 17.17). Furthermore, in line with the Strategy for Innovation (2012-2020), until 2020, the Fund for Innovation has offered a total of 17 co-financed grants to SMEs' projects in relation to clean technologies and eco-products, in the amount of EUR 2.7 million.[77]

As recommended in the previous cycle, the DBNM has become an important actor in fostering green lending to SMEs' projects. The Financing Sustainable Energy Sources Projects credit line was developed to finance SMEs' projects related to renewable energy (up to EUR 3 million) and energy efficiency (up to EUR 500 000). Moreover, with the aim of connecting greening aspects to its COVID-19 recovery programme, the Development Bank's credit line KOVID3 offers SMEs the possibility to apply for a 30% grant if they plan to implement projects related to the green economy.[78]

The recently adopted Plan for Accelerated Growth (2022-2026) foresees two funds to finance green economy projects. First, a Hybrid National Green and Digital Fund for SMEs, Start-ups and Innovative Enterprises has been established to invest in green and digital SMEs to support their growth and entry into international markets, with a total portfolio of EUR 27 million.[79] The Fund is expected to start investing in the second half of 2022. Second, a Green Investment Fund is also being developed by the government and international partners to accelerate investments in renewable energy sources and energy efficiency solutions. It is expected to be worth EUR 36.3 million.

While the introduction of several financial incentives should encourage SMEs' greening activities, co-ordination between all instruments is needed. Currently, no co-ordinating body monitors and provides data on SMEs benefiting from financial initiatives for green practices.

Non-financial tools for SME greening have been introduced, although their implementation remains limited

Although non-financial tools supporting SME greening have been increasingly included in North Macedonia's legal framework, evidence on the use of these policies is lacking. The Long-Term Climate Action Strategy, adopted in 2021, and the subsequent Law on Climate Action (planned for 2022)[80] do not specifically target SMEs but aim to reduce GHG emissions with special licensing regimes for low-environmental risk installations. The law prescribes permits for stationary installations with simplified requirements for facilities with minimal environmental impact, which should mainly benefit SMEs by minimising unnecessary costs.

Moreover, environmental management systems (EMS) and eco-labels are legislated in the Law on Environment (2011), and rulebooks on eco-labels are available for some sectors (such as tourism or cleaning products). In addition to contributing to an increased demand for green business practices, certification of green practices could be useful for SMEs when dealing with business licensing and administrative requirements. Moreover, SMEs can benefit from such schemes when the business benefits outweigh both the direct costs in terms of fees that must be paid to obtain certification and the indirect costs of staff time to be spent complying with their requirements (OECD, 2021[106]). The 2021 Programme for Competitiveness, Innovation and Entrepreneurship has provided financial and technical support for the training, implementation and certification of environment and energy management systems (ISO 14001 and ISO 50001). However, programmes promoting SMEs' certification remain limited. There is almost no data on how many SMEs have adopted EMS or eco-labels in North Macedonia and if they have benefited from such schemes.

The Law on Public Procurement (2019) includes relevant provisions on green public procurement, including on lifecycle costs. Additionally, the Public Procurement Bureau and the Energy Agency have developed guidelines on energy efficiency measures to be used in public procurement procedures. However, the introduction of green public procurement measures in tenders has remained limited.

The way forward for Dimension 9

- **Ensure effective implementation of SME greening measures through cross-sectoral co-ordination.** Given the cross-cutting nature of SME greening policies, effective co-ordination among the relevant stakeholders is essential for successful implementation as well as to create a synergy between the various financial instruments and avoid overlaps between the different initiatives. While North Macedonia ideally should have a co-ordination body for SME greening, this does not need to be created from scratch. The task could be entrusted to the co-ordination body in charge of SME policy implementation established in 2019. Co-ordination should not stop at policy design and implementation but should continue for regular monitoring and evaluation.
- **Raise SMEs' awareness on eco-labels and environment management systems and monitor the implementation of such schemes**. North Macedonia should raise the recognition of green certification and eco-labels among SMEs by emphasising their role in offering a competitive advantage, providing opportunities in new markets and enhancing customer confidence. Business associations can help design marketing and promotional materials that SMEs could use to display their "green credentials" to their customers (OECD, 2018[109]). Moreover, monitoring and evaluation mechanisms will be necessary to keep track of the number of certifications delivered and ensure the efficiency of awarding procedures. Box 17.18 provides examples of an SME-oriented certification scheme in Norway.

Box 17.18. Environmental certification of SMEs in Norway

The Eco-Lighthouse Programme is a programme for the environmental certification of SMEs in Norway. With this programme, companies are supposed to reduce their impact on the environment, reduce costs and make use of an environmental profile in their marketing. The Norwegian Ministry of the Environment supports the programme.

The Eco-Lighthouse Office is responsible for marketing at the national level and the continuous development of the programme (including developing and improving trade demands in co-operation with consultants, companies and branch organisations). The office also arranges training courses for consultants who conduct environmental audits and local government staff responsible for certifying companies.

The municipalities recruit new companies, establish contacts between consultants and companies, make use of the media and carry out inspections before the environmental certificate is awarded.

The municipalities also issue the certificates when the companies have implemented the action plan to satisfy the established requirements.

The Eco-Lighthouse Foundation is the first national certification scheme in Europe to be recognised by the European Commission. The recognition verifies that the scheme holds the standard and quality on a par with international eco-labelling schemes (Eco-Management and Audit Scheme and ISO 14001).

As of 2022, 6 700 certificates have been delivered through the programme.

Sources: Eco-lighthouse Foundation (2022[110]) and OECD (2021[106]).

- **Support SMEs' transition to a circular economy**. To ensure effective implementation of the soon-to-be adopted Waste Prevention Plan (2021-2031), North Macedonia should support SMEs in their green and circular transition through awareness raising, capacity building and sharing of best practices. Facilitating partnerships and peer-to-peer learning between businesses of all sizes could encourage SMEs to engage in green and circular practices (OECD, 2020[111]). Building on the growing involvement of business associations, the government could facilitate circular

economy initiatives, such as the Circular Glasgow project, led by the Glasgow Chamber of Commerce. Even though this is a city-level project, it could easily be scaled up to the national level in North Macedonia (Box 17.19).

Box 17.19. Circular Glasgow: Capacity building on the circular economy

Since 2015, the Glasgow Chamber of Commerce has hosted Circular Glasgow and is responsible for delivering this initiative with Zero Waste Scotland, the Glasgow City Council (United Kingdom) and key stakeholders.

Circular Glasgow aims to build best practices and capacity on the circular economy across Glasgow businesses, helping them identify opportunities to support and implement circular ideas.

This is done by carrying out: 1) workshops and events – a series of knowledge-sharing business-to-business networking events; 2) a Circle Assessment – a tool that helps businesses understand opportunities to become more circular; and 3) the Circle Lab – an online hackathon event to find a circular solution to local challenges. The Circle Lab sought solutions to make Glasgow's event industry more circular.

Following the 2020 edition, ways to turn the winning ideas (namely a deposit-based reuse system for food and drink containers, circular designs for event marketing and branding, and a scheme that will repurpose organic waste into energy and fertilisers) into pilot projects were explored.

Building on the work of Circular Glasgow, the city of Glasgow adopted its Circular Economy Route Map (2020-2030) to reflect and shape a circular economy approach at a city-wide level to continue this momentum.

Sources: OECD (2019[112]; 2020[113]); City of Glasgow (2020[114]).

Internationalisation of SMEs (Dimension 10)

Introduction

Expansion into foreign markets and SME internationalisation are key factors in boosting SME productivity and competitiveness on a global scale. Smaller economies in the region often struggle with competing internationally or even accessing foreign markets, often due to a lack of technical assistance or resources. Supporting export promotion, sustainable integration into GVCs and opening digital sales channels need to be supported through concrete policy actions and enhanced governmental support. With such support, SMEs can broaden their reach, improve productivity, and introduce innovative practices.

For a small open economy such as North Macedonia, internationalisation and export-led development are key factors in achieving inclusive growth. Competitive manufacturing and services sectors contribute to robust growth and productivity performance. North Macedonia's current integration into world trade has largely relied on a narrow export base, which incorporates little domestic value added. The COVID-19 pandemic has put additional pressure on SMEs, especially in the area of access to finance, availability of technical assistance and maintaining liquidity. Therefore, a broad range of well-coordinated policies is required to boost SMEs' internationalisation, productivity and competitiveness, while easing labour reallocation during the ongoing recovery.

North Macedonia scored a total of 3.88 (Table 17.28), which is a moderate increase from the score received in 2019 (3.54). While the economy performed well under the first sub-dimension on export promotion, the second sub-dimension received sub-par scores, indicating that more efforts are needed in integrating SMEs into GVCs. The efforts on promoting the use of e-commerce remain largely in line with the regional average; however, more work is needed to effectively support e-commerce uptake among SMEs.

Table 17.28. North Macedonia's scores for Dimension 10: Internationalisation of SMEs

Dimension	Sub-dimension	Thematic block	North Macedonia	WBT average
Dimension 10: Internationalisation of SMEs	Sub-dimension 10.1: Export promotion	Planning and design	5.00	4.61
		Implementation	4.58	4.24
		Monitoring and evaluation	3.67	3.65
		Weighted average	**4.52**	**4.23**
	Sub-dimension 10.2: Integration of SMEs into global value chains	Planning and design	4.67	3.88
		Implementation	3.26	3.57
		Monitoring and evaluation	1.67	2.70
		Weighted average	**3.36**	**3.49**
	Sub-dimension 10.3: Promoting the use of e-commerce	Planning and design	3.67	3.62
		Implementation	3.00	3.15
		Monitoring and evaluation	3.67	3.29
		Weighted average	**3.33**	**3.32**
North Macedonia's overall score for Dimension 10			**3.88**	**3.80**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

North Macedonia advanced in reinforcing the strategic framework for export promotion by preparing to adopt the Strategy for Export Promotion (2022-2026). In line with OECD recommendations (Table 17.29), the economy focused on shifting to higher value-added exports and intensified its capacity-building efforts. Nevertheless, there are still outstanding challenges within the domestic supplier base. There has been

moderate progress in designing e-commerce policies in North Macedonia, though most support schemes and programmes focus more broadly on digitalisation.

Table 17.29. North Macedonia's implementation of the SME Policy Index 2019 recommendations for Dimension 10

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Develop consistent and targeted export support programmes focused on capacity building to ensure more SMEs become ready to export	Despite the COVID-19 pandemic being a major challenge to implementing export promotion activities, North Macedonia made moderate progress in shifting its focus to capacity building. The new Strategy for Export Promotion (2022-2026), set to be adopted in late 2022, emphasises improving SMEs' export preparedness and increasing their competitiveness abroad.	Moderate
Continue to develop programmes building on the cluster mapping activity and supplier development pilot programme	The government did not introduce any new programmes on cluster formation and development.	No progress
Solidify the framework for e-commerce and revise schemes to support the uptake of e-commerce	North Macedonia introduced a number of initiatives supporting the digitalisation of SMEs and increasing their technological capacity. However, a solid government framework to promote the uptake of e-commerce is still lacking.	Moderate

North Macedonia further reinforced its strategic framework for export promotion with a dedicated focus on transitioning to higher-value exports

Export promotion in North Macedonia is governed by the Law of Financial Support of Investment and the SME Strategy (2018-2023). The soon-to-be-adopted Strategy for Export Promotion (2022-2026) focuses on supporting domestic SMEs in improving their export capacity and helping them transition to higher value-added activities. Prompt adoption of the Strategy will be a step in the right direction and a welcome development in prioritising higher complexity of exports among SMEs, as the North Macedonian export base consists of both lower value-added products (agro-food and textiles) with a potential to transition and a few higher value-added products, such as automotive parts (OECD, 2019[115]). Assessment of the opportunities, obstacles and capabilities is at the centre of the process, including an analysis of export opportunities for SMEs, which was in preparation by the World Bank at the time of assessment.

Invest North Macedonia defined six high value-added priority sectors[81] ranging from IT, agribusiness and food processing, wine, textiles, automotive components and the electro-metal industry. These are aligned with the OECD's product-space analysis for North Macedonia, which showed that the products with the greatest export potential in North Macedonia are base metals, chemicals, machinery and textiles (OECD, 2019[115]). Moving up GVCs and focusing on a higher value-added of the export base, North Macedonia would increase SMEs' productivity growth, thus boosting their income, helping them remain profitable and create employment (OECD, 2007[116]).

Invest North Macedonia provides comprehensive support for SMEs but has no authority to grant financial support directly to SMEs

Invest North Macedonia is a government agency tasked with investment support and promotion. It caters to investors and provides them with customised services before and after an investment, along with a broad range of activities, including export promotion. The agency launched a separate export promotion portal[82] for domestic SMEs to access information on export opportunities. The SMEs can list their products and services on a global marketplace that is visible to international importers.

Although Invest North Macedonia offers a broad range of support measures for export-oriented SMEs, it does not provide direct trade financing. In 2019, the government introduced a new Law of Financial Support of Investment that gave the agency a more substantial role in the decision-making process for approving

financial support for SMEs. The agency has autonomy in terms of regulating the types, amounts, conditions, and procedures for granting financial support to investing business entities. However, no direct payments are handled by the agency.[83] This diverts from the practice common in the WBT region and among OECD member countries, where export promotion agencies tend to have a broader mandate allowing them to expand grants directly to SMEs (OECD, 2018[117]).

The government reinforced both the strategic framework for GVC integration and its implementation, although room for improvement remains

The integration of North Macedonian SMEs into GVCs is included in several government strategies and constitutes a key aspect of SME support in North Macedonia. The SME Strategy (2018-2023) defines increased SME participation in GVCs as one of the main targets of the government's internationalisation programme. To achieve this goal, the government envisages analysing SMEs' potential to integrate into GVCs and developing dedicated programmes and services to help them access foreign markets. The strategy's measures focus on increased support for the ICT sector and the green economy and improving co-operation within industry clusters and networks. The Europe Enterprise Network has been enlisted to support the development of strategic industries, such as food and wine, steel, construction, renewable energy and tourism (Ministry of Economy, 2018[74]).

By adopting the new Strategy for Export Promotion (2022-26), North Macedonia will reinforce its commitment to boosting SME competitiveness. The government already provides technical advisory support for SMEs aiming to digitalise their operations, adopt international standards, invest in tangible assets and upgrade their products. Different international initiatives are also in place aiming to improve SME competitiveness by furthering their technological advancement and increasing their productivity[84]. In addition, the Law on Financial Support of Investments has a special provision on financial support for SMEs to establish and develop co-operation with local suppliers. The provision applies particularly to companies operating within technological, industrial development zones (TIDZs), which manufacture product components and assemble final products for export. This constitutes a good first step to further advance SME integration into GVCs, especially in light of the COVID-19 pandemic disruption of traditional supply chains (Srbinoski, Petreski and Petreski, 2020[99]).

To successfully compete in the global market, the SME supplier base needs assistance in overcoming the lack of information on foreign markets and limited global exposure. To address this issue, three portals have been launched since the previous assessment: a government's online matchmaking portal - Macedonian Suppliers Business Portal, which links local suppliers with international buyers; Invest North Macedonia's export promotion portal and the Brownfield portal, which is a database of available production and business facilities allowing domestic and foreign investors to browse and use these facilities with prior registration.

The economy is also part of the Regional Supplier Development Programme,[85] with Western Balkan economies working together to map suppliers from the region in the sectors of light manufacturing, the automotive industry and agro-food, and this initiative could be particularly beneficial for SMEs in North Macedonia as it would allow for a regional regrouping and thus enable SMEs to collectively answer to more important demands from MNEs. While the initiative is a good step in the right direction to increase SME integration into GVCs, its uptake remains below optimal. This may be due to insufficient promotion efforts, as the portal is user-friendly and contains up-to-date information on opportunities for both SMEs and MNEs.

Despite the COVID-19 pandemic's negative impact on the economy, the global supply chain disruptions might present opportunities for exporting SMEs and MNEs, especially those with existing linkages. MNEs were particularly affected by the disruptions along global supply chains; this opens a possibility for increased collaboration with domestic SME suppliers to fill the gap caused by import distortions from other continents during the pandemic. SMEs already connected to locally operating MNEs could benefit from forming a cluster, although government support would be crucial to upgrading the linkages and boosting

technology and innovation transfers (El-Meehy, 2004[118]). However, despite being mentioned in North Macedonia's strategic framework, since the last assessment cycle, there have been no new programmes to support cluster formation and development.

Monitoring and evaluation of projects related to GVC integration are limited and chiefly done by international partners

North Macedonia's monitoring of projects related to GVC integration is limited in light of the absence of dedicated government programmes. The government collects data on SME internationalisation, although specific information on SME integration into GVCs is lacking, which in turn deters monitoring and evaluation. Consequently, the government lacks insight into the effectiveness of introduced policies, as evidence-based inputs are limited. While existing external initiatives aiming to assist SMEs in GVC integration are monitored, it is performed by international development partners on an ad hoc basis, without a government framework for evaluation.

Although North Macedonia has advanced in harmonising its e-commerce legal framework with EU directives, the focus of its support schemes remains too broad

North Macedonia has made notable efforts in prioritising e-commerce in its strategic documents and ensuring their alignment with EU directives. The Law on Consumer Protection is currently under government procedure and will be fully aligned with EU standards and CEFTA provisions. The law is an extension of the broader Law on Safety of Goods and includes provisions on e-commerce and e-payments. The new Law on Payment Services and Payment Systems, which implements European directives and regulations pertaining to e-payment services, is planned for adoption in late 2022. The law was approved by the government and submitted to the parliament for adoption at the time of assessment.

The aforementioned laws are part of a broader SME Strategy (2018-2023) and are aligned with the government's draft National ICT Strategy (2021-25), whose timely adoption was delayed due to the lack of implementation of the previous strategy caused by the COVID-19 pandemic. Support for SMEs aiming to increase digitalisation levels within the company has also been included in the Ministry of Economy's Programme for Competitiveness, Innovation and Entrepreneurship 2019, 2020 and 2021, although details on implementation and monitoring are lacking.

Although there are no dedicated government programmes for the promotion of e-commerce, North Macedonia has implemented a series of initiatives to boost SMEs' uptake of e-commerce and digitalisation processes. To mitigate the effect of the pandemic, the North Macedonian Development Bank, in collaboration with the European Union, introduced a series of interest-free credit lines and grants for affected MSMEs aimed at modernisation and digitalisation of business processes while the FITD launched co-financed grants for technological development of digital solutions. However, the scope of both grant schemes remains broadly defined, encompassing digitalisation activities without being specifically directed to e-commerce activities. While this is a welcome development in line with OECD best practices, North Macedonia lacks government programmes that aim solely to promote e-commerce practices among SMEs. Adopting a cross-border e-commerce sales channel could accelerate SME growth and foreign expansion[86].

A dedicated entity overseeing the implementation of e-commerce programmes is still lacking, and no separate budget to promote the uptake of e-payments and e-commerce is currently envisaged by the government, as these activities fall within the scope of the general budget for promotional activities. While North Macedonian Association for e-commerce makes notable efforts in informing SMEs on new initiatives and available services through their online portal, collects data on e-commerce and prepares comprehensive reports and analyses, their overreach remains limited, and the resulting analysis is available through a paid membership only, which limits access to information.

The way forward for Dimension 10

- **Extend Invest North Macedonia's mandate to further strengthen investment facilitation and the quality of aftercare services.** Increasing the agency's capacity could have a positive impact on attracting export-oriented FDI within the TIDZs and fomenting SME-MNE linkages through dedicated programmes. Invest North Macedonia should have sufficient resources, authority and capacity to adequately meet the needs of potential investors and to assist SMEs in creating productive linkages with them in order to benefit from knowledge and technology transfers, improve their competitiveness and move up the value chain.
- **Promote intensified cluster formation by developing new support policies supporting industrial clustering in priority sectors of the economy**. Since the last assessment cycle, there have been no new programmes promoting cluster formation and development. Priority sectors for export promotion (IT, agribusiness and food processing, wine, textiles, automotive components and the electro-metal industry) have high potential for industrial clustering and shifting to higher value-added activities. The programmes should have proper monitoring and evaluation systems in place to ensure effective implementation.
- **Establish a dedicated government programme focused on promoting e-commerce uptake among SMEs.** Government support for private initiatives and international partner organisations' programmes is also a vital component of digitalisation and modernisation efforts, as outlined in strategy documents. Box 17.20 provides a relevant good practice example.

Box 17.20. Digitalise your SME: A collection of initiatives from Chile

Chile's Ministry of Economics, Development and Tourism introduced a new initiative to equip SMEs with training to adopt e-commerce practices and digitalise their operations called "Digitalise your SME". The project entails workshops, events and capacity building to provide solid tools to further digitalise Chilean SMEs. The project consists of eight different initiatives:

- **Buy SME**: An online platform that connects newly digitalised local SMEs with potential customers.
- **Digital Route**: An education programme developed together with Servicio de Cooperación Técnica (SERCOTEC) (Technical Co-operation Service) that aims to equip SMEs with technical skills to digitise their operations.
- **SMEs Online**: An online platform for SMEs, created to facilitate the incorporation of e-commerce.
- **Local SMEs**: A free online platform for local microenterprises, which is accessed with the help of an online assistant, and where users can learn about taking their businesses on line.
- **SME Launch**: A widely accessible education platform for companies and the general public to enhance technical and digital skills related to tax matters and logistics across the economy.
- **Tourism Connect**: A dedicated resource for SMEs in the hospitality and tourism industry, created to augment their digitalisation.
- **Digital Challenge**: A national campaign that promotes digitalisation across Chile.

The initiative is divided into three main components: raising awareness, education and adoption. Through a single online platform, SMEs can increase their visibility, integrate an e-commerce

distribution channel into their operations, receive assistance with establishing a payment infrastructure and understand the legal framework. The project was launched in 2019 and seeks to assist over 25 000 SMEs countrywide.

E-commerce promotion is lagging in North Macedonia, as the uptake of digital practices remains low. Introducing capacity-building activities, training and step-by-step guides on how to engage in an e-commerce sales channel and digitalise operations could improve the uptake of digital support programmes within the economy. Given that there is no dedicated entity to oversee e-commerce implementation, the government could empower SMEs while simultaneously connecting them to a global marketplace through online business-to-business or business-to-consumer matchmaking platforms.

Source: Ministry of Economy, Development and Tourism, Chile (2020[119]).

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2. For full information on the Concept for Primary Education, see http://osnovnoobrazovanie.mon.gov.mk/%D0%BA%D0%BE%D0%BD%D1%86%D0%B5%D0%BF%D1%86%D0%B8%D1%98%D0%B0-%D0%B7%D0%B0-%D0%BE%D1%81%D0%BD%D0%BE%D0%B2%D0%BD%D0%BE-%D0%BE%D0%B1%D1%80%D0%B0%D0%B7%D0%BE%D0%B2%D0%B0%D0%BD%D0%B8%D0%B5/ (accessed on 30 January 2022).

3. For more information, see http://jamacedonia.mk/web/company-programme/.

4. For more information, see https://fitr.mk/%d1%84%d0%be%d0%bd%d0%b4-%d0%b7%d0%b0-%d0%bc%d0%bb%d0%b0%d0%b4%d0%b8-%d1%83%d0%bc%d0%be%d0%b2%d0%b8/ (accessed on 30 January 2022).

5. For more information on the Upshift programme, see https://fitr.mk/en/existing-initiatives/.

6. For more information on Junior Achievement, see http://jamacedonia.mk/web/.

7. Since the COVID-19 pandemic, these textbooks are now available on line; see below for examples:

Innovation and Entrepreneurship textbook for ninth grade primary and years 1-3 of secondary education (last years of lower secondary level through to upper secondary level)

- Ninth grade primary: https://www.e-ucebnici.mon.gov.mk/pdf/Inovacii%20IX%20cela%20Sep%202020.pdf.
- Year 1 of the course *Innovation and Entrepreneurship*: https://www.e-ucebnici.mon.gov.mk/pdf/Inovacii%20i%20pretpriemnistvo_I_MAK_PRINT_comp_2020.pdf.
- Year 2 addressing project-based activity: https://www.e-ucebnici.mon.gov.mk/pdf/Inovacii%20i%20pretpriemnistvo%20-%20II%20%20god.%20cela%20Sep%202020.pdf.
- Year 3 of the course *Innovation and Entrepreneurship*: https://www.eucebnici.mon.gov.mk/pdf/%D0%98%D0%BD%D0%BE%D0%B2.%D0%B8%20%D0%BF%D1%80%D0%B5%D1%823-%D1%82%D0%B0_comp_2020.pdf.

8. In 2019, the Bureau for Development of Education supported large-scale training for over 2 000 teachers on key competences, including the entrepreneurship key competence.

9. More information on EntreCompEdu can be found at www.entrcompedu.eu. This European project was led by University of Wales Trinity Saint David, and development/training delivery in North Macedonia was implemented by the National Centre for Development of Innovative and Entrepreneurial Learning (see http://ncdiel.mk/).

10. For more information, see https://pfbt.uklo.edu.mk/wp-content/uploads/sites/5/2021/12/Nastavnik-I-ciklus.pdf.

11. The National Platform for Women's Entrepreneurship is a coalition between the Association of Business Women, the Miro Foundation, the Macedonian Chamber of Commerce and the National Federation of Farmers. Co-funded by the European Union, the main goal of the project is to strengthen the capacity of civil society to create public policy proposals and advocacy in the field of women entrepreneurship, by merging existing networks into a single platform that will be of interest to women entrepreneurs at all levels. It will do this by building a national platform, facilitating structural dialogue and networking between stakeholders at the national and local levels, capacity building within civil society organisations and promoting women entrepreneurs as drivers of change in public policy. For more information, see https://en.weplatform.mk/.

12. For more information, see https://www.mtsp.gov.mk/socijalno-partnerstvo-ns_article-ekonomsko-socijalen-sovet.nspx.

13. The procedure is characterised as a quasi-collective proceeding under the supervision of a court or an administrative authority appointed by the court (Deloitte, 2017[121]). The proposed procedure is similar to the already enacted pre-insolvency and restructuring procedures in Croatia in 2015 (Ministry of Justice, Government of Croatia, 2015[122]), in Serbia in 2016 (Parliament, Serbia, 2016[123]) Bosnia and Herzegovina in 2021 (Parliament, Bosnia and Herzegovina, 2021[124]). The procedure provides a possibility to the debtor to solve its existing debt to creditors only through

financial reorganisation or to undertake more serious operative restructuring and turn-around of the debtor's business.

14. The service refers to free mentoring for newly established SMEs, not older than three years from the date of publication of the call and companies whose business operation is longer than three years (registered before February 2017), which are at a crucial moment for their further growth and market development or survival. Manufacturing enterprises and enterprises owned/operated by women entrepreneurs are particularly encouraged to participate in the call.

15. Mainly unregistered labour and undeclared wages and other irregularities related to labour as well as underreporting turnover.

16. The SME Test is a policy tool promoted by the European Commission as a means to fully examine and respond to the potential impacts of a regulation on SMEs. The SME Test methodology starts with an examination of the SME aspects in RIA, and acts as a filter for policies which could have an important impact on SMEs. If the regulation is considered to have a high enough impact on SMEs, the process moves towards extensive consultation with stakeholders, assessment of impacts and preparation of mitigation measures. For more information, see: https://ec.europa.eu/info/sites/default/files/br_toolbox-nov_2021_en_0.pdf.

17. For more information on the Estonian example, see: https://www.oecd-ilibrary.org/sites/06899687-en/index.html?itemId=/content/component/06899687-en.

18. A qualified electronic signature is an electronic signature that is made with a qualified certificate for identifying the signer. This certificate consists of an electronic document that links the data of the signer and the validation of the signature to the unequivocal identification of the subject. Qualified certificates require either acquiring them as a service from certified private providers, therefore incurring a cost, or the use of electronic ID cards, requiring the use of card-reader hardware.

19. National Population Register, Central Register (of business entities), cadastre.

20. Regulation (EU) No. 910/2014 on electronic identification and trust services for electronic transactions in the internal market, or the eIDAS regulation, establishes the European framework for electronic trust services and the use of e-ID. For more information, see: https://digital-strategy.ec.europa.eu/en/policies/eidas-regulation.

21. The excessive discretionary power of government officials and inconsistent application of regulations remain an important constraint for 30% of business, which reported it as being a big or very big obstacle to obtaining a licence. Moreover, the same share of businesses reported that the explicit or implicit norm to give bribes was a big or very big obstacle.

22. The programme's activities include: collecting, processing and publishing data and information relevant for SMEs; creating an online database of initiatives offered by regional support centres; conducting training, consulting and education activities for the SME sector; organising conference events to encourage networking; implementing regional and national co-operation programmes; providing subsidies and vouchers for counselling services for SMEs; and co-financing development projects in co-operation with international development co-operation partners.

23. The SME Strategy (2018-2023) envisages revitalising credit guarantees schemes through the Development Bank of North Macedonia, grants, leasing and loans for SMEs to improve their access to finance.

24. In 2019, APPRM had a set budget of MKD 3.9 million (approximately EUR 63 370). For 2020, the government increased the budget to MKD 20.8 million (approximately EUR 338 044), illustrating a strengthened commitment to SME development. Due to the impact of the COVID-19 pandemic, the 2020 budget was revised down by approximately MKD 3 million (approximately EUR 48 600), amounting to MKD 17 million (approximately EUR 276 286) in October 2020. The budget for 2021 remains at MKD 17 million.

25. Mentoring services, provided in collaboration with JICA, include assistance in preparing business plans, consultations on preparing applications for financial support and credit and business partner search.

26. APPRM offers grants supporting certification and standardisation (see also Standards and technical regulations (Dimension 7)).

27. For more information, see https://www.ebrd.com/news/2021/ebrd-and-eu-to-boost-competitiveness-of-small-and-mediumsized-enterprises-in-north-macedonia.html.

28. For more information, see https://www.giz.de/en/worldwide/103539.html.

29. Start-ups enjoy a 100% subsidy up to EUR 500, while a 50% subsidy is offered to existing enterprises, with a ceiling of EUR 750.

30. The indicators include: geographical coverage; the number of advisors available; areas of specialisation; the number of applications; acceptance rate; the number of people interested in the programme; voucher amounts; the number of grants provided; percentage of customer satisfaction; and percentage of unused vouchers.

31. The Industrial Policy (2018-2027) focuses on the manufacturing industry and aims to promote increased employment and productivity of the sector. The strategy outlines five strategic goals: strengthen manufacturing foundations in the economy; increase productivity, innovation and technology transfer; catalyse green industry in manufacturing; stimulate manufacturing exports; and increase learning capacities within the manufacturing sector.

32. PPL, Article 106.

33. PPL, Article 78 (1).

34. PPL, Article 99 (2).

35. PPL, Article 89 (3).

36. PPL, Article 99 (1).

37. According to the Public Procurement Bureau's annual reports they are, however, applied very often – in 91.9% of procurement procedures in 2020 and 93.8% in 2019.

38. PPL, Article 99 (5).

39. In 2020, the price was the only criterion in 95.7% of procurement procedures.

40. PPL, Article 103.

41. See https://www.bjn.gov.mk/wp-content/uploads/2021/05/ZJN_izmena.pdf.

42. PPL, Article 29.

43. PPL, Article 83.

44. PPL, Article 99.

45. PPL, Article 110.

46. PPL, Articles 121-123.

47. See https ://www.bjn.gov.mk/category/godishni-izveshtai.

48. See https://e-nabavki.gov.mk/PublicAccess/Home.aspx#/home.

49. See https://e-nabavki.gov.mk/PublicAccess/home.aspx#/compliants.

50. See https://dkzjn.gov.mk.

51. Companies too small to be served by conventional banks.

52. The report was based on a survey of levels of financial literacy in Bulgaria, Croatia, Georgia, Moldova, Montenegro, North Macedonia and Romania, collecting primary data using its globally vetted OECD/INFE Toolkit. In addition to calculating globally comparable financial literacy scores, the analysis covers financial inclusion and elements of financial well-being, paying particular attention to attributes of individual financial resilience.

53. See https://konkurentnost.mk.

54. North Macedonia currently has multilateral recognition agreements with the European co-operation for Accreditation in the following accreditation fields: testing, calibration certification of persons, management systems and inspection.

55. For more information, see the analysis of preliminary areas of smart specialisation identified in the 2021 report by the European Commission at https://eprints.ugd.edu.mk/29254/1/FIN%20Final%20Report%20QA%20_%20RNM_5.4.2021.pdf

56. For more information, see http://av.gov.mk/programi-za-vrabotuvanje.nspx.

57. For more information, see http://nikola@apprm.gov.mk/News?LCID=16&jazik=MK&NewsID=518.

58. APPRM was a partner in an Erasmus+ Knowledge Alliance in Eco-Innovation Entrepreneurship to Boost SMEs Competitiveness. For more information, see https://issuu.com/facultyofeconomicsprilep/docs/brochure_smecomp.

59. For more information, see https://www.jica.go.jp/project/english/all_europe/001/outline/index.html.

60. The Catalyst Programme was developed by FITR in collaboration with PWC North Macedonia and supports early-stage start-ups. For more information, see https://fitr.mk/%d0%bc%d0%b5%d0%bd%d1%82%d0%be%d1%80%d1%81%d0%ba%d0%b0-%d0%bf%d0%be%d0%b4%d0%b4%d1%80%d1%88%d0%ba%d0%b0/ (accessed on 30 January 2022).

61. For information on how FITR supports social entrepreneurship, see https://fitr.mk/%d0%bf%d0%be%d1%82%d1%82%d0%b8%d0%ba%d0%bd%d1%83%d0%b2%d0%b0%d1%9a%d0%b5-%d0%bd%d0%b0-%d1%81%d0%be%d1%86%d0%b8%d1%98%d0%b0%d0%bb%d0%bd%d0%be%d1%82%d0%be-%d0%bf%d1%80%d0%b5%d1%82%d1%80%d0%bf%d1%80/ (accessed on 30 January 2022).

62. FITR has established a partnership with Amazon Web Services (AWS) through which the Fund provides loans for the use of the AWS global platform (amounts are incremental at USD 10 000, USD 25 000 and USD 100 000).

63. S3 development is being supported by international development co-operation agencies, including the World Bank, GIZ and the Swiss Agency for Development and Cooperation. For more information, see https://www.biznisvesti.mk/koordinativen-sostanok-na-rabotnite-grupi-za-sozdavane-strategija-za-pametna-spetsijalizatsija/.

64. The National Development Strategy (2021-2041) is being developed through a defined methodology designed in collaboration with the UNDP and the British Embassy. For more information on the public and stakeholder consultation process, see https://www.nrs.mk/en-GB/pocetna/za-nrs/nashata-strategija.nspx.

65. For more information, see https://www.mchamber.mk/Default.aspx?mId=3&evid=80054&lng=1.

66. For more information, see www.apprm.gov.mk/content/Documents/Godisen_izvestaj_2020_APPRSM.pdf.

67. The annual European Innovation Scoreboard provides a comparative assessment of research and innovation performance of EU countries and their regional neighbours. It allows policy makers to assess the relative strengths and weaknesses of national research and innovation systems, track progress, and identify priority areas to boost innovation performance. See the regional chapter on Innovation for SMEs (Dimension 8b) for further information.

68. In addition, the FITD launched a programme aimed at providing co-financed grants for professional development and internships for newly employed young people. However, amid limited interest, this scheme was closed unsuccessfully under the first call.

69. The strategy is fully aligned with the Small Business Act for Europe and translates Principle 9 (Enable SMEs to turn environmental challenges into opportunities) and includes a set of measures on providing advice and guidance to SMEs, improving resource efficiency and introducing financial incentives for SME greening.

70. National Strategy for Sustainable Development (2009-2030), National Strategy for Agriculture and Rural Development (2014-2020) and Industrial Strategy (2018-2027).

71. The Ministry of Economy, the Ministry of Environment and Physical Planning, the Ministry for Agriculture, the Vice Premier for Economic Matters and the Innovation and Technological Development Fund are involved in developing and implementing SME greening policies.

72. Beneficiaries of this budget can be legal and natural persons, including state, municipal or local bodies that carry out programmes, projects and other activities regarding the protection or improvement of the environment. This programme provides grants and co-finances projects, and is financed by the charges paid on the basis of the polluter-pays-principle and the national budget.

73. In 2019, the SME, Adora Engineering, won the contest with the project “Traditional construction for a healthy and modern home”, which envisaged the construction of residential buildings using traditional techniques to ensure energy efficiency and eco-comfort. In 2021, two bigger companies won the contest for photovoltaic power plant projects.

74. Aarhus Centres are established in line with the Aarhus Convention. The United Nations Economic Commission for Europe (UNECE) Convention on Access to Information, Public Participation in Decision-Making and Access to Justice in Environmental Matters (Aarhus Convention) was adopted on 25 June 1998 in the Danish city of Aarhus (Århus) at the Fourth Environment for Europe Ministerial Conference and aims at empowering the role of citizens, civil society organisations and the private sector in environmental matters. The Aarhus Convention establishes a number of rights for individuals and civil society organisations with regard to the environment.

75. The Green Climate Fund – established within the framework of the United Nations Framework Convention on Climate Change (UNFCCC) – is the world's largest climate fund, mandated to support developing countries in raising and realising their nationally determined contributions (NDC) ambitions towards low-emissions, climate-resilient pathways.

76. Specific activities included:

- the preparation of project documentation for installation of photovoltaic panels for electricity generation from renewable energy sources
- financial support to MSMEs for the purchase and installation of photovoltaic panels
- financial support to companies for the preparation of technical project documentation or a technical feasibility study for increased energy efficiency and circular economy measures
- procurement, implementation, certification and training for environmental management standards in the fields of horizontal standards, harmonised and other standards, and standardisation documents in the field of processing industry (MKC EN ISO 50001; MKC EN; ISO 9001; ISO 14001; ISO 22000; MKC EN ISO 45001; MKC EN ISO 31000).

77. The 17 projects have been supported under the following instruments from the FITD: 3 – Co-financed grants for commercialisation of innovation; 2 – Co-financed grants for the improvement of innovation; 5 – Co-financed grants for start-ups and spinoffs; and 7 – Co-financed grants for technology development.

78. The first payments of the approved loans started at the beginning of 2021. Funds are mobilised from the EU IPA programme and amount up to EUR 30 million. Loans are approved with a three-year deadline for repayment. Negotiations are ongoing for extending the deadline for payment to an additional 12 months.

79. EUR 10 million will be financed by the government and the rest by private investments.

80. Both were prepared as part of an EU-funded project that started in 2019, which aimed to strengthen North Macedonia's administrative capacity in line with EU accession in achieving a low-carbon competitive economy and a climate-resilient society. For more information, see https://climateaction-ipaproject.mk/.

81. Invest North Macedonia prioritised the following sectors: information technology, agribusiness and food processing, wine, textiles, automotive components and the electro-metal industry.

82. For more information, see http://export.investnorthmacedonia.gov.mk/.

83. Direct payments are within the purview of the Ministry of Economy.

84. In addition to government efforts, an international initiative spearheaded by the International Finance Corporation of the World Bank aims to improve SME competitiveness by furthering their technological advancement and increasing their productivity. The project currently being developed will also focus on facilitating certification and standardisation to comply with international regulations. SMEs will receive financial and non-financial support to gain a technological advantage to allow them more significant participation in GVCs. The project will last until 2025.

85. The Regional Supplier Development Programme is a joint initiative of the Western Balkan economies, the World Bank, the EBRD, the Western Balkans 6 Chamber Investment Forum (WB6 CIF) and the Regional Cooperation Council (RCC). The initiative is conducted under the Common Regional Market Action Plan, and the Economic Chamber of North Macedonia is also actively involved in the programme. The Economic Chamber of Commerce is tasked with mapping suppliers in the Western Balkans region, which are later included in the supply chain module of the Market Access database developed under the framework of the Regional Supplier Development Programme.

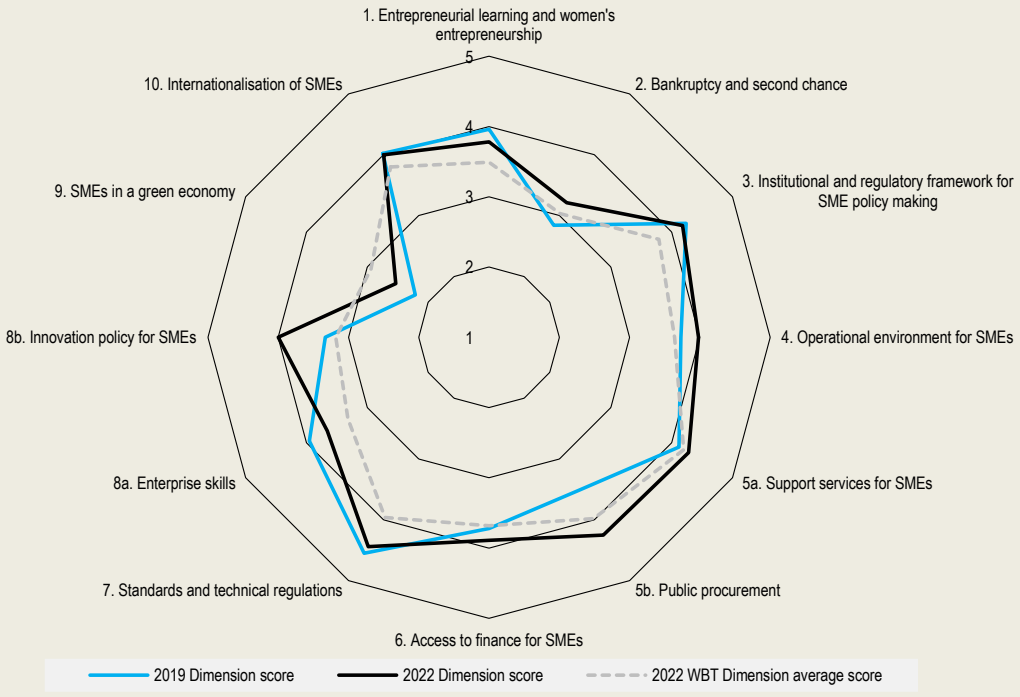
86. Traditional SMEs usually do not engage in export activities, as participation ranges from 2% to 28%. Some 97% of SMEs that moved their sales on line are exporting and expanding their export range globally (World Trade Organization, 2016[120]).

18 Serbia: Economy Profile

This chapter covers the progress made by Serbia in implementing the Small Business Act (SBA) for Europe over the period 2019-21. It starts with an overview of Serbia's economic context, business environment and status of its EU accession process. It then provides key facts about small and medium-sized enterprises (SMEs) in the Serbian economy, shedding light on the characteristics of the SME sector. It finally assesses progress made in the 12 thematic policy dimensions relating to the SBA during the reference period and suggests targeted policy recommendations.

Key findings

Figure 18.1. Small Business Act scores for Serbia (2019 and 2022)



Serbia has made good progress in implementing the Small Business Act since the publication of the previous report – the *SME Policy Index: Western Balkans and Turkey 2019* (Figure 18.1). The economy is committed to continuously improving its business environment and ranks among the top three economies in almost all dimensions. Serbia has achieved its highest average scores in the following areas: operational environment for small and medium-sized enterprises (SMEs); support services for SMEs; public procurement; access to finance for SMEs; standards and technical regulations; and innovation policy for SMEs, where it also outperforms the WBT average.

Main achievements

- **Serbia's new e-Uprava portal for digital services was launched in February 2020**, and the government made progress in rolling out digital services for businesses. Starting a business has become more accessible and transparent thanks to optimised electronic registration as well as centralised and digitalised business licensing processes within the e-Uprava portal. Businesses' perception of digital government services in Serbia has significantly improved, as evidenced by the latest Balkan Business Barometer Survey, where 62% of respondents, the highest share in the region, expressed satisfaction when asked about their opinion of digital government services in 2021, compared to 35% in 2019.
- **The government made considerable efforts to address challenges in accessing business support services (BSSs) faced by SMEs, especially those in the early stages of development.** The Development Agency of Serbia (RAS) implemented the Promotion of Entrepreneurship and Self-Employment Programme to encourage the development of early-stage entrepreneurship in the economy. In addition, the government intensified its collaboration

with international partners to boost the scope and range of provided BSSs, which now include assistance in adhering to EU standards, greening and business expansion.

- **Access to finance for SMEs has eased in Serbia** owing to impactful regulatory measures to address legacy obstacles in the financial industry, including foreign-indexed loans and high levels of impaired loans. Amid the COVID-19 pandemic, several steps have been taken to ensure liquidity, and two sovereign credit guarantee funds have been established, which have seen good uptake.
- **The innovation policy framework and availability of financial support have been further strengthened**. Further progress has been made to reinforce the economy's strategic policy framework for innovation, and implementation capacity has been boosted through the establishment of a dedicated Science Fund. Financial support, including through allocations from the state budget, has increased significantly, with the new Science Fund complementing funding provided by the Serbian Innovation Fund. In addition, some indirect financial support measures have been introduced.
- **Serbia made noteworthy progress in reducing barriers to trade and conforming to EU standards.** Following the adoption of the new Customs Law, resulting in a significant simplification of customs procedures and the implementation of a centralised system of customs clearance, Serbia's trade legislation improved in its harmonisation with the EU *acquis.* To facilitate further SME integration into global value chains (GVCs), the government implemented the Supplier Development Programme, which aims to boost SME indirect participation and inclusion into GVCs through becoming suppliers for multinational enterprises (MNEs).

The way forward

- **Develop a fully-fledged early warning system as an insolvency prevention measure to maintain a healthy SME ecosystem**. The government should provide SMEs with access to an early warning tool to red flag identified financial distress signals and recommend adequate remediation. The economy could start by further developing its existing mentoring and advisory services to extend the programmes offered to SMEs in financial distress.
- **Introduce a comprehensive legal framework to facilitate the uptake of non-bank financial instruments.** Even though the Serbian financial sector is relatively mature by regional standards, legislation on microfinance would encourage its introduction in a regulated manner, benefiting otherwise unbankable microenterprises while maintaining tight regulatory oversight. Further amendments to the Law on Factoring, coupled with awareness-raising in partnership with the financial sector, would support the development of factoring.
- **Establish comprehensive monitoring and evaluation of all programmes related to entrepreneurial learning and SME skills, including a strong gender focus.** A high-quality and co-ordinated approach to monitoring and evaluation is needed to measure progress towards the impacts outlined in linked strategy documents. This work should be supported by consistent gender-disaggregated data gathered from government-financed SME support and training actions and should inform a gender impact assessment of the current approaches to enterprise skills and support. This will address and seek solutions for the current challenges faced by women across the labour market and entrepreneurship.
- **Enhance financial support to encourage SME greening.** The government should also consider facilitating SMEs' access to finance for green projects by including green criteria in existing financial instruments, such as the two dedicated SME credit guarantee schemes established in 2020. Going forward, the Green Fund could expand its scope and include specific financial programmes to support SME greening. Moreover, Serbia would need to upscale training to support sustainability, circular economy and green transition of SMEs.

- **Build trust in e-commerce practices among customers and SMEs.** Serbia has a well-developed legislative e-commerce framework in place; however, the uptake of e-commerce practices among SMEs remains low. Strengthening trust in e-commerce is key to the successful integration of customers and SMEs into online sales channels. Strengthening data protection and ensuring the security of online transactions warrants further efforts. Although Serbia implemented support programmes aiming to address these challenges, room for improvement remains.

Economic context and role of SMEs

Economic overview

Serbia is an upper-middle-income economy with a population of 6.9 million as of 2021, making it the most populated of the Western Balkan economies (World Bank, 2022[1]). Its per capita gross domestic product (GDP) by purchasing power parity stood at USD 18 255 in 2020 (in constant 2017 international dollars), having decreased by approximately USD 50 since 2019 (World Bank, 2022[1]). Although dominated by the services sector, which accounts for 51.5% of GDP and 57% of employment, Serbia is the most diversified of the Western Balkan economies. Industry holds the second-highest value added to GDP at 26.4%, roughly half of which is manufacturing, while agriculture, forestry and fishing generate only 6.0% of GDP. Employment is also highly diversified, with industry accounting for 27.4% of the total workforce, with the highest growth in the information technology (IT) sector, while agriculture accounts for 15.6% of formal employment, higher than any neighbouring economies (SORS, 2021[2]).

Serbia's economic situation quickly stabilised after the 2008 financial crisis, allowing for steady growth since 2015, driven mainly by surges in private investment, which increased by 30 percentage points from 2014 to 2020, evened out inflation and declining public debt (OECD, 2021[3]). Serbia was among the least affected economies in Europe by COVID-19, with a mild contraction of only 0.9 percentage points in 2020 owing to strong pre-crisis momentum, sizeable and timely fiscal and monetary support measures, the sectoral structure of the economy and a relatively low average stringency of containment measures as well as positive results in agricultural production and the construction sector (Box 18.1) (European Commission, 2021[4]). The economy showed a solid economic rebound at 7.4% GDP growth in 2021 fuelled by strong recovery in the production of automotive supplies, a recovery of private consumption and the implementation of government support measures, and is expected to increase to 4.3% in 2022 (European Commission, 2022[5]).

Box 18.1. Serbia's COVID-19 recovery programme

Although Serbia's economy was negatively impacted by the COVID-19 pandemic and accompanying lockdown measures, the impact was one of the lowest rates in the region. Serbia's overall positive outcome, evidenced by a GDP contraction of only 0.9 percentage points in 2020, is the best result in the Western Balkans and Turkey (WBT) region after Turkey, due to quick policy responses from the government and heavy fiscal intervention by the Central Bank.

As part of its recovery, Serbia provided three economic support packages to mitigate the impact of COVID-19, the first having been launched in March 2020 in the amount of EUR 3.3 billion, with the last being presented in May 2021 in the amount of EUR 2.2 billion. While the sum of the combined economic support packages was the highest in the Western Balkans, totalling approximately EUR 8 billion, implemented responses were relatively narrow compared to other Western Balkan economies; for example, by not introducing a public loan guarantee, direct cash transfers to households, or deferral of households' and businesses' fixed costs. Nevertheless, the government provided specific economic support measures throughout the pandemic:

- **Subsidies:** The government enacted support measures in each economic recovery package to preserve existing jobs by providing all entrepreneurs and employees of micro, small and medium-sized companies with 50-60% of the minimum wage. The third support package later allowed large companies to benefit from similar subsidy measures in the amount of 50% of the minimum net salary for January 2021 per employee. Serbian financial support also targeted vulnerable populations with one-off financial assistance for all pensioners and public sector health workers. The right to state aid for wage subsidies was reserved for those companies that

did not reduce the number of employees by more than 10 percentage points and implemented measures that barred all companies receiving direct state aid from making any dividend payments until the end of the year 2021.

- **Cash support:** Both the first and second support packages provided universal cash transfers to each citizen over 18 years old. One-off fiscal support was later provided for several vulnerable groups, including public sector health workers, the unemployed and all pensioners, as well as additional payments for employees in the most affected sectors such as travel, hospitality and art. Financial incentives in the form of a one-off EUR 25 payment for vaccinated citizens were enacted to encourage immunisation.
- **Tax measures:** In April 2020, Serbia instated a deferment of personal income tax (PIT), corporate income tax (CIT) and social security contributions for all private companies, as well as deferments of corporate income tax advance payments. The Ministry of Finance also implemented a moratorium on enforcement and interests on tax debt under rescheduling agreements and a 10% reduction of the interest rate on tax debt. Value-added tax (VAT) exemptions on goods and services for public health institutions during the state of emergency were also enacted.
- **Monetary measures:** In April, the National Bank of Serbia (NBS) cut the policy rate from 1.75% to 1.5%, decreasing it again in June to 1.25% and provided moratoriums on all repayments under bank loans and financial leasing agreements. Serbia also provided interventions in the foreign exchange (FX) market to preserve the relative stability of the dinar exchange rate against the euro. To maintain stability in the secondary market of securities, the NBS mandated the permanent purchase of dinar government securities from banks and included dinar corporate bonds in the list of securities that were subjected to monetary operations, in turn supporting the corporate market development.
- **Credit support:** The government established a EUR 2 billion Guarantee Scheme in April 2020, providing guarantees to commercial banks for loans covering liquidity maintenance and operating capital of large firms. Another EUR 220 million credit line was opened by the Development Fund of the Republic of Serbia to support micro, small and medium-sized enterprises (MSMEs) with loans in the amount of between RSD 10 million (approximately EUR 85 000) to RSD 120 million (approximately EUR 1 million), depending on enterprise size. Loans support meant SMEs profited from a 24-36-month repayment deadline, a 12-month grace period and an annual interest rate of 1%.

Although numerous short-term economic support measures helped mitigate immediate economic damage, structural issues primarily with regard to the public health sector, employment, social protection and private sector support were exacerbated by the pandemic and remain in need of reforms.

Sources: OECD (2021[3]; 2021[6]); Official Gazette of the Republic of Serbia; (2022[7]); Institute of Public Health of Serbia (2022[8]); Government of Serbia (2022[9]); European Commission (2021[10]).

Since 2010, Serbia's exports of goods and services have almost doubled, from 26.3% of GDP to approximately 53.6% in 2021, supported by increases in foreign direct investment (FDI), particularly in export-oriented manufacturing (Table 18.1). Manufacturing exports have risen by nearly 52 percentage points since 2015, and in 2019 they accounted for 65% of total exports. Service exports, driven by the information and communication technology (ICT) sector, grew by 16 percentage points per year between 2017 and 2019 and accounted for 30% of total exports in 2019 (SORS, 2021[2]). The economy experienced a 3.2 percentage points contraction in exports in 2020, the lowest in the WBT region, due to acute declines in trade of automotive and metal industries and the production of electrical equipment, rubber and plastics, of which many enterprises were MSMEs (European Commission, 2022[11]; Government of Serbia, 2021[12]). Serbia's cross-border trade also recovered to pre-pandemic levels after imports and exports of goods and services dropped by roughly 4 percentage points and 6 percentage points in 2020, respectively, but

rebounded with an approximate 6% increase in both categories in 2021 (European Commission, 2022[5]). Serbia also has significant potential to boost its export-driven growth in the coming decade by maintaining macroeconomic stability and addressing several key constraints to investment at the regulatory level and growth in the tradable sector, such as heavy dependence on GVCs and low integration in domestic supply chains.

Table 18.1. Serbia: Main macroeconomic indicators (2016-21)

Indicator	Unit of measurement	2016	2017	2018	2019	2020	2021
GDP growth[1]	% year-on-year	3.3	2.1	4.5	4.3	-0.9	7.4
National GDP[2]	EUR billion	38.7	42.0	48.2	49.0	50.71	
GDP per capita growth[2]	% year-on-year	3.9	2.6	5.1	4.9	-0.3	..
Inflation[1]	% average	1.1	3.1	2.0	1.8	1.6	4.1
Government balance[1]	% of GDP	-1.2	1.1	0.6	-0.2	-8.0	-4.1
Current account balance[1]	% of GDP	-2.9	-5.2	-4.8	-6.9	-4.1	-4.4
Exchange rate RSD/EUR[1]	Value	123.09	121.41	118.27	117.86	117.58	117.57
Exports of goods and services[1]	% of GDP	47.3	49.3	49.3	50.8	47.6	53.6
Imports of goods and services[1]	% of GDP	53.3	57	58.9	60.8	56.3	62.0
Net FDI[1]	% of GDP	5.2	6.2	7.4	7.7	6.3	6.8
External debt[2]	% of gross national income (GNI)	73.7	76.1	65.5	66.8	74.4	
International reserves of the National Bank[1]	EUR million	10.2	10.0	11.3	13.4	13.5	16.5
Gross international reserves[1]	Ratio of 12 months imports of goods and services moving average	6.2	5.4	5.4	5.7	6.1	6.0
Unemployment[1]	% of total active population	10.9	14.5	13.7	11.2	9.7	11.0

Sources: 1. European Commission (2022[5]); 2. World Bank (2022[13]).

High fluctuations in Serbia's inflation since the 2008 crisis show the economy's vulnerability to global shocks, having fluctuated between 6% and 16% before stabilising at the target Serbian Central Bank's target of 3% +/- 1.5% in 2014 (OECD, 2021[3]). In the wake of the COVID-19 pandemic, the economy had the second-highest inflation increase in the region in 2021 at 4.1% annually, reaching a high of 9.6% in April 2022, driven primarily by price hikes in food and non-alcoholic beverages, clothing and footwear, and transport (SORS, 2022[14]). However, inflation is expected to decrease in mid-2022 while interest rates have continued to decline, decreasing to under 1% in 2021 (European Commission, 2022[5]).

Public investment in Serbian infrastructure has been rising since 2019, when the economy launched its national investment plan, promising more than EUR 5 billion for road infrastructure, EUR 200 million for tourism infrastructure and EUR 274 million for water transport. Despite a slight spike in government debt as a percentage of GDP in 2020 and 2021, increasing investment in the economy's infrastructure has not greatly impacted central government deficits, which have been declining from 67.7% of GDP in 2016 to 51.9% in March 2022 (NBS, 2022[15]). Private investment has also seen strong growth in recent years.

Serbia is one of two WBT economies to lower its unemployment rate in 2020 despite the pandemic, with the highest decrease at 1.5 percentage points from 11.2% in 2019 to 9.7% in 2020[1] (Table 18.1) (SORS, 2022[16]). Annual employment growth remained positive in most sectors, with a particularly strong performance in the ICT sector at 11.5% growth, the professional, scientific and technical activities sector at 6.5% and administrative and support services at 6.3% (European Commission, 2022[11]). Serbia's employment rate peaked at 50% in Q3 and Q4 in 2021, accompanied by relatively low levels of unemployment at 10.5% and 9.8%, respectively. Serbia also saw positive trends in levels of informal

employment, with an increase of 26 000 participants in the formal labour market and a decrease of 33 100 participants in informal employment (SORS, 2022[17]).

However, despite positive progress in stabilising employment during the pandemic, high levels of long-term unemployment, a share of youth not partaking in employment or education, and low levels of labour force participation of women and other vulnerable groups underpin structural deficiencies in Serbia's labour market (OECD, 2021[3]). The adverse position of women compared to men in the labour force is evidenced by a 15.2 percentage point lower rate of employment, a 1.9 percentage point higher unemployment rate and a 15.9 percentage point higher population outside of the labour force in 2021 (SORS, 2022[16]). Youth unemployment was also overshadowed by the positive overall growth of the labour market, with unemployment for those aged 15-24 having decreased by 12 percentage points compared to 2020 (SORS, 2022[16]). Emigration remains an issue for the region of which Serbia is no exception. Although Serbia is one of two Western Balkan Six (WB6) economies to attract migrants from neighbouring economies, migration has continued to increase since 2010, with an emigration rate of 10% in 2020, primarily due to low wages, difficulties producing needed skills, a challenging business climate and underdeveloped social and health infrastructure (OECD, 2022[18]).

Business environment trends

Despite the difficult circumstances surrounding the pandemic, significant reforms continued to be implemented that improved the business environment in Serbia, with important progress made in easing regulatory burden. Improvements have been made in facilitating the issuance of construction permits, registering property, making it easier to pay tax, and better protecting minority investments (European Commission, 2022[5]). The government identified 2 600 burdensome administrative procedures at both the central and local government levels in need of streamlining through its renewed SME Strategy and a newly created ePapir programme, aiming for the simplification of these procedures and the creation of a single register of administrative procedures. The register was launched in 2021, and by the end of the same year, 269 procedures had been simplified and 52 digitalised, with the simplification of 501 procedures being partially implemented. This allowed for increased quality and transparency of the overall regulatory environment, which remains one of the most open economies for investment according to the OECD FDI Regulatory Restrictiveness Index. Its score remained 0.05 in 2020, significantly lower than the OECD average of 0.063, indicating that the economy has lessened barriers to trade and maintains only a handful of restrictions, notably in the air, transport and insurance sectors (OECD, 2020[19]).

Simpler business procedures have resulted in surges of new legal entities in the amount of 39 000, of which 9 000 were companies, and decreases in the number of legal entities removed from the register in 2020. Improvements to the tax scheme have also been made, with laws on income tax and corporate tax having been updated at the end of 2020, somewhat reducing the tax wedge on salaries and, in turn, supporting the creation of new businesses (European Commission, 2021[4]). Meanwhile, access to financing for SMEs has improved since the last assessment. In its fight against the informal economy, the authorities established a working group and information system for inspections under the auspices of the labour inspectorate. Co-ordination efforts concerning inspections, standardised methods and data availability have been improved and were being used by 44 inspection services by the end of 2021. These updates have also led to a public system where irregularities in investigations at the central and local levels can be reported by citizens (European Commission, 2021[20]).

Although improving, Serbia's business environment still has several key impediments and obstacles to business development, which are acknowledged in the economy's latest Economic Reform Programme (Box 18.2). These include increasing the transparency and predictability of regulations that affect business, reducing red tape and corruption, and levelling the playing field for all actors in the economy. According to the 2019 Business Environment and Enterprise Performance Survey, Serbian firms face notable challenges in dealing with the administration, including obtaining licences and permits and dealing with the

tax administration (World Bank, 2020[21]). Despite improvements to the tax environment, para-fiscal charges remain numerous, steep and non-transparent, undermining the predictability and stability of Serbia's tax system. Moreover, contract enforcement also remains weak and troubled by overburdened commercial courts.

Bureaucratic deficiencies in the form of red tape, political interference and limited public administration efficiency hamper the business environment. Serbia continues to decrease in ranking in Transparency International's corruption perceptions index, from 87th place in 2018 to 94th in 2020 and 96th in 2021 (Transparency International, 2022[22]). However, Serbia is one of the pilot economies of the joint OECD-SIEMENS initiative that addresses specific corruption issues in the region by applying international standards and supporting the design and implementation of actionable policy recommendations.

Box 18.2. Economic Reform Programmes

Since 2015, EU accession candidates have been obliged to produce annual Economic Reform Programmes (ERPs) that outline clear policy reform objectives and policies necessary for participation in the economic policy co-ordination procedures of the European Union. The ERPs aim to produce concrete reforms that foster medium and long-term economic growth, achieve macroeconomic and fiscal stability and boost economic competitiveness. Since their initial launch, ERP agendas have been required to include structural reform objectives in key fundamental areas:

- public finance management
- energy and transport markets
- sectoral development
- business environment and reduction of the informal economy
- trade-related reform
- education and skills
- employment and labour markets
- social inclusion, poverty reduction and equal opportunities.

In addition to these essential fields, and as the objectives of EU policies continue to evolve to include cross-cutting sustainable sectors, the structural reform agendas of ERPs have embraced new commitments to progressive policy reforms since the last assessment that also cover:

- green transition
- digital transformation
- research, development and innovation
- economic integration reforms
- agriculture, industry and services
- healthcare systems.

Once submitted by the governments, ERPs are assessed by the European Commission and European Central Bank, opening the door for a multilateral policy dialogue with enlargement candidates to gauge their progress and priority areas on their path to accession. Discussions and assistance on policy reforms take place through a high-level meeting between member states, EU institutions and enlargement countries, through which participants adopt joint conclusions that include economy-specific guidance for policy reform agendas.

The findings of the *SME Policy Index 2022* provide an extensive technical understanding of the progress made on policy reforms that are key to the ERPs of the EU accession candidates at both the regional

and economy-specific levels. The Small Business Acts delve into the specific barriers to progress in ten policy areas that are essential to applying the larger objectives of the ERP programmes like boosting competitiveness and economic growth to SMEs in the region.

Source: European Commission (2021[10]).

EU accession process

Serbia began its EU accession journey in 2008 after the adoption of a European partnership for Serbia and its Stabilisation and Association Agreement (SAA), shortly after which it formally submitted its application for EU membership in 2009. The SAA came into force in September 2010, and Serbia was granted EU candidate status in March 2012. Accession negotiations began in December 2013, and as of February 2022, Serbia has opened 22 out of 35 negotiating chapters, the last 4 chapters of which were opened in December 2021 as part of the cluster on green agenda and sustainable connectivity. To date, Serbia has provisionally closed two chapters (Chapter 25 on Science and Research in 2016 and Chapter 26 on Education and Culture in 2017). No changes in the degrees assigned to Serbia's preparation of the chapters have been noted since the 2019 enlargement report; however, at the Intergovernmental Conference held in June 2021, Serbia officially accepted the revised enlargement methodology that emphasises credible fundamental reforms, stronger political steer, increased dynamism and predictability of the process (European Commission, 2021[23]).

According to the European Union's 2021 enlargement report for Serbia, the economy is moderately prepared on enterprise and industrial policies that help encourage a hospitable environment for SMEs. Since the last enlargement report, Serbia has adopted a strategy and action plan for industrial development until 2030 that emphasises enhancing the skills of its workforce to move the economy in the direction of knowledge-based industries. After the finalisation of the strategy to support the development and competitiveness of SMEs and entrepreneurs in 2020, the economy has begun the process of establishing a new strategy to create a conducive environment for small and medium-sized businesses, particularly those in innovation industries. However, Serbia needs to continue its efforts on harmonising legislation with the *acquis*, particularly in regard to regulations on combating late payments in commercial transactions as well as other regulatory barriers (European Commission, 2021[4]). In this regard, Serbia should concentrate on:

- making further efforts to improve the predictability of the business environment, with the emphasis on involving business more directly in the process of regulation
- adopting a new SME and entrepreneurship policy strategy
- reallocating budgetary resources for FDI incentives to financial and technical support to SMEs.

Further progress in the accession process and Serbia's eventual joining of the European Union will strongly depend on further aligning itself with the benchmarks concerning rule of law set out in Chapters 23 and 24 on Judiciary and Fundamental Right and Justice, Freedom and Security, respectively. Moreover, the progress will also be subject to further normalisation of Serbia's relations with Kosovo.[††] The findings and recommendations published in the *SME Policy Index 2022* can help provide the monitoring and guidance needed for Serbia to meet the requirements related to several critical chapters of the *acquis* and ultimately further its negotiations for accession to the European Union.

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

EU financial support

The European Union remains the largest provider of financial assistance to Serbia, helping the economy realise its reform processes and endeavours that bring it closer to the *acquis*. The European Union's financial support to the economy and the region has been provided through both temporary support such as COVID-19 assistance packages as well as long-term investment programmes and funds through the Instrument for Pre-accession Assistance (IPA), European Investment Bank loans, Western Balkans Investment Framework grants and more.

In addition to a total of EUR 2.7 billion provided to Serbia by the European Union between 2007 and 2020 under the Instrument for Pre-accession Assistance I and II, the European Union is providing an additional EUR 122 million for the first year of IPA III for the period 2021-27 to invest in human capital, promote better governance and rule of law, boost the private sector, and enable green priorities such as sustainable transport, clean energy and environmental and climate action (European Commission, 2022[24]; 2021[25]).

In 2020, the European Union pledged EUR 9 billion for the Western Balkans as part of a new economic and investment plan to support sustainable connectivity, human capital, competitiveness and inclusive growth, and the twin green and digital transition. In addition to the European Union's infrastructure support for a gas interconnection with North Macedonia, the Trans-Balkan Electricity Transmission Corridor, which will provide electricity transmission to Serbia, will help the economy's transition from coal. The implementation of an environmental investment programme in Serbia to modernise wastewater treatment plants in large and medium-sized towns while establishing regional waste management systems will also support sustainable and green infrastructure solutions. EU investments also extend to transport infrastructure, including the advanced "Peace Highway" connecting Nis with Pristina in Kosovo and the rehabilitation of rail routes connecting Belgrade with Pristina and the Port of Bar in Montenegro (European Commission, 2020[26]).

Serbia was the fifth candidate economy to join the European Union's Competitiveness of Enterprises and Small and Medium-Sized Enterprises Programme (COSME, 2014-2020) in 2015, under which it benefited from support for entrepreneurship and entrepreneurial culture, access to finance for SMEs and access to markets (European Commission, 2021[27]). In addition to Serbia's participation in the European Union's Research and Innovation programmes since 2007, the economy is also a part of the Horizon 2020 programme, allowing Serbia access to the project's EUR 95.5 budget to help develop projects, technologies and conduct research and activities that will contribute to tackling global challenges. Serbia has excelled under the programme, quadrupling its performance since 2014, making it the most successful Western Balkan participant with the highest success rate of retained proposals at 11.37%. The economy has been particularly successful in the domains of ICT and Agricultural research, as well as scientific co-operation in the area of energy, due in part to progressing implementation of its Smart Specialisation Strategy (2020-2027). Serbia's participation in the SMEs portion of Horizon 2020 is one of the highest in the region, with almost 4 000 applications, close to 600 participants, and over 400 signed grants for a total of EUR 134.9 million of EU funding distributed primarily to research organisation (36.9%), followed by private for-profit enterprises (30.6%) and higher or secondary education institutions (22.1%) (European Commission, 2021[28]). In 2021, the economy signed an additional Association Agreement to the Horizon Europe programme, promoting closer research and innovation co-operation with the European Union (European Commission, 2021[29]).

SMEs in the domestic economy

The classification of SMEs in Serbia is engrained in two pieces of legislation, the first being the Law on Accounting and Auditing, which defines enterprises by the number of employees for purposes of accounting and financial reporting, and the Decree on Rules for Granting State Aid which controls the allocation of state funding based on enterprise size. While the categories of both regulations conform to the EU standard definition of SMEs by employee size, with the exception of microenterprises under the

decree on granting state aid, they diverge on other criteria concerning annual income and assets (Table 18.2). In 2021, The Statistical Office of Serbia amended its methodology to omit entrepreneurs from data collection on SMEs, significantly decreasing the number of businesses considered as MSMEs, making some data on the matter incomparable to that of previous years.

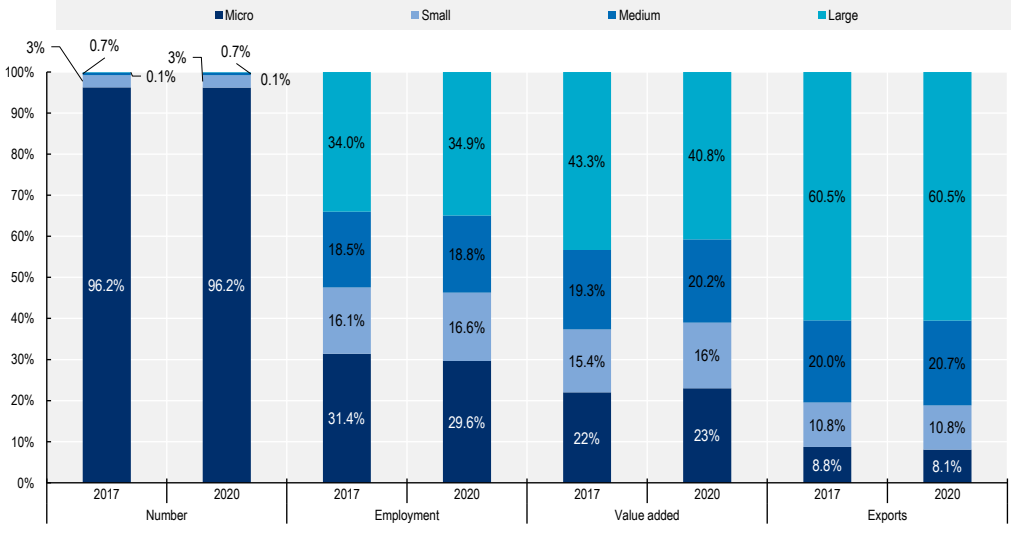
Table 18.2. Definition of micro, small and medium-sized enterprises in Serbia

	EU definition	Law on Accounting and Auditing	Regulation on Rules for State Aid Granting
Micro	< 10 employees = EUR 2 million turnover or balance sheet	< 10 employees < 0.7 million operating revenues < EUR 0.35 million circulating assets	Not applicable
Small	< 50 employees = EUR 10 million turnover or balance sheet	< 50 employees < EUR 8.8 million operating revenues < EUR 4.4. million circulating assets	< 50 employees ≤ EUR 10 million turnover or balance sheet
Medium-sized	250 employees = EUR 50 million turnover = EUR 43 million balance sheet	< 250 employees < EUR 35 million operating revenues < EUR 17.5 million circulating assets	< 250 employees < EUR 35 million operating revenues < EUR 17.5 million circulating assets

Sources: Official Gazette of the Republic of Serbia (2021[30]; 2021[31]).

The overall demography of businesses in Serbia has seen slight but numerous changes since the last assessment (Figure 18.2). Micro enterprises witnessed an approximate 1.8 percentage point decrease in the number of employees, while large enterprises witnessed an approximate 0.9 percentage point increase. The makeup of value added saw a larger difference between 2017 and 2020, with MSMEs witnessing increases of approximately 1, 0.6 and 0.9 percentage points, respectively, while large enterprises experienced a decline of roughly 2.5 percentage points. Regarding exports, micro enterprises experienced a decrease of 0.7 percentage points, which was absorbed by an increase in exports of medium-sized enterprises.

Figure 18.2. Business demography indicators in Serbia (2017-2020)

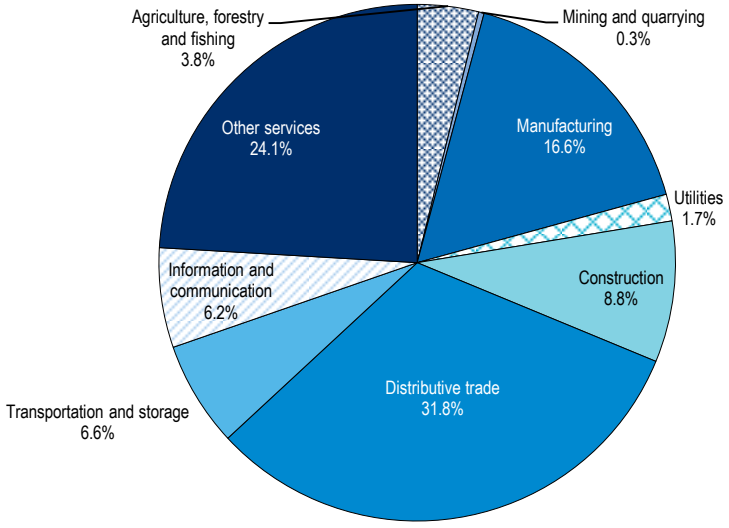


Note: Entrepreneurs, as natural persons who independently perform activities, are included in micro enterprises for this figure.
Sources: Ministry of Economy of the Republic of Serbia, (2021[32]), Report on Small and Medium Enterprises in Serbia for 2020, Ministry of Economy of the Republic of Serbia, (2018[33]), Report on Small and Medium Enterprises in Serbia for 2017, https://privreda.gov.rs/sites/default/files/documents/2021-08/Izvestaj_MSPP_2017.pdf

When it comes to female participation in the SME landscape, although women owned 31.7% of entrepreneurial companies in 2019, women-owned businesses receive five times fewer subsidies than male-owned companies, in part due to indirectly discriminate restrictions such as programmes that focus predominately on manufacturing, processing and export activities that have traditionally low levels of women's participation (National Alliance for Local Economic Development, 2019[34]).

Serbia's composition of SMEs by sector remains one of the most balanced in the region, with the lowest portion of SMEs in the distributive trade sector. Nevertheless, the distributive trade sector, which includes wholesale, retail trade, and repair of motor vehicles and motorcycles, continues to dominate the Serbian business scene at 31.6%, increasing by 4.4 percentage points since 2017 (Figure 18.3). Other services, which comprise accommodation and food, real estate, administrative, professional, science, technology and innovation and other activities, follows as the second-highest number of SMEs in Serbia, albeit witnessing a decrease of approximately 4 percentage points since 2017. SMEs in the transportation and storage industry have also declined by about 3.5% in the same period, while the information and communication, construction and manufacturing sectors have witnessed slight increases of 2.1%, 1.6% and 1%, respectively.

Figure 18.3. Sectoral distribution of SMEs in Serbia (2017-2020)



Note: The sector classification generally follows the Statistical Classification of Economic Activities in the European Community (NACE) Rev.2 classification of productive economic activities with the following exceptions: "Utilities" represents the sum of "Electricity, gas, steam and air conditioning supply" (D) and "Water supply, sewerage, waste management and remediation activities" (E); "Distributive Trade" covers "Wholesale and retail trade; repair of motor vehicles and motorcycles" (F); and Other Services here consists of (I) Accommodation and food service activities, (L) Real estate activities, (M) Professional, scientific and technical activities, (N) Administrative and support service activities as well as (S) Other service activities. For more information, consult NACE Rev. 2 Classification
Source: (SORS, 2021[35]) Enterprises in the Republic of Serbia by size, https://www.stat.gov.rs/en-US/publikacije/publication/?p=13150

Geographically, about 31.7% of enterprises were located in Belgrade in 2020, followed by 25.9% in the district of Šumadija and West Serbia and 24.9% in Vojvodina (Table 18.3). The number of enterprises in Šumadija and West Serbia and South and East Serbia has remained largely unchanged since 2017, whereas the share of enterprises in Belgrade and Vojvodina saw a 1.1 and 0.4 percentage point decrease, respectively, in the same period. Microenterprises accounted for the vast majority of companies in all districts, at over 95% of total enterprises in each district of Serbia. The number of large enterprises throughout the economy only accounted for less than 1% of total companies in all districts.

Table 18.3. Number of registered companies in Serbia by enterprise size and district (2020)

District	Enterprise size, by employment					Share of total number of enterprises	
	0-9	10-49	50-249	250+	Total	2017	2020
Belgrade	128 025	4 898	1 049	239	134 211	32.6%	31.7%
Vojvodina	96 455	3 194	742	156	100 547	25.3%	24.9%
Šumadija and West Serbia	101 186	2 645	584	120	104 535	26.0%	25.9%
South and East Serbia	62 719	1 450	341	69	64 579	16.1%	16.0%
Serbia	**388 385**	**12 187**	**2 716**	**584**	**403 872**	**100.0%**	**100.0%**

Note: Entrepreneurs, as natural persons who independently perform activities, are included in microenterprises for this table. Sums may be less than 100 due to the approximation of values.
Source: Ministry of Economy (2021[32]).

Assessment

Description of the assessment process

The Small Business Act (SBA) assessment cycle was virtually launched on 7 July 2021, when the OECD team shared the electronic assessment material, comprised of questionnaires and statistical sheets, accompanied by explanatory documents.

Following the virtual launch, the Ministry of Economy, which acts as the SBA Co-ordinator nominated by the European Commission, distributed the link to the assessment material to the appropriate ministries and government agencies and the statistical sheets to the Statistical Office of the Republic of Serbia. These institutions compiled the data and documentation between July and September 2021 and completed the questionnaires. Each policy dimension was given a self-assessed score accompanied by a justification. The OECD team received the completed questionnaires and statistical data sheets in October 2021 and then began an independent review.

The OECD reviewed the inputs and requested additional information on certain elements from the Ministry of Economy. For several dimensions, virtual consultation meetings with key dimension stakeholders were organised from end-October to mid-November 2021. The meetings aimed to close any remaining information gaps in the questionnaires.

A virtual preliminary findings meeting with Serbia was held on 8 December 2021 to present and discuss the preliminary *SME Policy Index 2022* assessment findings and initial recommendations for Serbia. At the same time, it served as an opportunity to seek the views of a broad range of policy stakeholders on how SMEs are affected by current policies and to gauge what more can be done across different policy areas to improve SMEs' performance and competitiveness in Serbia, particularly in the post-COVID-19 context.

The meeting allowed the OECD to validate the preliminary assessment findings. The draft SME Policy Index publication and the Economy Profile of Serbia were made available to the Government of Serbia for their review and feedback in March 2022.

Scoring approach

Each policy dimension and its constituent parts are assigned a numerical score ranging from 1 to 5 according to the level of policy development and implementation, so that performance can be compared across economies and over time. Level 1 is the weakest and Level 5 the strongest, indicating a level of

development commensurate with OECD good practice (Table 18.4). For further details on the SME Policy Index methodology and how the scores are calculated, as well as changes in the last assessment cycle, please refer to Annex A.

Table 18.4. Description of score levels

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

Entrepreneurial learning and women's entrepreneurship (Dimension 1)

Introduction

Entrepreneurial learning raises learners' skills and develops the mindsets needed to change their lives and the world around them through entrepreneurial action for social and economic impact. It is the basis for empowering learners to know they can generate the creative ideas needed in the 21st century.

Women's entrepreneurship should be prioritised to support women's economic and social empowerment and drive improved stability and social and economic growth. It can also enable closing gender gaps in the workforce, supported by equality and gender impact analysis of policies affecting family care and social protection.

There is significant scope for increasing the number of women entrepreneurs in Serbia, with early-stage entrepreneurial activity across the population measured at 5%, which is half the EU average. Female early-stage entrepreneurial activity is only 2.8%, compared to an EU average of 7.5%.

Serbia scores high in entrepreneurial learning and women's entrepreneurship in this assessment period and is above the average for the region (Table 18.5). However, a small drop in score is observed compared to the previous assessment mainly due to limited progress made in the women's entrepreneurship sub-dimension.

Table 18.5. Serbia's scores for Dimension 1: Entrepreneurial learning and women's entrepreneurship

Dimension	Sub-dimension	Thematic block	Serbia	WBT average
Dimension 1: Entrepreneurial learning and women's entrepreneurship	Sub-dimension 1.1: Entrepreneurial learning	Planning and design	3.46	3.43
		Implementation	3.77	3.51
		Monitoring and evaluation	4.01	2.73
		Weighted average	**3.72**	**3.33**
	Sub-dimension 1.2: Women's entrepreneurship	Planning and design	4.60	3.97
		Implementation	3.76	3.83
		Monitoring and evaluation	3.00	3.11
		Weighted average	**3.86**	**3.73**
Serbia's overall score for Dimension 1			3.78	3.49

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Serbia has progressed in the practical implementation of entrepreneurial learning, with the entrepreneurship key competence now evident in examples of curriculum at all levels of education, training and higher education. There has been a stronger focus on developing student co-operatives as a tool for entrepreneurial education.

For women's entrepreneurship, progress has been more limited. While the score for planning and design is strong, the scores for implementation have been affected by a new focus on actions for women's entrepreneurship that support sustainable and green transformation, which are not yet available. Detailed insight into the role of gender focal points across specific ministries is also lacking. The evaluation report for women's entrepreneurship is also not yet available publicly, and there is a need for deeper insight into

how this evaluation has been used to adjust the design and implementation of women's entrepreneurship (Table 18.6).

Table 18.6. Serbia's implementation of the SME Policy Index 2019 recommendations for Dimension 1

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Strengthen the co-ordination of government policy actions for lifelong entrepreneurial learning	The Council for SME, Entrepreneurship and Competitiveness played a central role in implementing the 2015-2020 SME Strategy linked to these themes. The strategy is planned to be followed with a new strategy (European Commission, 2021[4]). There is no information regarding the evolution of the role or responsibilities of the Council for SMEs, Entrepreneurship and Competitiveness.	Limited
Reinforce the new role of the teacher as a facilitator of students' entrepreneurship key competence development	There is continued provision of in-service teacher training supporting the entrepreneurship key competence, such as the training of 3 000 teachers by the Association of Business Women. However, there is no evidence of inclusion of content relevant to the development of the entrepreneurship key competence in pre-service teacher training courses.	Limited
Pay special attention to progress in developing key competences across levels of education	Progress has been made in integrating the entrepreneurship key competence across levels of education, such as with the expansion of practical entrepreneurial experiences available via the Junior Achievement and the school co-operatives programmes. However, these programmes are not yet available to all learners, and there is a lack of practical teacher guidance on how to integrate the entrepreneurship key competence as a cross-curricular competence.	Moderate
Ensure better co-ordination and consolidation of government policy actions for women's entrepreneurship	The role of the Coordination Body for Gender Equality is important in bringing together different areas of government. However, a lack of formally recognised members from non-government stakeholder organisations remains. Gender sensitivity checks are still not consistently applied, and there are no ministry-based gender focal points. Coordination with the National Commissioner for Equality should be undertaken to ensure consistency.	Limited
Improve policy evaluation	Progress has been made with the inclusion of gender questions in business registration and public procurement tenders, though this remains a policy priority, and more work is needed. There is no comprehensive evaluation of women's entrepreneurship actions, the responsibility for which should be linked to a national partnership body.	Moderate

The entrepreneurship key competence is a policy priority, but co-ordination at the national level is lacking

The new Strategy for the Development of Education 2030 (Government of Serbia, 2021[35]) was adopted in 2021 and highlights the importance of EU competence frameworks, such as EntreComp, and emphasises the cross-linkages with other policies (such as smart specialisation and artificial intelligence) and the need to align education and training systems to match these. The development process of the Smart Specialisation Strategy (2020-2027) (Government of Serbia, 2020[36]) identified the need to strengthen entrepreneurial education, particularly in higher education. The recent Industrial Policy Strategy (2021-2030) also advocates for a stronger emphasis on entrepreneurial education. However, no multi-stakeholder policy partnership is responsible for overseeing or co-ordinating the implementation of entrepreneurship key competence development as a cross-government policy area. A range of national and local stakeholders are active in this work, with policy links to multiple government policy areas, illustrating a clear need to identify a co-ordination body to support implementation.

Current national policy actions focus on teachers, practical experiences and higher education

In the Education Strategy Action Plan (2021-2023) (Government of Serbia, 2021[37]), three actions highlight entrepreneurship key competence development. The first is to provide accredited training on activities that

develop students' entrepreneurial and financial competence. The second is to expand the school co-operatives programme[2] to 500 co-operatives across the economy. The third is to develop guidelines for the inclusion of entrepreneurial education modules in higher education.[3] These actions are being practically implemented through government channels, such as the provision of guidance on the development of student co-operatives and the offer of professional development training available to all teachers at primary and secondary levels.[4] This training builds on previous work by the Association of Businesswomen, which delivered training to over 3 000 teachers in 2019.[5]

Moving forward, there is potential to expand action to where more work is needed to embed the entrepreneurship key competence in student learning experiences. These include the provision of pre-service teacher training on key competence development; national guidance for existing teachers on how to implement entrepreneurship as a cross-curricular key competence at each stage of education; and information on how to assess learning outcomes related to entrepreneurship cross-curricular competence. Information is not available on how monitoring or evaluation will be used at the school or system level to understand the change created through actions to support entrepreneurship education.[6] There is also no clearly defined multi-stakeholder national partnership whose remit includes overseeing and co-ordinating the implementation of policy and actions for the entrepreneurship key competence.

Objectives within the national Smart Specialisation Strategy are driving the development of entrepreneurial education in higher education

The Smart Specialisation Strategy Action Plan for 2021-2022 (Government of Serbia, 2020[38]) has a set of detailed actions addressing entrepreneurial education across higher education, having identified this need during the research work into the needs of the four priority sectors.

In 2020, the Ministry of Education, Science and Technological Development (MoESTD) issued a call for projects to support the development of curricula in higher education institutions with a focus on developing entrepreneurial skills among students, aligning courses to labour-market needs, increasing digital learning and improving co-operation between higher education institutions, businesses and communities (requiring the inclusion of guest speakers from businesses and/or communities). The result was that 41 projects were approved in 2020 with a total budget of RSD 13 million (approximately EUR 110 000), and RSD 17 million (approximately EUR 144 000) were allocated for 2021.

Another Action Plan commitment was to develop criteria for new curricula to include entrepreneurship skills.[7] This is due to be completed in mid-2022. Led by the National Entity for Accreditation and Quality Assurance for higher education, this has the potential to offer strategic guidance on why and how to embed entrepreneurship key competence development across multiple academic areas.

Information is not yet available on the progress or impact of these actions, nor on how these actions will link to wider developments across other levels of education. This emphasises the importance of co-ordination at the national level to oversee actions across multiple strategies and initiate a comprehensive approach to monitoring and evaluation.

Entrepreneurship is integrated into the formal curriculum through a mix of cross-curricular approaches, supported by practical entrepreneurial experiences

A range of government publications and laws[8] define the entrepreneurship key competence as a cross-curricular competence at primary and lower secondary, upper secondary and vocational education levels. Within the core curriculum, entrepreneurship is included primarily from the economics perspective rather than the broader-based entrepreneurship key competence approach.[9] However, there has been a positive focus on the inclusion of practical entrepreneurial experiences that offer learners the opportunity to apply and develop the entrepreneurship key competence.

In practical terms, within primary and lower secondary, entrepreneurship is a cross-curricular key competence to be developed across all subjects, but there is no clear guidance for teachers on the cross-

curricular approach. Students can, however, benefit from practical entrepreneurial experiences delivered via Junior Achievement Serbia[10] and the nationally supported programme of student co-operatives (Government of Serbia, 2019[39]). At the secondary vocational education level, there is a specific course on entrepreneurship, but it is not known whether this course explicitly includes learning outcomes related to the entrepreneurship key competence. Alongside this, practical entrepreneurial experiences are again delivered through the school co-operatives programme and Junior Achievement Serbia. Information is not available on the full reach of these practical programmes, reflecting the overall lack of focus on monitoring and evaluation across this sub-dimension.

In the previous assessment, there had been advances towards a new Education Quality Framework and testing to explore how to include the entrepreneurship key competence into this framework. It is unclear how this work has progressed during this assessment period and whether it has been implemented at the system level.

The co-operatives-based practical entrepreneurial learning programme is expanding

The school co-operatives programme is worthy of specific focus due to its innovative nature as a national government initiative. Currently active across around 120 schools at primary, secondary and vocational levels, the recent Education Strategy includes a commitment to expanding the use of school co-operatives to 500 schools by 2023. The focus of this programme is to encourage schools to establish student co-operatives to develop students' entrepreneurial spirit, develop an understanding of solidarity, create positive attitudes towards work and connect teaching with the world of work.

The government has put in place a legislative framework to support the creation of student co-operatives by schools, including a rulebook (Government of Serbia, 2021[40]) to guide their formation, management and termination. The 2019 teacher training project led by the Association of Businesswomen and financed by MoESTD developed a national guidance document to support practical implementation as well (Government of Serbia, 2019[39]). There is further scope to provide guidance on entrepreneurial learning outcomes of student involvement in these learning experiences and the potential to share practice opportunities at both national and international levels, showcasing an innovative approach to using the co-operatives' entrepreneurial education model. This would also allow practices to be shared between schools and teachers to evolve practices. In addition, it could be an opportunity to recognise excellence in entrepreneurial education through national awards for school co-operatives and wider activities.

There is a strong policy focus on women's entrepreneurship, but mechanisms are needed to support co-operation and co-ordination of actions

During this assessment period, Serbia published the new National Strategy on Gender Equality (2021-2030) (Government of Serbia, 2021[41]). The national strategy targets and promotes women's entrepreneurship through a priority placed on the economic empowerment of women, to improve the economic position of women and reduce the gender gap in economic participation and the labour market. A broad set of measures within the strategy addresses systemic support for women entrepreneurs at all stages of business development, as well as developing the availability of gender-disaggregated data, awareness campaigns and opening more targeted support for women. It also emphasises the need for a specific focus on areas where women are under-represented, such as green and circular, renewable energy, digital and knowledge economies. Though limited actions are ongoing for digital economy initiatives,[11] targeted programmes appear very limited in scope.

However, there is a gap in the policy landscape with the yet to be renewed SME Strategy, which for the 2015-20 period, was an important driver of women's entrepreneurship interventions targeting the closure of the gender gap in the economy. While the government work programme[12] now includes gender-specific actions to support women's entrepreneurship in response to the Gender Equality Strategy commitment, it

will be vital to frame these actions within a renewed SME Strategy addressing the whole SME ecosystem. Wider strategies focusing on women's entrepreneurship include the Employment Strategy (2021–2026) and the Smart Specialisation Strategy (2020-2027), where commitments underline those outlined in the National Strategy on Gender Equality (2021-2030).

With this range of actions across multiple policies, co-ordination is needed to understand and evaluate the progress and impact of actions across these policies. The Coordination Body for Gender Equality is responsible for following the Gender Equality Strategy, and within this lies the area of women's entrepreneurship. However, this body is made up of government representatives[13] only and does not offer the multi-stakeholder partnership approach needed to provide a more complete representation of the committed national non-government actors involved in supporting and driving forward women's entrepreneurship. The Association of Businesswomen and the Chamber of Commerce and Industry are particularly active in implementation, sharing and celebrating practice,[14] often alongside international organisations, including UN Women and the United Nations Development Programme (UNDP). This wider engagement has become more important since the onset of the COVID-19 pandemic, as research from partners has formed an important body of evidence showing the negative impact of the pandemic on women entrepreneurs.[15]

> *There is an ongoing need to expand gender sensitivity checks and the availability of gender-sensitive data across policies and programmes related to women's entrepreneurship*

Ensuring a balanced gender perspective across different policy areas and building up gender-disaggregated data are highlighted as priorities in the National Strategy on Gender Equality (2021-2030). Two recent government decisions have already moved this forward. The first is a 2021 amendment to the Law on Companies to include the gender of the person or persons registering a company.[16] The second is a decision by the Public Procurement Office of Serbia to include a box indicating the gender of a tenderer at the Public Procurement Portal; this is important to understand progress made toward the gender mainstreaming of the public procurement process. These are significant steps towards more complete gender-disaggregated data on the growth of women's entrepreneurship.

However, there is as yet less evidence of progress toward a comprehensive gender sensitivity check on policies and programmes. An example is the recent focus in Serbia on the equality of employed women vs self-employed women[17] in terms of social protection policies for paternity and maternity entitlements. The National Strategy on Gender Equality (2021-2030) highlights the importance of gender sensitivity checks in all policy areas and funding programmes, though no gender focal points are yet in place within ministries. The need is echoed by the Employment Strategy (2021–2026), which emphasises a gender-sensitive approach to creating gender-balanced results based on gender-disaggregated data. This is a process that would support skills, labour market and entrepreneurship policy by providing an evidence base for policy and guiding monitoring and evaluation efforts towards more complete and gender-based skills intelligence and gender impact insights.

The way forward for Dimension 1

- **Identify relevant multi-stakeholder national partnership bodies involving relevant government ministries, private and non-governmental actors, and assign them a clearly defined responsibility to lead efforts to implement, monitor and evaluate: 1) entrepreneurial learning across all levels of education and training; and 2) women's entrepreneurship**. For women's entrepreneurship, this can be an opportunity to expand the Coordination Body for Gender Equality to include formally recognised members from the non-governmental sector and represent all relevant strategy areas. For entrepreneurial learning, this may be linked to a multi-stakeholder education partnership or the co-ordination body that is put in place to lead a renewed SME

Strategy. Both bodies should have explicit responsibility for mapping, monitoring and evaluating these policy areas, including a comprehensive stakeholder mapping approach to ensure effective engagement of all relevant actors and their associated implementation for entrepreneurial learning and women's entrepreneurship.

- **Develop teacher guidance on how to integrate the development of entrepreneurship as a cross-curricular key competence (aligned to EntreComp) at all levels of compulsory education, supported by regular and accessible in-service teacher training opportunities.** While there has been good provision of training, the ongoing development of quality guidance for teachers, illustrated with practical examples across different curriculum areas, will strengthen the focus on cross-curricular implementation. Comprehensive guidance ensures a common understanding of how the entrepreneurship key competence approach can be embedded into teaching, learning and assessment at the level of schools, teachers and curriculum areas. One example of effective practice to support entrepreneurial learning development at the level of schools is seen in the Walloon region of Belgium, as described in Box 18.3.

Box 18.3. Supporting the development of entrepreneurial schools in Belgium

In Belgium, the French-speaking community of Wallonie launched an initiative to support entrepreneurial schools that use a whole-school approach to developing the entrepreneurship key competence across the culture and learning within a school. The regional government supports this work through SOWALFIN (Société wallonne de financement et de garantie des PME), the national agency responsible for developing an entrepreneurial ecosystem and supporting entrepreneurs. It is part of a wider government commitment to using EntreComp to underpin programmes relating to entrepreneurial learning in education, employment and start-ups, as part of their involvement in the EntreCompEurope partnership.[1] The call is open to schools across both primary and secondary levels and aims to develop new approaches to developing and embedding entrepreneurial learning across schools, working with a student-led design philosophy.

The whole-school approach has been used in other regions and countries, including southeast Europe, to great effect. The South East Centre for Entrepreneurial Learning (SEECEL)[2] worked across multiple economies in southeast Europe to support school-based approaches to entrepreneurial learning at all levels, with similar models being used now in different parts of Europe, such as Wallonie. The concept of creating school-based teacher teams to drive forward change is proven through extensive research to be a highly effective route to positive impact.[3] Underpinning the approach is the connection to EntreComp, which is being used as the common understanding of the entrepreneurship key competence, alongside the student-led and experiential approach being promoted through the call, which is in line with the methodologies that are most aligned with developing EntreComp competences.[4]

Supporting school-based approaches can strengthen and build school and teacher capacity to design and deliver entrepreneurial learning through the cross-curricular approach. It can also provide a stronger base from which a school can develop strategic actions supporting entrepreneurial learning for inclusion in their school plan.

1. For more information, see www.entrecompeurope.eu.
2. SEECEL is no longer active. An impact report can be found at https://zdoc.pub/download/community-impact-success-seecel-inspiring-thanks-entrepreneu.html.
3. See research by John Hattie on collective teacher efficacy at https://visible-learning.org/2018/03/collective-teacher-efficacy-hattie/.
4. For more information, see *The EntreComp Playbook*, which outlines a range of effective teaching and learning methods for developing the EntreComp competences, at https://op.europa.eu/en/publication-detail/-/publication/a9772d3b-dd0b-11ea-adf7-01aa75ed71a1/language-en.

Source: SOWALFIN (2021[42]).

- **Ensure all pre-service teacher training actively builds expertise in cross-curricular entrepreneurship key competence development**. There is an opportunity to future-proof the training of new teachers through active inclusion of key competences into their curriculum, through actions to align pre-service teacher training to the practical needs of the national curriculum (see Box 18.4 for a good practice example from the United Kingdom). The training approach should be based on comprehensive needs analysis, mapped to curriculum content, and the practical implementation into concrete teaching practice should be monitored and evaluated as a follow-up of the training.

Box 18.4. Matching initial and continuing teacher education to the needs of the new Curriculum for Wales (United Kingdom)

In the United Kingdom, the University of Wales Trinity Saint David has successfully integrated the development of the entrepreneurship key competence into pre-service teacher training programmes, with a new Education Doctorate supporting continuing professional development for experienced educators. Participant feedback shows that those who participate in the programme go on to use EntreComp to underpin their own teaching or wider teacher training initiatives, such as head-teacher training for the new curriculum led by Wales' National Academy for Educational Leadership.

The approach taken first places explicit focus on teachers' professional and entrepreneurial competences, using learning outcomes from EntreComp, to build an understanding of the relevance of this key competence. The courses developed also introduce knowledge and practical application of the entrepreneurship key competence for learners across diverse subject areas and with cross-curricular relevance. The university has embraced the EntreComp framework as a guide for this work, matching it with the new Curriculum for Wales, which emphasises four purposes of learning, including supporting learners in becoming "enterprising, creative contributors, ready to play a full part in life and work."[1]

Serbia has progressed in the delivery of in-service teacher training, but there is a significant need to focus on the provision of pre-service teacher training and aligning the needs of the national curriculum to the content of university-based training for new teachers.

1. For more information on the Curriculum for Wales, see https://hwb.gov.wales/curriculum-for-wales (accessed on 20 January 2022).
Sources: Welsh Government (2017[43]); Penaluna, Penalune and Polenakovikj (2020[44]); Weicht and Jonsdottir (2021[45]); McCallum et al. (2018[46])

- **Strengthen gender sensitivity checks and the provision of gender-disaggregated data across policies and programmes relating to women's economic empowerment**. This should include a focus on gender-sensitive budgeting. This area of action is a clear priority for both the Employment Strategy (2021–2026) and the National Strategy on Gender Equality (2021-2030) and can create real impact in terms of system-level visibility and tracking of the ongoing impact of actions on the position of women in the economy and the labour market. This process should be harmonised with relevant international standards, including UN gender indicators[18] and Eurostat.

Bankruptcy and second chance for SMEs (Dimension 2)

Introduction

Firms enter and exit the market as a natural part of the business cycle, and policies can ensure that such transitions occur in a smooth and organised manner. Well-developed insolvency procedures and regimes can protect both debtors and creditors, striking the right balance between both parties, for example. This is particularly relevant for smaller firms as they lack resources compared to bigger firms. Therefore, governments need to ensure that bankruptcy proceedings are efficient, ease reorganisation procedures (instead of bankruptcies) and ensure that those starting again have the same opportunities in the market they had the first time.

In Serbia, as in other Western Balkan economies where small and medium-sized economies make up a large share of total businesses, effective liquidation and discharge procedures are particularly important as they can allow entrepreneurs to reintegrate into the market. This was particularly relevant in the context of the COVID-19 pandemic, where a number of firms faced financial difficulties or were at risk of financial distress (OECD, 2021[47]).

Serbia increased its overall performance under bankruptcy and second chance since the previous assessment. Its performance increased from 2.84 in 2019 to 3.21 and is performing above the WBT average of 3.03. Moreover, with a score of 3.62, Serbia is the second-best performer after Turkey in the bankruptcy procedures sub-dimension.

Table 18.7. Serbia's scores for Dimension 2: Bankruptcy and second chance

Dimension	Sub-dimension	Thematic block	Serbia	WBT average
Dimension 2: Bankruptcy and second chance	Sub-dimension 2.1: Preventive measures		2.80	2.74
	Sub-dimension 2.2: Bankruptcy procedures	Design and implementation	3.50	3.47
		Performance, monitoring and evaluation	3.80	3.23
		Weighted average	3.62	3.38
	Sub-dimension 2.3: Promoting second chance		2.00	1.96
Serbia's overall score for Dimension 2			**3.21**	**3.03**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Serbia has improved its performance since the 2019 assessment. Although a fully-fledged early warning system (EWS) is yet to be developed to maintain a financially healthy ecosystem for SMEs, prevention of insolvency is regulated through two sets of measures: 1) the already existing voluntary settlements under the Law on Consensual Financial Restructuring (Government of Serbia, 2015[48]); and 2) the new business advisory and mentoring services provided to SMEs by the Development Agency of Serbia (RAS, 2020[49]) and the Chamber of Commerce and Industry (CCIS)[19] (CCIS, n.d.[50]) (Table 18.8).

Amendments to the legislative framework on bankruptcy proceedings, proposed during the assessment period, aim to address existing bottlenecks linked to the duration and costs of bankruptcy procedures. However, the amendments have not tackled some important elements, such as shortened, simplified reorganisation proceedings for SMEs and debt discharge rules. Moreover, access to second-chance

programmes for SMEs is still lacking, limiting the opportunity to change the current cultural stigma linked to entrepreneurial failure.

Table 18.8. Serbia's implementation of the SME Policy Index 2019 recommendations for Dimension 2

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Develop a fully-fledged early warning system	An early warning system is still missing. On a positive note, Serbia succeeded in reducing the number of newly opened bankruptcies thanks to the Law on Consensual Financial Restructuring and the government providing advisory and mentoring services, although they target the prevention of bankruptcies indirectly.	Limited
Enhance co-ordination between different institutions	The newly proposed amendments to the legislative framework on bankruptcy proceedings increase the role of the Bankruptcy Supervision Agency in collecting and disseminating information between multiple parties in the bankruptcy proceeding. However, standard provisions covering all aspects of the bankruptcy framework are still missing, especially in the preventive phase.	Moderate
Further simplify parts of the bankruptcy legislation	At the time of drafting, the government proposed amendments to the bankruptcy legislation to reduce the case duration time and allow electronic sales of assets from the bankruptcy estate. However, as these have not been adopted yet, the impact on the current assessment is limited and will be analysed in the next assessment cycle.	Limited
Improve the legal framework and develop initiatives to reduce the cultural stigma attached to entrepreneurial failure	No progress was made in reducing the cultural stigma attached to failure in business. The legal framework neither provides for debt discharge of honest entrepreneurs nor clearly distinguishes fraudulent from honest entrepreneurs. No awareness campaigns promoting a fresh start upon bankruptcy have been recorded during the assessment period.	No progress

Serbia is improving its insolvency legislative framework

Similarly to other Western Balkan economies, in 2009, Serbia aligned its Insolvency Law with the United Nations Commission on International Trade Law (UNCITRAL) (2004[51]) Legislative Guide on Insolvency Law. The law regulates formal court bankruptcy liquidation and reorganisation procedures, providing a solid legal framework for the economy.

The Bankruptcy Supervision Agency (BSA), which is primarily in charge of monitoring the development of the bankruptcy administrator profession and maintaining oversight over the work of licensed bankruptcy administrators, collects and disseminates bankruptcy-related data. It reported that the number of bankruptcy procedures (suspended and concluded) decreased by 54% from 2019 (555) to 2021 (255) (Bankruptcy Supervision Agency, 2022[52]), which could be partially explained by the COVID-19 pandemic and the related government response measures. Over the same period, the average duration of bankruptcy proceedings dropped from 1.05 years in 2019 to 0.27 years in 2021, indicating an increased performance in resolving insolvency (Bankruptcy Supervision Agency, 2022[52]). However, these numbers should be carefully observed in the aftermath of the pandemic so as to draw solid conclusions on the insolvency trend.

Since 2009, Serbia has amended its legal framework several times to resolve specific implementation issues and introduce new policies. The latest proposed amendments (to the Law on BSA and the Bankruptcy Law) from January 2021 are currently under parliamentary debate, with no timeline for implementation.

The amendments under the Bankruptcy Law provide that disputes could be resolved by other courts in the case of urgent bankruptcy proceedings. The proposed amendments also introduce the general and special list of bankruptcy administrators and define delicensing clauses. Moreover, they allow the bankruptcy judge to release the property under lien to the secured creditors if it is not included in the reorganisation plan. The proposed changes to the Bankruptcy Law also introduce expedited submission of claims in 60 days

instead of the current 120, and foresee shortening of the proceeding for the voting of a pre-packaged bankruptcy plan upon its submission from the current 90 to 60 days, which sets a new benchmark for the shortest reorganisation hybrid proceeding in the WBT region. The amendments to the Law on BSA introduce a completely new electronic portal to sell the assets from the bankruptcy estate during an electronic auction. Overall, the legislative changes envisaged are a step in the right direction, but remaining issues are still to be addressed, such as SME fast-track reorganisation/liquidation and discharge of debt of honest entrepreneurs.

The current legal framework allows for a pre-packaged hybrid reorganisation and a regular court-driven reorganisation procedure. Both procedures are finalised through the confirmation of a reorganisation plan by an insolvency judge and, as such, are under the court's authority. A reorganisation plan is possible if it provides a more favourable settlement for creditors in relation to bankruptcy and can be submitted simultaneously with the proposal for initiating bankruptcy proceedings. The plan can include debt rescheduling, change of maturity, interest rates or other loan terms, credit or other claim or security instrument, and debt write-off. From January 2019 until May 2021, 73 reorganisation proceedings were initiated, out of which 57 involved pre-negotiated reorganisation plans, while 3 were adopted. The restructured debt in reorganisation plans adopted in this period amounted to EUR 303.5 million, with EUR 3.1 million disputed receivables (EBRD, 2021[53]).

The Law on Consensual Financial Restructuring, enacted in 2011, provides the possibility of a voluntary financial restructuring based on mediation and overseen by the CCIS. A total of 55 cases have occurred since the enactment in 2011 until the end of June 2021. Out of these cases, 23 were successfully completed, of which a multi-creditor agreement on consensual financial restructuring was concluded in 18 cases. With the support of the CCIS, bilateral agreements were concluded in five cases (EBRD, 2021[53]).

Little progress has been made regarding preventive measures

An EWS is still not established in Serbia. However, under the DanubeChance2.0 EU Interreg project[20] (2018-2021), the government offered business advisory services to a certain number of companies in financial distress that participated in the project. In parallel, solvent SMEs have been offered a range of advisory and mentoring services by international development co-operation partners. These support services are targeted at increasing SMEs' competitiveness and improving their financial management and indirectly contribute to the prevention of insolvency.

Second-chance programmes are still lacking

Serbia did not promote second chance in this assessment cycle, similarly to the 2019 assessment. There is a lack of policy that encourages or ensures the reintegration of honest entrepreneurs into the economy. Even though the Strategy for Supporting the Development of SMEs, Entrepreneurship and Competitiveness (2015-2020) highlights the importance of second-chance policies, no concrete measures were included in the strategy's action plan (Ministry of Economy, 2015[54]). Furthermore, the legal framework does not distinguish honest from fraudulent bankruptcies, nor does it clearly define honest entrepreneurs.[21]

The way forward for Dimension 2

- **Develop a fully-fledged early warning system as an insolvency prevention measure to maintain a healthy SME ecosystem.** The government should provide SMEs with access to an early warning tool to red flag identified financial distress signals and recommend adequate remediation. It could start by further developing its existing mentoring and advisory services to extend the offer of the programmes to SMEs in financial distress. Box 18.5 offers two models to introduce an EWS.

Box 18.5. Early warning systems in the European Union

Early warning tools may include different instruments: alert mechanisms when the debtor has not made certain types of payments; advisory services provided by public or private organisations; and incentives under national law for third parties with relevant information about the debtor, such as accountants, tax and social security authorities, to flag to the debtor a negative development.

In the European Union, there are two competing models for early warning systems:

1. **Self-assessment tool:** Creating tools for SMEs and entrepreneurs to anonymously assess their economic situation. The self-test tool can be a simple software application on a public website. SMEs and entrepreneurs have only to enter basic financial data about their business. The application will produce a preliminary diagnostic with recommendations for remediation actions, like searching for a specific business advisory or mentoring support service. The application conducts a financial ratios diagnostic analysis. The quality of the diagnostic analysis depends on the quantity and quality of the data intake by the entrepreneur.

   This model is useful as a quick financial health check and should be complemented with a business advisory support service by a public institution or access to a commercial or professional association.
2. **Intervention mechanism:** This includes a series of steps to remedy the distress situation under external supervision. The mechanism is based on an early warning signal triggered for the SME, identification of problematic areas causing financial distress and reporting to company management with recommendations to take remedial measures. The process to remedy the identified issues then follows through a series of interventions by different actors, aiming to avoid company insolvency. The process can include:
   - A company bookkeeper or external auditor spots an observation that may lead to financial distress. The early warning mechanism can be built on an obligation of the bookkeeper or auditor to inform the company's management of the issue.
   - If management does not take action to remedy the situation, there may be subsequent communications with the board or even at the shareholders' meeting.
   - If there is no adequate reaction of the enterprise organs, the mechanism can prompt the intervention of outside bodies, such as special mediation or even trigger a special preventive measure court procedure.
   - Finally, if there is no intervention, the system may provide for creditors' actions related to the use of alternative dispute resolution.

Public creditors can play a significant role in an early warning system as they can identify a delay in tax and social security payments – a warning that enterprises are experiencing financial difficulties. Information on late payments should be carefully used together with diagnostic analysis, as companies tend to pay only public debt to avoid early warning detection mechanisms.

Source: IMF (2021[55]).

- **Finalise the digitalisation of liquidation proceedings by introducing the electronic sale portal covered under the new draft amendments.** Digitalising the liquidation process would enhance transparency, save time and costs of the currently lengthy liquidation procedure, anticipate potential conflicts between the creditors' committee and protect creditors' rights as claims are recovered from the best market price reached at a competitive bidding procedure. This

could be achieved by introducing e-auctions, as planned under the amendments, and automatic e-distributions mechanisms.

- **Improve the formal bankruptcy reorganisation proceedings.** The government should consider solving the issue with the obstruction of reorganisation plan voting by holdout and dissenting creditors by applying the analysis of the best interests of creditors. The insolvency judge should consider the possibility of confirming the reorganisation plan – as if they have voted for the plan (cram down) – if the creditors receive higher recovery of their claim than they would have in liquidation.
- **Introduce simplified bankruptcy proceedings for SMEs.** SMEs have small scales of business and simpler operations. It is thus recommended to consider admissibility to short-track proceedings for SMEs with a maximum debt set at a certain threshold, determined based on the average size of the economy's micro and small-size firms at the time of filing for bankruptcy. Requirements for restructuring plans should also be simplified. Administrative proceedings should be financially affordable for SMEs, and the procedure should be simplified, e.g. there is no need for a creditors' committee. Simplified and fast-track procedures are particularly relevant in the aftermath of the COVID-19 pandemic as they might allow for a quicker reintegration of businesses into the economy and save social payments that might result from potential unemployment.
- **Promote second chance to honest entrepreneurs.** The economy should promote second chance as an option for honest entrepreneurs so they can start anew and thus reduce the cultural stigma related to business failure. The legal framework should provide for the debt discharge of honest entrepreneurs. The policy should clearly distinguish fraudulent from honest entrepreneurs and be widely promoted through public awareness campaigns promoting a fresh start upon bankruptcy.

Institutional and regulatory framework for SME policy making (Dimension 3)

Introduction

A strong institutional and regulatory framework is the basis for SME policy making. SMEs are often disproportionately affected by regulatory changes and pay a higher price for legislative compliance, given their limited resources compared to larger companies. Therefore, when designing policies that impact the private sector, policy makers should consider the unique needs of SMEs, especially given their importance for the economy in terms of employment, value added and business demographics.

SMEs represent a higher share of value added (57.2%) and employment (66.1%) in Serbia than the EU average. It is therefore particularly important to "think small first" when designing and implementing SME policies. The COVID-19 pandemic affected Serbian SMEs, especially in the accommodation and food services and retail trade sectors. SMEs in Serbia continue to suffer from high administrative burdens as well as from unfair competition stemming from the informal economy (European Commission, 2021[56]).

Serbia's performance in Dimension 3 (4.18) has remained largely unchanged since the last assessment (when it was 4.24), chiefly thanks to its already high starting point and well-advanced policy framework (Table 18.9).

Table 18.9. Serbia's scores for Dimension 3: Institutional and regulatory framework for SME policy making

Dimension	Sub-dimension	Thematic block	Serbia	WBT average
Dimension 3: Institutional and regulatory framework for SME policy making	Sub-dimension 3.1: Institutional framework	Planning and design	4.60	4.28
		Implementation	4.10	3.96
		Monitoring and evaluation	4.00	3.81
		Weighted average	**4.23**	**3.03**
	Sub-dimension 3.2: Legislative simplification and regulatory impact analysis	Planning and design	4.32	3.84
		Implementation	4.10	3.47
		Monitoring and evaluation	4.10	2.95
		Weighted average	**4.17**	**3.48**
	Sub-dimension 3.3: Public-private consultations (PPCs)	Frequency and transparency of PPCs	4.24	4.00
		Private sector involvement in PPCs	4.30	3.92
		Monitoring and evaluation	3.50	3.10
		Weighted average	**4.12**	**3.79**
Serbia's overall score for Dimension 3			**4.18**	**3.79**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Serbia has made progress in implementing its SME policy framework since the last assessment, namely by completing the implementation of its SME Strategy and action plans for combating the informal economy. The ePapir programme, launched in 2019, aims to improve the business environment by significantly reducing the administrative burden for companies. Financial and promotional support for the development of SMEs and entrepreneurship has continued to rise, in line with the government's "Decade of Entrepreneurship" initiative, announced in 2016. The government has also introduced new guidelines for conducting regulatory impact assessments (RIAs), notably introducing the SME Test as a separate procedure. While there is room to improve the existing mechanisms for controlling the quality of RIA, the government has made plans to improve the quality of RIA in the next few years. The framework for conducting public-private consultations is the same as in the previous assessment. While it is theoretically

strong, the quality of consultations with and engagement of SMEs are not yet at a consistently high level (Table 18.10).

Table 18.10. Serbia's implementation of the SME Policy Index's 2019 recommendations for Dimension 3

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Improve monitoring of SME policies and start evaluating their effectiveness on the ground	A final monitoring report was conducted for the Strategy for Supporting the Development of SMEs, Entrepreneurship and Competitiveness (2015-2020), showing an implementation rate of 68.3% of activities. While the report gives an accurate account of which areas were best implemented and which suffered delays, there is no summary of the conclusions and recommendations, which would have been useful for drafting the next SME Strategy. These will be included in the ex post analysis of the strategy, which will be conducted before drafting the next strategy.	Moderate
Make RIA findings binding for line ministries	The regulatory impact assessment (RIA) methodology was updated in February 2019; however, it does not make it compulsory to implement the recommendations from the RIA reports for the institutions proposing the legislation – i.e. the Public Policy Secretariat's role remains the same, and its findings are still not binding for line ministries, which can choose not to align their RIA with the findings provided they give justification. While the Public Policy Secretariat also frequently contacts line ministries informally before issuing a formal opinion, the overall degree of quality control has yet to show tangible, consistent results in improving the quality of RIA.	Limited
Enhance the quality of the PPC process	The use of an urgent procedure for passing laws, one of the key issues in the effective use of public-private consultations (PPCs), has significantly declined since the last assessment. The government has launched a new online portal for PPCs, integrated into the e-Uprava portal for digital services, to improve the transparency and effectiveness of the PPC process. However, this has yet to yield tangible results, and quality control of PPCs remains weak, without a central institution charged with overseeing the process and producing regular reports on the use of PPCs across various institutions.	Moderate

The implementation of SME policies has further advanced

Since the previous assessment, the implementation period of Serbia's Strategy for Supporting the Development of SMEs, Entrepreneurship and Competitiveness (2015-2020) has come to an end. The Council for SMEs, Entrepreneurship and Competitiveness, formed in 2015 and recomposed in 2017 to co-ordinate the realisation of the strategy, has not been actively involved in this regard, while the monitoring of the government's SME policies was carried out under the auspices of the Action Plan for the Implementation of the Government's Programme and its related goals. The strategy's final monitoring report shows an overall strong level of implementation, with 68.3% of activities being fully implemented. The strongest progress was made in Pillar 3 (continued development of human resources) and the weakest, with the largest share of non-implemented activities, in Pillar 6 (support to entrepreneurial spirit and youth and women's entrepreneurship). Many of the strategy's target values in key indicators, such as the growth of the SME sector and rise in international rankings,[22] have been achieved (Ministry of Economy, n.d.[57]). The government began work on a new SME Strategy in the last quarter of 2021, whose development will be supported by the conclusions drawn from an ex post analysis of the previous strategy. The government plans to complete the development of the new strategy and its action plan by the end of 2022. Building on the momentum from the Year of Entrepreneurship initiative launched in 2016, and its subsequent transformation into the "Decade of Entrepreneurship" (2017-2027), the government created an Entrepreneurship Portal in 2018 (https://preduzetnistvo.gov.rs), allowing a more centralised and user-friendly access to information on starting a business, available support programmes, digital services for SMEs and promotional campaigns, including success stories for aspiring entrepreneurs. In line with the campaign's goals, the overall level of support to SMEs through various programmes has increased, despite re-allocations of funding to more immediate support measures in 2020 in light of the COVID-19 pandemic.

The latest analysis conducted by the National Alliance for Local Economic Development observes a significant reduction of the informal economy, from 21.2% of GDP in 2012 to 15.4% in 2017 (NALED, 2019[58]). Serbia further advanced the implementation of its framework for combating the informal economy. Building on the National Plan for Combating the Grey Economy, adopted in 2015, and its subsequent action plans, a new action plan was adopted in 2019, and 71.2% of its activities[23] have been implemented (NALED, 2021[59]), with the greatest share in the areas of promoting fair competition, legal entrepreneurship and employment and increasing the awareness of citizens and businesses of the importance of fighting the informal economy. In line with this latest action plan, the "eInspektor" system, a unified platform for the various inspectorates to improve the co-ordination of inspection activities and facilitate reporting by citizens, was further developed, connecting 44 inspectorates in total by 2021 (European Commission, 2021[20]). In 2021, the government implemented a fiscalisation reform, starting a transition to digital invoicing, which should also help reduce the informal economy. The government was working on the next Programme for Combating the Grey Economy (2022-2025) and its first action plan (2022-2023) at the time of drafting.

Additional efforts have been made to improve the business environment by reducing the administrative burden for companies

In line with the SME Strategy's first pillar (improving the business environment), the government launched the ePapir programme in 2019, aiming to create a single online register of all administrative procedures for businesses (Box 18.6). So far, over 2 600 procedures have been identified at the level of both the central government and the government of the Autonomous Province of Vojvodina, and in April 2021, a Law on the Register of Administrative Procedures (Official Gazette of the Republic of Serbia No. 44/2021-9) was adopted, providing the necessary legal framework for the register to be developed (Ministry of Economy, n.d.[57]). The ePapir programme's action plan for 2019-21 foresaw the simplification of 592 administrative procedures and the digitalisation of 100 procedures. By the end of 2021, 269 procedures had been simplified and 52 digitalised, with the simplification of 501 procedures being partially implemented. While these are strong results in terms of implementation, they fall short of the programme's targets for the period.

Box 18.6. Serbia's ePapir programme

In July 2019, the government of Serbia adopted the Programme for the Simplification of Administrative Procedures and Regulations (2019-2021), also known as ePapir. The programme is a result of the goals defined in the Strategy for Regulatory Reform and the Improvement of the Public Policy Management System (2016-2020), the SME Strategy (2015-2020), the National Programme for the Suppression of the Grey Economy, and other top-level policy documents.

Managed and co-ordinated by the Public Policy Secretariat, ePapir's objectives relate to identifying and simplifying administrative procedures for businesses. As a result of the programme, in June 2021, a Register of Administrative Procedures for Businesses was created, linked to the government's e-Uprava portal for digital government services (https://rap.euprava.gov.rs/privreda/home). The overall benefit expected once the programme is fully implemented is estimated to be around EUR 4.5 million.

ePapir is an example of good practice for other regional economies in the sense that it combines the process of simplifying administrative procedures with their digitalisation, processes which are often looked at and tackled separately. This parallel digitalisation and simplification can be seen as a first step toward designing digital services with the end user's experience and needs in mind (see Dimension 4 on operational environment for SMEs). This goal features strongly in Serbia's Public Administration Reform Strategy's (2021-2030) component on service delivery, whose goal is to

encourage the development of services tailored to users' needs and ensure their continued review and adaptation to fit these needs.

Source: Information provided by the Serbian government for this assessment. For more information, see https://epapir.rsjp.gov.rs.

These efforts to improve the business environment are encouraging; however, other obstacles remain, such as the high level and number of para-fiscal charges, which could benefit from rationalisation as is being done in other regional economies (such as Montenegro and North Macedonia).

The SME Test has been introduced, but the use and quality control of regulatory impact assessments could be improved further

In February 2019, Serbia updated its methodology on public policy management, thereby introducing the SME Test[24] to its RIA methodology as a mandatory separate procedure for all legislation that is deemed to have an economic impact and, therefore, a potential impact on SMEs. Guidelines for conducting the SME Test have been developed and are available on the Public Policy Secretariat's (PPS) website. They include detailed instructions on when and how to conduct the SME Test and are in line with European Commission's methodology. While this constitutes a solid basis for more frequent and detailed examination of impacts on SMEs in ex ante policy making, it is not yet consistently applied (European Commission, 2021[20]).

Although RIA is mandatory for all legislation that goes through the regular procedure in Serbia and is overall consistently applied, its quality and comprehensiveness leave significant room for improvement, with the main issues being in options analysis and ensuring that impacts in all prescribed areas are considered (OECD, 2021[60]).

RIA quality control is carried out by the PPS, which regularly provides feedback on RIA conducted by line ministries before proposals are submitted to the government for adoption. However, this feedback is not binding, as line ministries have the option of justifying a lack of alignment with the PPS's opinion. While the PPS also frequently contacts line ministries informally before issuing a formal opinion, the overall degree of quality control has yet to show tangible, consistent results in improving RIA quality.[25]

In November 2021, the government adopted a Programme and Action Plan for Improving Public Policy Management and Regulatory Reform (2021-2025). The document's introductory analysis section contains a summary of RIA submitted to the PPS for review and identifies the main challenges civil servants face in conducting complete and effective RIA: identifying the effects, costs and benefits of policy options and mechanisms for monitoring and evaluation. This analysis is a step in the right direction and could serve as a foundation for more regular reporting on the use of RIA. Activities to increase institutional capacity for conducting effective RIA have been reduced due to the COVID-19 pandemic, and the number of trained officials remains low (OECD, 2021[60]). This has been recognised as a challenge in the programme, which includes actions to increase administrative capacity and the know-how of civil servants, as well as to improve the overall quality of RIA and specifically improve the use of RIA for determining impacts on SMEs through the SME Test (PPS, 2021[61]).

Efforts have been made to improve the state of public-private dialogue, but consultations continue to suffer from a lack of quality control and engagement

To raise the level of public-private dialogue in Serbia, the Public-Private Dialogue for Growth project, implemented by the National Alliance for Local Economic Development and the United States Agency for International Development, continued to organise thematic working groups on sectoral policies (such as agriculture and taxation) as well as training for civil servants and businesspeople in conducting effective PPCs. The latest survey conducted within the scope of the project in 2019 revealed that there is significant room for improvement in engaging the business community in public-private dialogue, as 66% of the

businesses surveyed indicated that they were not familiar with practices for public-private dialogue in Serbia (NALED and Ipsos, 2019[62]). In the same survey, 38% of businesses presented a favourable view of public-private dialogue in Serbia, a share similar to that in the more recent Balkan Business Barometer survey (42%). However, although the result is higher than the Western Balkan regional average (22% positive view), there is still room for improvement (Regional Cooperation Council, 2021[63]).

The share of laws passed through an urgent procedure, therefore bypassing the requirement for PPCs – a major concern in the previous assessment – has declined considerably over the assessment period, with the share of all legislation proposed by the government that was passed through urgent procedure declining from 36% in 2018 to 12% in 2021 (Open Parliament, n.d.[64]). Nevertheless, despite this positive development, obstacles to making full use of Serbia's framework for PPCs remain. One of these is the short duration of consultations, giving stakeholders a limited time frame to provide their input (European Commission, 2021[20]). Another issue is the lack of quality control of PPCs, which would ensure that they are consistently applied by different line ministries and institutions in line with Serbia's theoretically solid framework. While reporting on consultations is a mandatory part of the legislative process, no institution oversees the PPC process or monitors and evaluates the overall use and quality of PPCs, which could allow priority areas for improvement to be identified.

In December 2021, the government launched a new online portal for PPCs (https://ekonsultacije.gov.rs/), integrated into the e-Uprava portal for digital government services, to improve the transparency and inter-institutional co-ordination of PPCs. Replacing an earlier portal that allowed stakeholders to participate in public debate as part of the legislative process (https://javnerasprave.euprava.gov.rs/), the new portal should allow stakeholders to participate in the policy-making process from the moment of drafting of documents all the way to their adoption. The PPS, General Secretariat of the Government and Ministry of State Administration and Local Self-Government are charged with overseeing the use of the portal, which should lead to improved inter-institutional co-ordination regarding the use of PPCs. This development presents an opportunity to strengthen the quality control of PPCs and introduce regular monitoring and evaluation of the PPC process.

The way forward for Dimension 3

- **Introduce regular monitoring and evaluation of the use of regulatory impact assessment.** Currently, the use of RIA by various line ministries in Serbia is done on an ex post basis when preparing new policy documents or updating the RIA methodology every few years. While this is a solid foundation, the evidence base for improving RIA could be further strengthened by introducing more frequent reporting, as some other regional economies, such as Montenegro (Box 18.7), have done. These reports should focus on the main challenges observed by civil servants in conducting RIA, with the goal of identifying priority areas for capacity building.

Box 18.7. Montenegro's reports on the quality application of RIA

Conducting regular reporting of the RIA process with a focus on qualitative indicators is key to measuring progress in building institutions' capacities for conducting useful and evidence-based analysis.

Making full use of its quality control function, the Ministry of Finance and Social Welfare of Montenegro publishes regular reports on the state of the RIA process in Montenegro and the evolution of its quality.

As in some other WBT economies, these reports contain a statistical aggregation of all RIAs conducted as a share of all primary and secondary legislation adopted and the degree to which they meet the requirements for conducting RIA by line ministries. However, what makes Montenegro's reports stand out is that the RIAs conducted are then divided into categories, showing what share of RIAs conducted was satisfactory in terms of quality in the areas of problem definition, goal definition, options definition, impact assessment, fiscal impact assessment, consultation with stakeholders and monitoring and evaluation. This kind of analysis allows the Ministry of Finance to measure the progress made compared to previous years in these different areas.

In the latest report, the ministry identified that 68% of RIA conducted in 2020 was noted as "done with quality" versus 61% in 2019, showing a slight improvement in overall quality. More specifically, the areas with the greatest room for improvement were options definition, impact assessment, fiscal impact assessment, consultations with stakeholders and monitoring and evaluation. This allows the government to focus its efforts on building capacity for conducting useful and effective RIA on these areas.

The work done by the PPS of Serbia as part of the introductory analysis of the Programme and Action Plan for Improving Public Policy Management and Regulatory Reform (2021-2025) is a strong foundation for qualitative monitoring and evaluation of RIA. Serbia could benefit from conducting analytical reporting on the use of RIA by different ministries on a more regular basis, to better inform policy making by measuring progress at more regular intervals.

Source: Montenegrin Ministry of Finance, (2021[65]).

- **Strengthen quality control and introduce reporting on the public-private consultation process.** Now that an updated portal for PPCs has been established, the government would greatly benefit from assigning an institution oversight and co-ordination of line ministries' use of it. This institution would regularly report on the adherence to PPC quality standards by different line ministries, identify priority areas for improvement and explore possible solutions for the lack of engagement of the private sector. Indicators measuring adherence to quality standards and stakeholder engagement (allowing for specific monitoring of SME engagement) could be integrated into such a report. Albania recently introduced aggregate reporting on PPCs conducted across all institutions and can provide an example of good practice (Box 18.8).

Box 18.8. Albania's reporting on public-private consultations

As part of its new regulatory framework for conducting PPCs, introduced in January 2021, Albania strengthened the guidelines for monitoring and evaluation of PPCs conducted by all line ministries, as well as of the overall PPC process, monitored and evaluated by the Council of Ministers.

Starting in 2021, every six months, line ministries publish reports summarising the PPCs that they have held. The reports are available on the online PPC portal (https://konsultimipublik.gov.al) and contain an exhaustive summary of all the PPCs conducted by the relevant institution.

The Council of Ministers prepares another report, summarising the content of the line ministries' reports and analysing the adherence of consultations to quality standards (based on the respect of the requirement to conduct PPCs, the duration of PPCs and accessibility to the public). Indicators measuring public participation and the share of comments accepted or rejected allow the government to assess overall stakeholder engagement in PPCs conducted by the government across various line ministries. The report also provides recommendations to improve the PPC process.

Serbia could take inspiration from this system, as it would allow the government to measure the consistency of ministries' use of PPCs, but also the quality of the overall PPC process across different ministries.

Sources: Reports available on Albania's online portal for PPCs: https://konsultimipublik.gov.al; Council of Ministers of Albania (2021[66]).

Operational environment for SMEs (Dimension 4)

Introduction

From registering a company and obtaining a business licence to filing and paying taxes, SMEs interact with public institutions, physically or digitally, at all stages of their development. The operational environment in which SMEs must navigate is determined by the ease of using digital services, the number of procedures and the costs associated with their interactions with the government. Complex requirements imposed on businesses have adverse impacts on SMEs' ability to operate, take advantage of market opportunities efficiently and grow.

For a small, open economy like Serbia, increasing the availability of digital services for SMEs – including business registration and licensing – as well as improving the efficiency of administrative procedures – including tax compliance procedures – will be key to improving the operational environment by saving time and resources.

Serbia has improved its performance in delivering digital services for SMEs since the last assessment (when it scored 3.52), mainly due to improvements in co-ordination and in monitoring and evaluation of the policy framework for the rollout of digital services. Serbia's performance on company registration and business licensing has also improved since 2019 (Table 18.11).

Table 18.11. Serbia's scores for Dimension 4: Operational environment for SMEs

Dimension	Sub-dimension	Thematic block	Serbia	WBT average
Dimension 4: Operational environment for SMEs	Sub-dimension 4.1: Digital government services for SMEs	Planning and design	4.70	4.28
		Implementation	3.64	3.33
		Monitoring and evaluation	3.00	2.48
		Weighted average	**3.80**	**3.40**
	Sub-dimension 4.2: Company registration	Planning and design	4.80	4.42
		Performance	4.30	3.93
		Monitoring and evaluation	4.75	4.06
		Weighted average	**4.68**	**4.18**
	Sub-dimension 4.3: Business licensing	License procedures	3.80	3.88
		Monitoring and streamlining of the license system	3.90	3.73
		Weighted average	**3.85**	**3.80**
	Sub-dimension 4.4: Tax compliance procedures for SMEs	SME tax compliance and simplification procedures	No scores	
		Monitoring and evaluation of SME-specific tax measures		
Serbia's overall score for Dimension 4			**3.98**	**3.64**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Despite delays in implementing its previous policy framework for the rollout of digital government services, Serbia has taken stock of these challenges and developed a new framework with the E-Government Development Programme (2020-2022). The rollout of digital services for businesses has continued, and progress has been made in strengthening the key enablers of digital government, such as government data interoperability, electronic signature and data openness. Co-ordination for better digital service delivery has improved, and the government has integrated plans to improve the monitoring and evaluation of digital service performance into the policy framework.

The company registration framework has been further simplified since the last assessment, thanks to increased interoperability and optimised electronic registration. Great progress was achieved in centralising and digitalising business licensing within the e-Uprava portal, which should increase accessibility and transparency.

Taxes on labour income put a high burden on self-employed entrepreneurs, but they can benefit from a lump-sum tax regime that reduces their tax compliance costs. Tax compliance costs have decreased due to the use of digital services, the introduction of simplified tax administration procedures and efforts to increase tax literacy among SMEs (Table 18.12).

Table 18.12. Serbia's implementation of the SME Policy Index's 2019 recommendations for Dimension 4

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Continue to expand the use of digital authentication to widen the range of available e-services	The number of digital services requiring e-signatures is increasing, and the government has made efforts to improve the accessibility and ease of use of e-signatures, notably by enabling their use through a mobile application using cloud technology.	Strong
Introduce electronic distribution and nomination of licence officers	While Serbia has established an e-licence portal, electronic distribution and the nomination of a licences officer have not been introduced. Granting licences remains the competence of different institutions.	Limited
Implement simplified tax regimes by measuring the effective burden created on SMEs	No evaluation has been carried out using tax return data to analyse whether the design of the lump-sum tax creates bunching of the self-employed below the simplified tax regime threshold and/or below the thresholds of each of the regime's turnover classes.	Limited

Despite delays in implementation, the rollout of digital government services has continued and has improved businesses' perception of digital government services

The Serbian government has conducted an ex post analysis of the implementation of the E-Government Development Strategy (2015-2018) since the last assessment to lay the foundation for the continuation of the policy framework for the development of digital government services. The analysis concluded that implementation suffered from delays and difficulties related to monitoring and evaluation.[26] Namely, the final Action Plan (2017-2018) suffered from poor implementation, with only around a third of its measures fully implemented. However, despite these delays, significant progress has been achieved in the development of digital government. As a result, Serbia's performance in several international rankings, such as the United Nations' e-Participation Index (measuring satisfaction and engagement of stakeholders through digital means) and Online Service Index, improved during the strategy's implementation period,[27] reflecting a significant improvement in the coverage and quality of digital services (Ministry of Public Administration and Local Self-Government, 2020[67]).

Serbia has modernised its online e-Uprava portal for digital services, which has existed since 2010, by launching an updated version in February 2020. The portal has over 150 services for legal entities, of which over 45 are fully transactional (sophistication level 4).[28] The portal aims, through its continuous development, to serve as a one-stop-shop for business services. Several key services for businesses, such as declaring and paying taxes and social security contributions, registering a business, and an increasing number of licensing procedures, can be completed fully on line and are available on the portal, while the digitalisation of other services (for instance, services related to the cadastre) is ongoing as part of the E-Government Development Programme (2020-2022) and the ePapir programme for simplifying business regulations (see Dimension 3 on institutional and regulatory framework for SME policy making).

In line with the rollout of these key digital services for businesses through the e-Uprava portal, businesses' perception of digital government services in Serbia has significantly improved, as evidenced by the Balkan Business Barometer Survey, where 62% of respondents, the highest share in the region, expressed satisfaction in 2021, compared to 35% in 2019[29] (Regional Cooperation Council, 2021[63]).

A new framework for developing digital government has been adopted, aiming to improve monitoring and evaluation mechanisms for digital services

In June 2020, the government adopted and is currently implementing the E-Government Development Programme (2020-2022), inspired by the lessons learnt from its predecessor, the E-Government Development Strategy (2015-2018). Activities which were not implemented during the previous period were carried over, and monitoring and evaluation was strengthened through the introduction of concrete performance indicators for measuring progress. Namely, the programme aims to have 80% of digital services available through the e-Uprava portal at sophistication level four, allowing for fully transactional services which can be completed fully on line. The programme takes a multifaceted approach to the development of digital government, and its specific objectives include improving the government infrastructure for data interoperability and legal certainty for users, increasing the accessibility of digital government, and promoting the use of open data.

Within the goal of improving transparency and accountability and strengthening monitoring and evaluation of the Public Administration Reform Strategy (PARS 2021-2030), the Ministry of State Administration and Local Self-Government has created an online portal[30] to track the implementation of the strategy's goals, measures and activities in real time. This portal includes the PARS 2021-2030 component on service delivery, therefore strengthening the visibility of progress in the advancement of digital government for stakeholders.

Since the last assessment, the role of the E-Government Co-ordination Council was absorbed by the Council for Public Administration Reform. Namely, the E-Government Co-ordination Council was established in 2017 and was charged with co-ordinating the implementation of digital government reforms. It was also the primary forum for engaging with non-governmental stakeholders in the design of policy documents for digital government. The Council for Public Administration Reform was established in 2021 and has broader responsibilities and more high-level political membership, [31] providing an opportunity for more coherence and political legitimacy to digital government reform efforts. In parallel, a dedicated Inter-Ministerial Project Group ensures co-ordination of line ministry representatives at a management level. The E-Government Development Programme (2020-2022) foresees the creation of a similar council for co-ordinating implementation at the level of local self-government units. The creation of such a body would be a positive step in ensuring that the availability of digital services that depend on local administrations is harmonised across Serbia.

The E-Government Development Programme (2020-2022) has measures to develop the user support and feedback collection processes for digital services, which are currently limited to rating overall user satisfaction of the portal. This should improve the monitoring and evaluation of the performance of digital services to allow the government to identify which issues users are facing in view of improving digital services. The government's ePapir programme (see Dimension 3 on institutional and regulatory framework for SME policy making), which aims to streamline and simplify the 100 most frequently used services for businesses, is a first step towards designing digital services with the end user's experience and needs in mind. This objective features strongly in the PARS 2021-2030 component on service delivery, whose goal is to encourage the development of services tailored to users' needs and ensure they are continuously reviewed and adapted to fit these needs.

Progress has been made in strengthening the key enablers of digital services for businesses, such as data interoperability, e-signature and open data

Interoperability of government-collected data has advanced, with an increase in the number of registers interconnected through the government service bus, from 23 in 2019 to 28 in 2021, including the Central Population Register (OECD, 2021[60]). The government has defined advancing interoperability and strengthening government infrastructure for data exchange as a priority under the first objective of the E-Government Development Programme (2020-2022) and has plans to digitalise other registers and further integrate them through the establishment of a metaregister, which would facilitate automatic data exchange within the public administration, saving time for businesses through the increased application of the once-only principle.[32]

The availability of electronic signatures, a key enabler for accessing more secure digital services, has improved, namely through the increase in the number of certified providers of qualified electronic certificates, necessary for e-signatures, and through the introduction of electronic national ID cards containing qualified electronic certificates. The government has also tried to improve the accessibility and ease of use of e-signatures by enabling its use via a mobile application using cloud technology.[33]

Since the last assessment, the availability of open data on the government open data portal (data.gov.rs) has greatly increased. The number of datasets on the portal increased from 85 in 2019 to 1 790 in 2022, and the number of institutions publishing data on the portal increased from 22 to 109 over the same period. The government has established criteria for open data publication, annotation and organisation to facilitate its reuse, and datasets are provided in machine-readable formats. Users can use the open data portal to interact with the publishing institutions if they have questions on a particular dataset, a level of transparency that is not visible in Serbia's regional peers. Data and examples of open data reuse are collected and shared through the portal, and the government has made efforts to promote and stimulate its reuse by the private sector through initiatives such as innovation challenges, open calls for projects and other educational and promotional activities. This objective is notably present in recently adopted sectoral documents, such as the Strategy for the Development of Artificial Intelligence (2020-2025), which focuses on promoting the reuse of available open data by start-ups and SMEs to drive the creation of innovative products and services and support the development of technologies based on artificial intelligence (Government of Serbia, 2020[68]).

Company registration has been further simplified since the last assessment

Entrepreneurs can register their companies through the Serbian Business Registers Agency (SBRA), which operates as a one-stop-shop in its physical offices and on line, according to the "silent-is-consent" principle.[34] The SBRA provides companies with a tax identification number together with their company registration code. Moreover, thanks to increased interoperability, since 2020, the SBRA is also in charge of submitting relevant applications for mandatory social insurance on behalf of companies (only available to sole proprietors prior to 2020). This has reduced the length and complexity of company registration.

Online registration, in operation since 2018 for sole proprietors and single-member, limited liability companies, was made fully available to multi-member limited liability companies in June 2019. The electronic registration fee has been reduced to less than EUR 50 for limited liability companies and less than EUR 10 for sole proprietors. While a qualified electronic signature is still required to register a company, the process has been further simplified with the 2021 Amendment Law on Procedure of Registration with the Business Registers Agency.[35]

Full digitalisation of company registration is ongoing for all company types and processes (incorporation of all legal forms of companies, changes, liquidation, issuing of electronic excerpts, etc.) and is expected to be finalised by 2023. In line with digitalising processes, monitoring reports and evaluation mechanisms on company registration are available and under the responsibility of the SBRA.

Business licensing has been centralised, and digitalisation is underway

Serbia has achieved great progress in centralising business licences as part of its ePapir programme, launched in 2019 to create a single online register of all administrative procedures for businesses (see Dimension 3 on institutional and regulatory framework for SME policy making). As part of measure 1.4 of the programme ("Providing preconditions for the digitalisation of procedures"), starting from 2019, all 1 301 licences granted by different institutions were classified and compiled within a single list,[36] increasing their accessibility and easing the administrative burden on businesses. The list of all licences is available on the online register compiling all administrative procedures for businesses, established in 2021 as part of the larger e-Uprava platform (https://rap.euprava.gov.rs/privreda/home). While the newly established portal serves as a single entry point for licences and permits, the services offered remain largely informational, and competences in granting licenses remain scattered among several institutions.

Delays in obtaining a licence can be costly to entrepreneurs, adding uncertainty and additional costs to much-needed business transactions. According to the latest data available, 9 days were required to obtain an import licence, 93 for an operating licence and 85 for a construction permit, the last two being considerably higher than the WBT averages (11, 24 and 72 days, respectively) (World Bank, 2019[69]). The government, under the umbrella of the Public Administration Reform Council, established in 2021 for the digitalisation of administrative procedures,[37] is currently in the process of digitalising licensing processes, allowing businesses to apply and pay for their licences on line. As of 2022, two transactional digital licensing services are available on the portal (for construction permits and electricity licences). Increasing the number of transactional services should reduce the burdensome number of procedures, requirements, paperwork and costs related to obtaining a licence, which remains a big or very big obstacle for 29% of Serbian businesses (Regional Cooperation Council, 2021[63]).

Serbia introduced a set of tax measures to mitigate the impact of the COVID-19 crisis and to support the economic recovery

The measures that were introduced to mitigate the impact of the COVID-19 crisis were available to all businesses, including SMEs. PIT and CIT payments, as well as social security contributions (SSCs), were temporarily deferred, and interest was not charged on the deferred tax liabilities (Government of Serbia, 2020[70]). Under certain conditions, unincorporated businesses and corporations that dismissed less than 10% of their employees received fiscal support during the crisis could benefit from a reduction in employer SSCs. In addition, goods and services for health purposes were exempt from VAT, while businesses selling these products continued to receive an input credit for the VAT incurred on their inputs.

Taxes on labour income put a high burden on self-employed entrepreneurs

Self-employed workers are subject to a 37.8% SSC rate levied on the SSC base, which is business taxable income. Moreover, the standard PIT rate is 10%, up to a maximum of six times the average annual wage, then a 15% PIT rate applies to taxable income exceeding this threshold (IBFD, 2021[71]). As high taxes on labour may create disincentives to work in the formal sector, Serbia could consider introducing a more progressive PIT rate schedule and reducing SSCs on low-income self-employed entrepreneurs to reduce the tax burden they face.

CIT incentives are available to incorporated SMEs and larger businesses

In Serbia, the standard CIT rate in 2021 was 15%. All businesses are allowed to deduct from the CIT base twice their research and development (R&D) expenses (IBFD, 2021[72]). In addition, CIT losses can be carried forward up to five years, which is aligned with rules implemented in the other economies in the region.

Self-employed workers can benefit from a lump-sum tax regime that reduces compliance costs

A self-employed entrepreneur qualifies for the lump-sum tax regime if his/her annual turnover in the year preceding the current fiscal year does not exceed RSD 6 million (approximately EUR 51 000), if the business is not VAT registered, does not have outside individual investors and does not operate in specific business sectors such as wholesale and retail, hotels and restaurants, real estate, financial intermediation, or advertising and market research. Overall, more than 30% of unincorporated businesses are registered under the lump-sum tax regime. Those businesses are mainly taxi drivers, legal professionals, hairdressers and programmers (OECD et al., 2019[73]). The lump-sum amount paid under the tax regime varies across business sectors, which indirectly takes into account the profitability of SMEs, as profitability tends to vary across business sectors. This design feature constitutes good practice as it enhances equity across SMEs in different sectors. The lump-sum amount also varies across levels of turnover of SMEs within each business sector and across locations. The simplified tax regime in Serbia is, therefore, a hybrid type of lump-sum tax regime; the tax liability is a lump-sum amount that varies across sectors, brackets of turnover and location. Finally, further analysis of the lump-sum tax regime could assess whether the self-employed are bunching below the RSD 6 million (approximately EUR 51 000) threshold rather than growing into the regular PIT regime in order to minimise their PIT liabilities.

High social security contributions and relatively low taxes on personal capital income create a tax-induced incentive for SMEs to incorporate

The effective tax rate on labour income is higher than the effective tax rate on capital income, which consists of the combined effect of the CIT paid at the corporate and personal shareholder level. Therefore, owner-managers of closely held corporations face a tax-induced incentive to receive remuneration in the form of lower-taxed capital income (i.e. dividends) rather than a higher taxed salary. In addition, corporations face higher non-tax costs than unincorporated SMEs, so the incentive to incorporate may result in extra costs for SMEs. Moreover, the economy may collect fewer tax revenues when businesses incorporate just to minimise their tax liability.

The VAT system does not foresee many tax simplification measures

Businesses with an annual turnover exceeding RSD 8 million (approximately EUR 68 000) have to register for VAT. Voluntary registration for VAT is possible for businesses with lower turnover, provided they remain VAT liable for at least two years. In 2021, the standard VAT rate was 20%, and the reduced VAT rate was 10% (IBFD, 2021[72]). Businesses with an annual turnover in the previous 12 months below RSD 50 million (approximately EUR 425 000) that have been registered for VAT purposes during that time period are allowed to use cash accounting for VAT purposes, provided VAT returns were filed, and VAT liabilities were paid on time in the preceding year. Serbia could evaluate whether it wants to introduce additional measures to facilitate VAT compliance for SMEs, such as simplified input tax credit calculation schemes.

Tax compliance costs have decreased due to the use of digital services, the introduction of simplified procedures and efforts to increase tax literacy

E-filing is widely used for tax returns in Serbia, which can reduce compliance costs for SMEs. PIT, CIT and VAT returns must be filed on line, and the electronic procedure to e-file tax returns is free of charge. Businesses are required to make tax pre-payments frequently, which may result in additional compliance costs. PIT and CIT returns are submitted on an annual basis, but businesses, regardless of their size, are required to make monthly tax pre-payments.

Serbia has made efforts to increase tax literacy amongst businesses, which can significantly decrease SMEs' tax compliance costs. The tax administration has organised meetings and seminars with business associations and has launched a communication campaign via phone calls, emails and flyers to share information on tax policy and tax administration procedures. SMEs can find information on the tax

administration's website, which classifies tax regulations according to the type of taxpayer. The services developed by the Serbian Ministry of Finance help SMEs with their tax administration obligations.

The way forward for Dimension 4

- **Ensure that SME-specific data are collected when improving the user feedback system for digital services.** When improving feedback channels, it would be important to ensure differentiated data collection for feedback by businesses and, more specifically, to differentiate feedback by enterprise size class to see if SMEs experience specific challenges. To go a step further, production-related data (such as usage patterns, number of transactions, etc.) can be collected to understand the underlying reasons for businesses' satisfaction or dissatisfaction with a given service and identify areas for improvement. Box 18.9 shares Norway's example of developing a monitoring and evaluation system through its online services portal.
- **Strengthen co-ordination between e-Uprava authorities and institutions in charge of issuing business licences to improve interoperability.** While Serbia has achieved great progress in centralising business licences within its e-Government portal, competences in granting licences are still fragmented between different institutions. Serbia could establish a specific department within e-Uprava to be in charge of co-operation with all institutions responsible for issuing licences. This would improve interoperability, interplay and data sharing with all institutions involved. Going further, this department could be responsible for granting licences that do not require the competent authority's approval, which could increase transparency and enhance effective monitoring and streamlining of licences.
- **Rebalance the tax burden of unincorporated and incorporated SMEs to limit the tax-induced incentive for SMEs to incorporate**, for instance, by lowering SSCs, increasing the progressivity of the PIT and increasing the tax rates levied on capital income at the personal shareholder level.
- **Evaluate the tax burden faced by SMEs at the threshold between the lump-sum tax regime and the standard personal income tax regime.** The aim should be to design a coherent tax system that incentivises businesses to operate in the formal economy and SMEs to grow into the regular PIT regime, for instance, by using business tax returns.
- **Develop a comprehensive strategy to ease tax administration procedures for SMEs, by assessing the remaining hurdles and increasing tax literacy for SMEs, for instance, through business surveys.** Serbia could evaluate whether the monthly tax payment obligation creates cash-flow problems for SMEs and results in high compliance costs; if so, the tax pre-payments could be made less frequent instead.

Box 18.9. Norway's Altinn portal

Altinn (altinn.no) is Norway's digital one-stop-shop for businesses and citizens. Launched in 2003, the portal has undergone several iterations and has developed into a one-stop-shop for digital services, providing over 1 000 digital services and forms, as well as a platform for government design and iteration of public services. The Brønnøysund Register Centre, as the institution responsible for managing Norway's digitalised registers, is in charge of managing and developing the platform, in co-ordination with line ministries and in consultation with end-users.

Altinn is connected to Norway's National Population Register and Register of Legal Entities, allowing it to monitor the use of the platform, as well as individual services, by both businesses and citizens dynamically. This allows the Norwegian government to identify potential gaps in service use as well as where additional outreach efforts might be necessary (among which business categories, in which geographic area, for example).

Altinn's success has led to it being used by 100% of businesses for filing tax returns and annual accounts, and some 99% of businesses for declaring and paying VAT.

Altinn is an example of how the interoperability of government data can strengthen monitoring and evaluation. The platform has automatic access to key information about its users, as such information is collected automatically.

While this requires a high level of interoperability and data security, something which the WBT economies are working towards, it provides an example of how a platform for digital services can monitor the use of the services directly. Some WBT economies already collect data on the use of services through their portals automatically and would benefit from expanding the range of indicators collected (in the case of businesses: size class, sector of activity, etc.) without necessarily making this data collection automatic (users could enter the information themselves initially).

Source: OECD (2020[74]).

Support services for SMEs (Dimension 5a)

Introduction

SMEs are more prone than larger companies to suffer from a lack of managerial and technical skills, suboptimal technology, limited access to markets and information, and a lacking entrepreneurial skillset, which can hinder their growth. Business support services provided or supported by the government – ranging from general information and advice to training, mentoring and technical services – seek to address these challenges, thus providing a tool to boost SME productivity. While the COVID-19 pandemic had negative effects on the provision of BSSs across the globe, particularly those involving direct contact with SMEs, it also provided an opportunity to reduce the cost of participation for SMEs by moving part of the activities on line.

Accessible and targeted BSSs are crucial for SMEs in Serbia, where SME competitiveness can still be significantly improved. Comprehensive government support, encompassing both financial and non-financial measures, is the most effective in smaller, open economies like Serbia. In light of the COVID-19 pandemic, broad, far-reaching support is particularly important for SMEs to survive and grow locally and internationally.

Serbia remained slightly above the regional average in this dimension, scoring 4.28, close to its score of 4.12 in the last assessment. The economy outperformed the regional average in implementing public BSSs and maintained relatively high scores in the area of monitoring (Table 18.13).

Nevertheless, in order to commit to a successful implementation of the SBA, more improvements are needed in privately provided BSSs and their evaluation.

Table 18.13. Serbia's scores for Dimension 5a: Support services for SMEs

Dimension	Sub-dimension	Thematic block	Serbia	WBT average
Dimension 5a: Support services for SMEs	Sub-dimension 5a.1: BSSs provided by the government	Planning and design	4.43	4.17
		Implementation	4.57	4.24
		Monitoring and evaluation	4.33	3.88
		Weighted average	**4.48**	**4.15**
	Sub-dimension 5a.2: Government initiatives to stimulate private BSSs	Planning and design	4.60	4.63
		Implementation	3.70	4.21
		Monitoring and evaluation	4.20	3.84
		Weighted average	**4.07**	**4.26**
Serbia's overall score for Dimension 5a			**4.28**	**4.20**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

There has been no change in Serbia's legal and strategic framework for government-provided BSSs. Serbia's SME Development Strategy (2015-2020) was successfully concluded in 2020, resulting in improved access to finance for SMEs and an increased number of support programmes and grants. A new SME Strategy, which was being drafted at the time of assessment, is set to include a more focused list of priorities. The strategy is due for adoption by the end of 2022. In line with the new Strategy for Industrial Development (2021-2030), Serbia aims to transition to gaining a more skills-based advantage. However, to achieve that, SMEs require tailored BSSs to upgrade. The lack of a systematic assessment of training needs and demand for BSSs might hamper these efforts. Nevertheless, there are solid monitoring and evaluation foundations upon which Serbia can build on its analysis, especially in the area of public BSSs.

Private BSS providers in Serbia undergo extensive accreditation procedures to receive the status of an Accredited Regional Development Agency; however, the process has its limitations, as only limited liability companies that are majority-owned by local governments are eligible.

Since the previous assessment, Serbia has made moderate progress in matching its offer to the demand for BSSs based on an ex post evaluation (Table 18.14). However, there is still room for improvement in assessing SME training needs and demand for particular BSSs.

The economy did not advance on implementing two other recommendations from the last cycle related to introducing an online portal informing SMEs about private support available and the extension of the accreditation procedure. On this last point, however, there is institutional will to include more private-sector providers in the process in the future.

Table 18.14. Serbia's implementation of the SME Policy Index 2019 recommendations for Dimension 5a

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Better tailor BSSs to SMEs' needs in line with the training needs analysis results	Serbia has a good structure to assess SME needs through feedback given after each implanted programme and support measure. However, stronger efforts are needed in analysing training needs and the level of entrepreneurship skills among SMEs.	Moderate
Extend the accreditation procedure to include more private-sector BSS providers	At the time of assessment, accreditation can only be granted to limited liability companies that are majority-owned by local governments.	No progress
Introduce tools, such as an online portal, to help SMEs navigate and find private consulting services that would address their needs	There is currently no centralised portal to inform SMEs about private consultancy services available on the market.	No progress

With no change in the regulatory framework governing BSS provision, Serbia made progress in BSS programme implementation

Since the previous assessment cycle, there has been no change in Serbia's regulatory framework governing BSS provision. The SME Development Strategy (2015-2020) provided a strategic framework for the public provision of BSSs. Following its successful implementation, a new strategy was in the drafting process at the time of assessment. The government does adopt and implement the Standardised Set of Services annually, which aims to provide training and advisory services for SMEs at a local level.

A special directorate in the Ministry of Economy (the Sector for Development of Small and Medium Enterprises and Entrepreneurship) and a dedicated BSS agency (the Development Agency of Serbia [RAS]) provide SME support in Serbia. In addition, the Council for SMEs Entrepreneurship and Competitiveness, created in 2017, is responsible for legal and economic initiatives to support SMEs, particularly relating to the fiscal system, the labour market and access to funding. Serbia continues to establish Accredited Regional Development Agencies (RDAs), which provide various forms of non-financial support for SMEs.

Within the scope of the Standardised Set of Services,[38] in 2020, 235 trainings were held, and 2 581 persons were trained (of which 1 437 were women). Some 136 promotional activities were held, and 1 187 hours of advisory services were provided for 597 users (Ministry of Economy, 2022[75]). Government-provided mentoring services, elaborated in co-operation with the Japanese International Co-operation Agency, have enjoyed a boost in uptake since 2018. In 2018, there were 103 beneficiaries, with the number increasing to 119 in 2019 and 166 in 2020. The increase is explained by an augmented supply of BSSs

and available consultants, which signals more technical support provided for SMEs during the COVID-19 pandemic in 2020.

Furthermore, RAS implemented the Promotion of Entrepreneurship and Self-Employment Programme to encourage the development of early-stage entrepreneurship in the economy. Start-ups in Serbia still struggle with accessing public funding (European Commission, 2021[4]), so to address this issue, the programme provides grants and loans[39] targeting youth entrepreneurs and business entities younger than two years. Given that early entrepreneurial activity in Serbia amounts to 5%, this programme is particularly well targeted (European Commission, 2021[76]). Over the course of the programme, the CCIS organised 75 trainings with a total of 878 participants.

Among women, the percentage of early entrepreneurial activity amounts to 2.8% (European Commission, 2021[4]). To improve this, the CCIS, the German Gesellschaft für Internationale Zusammenarbeit (GIZ) and six women in business associations[40] across Serbia have joined forces to implement the project "Let's become stronger – Building on knowledge to succeed". The project consists of mentoring and training support services for women-owned enterprises, especially SMEs. The participants are trained in market access, foreign expansion, digitalisation, standardisation and certification, and negotiation (CCIS, 2020[77]). In the project's first phase, 63 entrepreneurs attended 6 training sessions and 12 mentoring workshops. There were 47 business-to-business online meetings with 26 businesswomen and 11 large retail enterprises.[41]

In addition, Serbia expanded its collaboration with international development co-operation partners to further improve access to finance and BSSs. The European Bank for Reconstruction and Development (EBRD) provided a EUR 20 million loan to UniCredit Leasing Serbia to support domestic SMEs in investments to boost their competitiveness and reach EU standards. The project consists of financial and non-financial support, such as technical and advisory services ranging from assistance in adhering to EU standards, greening and business expansion.[42] In addition, the EBRD launched the SME Advisory Support[43] programme in 2019. The project aims to boost Serbian SMEs' competitiveness and provide them with tailored counselling to assist them in the areas of access to finance, management and innovation. To date, the project has assisted 116 SMEs.

As 2016, hailed as the Year of Entrepreneurship, was extended into the Decade of Entrepreneurship, the uptake of BSSs has remained relatively high since the last assessment cycle. The regularly updated Entrepreneurship Portal[44] continues to contribute to higher awareness and uptake of government-provided services. The website contains information about relevant support programmes from different public institutions, as well as varied training videos and a search engine for RDAs, incubators and technology parks.

Lack of training needs analysis causes a skills mismatch, hindering the shift to knowledge-based industries

Adopted in 2020, Serbia's Strategy for Industrial Development (2021-2030) envisages a transition from a lower-skilled workforce cost leverage to a skills-based advantage (Government of Serbia, 2020[78]). Providing high-quality education to the labour force will have a direct impact on the successful integration of SMEs into GVCs and lead to higher productivity. Strengthening core skills and developing digital literacy will prove to be crucial in the shift to a skills-based economy in Serbia (World Bank Group, 2020[79]). In addition, aptly tailored instruments to support SME skills development and increasing their innovation capacity are key elements to developing a skilled workforce.

However, in order to provide customised BSSs for SMEs, training analysis and assessment of the supply and demand for BSSs need to be conducted. Since the last assessment cycle, Serbia has not performed a systematic, regular study of the BSSs needed by SMEs. This can contribute to skills mismatches, which remain prevalent in Serbia (European Commission, 2021[76]). Training needs analysis and anticipation is a vital tool in preventing mismatches with the labour market. Sourcing data on which skills are in demand

and which skills are needed to expand a business is necessary for effective policy making (ILO, 2020[80]). To aptly respond to labour-market requirements, the government needs to assess the skills in demand and ensure their provision and development through the educational and vocational system. In doing so, skills gaps can be addressed, and the government can gain a helpful tool to monitor and evaluate both labour-market conditions and the SME landscape.

The government conducts an ex post evaluation of the support services requested by SMEs per region (CCIS, 2020[81]). This practice, conducted ex ante, would constitute a comprehensive basis for the assessment of training needs in each region, as well as demand for particular BSSs. The evaluation includes a distinction between early-stage microenterprises and SMEs and more mature companies, which is a good step to tailoring the BSSs to the SMEs' stage of development.

Similarly, Serbia moderately advanced in including SMEs and other stakeholders in the policy design procedure, which is another step in the right direction. During the ongoing drafting process of the new SME Strategy, the materials for consultations are available through the e-government portal, through which stakeholders can provide feedback. Nevertheless, this might not be enough for SMEs to be fully integrated into the regulation drafting process. The exclusion of SMEs in policy making and lack of insight into their training needs and demand for BSSs can result in inadequate measures to support SME development and stall the transition to a knowledge-based economy.

Monitoring mechanisms are in place, but systems vary between private and public BSSs

Serbia has a well-established system for feedback collection from public BSSs' beneficiaries, facilitating monitoring and evaluation efforts. SMEs provide feedback and evaluation after each programme, as well as periodically through surveys conducted by RAS. The inputs are later taken into account to adapt to SME demand and implement suggestions to improve support services. Since the last assessment cycle, the government adopted a decision to obligate all state entities, including local governments, to inform the Ministry of Economy about SME support measures planned for implementation. The decision increases the transparency and accountability of state institutions and will positively affect monitoring BSS provision and effectiveness. The Standardised Set of Services programmes are also subject to evaluation by the RDAs, taking into account SME feedback.

One notable example of adapted monitoring mechanisms in place comes from the Council for Youth Entrepreneurship. The CCIS established the council with the aim of assisting SMEs in their first five years of operations. Choosing the five-year timeframe to monitor newly created SMEs is noteworthy as it gives the government insight into the viability of the enterprise in the long run. The survival rate of SMEs is equal to 60% after three years, 50% after five years, and just over 40% after seven years (OECD, 2019[82]). Providing new SMEs with support in the first five years of operation ensures the enterprise survives longer and increases productivity.

There is room for improvement in terms of monitoring privately provided BSSs, as the government does not keep track of how many private BSS providers are operating in the market. There is also no centralised informational portal to raise awareness about private support services among SMEs nor a publicly available database of private service providers. As emphasised in the last assessment cycle, the lack of a centralised portal containing data on the private provision of BSSs can create information asymmetry among SMEs. Government support to identify the most suitable provider and assistance in obtaining services can prove significant in improving information accessibility (OECD et al., 2019[73]). Due to the lack of data collection and failure to keep track of private BSS providers, monitoring proves less effective than in the case of public BSSs.

A limited accreditation procedure for private BSS providers hampers progress and reduces availability for SMEs

Private provision of BSSs is within the scope of RDAs. Accreditation powers are within the scope of work of the RAS. Any limited liability company that is majority-owned by a local government can apply for the accreditation to provide BSSs. The consultants within the RDAs are accredited by extension. While the approach of using the services of accredited consultants within the RDAs is noteworthy, it has some limitations, which were also addressed in the previous assessment cycle (OECD et al., 2019[73]), namely the prohibitive approach to accrediting privately-owned companies and granting them RDA status.

The fact that the accreditation system is limited to limited liability companies that are majority-owned by local governments hinders the private provision of BSSs. It is only with government ownership of an enterprise that an entity can become an RDA and start providing support services for SMEs. As indicated in the last assessment's recommendations, SMEs would have a wider range of assistance available to them should accreditation also be given to privately-owned companies.

The Standardised Set of Services requires BSS beneficiaries to use the services of accredited consultants. RAS has a list of certified mentors who are employed in accredited RDAs at SMEs' disposal. The MSME Digital Transformation Support Programme for 2019 also relies on the use of accredited consultants to assist SMEs in their digital strategy development.

The process of granting RDA status has slowed since the last assessment cycle, partly due to the COVID-19 pandemic. In 2016 and 2018, there were 14 and 16 RDAs, respectively (OECD et al., 2019[73]). In 2019 and 2020, that number amounted to 17, with the last RDA accredited in April 2019. While this may partly be attributed to the pandemic, which halted RAS operations in 2020, it can also point to the process being restrictive for privately-owned companies.

The way forward for Dimension 5a

- **Continue efforts to match business support service (BSS) supply with demand from SMEs.** Introduce a more thorough analysis of training needs among SMEs to better match government-provided services to what is needed in the sector, on top of applying feedback from previous programmes in future programme design. Introducing a self-assessment tool for SMEs to indicate their stage of development, as well as their BSSs demand and training needs, could lead to more aptly targeted and, therefore, more effective support services (Box 18.10).
- **Invite an independent institution to conduct a thorough review of public and private BSSs.** Independent assessment of the impact of available BSSs programmes according to key performance indicators would amplify Serbia's already well-developed monitoring and evaluation system for public BSSs and further improve the monitoring for private BSSs, which do not hold the same degree of scrutiny. By introducing an independent review, the government would gain a more comprehensive view of the BSS landscape in the economy and avoid overlap and duplication of programmes and services.
- **Extend the accreditation procedure to include more private-sector BSS providers.** While the accreditation system in Serbia is noteworthy, it lacks inclusivity of consultants and service providers, which are privately owned, as opposed to majority-owned by local governments. Building on the already operational accreditation system for RDAs, the government could introduce an accreditation system for the private sector, allowing a greater degree of variety for SMEs and ensuring a high quality of private BSSs. Introducing education and experience requirements would be a good first step for extending the accreditation practice to private providers. Both the government and international development co-operation partners should conduct a survey of SMEs' current needs relating to BSSs and tailor the accreditation requirements, such as experience or education, to the survey's results. Interagency co-operation between the

government, RDAs and recognised educational and professional associations would enhance the accreditation system and make it more inclusive and comprehensive.

- **Introduce government tools to assist SMEs in accessing privately provided BSSs.** At the time of the assessment, Serbia did not have a centralised portal to inform SMEs about the private BSSs available to them. The government could assist SMEs in selecting a private provider, which is the most suitable, however with caution not to cross a line of recommending one in particular. The database should be available to the public free of charge and promoted among SMEs through awareness-raising initiatives.

Box 18.10. Business support services in Ireland

Ireland has a comprehensive strategic framework for government provision of BSSs. As a first point of information, SMEs can access an online portal to assist them with support measures tailored to every stage of development. Upon entering the website, SMEs are asked probing questions, which aim to establish the level of support needed by sector, stage of development and location. "Supporting SMEs Online" is a comprehensive first step for SMEs aiming to access particular BSSs. This approach is also a useful tool for SMEs to self-assess their need and demand for BSSs, contributing to better-targeted support measures.

Like Serbia, Ireland's provision of BSSs is executed through a number of government-operated agencies. These agencies largely rely on external private-sector consultants to support SMEs. Ireland has a network of Local Enterprise Offices, which are available on a walk-in basis, greatly facilitating access to advisers and BSSs. Start-ups and microenterprises can make an appointment for tailored counselling through a Business Advice Clinic and access private-sector consultants available for mentoring sessions. Services from private-sector providers are monitored from the angle of efficiency, effectiveness and SME satisfaction.

Serbia could replicate this approach, using its established network of RDAs and extending their skills to support microenterprises and newly formed SMEs. Expanding the support provided by RDAs to include similar "clinics" for SMEs to have access to private-sector consultants available free of charge would provide entrepreneurs and SMEs with a more comprehensive support package.

Source: OECD (2019[82]).

Public procurement (Dimension 5b)

Introduction

Easy access to public procurement markets for SMEs and increased participation can boost competition by ensuring equal treatment and open access, thus promoting inclusive growth. Policy makers should therefore consider the unique needs of SMEs, as they are disproportionally affected by complex procedures and often discouraged by the effort needed to take part in these procedures, for an uncertain outcome.

A significant increase in the value of contracts awarded by means of negotiated procedure without prior publication was reported in Serbia (15% of the value of contracts) in the second half of 2020. In the opinion of the Public Procurement Office, this was caused by the COVID-19 pandemic and the need to contain its consequences by the contracting authorities (OECD, 2021[60]). The pandemic probably also affected co-ordination between various institutions responsible for public procurement (OECD, 2021[60]).

Serbia scores 4.25 for this dimension, which is the second-best score in the region (Table 18.15). It also represents significant progress compared to 2019, when it scored 3.52, one of the weakest in the region. This improvement is mainly due to the adoption of the new Public Procurement Law (Government of Serbia, 2019[83]), which provides for equal treatment of all economic operators (and the abolishment of domestic preferences), the establishment of an electronic procurement system (a new public procurement portal) as well as improvements in the organisation and conduct of review procedures. On the other hand, there have been a number of setbacks and challenges, such as a significant increase in the value and number of contracts awarded without a call for tender, the application of special procedures for major infrastructure projects or the award of contracts on the basis of international agreements with third economies instead of applying general public procurement regulations.

Table 18.15. Serbia's scores for Dimension 5b: Public procurement

Dimension	Thematic block	Serbia	WBT average
Dimension 5b: Public procurement	Planning and design	4.69	4.16
	Implementation	4.32	4.15
	Monitoring and evaluation	3.40	3.27
	Weighted average	4.25	3.98
Serbia's overall score for Dimension 5b		**4.25**	**3.98**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

The Program of the Development of Public Procurement in the Republic of Serbia for 2019-2023 (Public Procurement Office, n.d.[84]) was adopted by the government in November 2019. In December 2019, the new Public Procurement Law (PPL) (Government of Serbia, 2019[83]) was adopted and entered into force in July 2020. The new PPL is highly compliant with the EU 2014 Procurement Directives and removes the shortcomings of the previous legislation, in particular as related to the application of domestic preferences. Since July 2020, the transparency of the public procurement system has been ensured by the new Public Procurement Portal (Public Procurement Office, n.d.[85]), which is used for communication between contracting authorities and economic operators, submission of requests and tenders by electronic means (e-submission), and their electronic evaluation.

The Law on Special Procedures for the Implementation of the Project of Construction and Reconstruction of Line Infrastructure Structures of Particular Importance to the Republic of Serbia (Ministry of Construction, Transport and Infrastructure, 2020[86]) was adopted in February 2020. It applies to the main

infrastructure projects, usually of high value and international interest, and provides a few major derogations from the PPL, undermining the effective implementation of the PPL. It is not EU-compliant (OECD, 2021[60]). Exemptions and derogations provided therein significantly reduce the transparency of the contract award process (OECD, 2021[60]). In addition, in the case of projects based on international or bilateral agreements (outside the scope of the PPL), the selection of contractors and contract management often lack transparency. Intergovernmental agreements with third economies are used as justification for restricting competition and derogation from the basic PPL and the *acquis* (European Commission, 2021[20]) (Table 18.6).

Table 18.16. Serbia's implementation of the SME Policy Index's 2019 recommendations for Dimension 5b

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Further align national legislation with EU rules and international best practice: **Ensure that economic operators have access to public procurement on an equal footing regardless of their origin** **Remove restrictions on subcontracting, such as limiting the maximum share of the procurement contract that may be subject to subcontracting** **Extend the respective time periods for applying for public procurement legal protection measures in line with the EU Remedies Directive**	The new Public Procurement Law (PPL) was adopted in December 2019: it enables all economic operators access to public procurement contracts regardless of their origin – provisions on domestic preferences were deleted; the 2019 recommendations concerning alignment of the legislation were implemented. The new PPL is compliant with the European Union's 2014 Public Procurement Directives and contains a plethora of solutions to enhance the participation of SMEs, in particular as regards documentary evidence. The new PPL, unlike the 2012 PPL, does not provide for limitations concerning the share of contracts which may be subcontracted. Review procedures envisaged in the new PPL are compliant with EU requirements, in particular as regards the applicable time periods and decisions of the procurement review body. Adoption of the Law on Special Procedures for the Implementation of the Project of Construction and Reconstruction of Line Infrastructure Structures of Particular Importance to the Republic of Serbia, adopted in February 2020, is, however, a major setback as regards aligning Serbia's procurement rules to the EU requirements. The law, applied to major infrastructure projects, provides for a number of derogations from rules on transparency, competition and legal protection. Moreover, in the case of projects carried out based on international or bilateral agreements, the procedure for selecting the contractor, selecting and awarding design contracts, preparing and controlling planning and technical documentation, project management, supervision of the project, execution of works, and technical inspections of the structure are to be governed by the rules defined in those agreements rather than those in the PPL.	Strong
Introduce a fully electronic public procurement system, including communications as well as tender submissions or requests to participate by electronic means	A fully electronic procurement system was introduced. The new Public Procurement Portal was launched on 1 July 2020 and ensures fully electronic communication between contracting authorities and bidders, including for the submission of bids. The 2019 recommendations concerning e-procurement have been implemented.	Strong

The public procurement market covered by transparent rules is shrinking and less competitive

The value of the public procurement market in Serbia shrank to 6.88% of GDP in 2020, from 8% in 2019, whereas the average number of bids in 2020 was 2.6 per tender, which is a bit lower than the 3 average bids in 2019 (European Commission, 2021[20]). In comparison, in the early 2000s, the average number of bids per procurement procedure was eight to nine (PPO, 2003[87]). The value of contracts exempted from public procurement procedures has significantly increased, from EUR 450 million in 2019 to EUR 1.7 billion in 2020 (European Commission, 2021[20]). The share of procedures without previous publication of a contract notice in 2020 amounted to 7.42% but was much higher in terms of the value of

contracts awarded through such procedures, at 23.28% (PPO, 2020[88]). Contracting authorities are predominantly using price as the only award criterion. The share of contracts awarded based on the best price-quality ratio decreased from 10% in 2019 to 5% in 2020 (European Commission, 2021[20]). SMEs represented 85% of all economic operators applying for contracts through the Public Procurement Portal in 2020, and the share of contracts awarded to SMEs in 2020 amounted to 79% for contracts awarded under the previous PPL and 45% for contracts covered by the new PPL.[45]

The regulatory framework is EU-compliant as regards the Public Procurement Law but allows for special regulations for major infrastructure projects

The public procurement regulatory framework is based on the principle of competition, the prohibition of discrimination, transparency, equal treatment of economic operators, proportionality, and cost-effectiveness and efficiency. The new PPL is highly compliant with the 2014 EU Procurement Directives and removes the shortcomings of the previous legislation, in particular preferential treatment of domestic bidders. The PPL requires the application of mandatory grounds of exclusion and enables contracting authorities to apply optional grounds of exclusion (compliant with EU requirements). Economic operators who are subject to exclusion may use a so-called "self-cleaning" mechanism by adopting various measures to demonstrate their reliability to the contracting authority.[46] The new PPL provides various solutions to support the participation of SMEs in procurement processes. Contracting authorities may divide contracts into lots and, in the case of procurements exceeding the EU thresholds, they have an obligation to justify a decision not to do so. In principle, fulfilment of criteria or requirements set by contracting authorities may be proved by submission of a standardised self-declaration (based on the EU European Single Procurement Document), which as a preliminary proof replaces documents or certificates issued by public institutions and third parties. Only the bidder whose offer is evaluated to be the best is requested to provide supporting documents before the conclusion of a procurement contract. Such documents are not required, however, if the value of the contract is less than RSD 5 million (approximately EUR 43 000).[47] The PPL also contains provisions on the reliance of bidders (candidates) on third-party resources,[48] subcontracting[49] and joint bidding (submission of a tender by a group of economic operators).[50]

The PPL also contains provisions related to sustainable procurement (as provided for in the EU Procurement Directives) and allows or even requires environmental or social considerations to be taken into account. Those provisions relate to describing the object of the procurement, requirements concerning qualification or award criteria, or contract performance conditions.

When performing public procurement contracts, economic operators are obliged to observe obligations concerning the protection of environmental, social and labour laws and duties stemming from collective agreements, as well as with the provisions of international law related to the protection of the environment and social and labour rights.[51] The PPL contains provisions concerning reserved procurement[52] as well as the application of labels in the description of the object of the procurement, i.e. requiring that goods or services fulfil special environmental or social characteristics.[53] Economic operators are subject to exclusion from public procurement procedures due to a breach of binding environmental, social or labour legislation.[54] Social or environmental requirements can also be included among the criteria for selection of the best tender.[55] Compliance by the bidder with the relevant obligations is also assessed in the procedures to verify whether the tender is not abnormally low.[56] Finally, the PPL and its implementing regulations regulate specific procedures for social and other special services.[57]

These very positive recent developments in Serbia's public procurement system are affected, however, by the adoption of the special law mentioned above. This special law is applied to line infrastructure projects which normally are of high value and international interest, called "special importance projects" (Ministry of Construction, Transport and Infrastructure, 2020[86]). The procurement necessary for implementing such projects is, in principle, conducted on the basis of the PPL, but with some major modifications and exceptions, such as those related to prior notices, the manner of proving mandatory and additional conditions for participation in the public procurement procedure, deadlines for the submission of bids, and

a possibility to conclude the contract without respecting a standstill period (OECD, 2021[60]). Moreover, in the case of projects carried out based on international or bilateral agreements, the procedure for selecting the contractor, selecting and awarding design contracts, preparing and controlling planning and technical documentation, project management, supervision of the project, execution of works, and technical inspections of the structure are to be governed by the rules defined in those agreements (OECD, 2021[60]). In general, application of the PPL's provisions with regard to such projects is quite limited. The lack of transparency in procurement under this special law and bilateral agreements is perceived to be a major obstacle in procurement development by Transparency Serbia (OECD, 2021[60]).

The institutional set-up ensures support to contracting authorities and economic operators, but monitoring is insufficient for some major infrastructure projects

The Public Procurement Office (PPO, n.d.[89]) is responsible for providing expert assistance to contracting authorities and economic operators; and preparing guidelines, manuals and other publications in the field of public procurement. It operates a call centre (helpdesk) which allows economic operators and contracting authorities to ask questions on public procurement procedures as well as on the use of the Public Procurement Portal.

Monitoring the participation of SMEs in the public procurement market has been improved. Contract award notices must now disclose whether the awarded economic operator is an SME or not. These data enable further defining activities to improve the level of SMEs' participation in public procurement. The new Public Procurement Portal should allow the PPO to collect data on the participation of microenterprises and SMEs in public procurement procedures, the number and value of the contracts awarded to them as well as other parameters in accordance with the new features of the portal. The PPO is obliged to provide information about the level of participation of SMEs in the public procurement market in its annual reports. Indeed, thanks to the establishment of the new Public Procurement Portal, more information about economic operators is now available; for instance, according to information provided by the PPO in 2020, SMEs represented 85% of bidders and were awarded contracts valued at almost 50% of the procurement transactions carried out through the Public Procurement Portal. However, the PPO does not monitor or gather data on procurement conducted under the special law (OECD, 2021[60]). Those contracts and their values are not included in the annual reports, and their importance and influence on the procurement system cannot be properly assessed. The same is true for contracts concluded on the basis of international agreements (OECD, 2021[60]). This lack of information does not allow a proper assessment of the impact of those rules on the public procurement market, and in particular, how it affects the participation of SMEs.

The transparency of the procurement system is ensured by the new Public Procurement Portal. The portal was developed with the support of an EU technical assistance project and was launched on 1 July 2020 at the same time as the new PPL. The portal is comprehensive and designed to support the entire public procurement process by enabling electronic communication among all parties involved at all stages of the procedure. Access to the portal is free of charge and allows users to conduct only those public procurement activities allowed under the PPL. It helps the PPO report on whether contracting authorities are fulfilling their duty to prepare and publish annual public procurement plans; prepare statistical reports about the functioning of Serbia's public procurement system; manage the portal and report on its performance; and track public procurement system operations.

Legal protection of the rights of economic operators is ensured, but effective review mechanisms are suspended for some major infrastructure projects

All economic operators having or having had an interest in obtaining a contract, irrespective of the value of the procurement and type of procedure, have the legal right to challenge the contracting authorities'/entities' decisions. The time limits for challenging the decisions, called the standstill period, and the mechanism for ensuring the ineffectiveness of the contracts are in line with the requirements of the *acquis*. The Republic Commission for Protection of Rights in Public Procurement Procedures (RCPRPP,

n.d.[90]) is the first-instance independent review body in Serbia for both public procurement and public-private partnership/concessions procedures. It is an autonomous institution and is accountable only to the National Assembly.

The review procedure consists of two steps. The first step is a preliminary procedure conducted by the contracting authority/entity. The second is a procedure before the RCPRPP. The person seeking legal protection must pay a fee in the amount prescribed by the PPL, depending on the stage of the procedure and its value. Fees collected from the submission of appeals are relatively high, in particular with regard to low-value procurements.[58] High fees may discourage economic operators, and in particular SMEs, from seeking justice. There is a risk that due to the reluctance of economic operators to challenge the decisions of contracting authorities, some infringements of public procurement will remain undetected and without remedy.

The RCPRPP must take a decision on the request for legal protection within 30 days of the date of receipt of the complete documentation. Due to specific regulations, some major infrastructure projects are exempted from the obligation to suspend a procedure in the case that a request for protection of rights is submitted to the RCPRPP (OECD, 2021[60]). Legal protection of bidders' rights is, thus, not fully ensured in those cases (OECD, 2021[60]).

The way forward for Dimension 5b

- Promote the practical application of non-price criteria for the award of public contracts, in particular sustainable public procurement criteria, and by providing more support to contracting authorities (Box 18.11). This support should include informing public purchasers about the shortcomings and limitations of applying the price as the only award criterion, presenting advantages of quality criteria and providing practical advice by means of good practice examples, standard models and evaluation formulas. Finally, the application of quality criteria should be a prominent topic of training for procurement officers.

Box 18.11. Support to contracting authorities for applying non-price criteria

The EU Public Procurement Directive requires that contracts be awarded to the most economically advantageous tender from the point of view of the contracting authority.[1] This tender can be chosen based on price or cost alone or on the basis of the price-quality ratio when non-price criteria are also taken into account. According to the EU rules, preference between these two options is left to the discretion of the contracting authority. EU countries may, however, decide that contracting authorities may not use price (cost) only or restrict it to certain categories of contracting authorities or certain types of contracts.[2] Indeed, some economies use this option by introducing, for example, the maximum weight the price factor can have among the evaluation criteria.[3] Other economies recommend a plurality of criteria to assess other elements of the offer than just the price.

Application of the price-quality criterion enables contracting authorities to obtain customised, innovative goods or services that perform better in terms of quality, with broader economic, social and environmental impacts. Although more expensive when simply comparing the purchase price, procurement based on price-quality criteria may be more cost-effective in the longer term, when the full life-cycle cost is considered[2]. The use of the best price-quality criteria instead of the lowest price is often recommended as a tool to help SMEs gain an equal footing to public contracts. It is assumed that while SMEs may be at a disadvantage in delivering off-the-shelf mass products, they may be able to offer higher quality products or services or better adjust to the needs of the contracting authorities. However, the application of non-price criteria is not simple. Contracting authorities often have difficulty formulating

proper and meaningful quality criteria, including those involving strategic public procurement (green, socially responsible and innovative) and establishing a relevant link with the subject matter of the procurement.

In the **Slovak Republic**, the Public Procurement Office (PPO) is aware that non-price criteria are rarely used by contracting authorities due to a lack of knowledge for correctly applying and setting this type of award criteria. The Slovak PPO, therefore, established a Responsible Public Procurement project, financed by the European Economic Area and Norway Funds. The project's main goal is to increase awareness of price-quality criteria through methodologies and training to help contracting authorities set conditions correctly and thus increase value for money.

In **Poland**, the PPO's website contains a section dedicated to disseminating good practices in the field of public procurement. Contracting authorities that are more experienced in applying quality criteria may share their experience with other procurement practitioners by participating in a contest organised by the PPO on the best examples of quality criteria. Winning submissions, chosen by the PPO, are published on the PPO's website with practical comments.

To increase the application of price-quality criteria, the Serbian authorities, and in particular the PPO, should provide more support to contracting authorities. This support should include informing them of the shortcomings and limitations of applying price as the only award criterion, presenting the advantages of quality criteria and providing practical advice through best practice examples, standard models and evaluation formulas. Finally, the application of quality criteria should be a prominent topic of training for procurement officers.

1. Article 67 of Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement and repealing Directive 2004/18.
2. ibid, Article 67 (2).
3. For example, Croatia, Lithuania and Poland.

Sources: OEAP (2019[91]); Observatoire économique de la commande (2019[92]); de Bas, P. et al (2019[93]); European Commission (2021[94]); Slovak Public Procurement Office (n.d.[95]); Polish Public Procurement Office (n.d.[96]).

Access to finance for SMEs (Dimension 6)

Introduction

Access to finance is critical for economic growth and inclusive development, allowing companies to expand their operations and invest to gain in efficiency and productivity. However, the availability and affordability of credit are typically strongly correlated with firm size, meaning that the smaller the company, the more difficult it is to access funding, thereby requiring targeted policy measures to encourage and complement private-sector financing, without crowding it out.

Like elsewhere across the world, the COVID-19 pandemic exacerbated the situation in Serbia, bringing access to finance to a sudden halt, especially for smaller firms that do not have large financial buffers. This required a swift short-term targeted policy response to shore up firm finances without, however, losing sight of more long-term measures to provide sustainable financing opportunities for small businesses.

Within this context, Serbia has made some progress in facilitating access to finance for SMEs since the last assessment. Overall, Serbia's score has improved slightly, to 3.89 (Table 18.17), up from 3.72 in 2019. Notably, improvements have been made in capital market development and increasing efforts to facilitate start-up finance.

Table 18.17. Serbia's scores for Dimension 6: Access to finance for SMEs

Dimension	Sub-dimension	Thematic block	Serbia	WBT average
Dimension 6: Access to finance	Sub-dimension 6.1: Legal and regulatory framework	Creditor rights	4.20	4.27
		Registers	4.40	4.63
		Credit information bureaux	5.00	4.37
		Banking regulations	4.80	4.09
		Stock market	3.80	3.23
		Weighted average	**4.47**	**4.20**
	Sub-dimension 6.2: Bank finance	Bank lending practices and conditions	3.50	3.23
		Credit guarantee schemes	2.60	2.61
		Weighted average	**3.15**	**2.98**
	Sub-dimension 6.3: Non-bank finance	Microfinance institutions	2.00	3.37
		Leasing	3.70	3.24
		Factoring	3.50	2.71
		Weighted average	**3.04**	**3.09**
	Sub-dimension 6.4: Venture capital	Legal framework	3.70	2.73
		Design and implementation of government activities	3.00	2.57
		Monitoring and evaluation	1.00	1.47
		Weighted average	**2.83**	**2.40**
	Sub-dimension 6.5: Financial literacy	Planning, design and implementation	3.00	2.83
		Monitoring and evaluation	1.00	1.19
		Weighted average	**2.60**	**2.50**
Serbia's overall score for Dimension 6			3.89	**3.68**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Access to finance for SMEs has eased in Serbia owing to impactful regulatory measures to address legacy obstacles in the financial industry, including foreign-indexed loans and high levels of impaired loans. Amid

the COVID-19 pandemic, several steps have been taken to ensure liquidity, and two sovereign credit guarantee funds have been established, which have seen good uptake. Nevertheless, access to credit continues to be disproportionally costly for smaller companies. Little progress has been made to diversify sources of finance, and significant gaps in the legal and regulatory framework continue to impede the development of microfinance and factoring. In contrast, several steps have been taken to introduce equity-based finance opportunities for start-ups, resulting in the adoption of a new Law on Alternative Investments, and legislation aimed at regulating crowdfunding is under preparation. No progress has been made to enhance financial literacy, and Serbia's previous dedicated strategy has expired. The economy's new Capital Market Development Strategy, however, does address elements of financial education.

Table 18.18 provides an overview of key actions undertaken in response to the recommendations outlined in the previous assessment.

Table 18.18. Serbia's implementation of the SME Policy Index's 2019 recommendations for Dimension 6

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Step up implementation of the Dinarisation Strategy	Dinar-denominated loans and deposits have increased since the last assessment, and further measures have been introduced to encourage dinar lending. Efforts need to be sustained to ensure momentum is maintained as COVID-19-related credit enhancement measures, which particularly supported local currency lending, will gradually be phased out.	Strong
Diversify sources of finance for SMEs	Uptake of non-bank financial instruments, with the exception of leasing, remains subdued amid an incomplete legal framework, while steps have been taken to broaden the range of equity-based finance. A new Law on Alternative Investments was adopted in 2021, embedding venture capital into a solid legal framework. Work is also underway to introduce legislation for crowdfunding.	Moderate

Serbia has a well-developed legal and regulatory framework in support of access to finance, ensuring financial stability and a gradual de-euroisation of the economy

Banking regulations have been aligned to Basel III principles since 2017, while amendments to the Bankruptcy Law, currently under preparation, aim to address existing bottlenecks linked to the duration and costs of bankruptcy procedures, thereby expected to further strengthen Serbia's legal framework for secured creditors. Progress has been made in implementing the NBS Dinarisation Strategy, first adopted in 2012 and revised in 2018. Foreign currency loans and deposits, or those indexed to the euro, continue to remain high, but the share of local currency loans and deposits is increasing (37% of loans in mid-2021) – in particular for corporate loans – amid measures to encourage local currency lending. Additional requirements on banks to discourage foreign currency lending, however, have been postponed, entering into force during 2022.

A solid infrastructure is in place to assess the creditworthiness of borrowers. A cadastre covering the entire territory, and a registration system for pledges over movable assets, have been in place for many years and are actively used by the banking sector. In 2019, the registry for movable assets was expanded to include contracts of sale and pledge agreements, and the registration of movable pledges is expected to be digitalised in 2022. Both systems are available on line, however, only to registered users. A private credit bureau, operational since 2004 under the initiative of the Serbian Association of Banks, covers 100% of all adults. It includes information from non-bank financial institutions but does not yet include information from retailers and utility providers. Nevertheless, Serbia's unique legal framework requiring personal consensus for any credit search somewhat impacts availability and usage.

Progress has been made to enhance capital market finance. The Law on Capital Markets was amended in 2020 to simplify listings, while a Capital Market Development Strategy and action plan were adopted in

2021, with the support of the EBRD. While successful showcases of initial public offerings are limited, the Belgrade Stock Exchange has increased its focus on encouraging SME listing in recent years and has launched a smart listing market for start-ups, though no listings have been made to date. In 2018, 20 companies expressed interest in raising capital via the Belgrade Stock Exchange through a joint project with the EBRD aimed at raising awareness and equipping SMEs with the knowledge and technical skills to access capital market finance. This has not yet yielded any results.

Access to finance has somewhat eased, though a limited level playing field continues to obstruct SME access to credit

Bank lending continues to dominate the financial sector, accounting for over 90% of total assets. The industry has further consolidated since the last assessment due to mergers and acquisitions, though the number of foreign banks has increased as a result of the privatisation of the largest remaining state-owned bank. Lending has accelerated amid continuously decreasing interest rates, although rates continue to be disproportionally higher for SMEs than for larger businesses. In response to the COVID-19 pandemic, the NBS intervened with targeted monetary policies to ensure the liquidity of the banking sector, which included purchases of government securities and swap auctions as well as a moratorium on payments. As a result, credit growth stood at 7.7% in March 2021, while SMEs accounted for over two-thirds of total corporate loans (European Commission, 2021[20]). At the same time, further efforts have been made to reduce the legacy of high levels of non-performing loans, which stood at less than 4% in mid-2021 compared to 10% at the end of 2017, thereby further contributing to the strong performance of the banking sector.

In addition, in 2020, Serbia issued a new Law on Establishing a Guarantee Scheme, which enabled the creation of two dedicated SME credit guarantee schemes, aimed to help mitigate the impact of COVID-19 on the local economy and designed to guarantee loans for a combined amount of EUR 3 billion. Both guarantees include favourable lending conditions and additional incentives for banks to issue loans denominated in local currency. This has significantly contributed to the overall dinarisation trend in the local financial market, as described above, and boosted lending. Disbursement of the guarantees has progressed well, reaching over 25 000 SMEs by the end of 2021.

Serbia's Development Agency also offers financial support programmes. In 2021, the agency's overall budget for SME financial support scheme was around EUR 20 million, including for the purchase of equipment, start-ups and, since 2021, female and youth entrepreneurship.

Serbia has been a major beneficiary of the Western Balkans Enterprise Development and Innovation Facility. Since 2018, when it became the first beneficiary of a European Investment Fund national guarantee facility, the economy has received by far the largest number of investments under the Enterprise Investment Fund's direct investment facilities, reflecting the size of the economy, but also suggesting a solid level of investor readiness of Serbian companies.

Alternative sources of finance remain below potential, but efforts are underway to facilitate start-up finance opportunities

No progress has been made to diversify access to finance by encouraging the uptake of non-bank financial instruments. No steps have been taken to facilitate microfinance, despite previous plans to establish a legal framework for non-bank, non-deposit credit institutions, which would embed microfinance institutions' activities into a legal framework. A working group established in 2016 to review microfinance continues to monitor market developments but has not made any recommendations. A legal framework for leasing and factoring is in place, and amendments were introduced to the Law on Factoring in 2018. Recommendations made by the EBRD to further improve the framework are yet to be reflected. Leasing has gained some momentum, and assets have doubled since 2016, accounting for RSD 126.5 billion (approximately EUR 1.08 billion) at the end of Q3 2021, compared to RSD 93 billion (approximately EUR 790 million) at the end of 2018, and accounting for 2.2% of total financial sector assets (NBS, 2021[97]). However, as

elsewhere in the region, leasing remains mainly used for vehicles. In contrast, uptake for factoring has decreased during the same period, from RSD 29 billion (approximately EUR 247 million) to RSD 24 billion (approximately EUR 204 million), further underlining shortcomings in the existing legislation (NBS, 2021[97]).

Several steps have been taken to develop equity-based finance. A new Law on Alternative Investment Funds, which entered into force in May 2020, regulates both venture and private equity investments, clearly defining the types of investments, restrictions, time frames and calculations for subscriptions. This is an important milestone in Serbia's broader efforts to build an environment conducive to start-ups and innovation and builds further on work already done by the Serbian Innovation Fund. In addition, regulation on crowdfunding is currently under preparation and expected to be adopted by the end of 2022. In the medium term, this will further diversify financing opportunities for start-ups. Lastly, in 2020, the government adopted a new Law on Digital Assets, thereby enabling the development of digital assets, including through crowdfunding.

Efforts to promote financial literacy have somewhat stagnated

Little progress is evident regarding enhancing finical literacy levels of SMEs. The NBS's Financial Education Strategy (2016-2020), one of the first dedicated strategies in the region, has expired without plans to develop a successor, though the new Capital Market Strategy includes some aspects of financial education. The NBS continues to operate Tvoj Novac,[59] a web portal providing information about different financial products, banking terminology, loan calculators and other saving advice. During the pandemic, however, outreach and awareness-raising activities have been halted and had yet to resume at the time of writing.

The Association of Serbian Banks also actively supports the development of financial literacy. In 2018, together with the MoESTD and in collaboration with VISA, it launched an initiative to raise financial literacy in education. Subsequently, a handbook for primary school teachers was produced to introduce financial literacy into early education. However, to date, financial education has not been included in the national curriculum. The Association of Serbian Banks also disseminates other information material via its website.

The way forward for Dimension 6

- Continue implementing the Dinarisation Strategy. Maintain efforts made under the framework of the Dinarisation Strategy to sustain the gains as temporary COVID-19-related credit enhancement measures supporting dinar lending are gradually being phased out. Timely enforcement of the financial market requirements to discourage foreign currency lending, coupled with continued awareness-raising about the risks of foreign exchange exposure, especially for unhedged SMEs, will be important to maintain the momentum.
- Showcase the opportunities of capital market finance. In line with the new Capital Market Development Strategy, increase efforts to raise awareness about capital market finance opportunities and showcase successful initial public offerings. In addition, Serbia should seek to strengthen its investor base and further align local capital markets with the objectives and regulatory framework of the European Union's Capital Market Union. In the medium- to long-term, this could provide more non-collateral-based financing options for firms and could also help improve the reputation of the dinar as a long-term store of value, thereby supporting the implementation of the Dinarisation Strategy.
- Introduce a comprehensive legal framework to facilitate the uptake of non-bank financial instruments. Even though the Serbian financial sector is relatively mature by regional standards, legislation on microfinance would encourage the introduction of this type of finance in a regulated manner, benefiting otherwise unbankable microenterprises while maintaining tight regulatory

oversight. Further amendments to the Law on Factoring, coupled with awareness-raising in partnership with the financial sector, would support the development of factoring.

- Identify existing shortcomings in raising the financial awareness of SMEs. A comprehensive evaluation of the recently expired National Strategy for Financial Education Strategy (2016-2020) would help to identify shortcomings and lessons learnt from the implementation of the strategy. Such a review could also include a baseline assessment of the current level of financial education, particularly amongst SMEs, which should be conducted in line with international best practices.

Standards and technical regulations (Dimension 7)

Introduction

Access to the European Single Market is conditional upon compliance with EU regulations and directives, which, due to the New Approach Directives, also increasingly rely on conformity to European standards. While standards and technical regulations can enable trade by defining (minimum) criteria for products and processes, they may also represent a barrier to trade, particularly for SMEs. To lower these barriers, WBT economies need to have a national quality infrastructure (QI) system that is accessible and supportive of SMEs. At the same time, a high level of alignment with the *acquis* is a pre-condition for recognition of an economy's procedures and institutions by the relevant European QI bodies and associations.

Serbia sold two-thirds of its exports to the European Single Market in 2020, compared to 60% in 2010 (Eurostat, 2021[98]). Hence, like the other WBT economies, alignment of its QI legislation and implementation with the *acquis* and procedures is very important for its economy. Furthermore, having the most developed QI system in the region is also a source of competitiveness for Serbian firms, as they have the largest scope of conformity assessment services available in the national market.

Serbia maintained its rank as the Western Balkan economy with the second highest score after Turkey in this Dimension at 4.44 (Table 18.19), which slightly lower than in 2019 (4.55). Serbia's performance remained comparable to the previous cycle as the economy continues to have a high degree of legislative alignment with the *acquis,* and its QI institutions have also further expanded their services and awareness-raising activities. The slight deterioration in score is due to a stronger focus on the evaluation process across sub-dimensions.

Table 18.19. Serbia's scores for Dimension 7: Standards and technical regulation

Dimension	Sub-dimension	Thematic block	Serbia	WBT average
Dimension 7: Standards and technical regulations	Sub-dimension 7.1: Overall co-ordination and general measures	–	4.33	3.90
	Sub-dimension 7.2: Harmonisation with the EU *acquis*	Technical regulations	5.00	4.38
		Standards	5.00	3.77
		Accreditation	4.33	3.89
		Conformity assessment	4.71	4.26
		Metrology	4.38	4.13
		Market surveillance	4.47	3.96
		Weighted average	4.71	4.07
	Sub-dimension 7.3: SME access to standardisation	Awareness-raising and information	4.47	3.88
		SME participation in developing standards	3.50	3.21
		Financial support to SMEs	2.80	3.57
		Weighted average	3.59	3.55
Serbia's overall score for Dimension 7			**4.44**	**3.96**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Overall, there has been moderate progress in the area of technical regulations and standards. Most notably, Serbia adopted a new Law on Technical Requirements and Conformity Assessment in May 2021 (Ministry of Economy, 2021[99]), which introduced the Serbian conformity mark and important aspects such as the presumption of conformity procedure, further aligning its procedures with the *acquis*.

While not established yet, Serbia has made some preparatory steps towards the recommended establishment of a product contact point (PCP) that provides information about the requirements of technical regulations, with a particular focus on EU regulations (Table 18.20). Article 35 of the Law on Technical Requirements for Products and Conformity Assessment, which entered into force on 14 May 2021, provides the legal basis for the establishment of the PCP. Serbia is currently preparing an additional law specifically related to the PCP and is developing a single digital service tool for the efficient operation of the PCP. The PCP is expected to be operational by the end of 2022.

Progress regarding further regional co-operation on QI has been limited. While CEFTA (Central European Free Trade Agreement) announced that a mutual recognition agreement of technical regulations in selected priority sectors was planned until the end of 2021 (CEFTA, 2021[100]), no new information has been published on this process so far. In addition to the regional co-operation within CEFTA, Serbia has bilateral co-operation agreements with some other Western Balkan economies (e.g. Montenegro), which enable the exchange of experts and joint training. However, these were already in place during the previous assessment.

There has been some progress regarding the translation of standards, which was the final recommendation from the 2019 assessment. The share of European standards remains stable at 10%, as previously reported in 2015. This can nonetheless be regarded as an improvement as the number of adopted European standards has increased substantially over the past years. Furthermore, the Institute for Standardisation of Serbia (ISS) provides a list of all standards undergoing translation and reports on the status of the translation process (ISS, 2021[101]).

Table 18.20. Serbia's implementation of the SME Policy Index's 2019 recommendations for Dimension 7

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Explore collaboration with regional peers as a cost-effective way to ensure the provision of quality infrastructure services	In May 2021, CEFTA announced the conclusion of mutual recognition agreements of technical regulations in selected priority areas until the end of 2021, but this process has not been concluded yet. Serbia has bilateral co-operation agreements with its neighbouring economies in accreditation and standardisation (e.g. Montenegro).	Limited
Establish a product contact point	Serbia's new Law on Technical Requirements for Products and Conformity Assessment, adopted in May 2021, provides the legal basis for the adoption of the product contact point (PCP). Serbia is currently preparing an additional law specifically related to the PCP and is developing a single digital service tool for the efficient operation of the PCP, which shall be operational by the end of 2022.	Moderate
Increase the number of standards in Serbian	The share of translated standards remains at 15%, which can nonetheless be regarded as progress as the absolute number of adopted European standards increased over the past years. The Institute for Standardisation of Serbia has a list of all the standards undergoing translation and reports on the current status of each document.	Moderate

Note: CEFTA: Central European Free Trade Agreement.

Quality infrastructure is well-embedded in national strategy documents, but the strategy itself needs updating

Serbia's National Programme for the Implementation of the *acquis* (Ministry of European Integration, 2018[102]) is the main document guiding its harmonisation process with the *acquis*. The chapter on the free movement of goods displays a table with the remaining horizontal and sectoral legislation to be aligned with timelines for each law. In addition, Serbia adopted an Industrial Policy Strategy (2021-2030) (Government of Serbia, 2020[78]), which also states the additional harmonisation of quality standards and

industrial regulation with the *acquis* as an objective to increase the competitiveness of the Serbian economy. Despite QI apparently being a priority in Serbia's high-level strategy documents, its five-year QI Strategy, which expired in 2020, has not yet been renewed. As there have also been many new developments in QI in the European Union, such as the new Regulation on Market Surveillance in 2019 and the European Commission's 2022 Standardisation Strategy, an expired strategy poses the risk of the national policy objectives not being aligned with the most recent regional or global developments.

Regarding support programmes for exporters, the Serbian Development Agency (RAS) launched a pilot programme that supports product adaptation costs related to regulatory requirements. This pilot is currently restricted to the wood and food sector but will be expanded to other sectors in 2022.

There is a high degree of alignment with the acquis*, but further broadening of accreditation services may require additional staff and resources*

Serbia has achieved a high degree of alignment with the *acquis*, as around 75% of EU regulations have been transposed into Serbian legislation (International Trade Administration, 2021[103]). In standardisation, Serbia continues to maintain a very high adoption rate of CEN/CENELEC (European Committee for Standardisation/European Committee for Electrotechnical Standardisation) standards, which increased from 98% to 99% during the assessment period. Furthermore, in 2020, the ISS adopted 2 032 European standards with a complete translation, which is an increase of 33% compared to 2019. Furthermore, courses on standardisation and QI are provided in educational institutions at both the university and vocational education levels.

In May 2021, Serbia also adopted an amendment of the Accreditation Law that further specifies the duties and the independence of the Accreditation Body of Serbia (ATS). Serbia has signed the European Co-operation for Accreditation Multilateral Agreement in six out of the nine accreditation fields, which is the second-highest share in the WBT region after Turkey. During the reporting period, the ATS also applied for an extension of scope for the field of "Proficiency Testing providers", and the European Co-operation for Accreditation conducted its assessment for this field in November 2021. Furthermore, the ATS is currently developing an accreditation scheme in the area of validation and verification. As there are no reference materials producers yet in Serbia, there is currently no need for developing accreditation services in this field. Despite the extension of its activities and the increase of accredited conformity assessment bodies under its supervision, ATS staff only increased by 1 employee, from 40 to 41, during the assessment period. Given the increased scope of supervision, strengthening its human resources would be desirable, as the ATS also suffers from a lack of experts for accrediting testing laboratories (European Commission, 2021[20]). While understaffing may not be an imminent risk, it can have an impact on the completion of work plans and quality in the medium and long terms.

The number of accredited conformity assessment bodies increased by 16% during the assessment period (from 628 to 727). The obligations regarding certificates for conformity, which had constituted a technical barrier to trade, were repealed by Serbia for most directives. However, a small number of certificates of conformity still apply to imports of goods such as drones and toys and construction products such as cement and steel for the reinforcement of concrete and screws (European Commission, 2021[20]).

The Directorate of Measures and Precious Metals (DMDM) continues to be a member of all major metrology associations (the European Association of National Metrology Institutes, WELMEC and the International Organisation of Legal Metrology) and recently became a member of the Hallmark Convention, which is an international treaty between states on the cross-border trade in precious metal articles. While a new Law on Precious Metals was adopted in 2021, the amendment process of the Metrology Law is still ongoing. The DMDM currently has 103 staff members, which is an increase of 10 employees compared to the previous assessment. Overall, metrology services were available without disruption during the COVID-19 pandemic, and the DMDM has also started to increasingly digitise its processes as part of the national e-government programme. Regarding the strategical framework, as metrology forms part of the

expired QI Strategy (2015-2020), an updated strategy that takes into account the most recent developments in metrology and sets new targets for the coming years would be important.

Market surveillance activities decreased during the COVID-19 pandemic, as the number of inspections more than halved, from 7 459 in 2019 to 3 409 in 2020. This is partially due to the lockdown from 22 March 2020 to 6 May 2020, which created additional demands for the Market Inspectorate, which carried out 2 059 reactive actions to monitor the COVID-19 provisions. The Market Inspection Unit of the Ministry of Trade, Tourism and Telecommunication publishes annual work plans, a safety checklist for many products as well as a digital registry that lists all unsafe products, which allows for a keyword search and other filter functions. Compared to other WBT economies, this is a very broad information offering which informs both consumers and producers of the prevailing safety requirements.

Access to standards broadened in collaboration with the chamber of commerce and financial support is available via Serbian Development Agency

Serbia's performance in raising awareness continues to be high compared to the other WBT economies. To raise awareness outside the capital, the ISS operates six information centres in the towns of Subotica, Novi Sad, Kragujevac, Valjevo, Nis and Zajecar since 2018. Furthermore, companies can view standard documents free of charge at the premises of the Serbia Chamber of Commerce, which has a vast network of 17 representations in the economy. Both the Chamber of Commerce and the ISS organise training events on the implementation of standards. The ISS also started to publish a quarterly newsletter in 2021.

To further increase the participation of SMEs in the development of standards, the ISS amended its internal rules to allow SMEs to participate as observers in the national technical committee meetings and organised online committee meetings. Observing or even actively participating in the standards development process can be very beneficial for SMEs, as they are able to bring their experience into the development of a standard and raise awareness of elements that are very important for them. This, in turn, can make it easier for them to comply with the standard once it is published.

The Serbian Development Agency's Export Promotion Company Support Program offers financial support that also covers implementation-related costs of standards. More specifically, up to 60% of the costs (capped at around EUR 25 000 per firm) can be reimbursed under this programme. There is no information on this programme on the ISS or TEHNIS websites, which would be beneficial as these are the main websites informing about standards and technical regulations in Serbia.

The way forward for Dimension 7

- **Improve interlinkage of information about existing quality infrastructure support for firms.** The Serbian Development Agency has various export support services funded by several international development co-operation partners. Many of those programmes have components that help companies comply with international standards, but they are not always communicated across the different QI institutions. Creating a support programme registry, as is done in Turkey (Box 18.12) or listing these projects directly on the TEHNIS platform and promoting them through the communication channels of the ISS would further improve the exposure of these programmes.
- **Update the Quality Infrastructure Strategy.** Serbia has documented its main objectives for the alignment with the acquis and for the extension of its QI services in the National Programme for Integration and further underlined its importance in the National Industrial Policy Strategy (2021-2030). Consequently, it would be important to renew its expired QI Strategy to specify its QI-related objectives in more detail and provide guidelines for the different QI institutions.
- **Increase translation of standards and continue to improve SME committee participation.** ISS has been making important progress by amending rules to foster the participation of SMEs, but additional steps should follow to assure sufficient participation in standards development. For example, financial support for travels or third-party presentations via SME associations could be

introduced to assure that SMEs more easily participate or at least have their interests represented in technical committees. To also improve access, full-text translation of standards should be prioritised as 15% still represents a small share of translated documents. ISS could consult its members to identify the standards for which translation is most relevant.

Box 18.12. A search engine that lists all government support programmes in Turkey

All WBT economies have some form of (export) support programme that assists firms, either financially or through some in-kind services, to meet the requirements of international standards or regulations. However, these projects are offered by a large array of institutions, such as ministries, special agencies, business or trade associations, or projects directly managed by international development co-operation partners. It is, therefore, often very difficult for firms to even know about all of the programmes and support lines that exist.

To address this information access challenge, Turkey's Ministry of Industry and Technology has developed a website that lists a total of 257 government support programmes across different agencies and which allows users to search for these programmes using keywords as well as institutional or geographic filters. Each search entry contains the name of the programme, a status indicator showing whether the programme is still active or not, application deadlines and dates, as well as a direct link to the key documents that describe the programme. Users are able to share this information via email or social media, and there is also a direct contact form where one can ask questions or send comments about the programme.

The possibility to filter the different support programmes by institution or geography makes this a very useful tool, as it allows firms to quickly identify which support programme may be relevant for them. The platform's second success factor is its direct embedment of documents, which lowers the search costs for firms, as they have the key information directly available on the platform without having to browse the respective agencies' webpage. Hence, while having some upfront set-up costs, once it is in place, such a platform greatly reduces search costs while improving the visibility of government support programmes, particularly for agencies or institutions whose website is not so frequently visited by firms.

As Serbia also has a variety of support programmes offered by many different agencies or ministries, such as the Serbian Development Agency, the Serbia Chamber of Commerce as well as ministries, having such a platform may also be beneficial for Serbian firms seeking financial or technical support. To create economies of scale, it makes sense to list all government support programmes, not only those relating strictly to SMEs or export development.

Source: Turkish Ministry of Industry and Technology (2021[104]).

Enterprise skills (Dimension 8a)

Introduction

SMEs, the cornerstone of job creation, provide a significant share of employment, with two out of three employed people working for an SME, acting as an engine for social development and economic growth. Yet to drive growth and reduce the tendency for start-ups to result in lower-paying jobs, SMEs need to invest in skills, digitalisation and innovation to boost productivity and higher paid employment. However, they lack the capacity of larger enterprises to invest in training for founders and the workforce. They can be supported by relevant government-financed training, however, to close skills gaps and upskill the workforce. This is emphasised when it comes to greening businesses, for example, where environmental sustainability cannot be achieved within SMEs, as the potential is limited by lack of awareness and skills as well as the additional costs involved. Supporting SMEs through developing enterprise skills can create far-reaching impacts for families, local communities and economies.

The Serbian economy is recovering from the challenges of the COVID-19 pandemic, which negatively affected the SME community and, disproportionately, women and youth in an economy where these demographic groups are already disadvantaged in the labour force (World Bank, 2021[105]). The overall picture for enterprise skills in Serbia is good, however, with comprehensive support for enterprises at different phases of their development and a reasonable range of thematic training available to support the skills of both founders and employees.

Serbia's score for this dimension is lower overall than in the previous assessment (when it scored 3.95) (Table 18.21). The reasons for this are linked to the evolution of the assessment towards a focus on digitalisation, sustainability, the circular economy and the green transition. This change illustrates the areas still needing further development in Serbia. Recent statistics show a lack of digitalisation, for example, with only 27% of Serbian SMEs using advanced digital software, compared to 35% across the European Union.[60] The timing of the assessment also just precedes the development of the new SME Strategy where actions related to priority themes are anticipated; its publication is expected by the end of 2022. Nevertheless, Serbia remains one of the regional leaders in this area.

Table 18.21. Serbia's scores for Dimension 8a: Enterprise skills

Dimension	Thematic block	Serbia	WBT average
Dimension 8a: Enterprise skills	Planning and design	3.75	2.86
	Implementation	3.88	3.85
	Monitoring and evaluation	3.00	2.67
Serbia's overall score for Dimension 8a		**3.66**	**3.32**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Activity supporting enterprise skills development and implementation slightly deteriorated since the last assessment (Table 18.22), and expansion of the training offer or increased co-ordination is not evident. There is strong provision of support, mentoring and financial subsidies for those seeking to become self-employed, as well as support for businesses seeking to grow. Skills intelligence is available and is used to inform policy development, though there is no national database of indicators nor a coherent approach combining quantitative data and evaluation of relevant actions.

Table 18.22. Implementation of the SME Policy Index 2019 recommendations for Dimension 8a

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Strengthen the role of the Council for SMEs, Entrepreneurship and Competitiveness	The Council for SMEs, Entrepreneurship and Competitiveness remains active, though information is lacking on the evolution of its role and responsibilities.	Limited
Consolidate all available monitoring and evaluation data	This remains an area where a co-ordinated approach to monitoring and evaluation across the different agencies involved could provide a valuable evidence base for policy development.	Limited
Prepare evaluation reports	Progress is observed in this area, with a comprehensive *ex post* analysis of the 2011-2020 Employment Strategy and a commitment to producing an ex post analysis for the 2015-2020 SME Strategy.	Moderate

Skills intelligence is underdeveloped and requires a co-ordinated, system-level approach

The recently launched Industrial Policy Strategy (2021-2030) (Government of Serbia, 2020[78]) highlights the growing skills gap in Serbia, while wider strategies, such as the Employment Strategy (2021–2026) (Government of Serbia, 2021[106]) and the Smart Specialisation Strategy (2020-2027) (S3) (Government of Serbia, 2020[36]) address the need for enterprise skills. The research behind these strategies, such as the ex post analysis of the Employment Strategy (2021–2026), highlights a need to monitor and evaluate the economy's skills intelligence. There is a lack of a national skills intelligence framework to bring together relevant data sources, which reduces insight into Serbia's skills gaps and mismatches. For example, the Economic Reform Programme does not yet focus on training for specific sectors, nor does it highlight training to support the skills needs of S3 priorities. A move towards more comprehensive skills intelligence is needed to guide matching lifelong learning to the national and local needs of SMEs and the labour market and to ensure the skills needed to support priority sectors identified in the S3.[61]

There is a good quality offer for enterprise skills at the national level, with a need to develop a stronger focus on digital and green themes

Start-up training is provided by different government providers, including the National Employment Agency[62] and RAS.[63] There is a comprehensive offer from the National Employment Agency to encourage and support aspiring and new entrepreneurs, providing financial subsidies,[64] mentoring and start-up training as an active labour market measure for the registered unemployed. This is a commitment in the Action Plan (2021–2023) (Government of Serbia, 2021[107]) that accompanies the new Employment Strategy (2021–2026) (Government of Serbia, 2021[106]), which links support from the National Employment Agency and RDAs. Entrepreneurship subsidies are granted via a business plan assessment, and priority is given to the following unemployed categories: under 30s, women, workers who have been made redundant, the Roma and people with disabilities.

RAS leads the delivery of SME training through the Standardised Set of Services for SMEs programme in collaboration with accredited RDAs, which is also of good quality and covers four groups of standardised services: information, training, consulting and promotions. Moving forward, enterprises will need a new breadth of training, including on the standard themes of green transition, sustainability and digitalisation from the outset.

There is a need to upscale training to support sustainability, the circular economy and the green transition, with only 72% of SMEs taking resource efficiency measures, compared to an EU average of 89%, and only 17% offer green products and services, compared to 25% across the European Union. The Development Fund offers grants to entrepreneurs or MSMEs for diverse business improvements, including new software or IT equipment, or to support energy efficiency by purchasing new machines or equipment.[65]

Practical training for enterprises and their employees on sustainable business practices, resource efficiency or the circular economy is rather limited (see Dimension 9 on SMEs in a green economy). There are commitments toward training for SME employees in the Roadmap for Circular Economy in Serbia (Government of Serbia, 2020[108]), but evidence is not yet available on implementation. A stronger emphasis on the green transition and the green economy would widen the potential to expand green industries and technologies in Serbia.

On the other hand, innovative actions are taking place to drive digitalisation in Serbia. New strategies have been developed to support digitalisation and related themes, including the Strategy for Digital Skills Development (2020-2024) (Government of Serbia, 2020[109]), which is closely aligned with DigComp.[66] It includes actions to develop digital competences needed in the labour market, including for SME employees. The Strategy for the Development of Artificial Intelligence (2020-2025) (Government of Serbia, 2020[68]) was also launched during this assessment period.

Two national initiatives support digitalisation for enterprises. First, there is the Speed2.0 initiative, which is a set of tests developed by the Centre for Digital Transformation on digital immunity, digital competitiveness and artificial intelligence (AI) readiness,[67] which enables companies to gain insight into how ready they are for the digital transformation required in the post-COVID business environment. Second, the Digital Transformation Support Programme for MSMEs, funded by RAS in co-operation with the Centre for Digital Transformation, offers access to a consultant to support an assessment of digital needs in the MSME, development of a digital transformation strategy and support for the practical requirements identified in the strategy.[68]

While these actions are important and provide significant support to SMEs, there is no wider evidence of practical training for SME employees in digital competences. SME employees can be catalysts of digital change if they are upskilled to support SME digitalisation. It is expected that this would be addressed and monitored within the upcoming SME Strategy and would align closely with commitments in the Strategy for Digital Skills Development (2020-2024) to deliver training for SME employees.[69]

While there is evidence of monitoring and evaluation of training provision, this is not comprehensive nor collated to provide a more rounded picture of results and impact arising from government-financed provision. Gender-disaggregated data are not widespread in the monitoring process, nor has there been a gender impact assessment on the implementation.

Quality assurance across the provision of business advice and support is an ongoing challenge

While the provision of business advice and support is good, the practical implementation and user experience can vary in quality. Any informal training provider or business consultant can offer services; there is no requirement for providers to supply evidence of their expertise; and there is no provider accreditation process. With no mechanisms in place to address or monitor the quality of delivery, learning outcomes may not be consistent or adequately verified. Furthermore, skills certification is fragmented, localised, and often not aligned with the national qualifications framework. Improving skills certification would support a more transparent picture of learning levels and learning outcomes. While quality assurance across diverse providers can be challenging to introduce, there can be benefits for the end-user in terms of validation, recognition and portability of lifelong learning activity, including for SME employees.

The way forward for Dimension 8a

- **Designate a body to lead the co-ordination and development of an action plan for SME skills intelligence.** While skills intelligence is being developed in Serbia, there is a need for a co-ordinated approach to understanding current and future skills needs. A more comprehensive, system-level approach, such as a national SME training needs assessment and analysis of skills mismatches across key sectors (including but not limited to S3 priority

sectors), would support better alignment of lifelong learning and SME training provision to match labour-market needs. Clearly defined indicators for SME skills intelligence would guide future monitoring and evaluation of SME skills at all levels. This should be supported by a comprehensive action plan approach to developing, implementing, monitoring and evaluating actions.

- **Expand existing training to include courses related to green and digital transition for SME employees.** This should include the themes of sustainability for SMEs, resource efficiency and the circular economy, and the implementation of the commitments to support employee digital skills made within the Strategy for Digital Skills Development (2020-2024). To widen access to these offers, action could be taken to include links to training offers available to employees through the enterprise portal.[70]
- **Develop quality assurance mechanisms to ensure quality delivery of SME training for both entrepreneurs and employees.** Suggested routes could be to create a centralised registration system of training providers that has specific requirements concerning expertise and training accreditation and includes a competitive bidding process, or through the more expensive route of creating a national accreditation framework (see Box 18.13 for an example from Ireland).[71] This work could be linked to wider strategic priorities. In the sphere of digital skills development, the Strategy for Digital Skills Development (2020-2024) has identified the need for certified or accredited training programmes in the field of digital skills and a self-assessment tool for citizens.[72]

Box 18.13. Skillnet Ireland: Providing structured access to SME training with built-in quality assurance and evaluation

Skillnet Ireland was created to develop and implement government-financed training initiatives in Ireland. It is a non-profit company supported by annual funding from the Irish Department of Education and Skills. It acts as a facilitator and funding agency for over 100 training networks across the country, structuring, supporting and co-ordinating their efforts to provide effective and tailored training relevant to enterprises and their local contexts.

Each training network is run by a contracted organisation, usually an industry federation or a business association. Each one is responsible for identifying and implementing training, monitoring and evaluating delivery, and sharing good practices.

Skillnet Ireland and its training networks act as a broker between education and companies. Companies with similar needs are networked together and make a proposal to Skillnet explaining their need for skills development. If Skillnet accepts, then Skillnet provides a grant of 50%, with the other 50% coming from the network of companies itself. Skillnet matches the skill need with their educators' network; provides mentoring, coaching and ongoing strategic support; and independently evaluates every training programme. They are also responsible for providing performance indicators and quality standards for training activities engaged in by companies.

All training is delivered by external training providers selected through a competitive tendering process, ensuring quality assurance is built into the process. Skillnet is a significant network, reaching 6% of all companies in Ireland.

The training networks facilitate training that is more tailored to SMEs rather than large companies. Bringing companies together with similar needs offers a route to pooling resources and brings down the costs for each participating SME. Evaluation is built in, as is the quality assurance process, to ensure effectiveness and impact.

The process strengthens SME ecosystems by bringing SMEs together into groups based on skills needs. It offers structured skills development for founders and staff, tailored to their requirements. It is time-efficient as Skillnet identifies the training providers. Finally, as mentioned above, evaluation is built in, as is the quality assurance process, to ensure effectiveness and impact.

Sources: Skillnet Ireland (2021[110]) and Capgemini Invent, European DIGITAL SME Alliance, Technopolis Group (2019[111]).

- **Establish comprehensive monitoring and evaluation of all programmes related to SME skills, including a strong gender focus.** A high-quality and co-ordinated approach to monitoring and evaluation is needed to measure progress towards the impacts outlined in linked strategy documents. This work should be supported by consistent gender-disaggregated data gathered from government-financed SME support and training actions and should inform a gender impact assessment of the current approaches to enterprise skills and support. This will address and seek solutions for the current challenges faced by women across the labour market and entrepreneurship (Government of Serbia, 2020[112]).

Innovation policy for SMEs (Dimension 8b)

Introduction

Supporting innovation and building a knowledge economy is increasingly becoming a priority for the WBT region, and globally. Recognising the link between innovation and productivity and its contribution to higher value-added economic output and competitiveness, many governments have started to emphasise the creation of an environment conducive to innovation and knowledge development. However, equal attention must be given to enhancing innovation capacity at the firm level.

In Serbia, enhancing innovation has been a policy priority for several years now, and the economy has made further progress in encouraging SME innovation since the last assessment, improving its score from 3.33 in 2019 to 4.00 in 2022 (Table 18.23), thereby overtaking North Macedonia but continuing to perform below Turkey. In particular, progress has been made with regard to further strengthening the innovation policy framework and the availability of financial support.

Table 18.23. Serbia's scores for Dimension 8b: Innovation policy for SMEs

Dimension	Sub-dimension	Thematic block	Serbia	WBT average
Dimension 8b: Innovation for SMEs	Sub-dimension 8b.1: Policy framework for innovation	Strategic approach	4.62	3.81
		Implementation of innovation policy	4.40	3.31
		Co-ordination of innovation policy	4.12	3.30
		Weighted average	**4.41**	**3.46**
	Sub-dimension 8b.2: Government institutional support services for innovative SMEs	Incubators and accelerators	3.96	3.27
		Technology extension services for established SMEs	2.55	2.14
		Weighted average	**3.40**	**2.82**
	Sub-dimension 8b.3: Government financial support services for innovative SMEs	Direct financial support	4.68	3.81
		Indirect financial support	2.60	2.26
		Weighted average	**3.85**	**3.19**
	Sub-dimension 8b.4: SMEs and research institution collaboration and technology transfer	Innovation voucher schemes and co-operative grants	4.00	2.85
		Institutional infrastructure for business-academia co-operation	3.88	2.99
		Intellectual property rights	3.80	3.05
		Weighted average	**3.91**	**2.95**
Serbia's overall score for Dimension 8b			**4.00**	**3.18**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

The European Innovation Scoreboard 2021[73] classifies Serbia as an emerging innovator, scoring higher than all other WBT economies. Further progress has been made to strengthen the economy's strategic policy framework for innovation, and implementation capacity has been boosted through the establishment of a dedicated Science Fund. Despite the increasing complexity, however, co-ordination across different stakeholders charged with implementation and strategy oversight has not been amended. Progress has been made to strengthen the ecosystem for innovation; however, measures in this area focus strongly on start-ups. Financial support, including from the state budget, has increased significantly, with the new Science Fund complementing funding provided by the Serbian Innovation Fund. In addition, some indirect financial support measures have been introduced. Steps have also been taken to strengthen linkages

between academia and businesses, but results have yet to materialise, and further efforts will be needed to stimulate co-operation.

Table 18.24 provides an overview of measures Serbia has taken in response to the recommendations for this dimension made in the previous assessment.

Table 18.24. Serbia's implementation of the SME Policy Index's 2019 recommendations for Dimension 8b

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Scale up financing for innovative SMEs by introducing indirect financing instruments	Funding availability for innovative SMEs and research and development (R&D) has increased substantially in recent years. The Innovation Fund operates large-scale and diverse support programmes, and the newly established Science Fund, supported by a new Law on Science and Research, is expected to administer more than EUR 40 million worth of grants between 2020 and 2024. Some progress has been made in introducing indirect financial support measures in the form of innovation-favouring procurement and tax relief on R&D for start-ups; however, overall investments into R&D remain stagnant, at around 0.9%.	Strong
Further improve co-ordination of innovation policies	Implementation of the policy framework continues to be complex, with multiple ministries, advisory bodies and implementation agencies involved. Compared to the previous assessment, the number of stakeholders has increased (the Science Fund and the Council for Encouraging the Development of Digital Economy, Innovation, High-tech Entrepreneurship and Digitalisation in Business), but the co-ordination mechanism has not been revised.	Limited
Improve monitoring and evaluation in all government programmes	An independent evaluation of some of the Innovation Fund's programmes in 2020 has confirmed the effectiveness of the Innovation Fund as an implementation tool for Serbia's innovation policy framework, and the fund continues to implement projects with a strong monitoring and evaluation methodology in place. However, further efforts are needed to expand this best practice to other government programmes and to ensure that lessons learnt are incorporated into existing measures and reflected in the design of new tools.	Moderate

Innovation policy implementation is guided by a strong and comprehensive framework

Serbia has a well-developed policy framework supporting innovation and has made further progress since the last assessment. The new Strategy on Scientific and Technological Development of the Republic of Serbia for the period 2021-2025, "Power of Knowledge", was adopted in February 2021, succeeding the previous Innovation Strategy. It complements the Smart Specialisation Strategy (2020-2027), adopted in 2020 with the support of the European Commission's Joint Research Centre, as well as the Strategy for the Development of Artificial Intelligence, adopted in 2019 for the period 2020-2025. In addition, in 2021, the Strategy for the Development of Start-up Ecosystems was adopted for the period 2021-2025 and aims to create a national strategic framework to increase the number and quality of domestic start-ups.

Co-ordination of implementation of the innovation framework remains somewhat complex. While the MoESTD leads the overall design and implementation of innovation policy and is responsible for budget allocations in this area, the Ministry of Economy leads in some aspects. Horizontal co-ordination is supported by the National Council for Science and Technological Development, which mainly focuses on scientific research, and the Council for Encouraging the Development of Digital Economy, Innovation, High-tech Entrepreneurship and Digitalisation in Business, newly established in 2021 under the auspice of the Prime Minister. Nevertheless, some monitoring is in place, and Serbia's statistical office implements biannual innovation surveys, which is an important tool to ensure that policy implementation is regularly monitored and action plans can be adjusted in a timely manner. However, to date, there is no independent evaluation mechanism in place, except for the Innovation Fund, which engaged an independent evaluator

for its programmes in 2020, gradually aligning Serbia's innovation policy framework with international best practices.

A main development since the last assessment is the establishment of a dedicated Science Fund in 2019, which – together with the Innovation Fund – is Serbia's key vehicle for innovation, science and technology policy implementation. The Science Fund was established in accordance with a new legal framework, comprising the Law on Science and Research and the Law on the Science Fund, which introduces a shift in the financing model for scientific research towards competitive and performance-based funding. The Innovation Fund, established in 2011, continues to implement finance schemes in support of innovation at full capacity, managing an annual budget of approximately EUR 20 million, including around EUR 10 million from the state budget for 2021. While the Innovation Fund predominately focuses on supporting innovation in the economy, the Science Fund's main objective is to foster research excellence. This holistic approach to addressing both the demand and supply sides of innovation is expected to significantly boost innovation activities in the medium term.

The institutional support structure is centred around start-ups, especially in ICT

Numerous incubators exist across Serbia, especially in Belgrade, but also in some of the main university hubs, such as Novi Sad, Nis, Kragujevac and Zrenjanin. Specifically, and as a major advancement compared to the 2019 cycle, systemic support has been provided to create an ecosystem for start-ups, with a particular focus on ICT to support Serbia's ambition to become an international tech hub. As a result, between 2018 and 2019, numerous innovation start-ups and smart city centres were established. A study aimed at mapping the incubation ecosystem, supported by the European Union between 2019 and 2021, identified nearly 40 active incubators; however, it also suggested that not all incubators focus on innovation. In late 2021, the Innovation Fund launched a new Enterprise Acceleration programme, Katapult, to provide acceleration services and early-stage funding to innovative start-ups. Under this programme, beneficiaries undergo an intensive three-month training to launch their ideas and are supported with a small start-up grant and additional co-financing within 24 months. Apart from this initiative, no accelerators operate in Serbia, suggesting the need to introduce more tailored measures to support early-stage companies beyond their initial start-up to fill this gap.

Financial support for innovation has reached scale

Further progress has been made to scale up financial support for innovation activities, predominately channelled through the Serbian Innovation Fund. Funding has increased significantly since 2011. This is a welcoming and important move toward the long-term sustainability of the Innovation Fund's operation and Serbia's commitment to supporting the creation of a knowledge economy. In total, over EUR 43 million have been approved under 5 programme initiatives until 2021, supporting over 1 100 beneficiaries, most notably through the Innovation Fund's flagship mini and matching grant programmes. In response to the COVID-19 pandemic, in early 2020, the fund launched a call to support innovative ideas focused on health and well-being that had potential for scale and to combat the pandemic. Twelve such projects were awarded for a total of EUR 500 000. In addition, the Innovation Fund introduced a new Proof of Concept Programme to support research projects aimed at commercialisation and testing of technological readiness, thereby adding a seventh product to its portfolio.

In line with best practice, and stemming from the significant international capacity building the fund has received since its establishment, all project applications are reviewed following an independent and transparent evaluation process, and are regularly monitored. In 2020, an independent evaluation of five of the Innovation Fund's programmes confirmed good performance but suggested that further efforts were needed to fully align operations with Serbia's strategic framework.

While direct financial support continues to be the main focus of Serbia's innovation support approach, some progress has also been made to introduce indirect financial incentives to companies to invest in R&D

through tax relief. However, these remain somewhat untargeted and mainly serve start-ups. In addition, in 2019, public procurement procedures were amended to favour innovation.

Efforts to stimulate collaboration between the industry and research have increased, but this remains the weakest link in Serbia's innovation system

Progress has been made in this sub-dimension, notably through increased availability of financial support to stimulate R&D and co-operation between businesses and research institutes. Despite these efforts, overall investment in R&D remains stagnant at around 0.9% of GDP (European Commission, 2021[20]), although the impact of the newly created Science Fund may accelerate investments in the coming years.

Since 2016, the Innovation Fund has provided targeted support to increase co-operation between the private-sector and research institutes. It provides both competitive, collaborative grant schemes to support larger SMEs to engage with scientific researchers on joint technological projects with a realistic commercialisation strategy, as well as innovation vouchers, which were introduced in 2017. Capped at around EUR 7 000, these co-finance research and laboratory services for SMEs. To date, nearly 50 projects have been financed under the competitive co-operation grant scheme, and over 840 vouchers have been awarded. The Innovation Fund also runs a technology transfer office, which complements four others established at Serbia's main universities. These technology transfer offices, however, remain largely unutilised by businesses.

The Science Fund is expected to complement existing measures and further increase linkages between research and entrepreneurship. It is currently implementing four separate research programmes, covering the development of AI, research collaboration with Serbia's diaspora and R&D projects, and supported 85 research projects in 2020 alone. Within two years of operation, the fund's budget has already doubled, to almost EUR 20 million, including significant contributions from the state budget.

Further progress has been made in strengthening the infrastructure to encourage collaboration. The network of science and technology parks has expanded since the last assessment, with such parks now operative in Novi Sad, Nis and Cacak, in addition to the flagship one in Belgrade. The science and technology park in Belgrade now hosts a large number of start-ups, but the link to academia is not always evident. Numerous competence centres and independent technology institutes operate in more urban areas, though their outreach to and utilisation by the private sector remain limited.

Lastly, some progress has been made in strengthening intellectual property rights to incentivise scientific researchers to share their inventions and collaborate on commercialisation. Revisions to the Patent Law have brought Serbia's intellectual property legislation broadly in line with the *acquis*, covering both research in R&D institutes, at universities and in private companies, and guaranteeing an equal split of proceeds from commercialised intellectual property between the creator and the organisation holding the patent.

The way forward for Dimension 8b

- **Strengthen co-ordination in design and implementation oversight of innovation policy.** Serbia's multi-layered and sophisticated policy framework requires close co-ordination among all stakeholders and implementation bodies. A clearly defined mandate for the newly established Council for Encouraging the Development of Digital Economy, Innovation, High-tech Entrepreneurship and Digitalisation in Business would help define its scope of work, especially vis-à-vis the National Council for Science and Technological Development.
- **Incorporate a strong focus on innovation into the new Strategy for the Development of Start-up Ecosystems.** This should aim to include a focus on start-ups beyond the ICT sector to ensure a balanced and inclusive mix of policy objectives and implementation to support both entrepreneurship in this strategically important industry and innovation more generally.

- **Further align the focus of the Innovation Fund and Science Fund to the strategic objectives of the innovation framework.** Serbia should ensure that the financial schemes offered by the two institutions are highly complementary and that lessons learnt from the Innovation Fund are incorporated into the programming of the Science Fund. If well-designed and tackling priorities in a co-ordinated manner, in combination, Serbia's Innovation Fund and Science Fund are a powerful tool to maximise the impact of the efforts already underway and address outstanding obstacles to innovation through both supply and demand.
- **Raise awareness about soft measures to incentivise innovation.** While progress has been made in providing indirect financial and non-financial support to foster firm innovation, further efforts are needed to disseminate information and explicitly link indirect incentives to innovation. For instance, this could be done through the platform of the Innovation Fund and via targeted information campaigns in collaboration with business associations.

SMEs in a green economy (Dimension 9)

Introduction

Since SMEs, on aggregate, have a significant environmental footprint (small firms account for 50% of greenhouse gas [GHG] emissions in the world (ITC, 2021[113])), it is essential that the governments of the WBT region include them in their environmental considerations to achieve the net-zero goal for GHG emissions. On the one hand, like any other economic entity, SMEs face the consequences of environmental degradation, which can generate specific challenges for their survival and growth. On the other hand, and more importantly, SMEs can be a source of innovation and solutions to develop the technologies needed to address environmental challenges. New green markets, such as the circular economy, can also create new business opportunities for SMEs. Even without moving into new markets, SMEs can potentially improve the performance of their business by realising efficiency gains and cost reductions by greening their products, services and processes. In this regard, tailored policies, incentives and instruments are necessary to enable them to participate in the green transition, as SMEs face a number of barriers (financial, informational, etc.) in their greening efforts, and more so than large firms (OECD, 2021[114]).

Air, water, and soil pollution have culminated in Serbia in recent years, pointing to the need to rethink economic growth and ensure it does not cause further environmental degradation, which becomes even more important in the post-COVID-19 context. The pandemic has put additional pressures on Serbian SMEs and their greening efforts, primarily due to issues with liquidity maintenance and access to finance. Well-co-ordinated and targeted financial and technical support will be required to overcome challenges in adopting sustainable practices.

Serbia's score has increased since the last assessment (2.53 in 2022 compared to 2.21 in 2019) but remains below the WBT average (Table 18.25). Although some progress has been achieved in the design of its framework for environmental policies targeting SMEs, Serbia needs to ensure effective implementation of greening policies and scale up its incentives and instruments for SME greening.

Table 18.25. Serbia's scores for Dimension 9: SMEs in a green economy

Dimension	Sub-dimension	Thematic block	Serbia	WBT average
Dimension 9: SMEs in a green economy	Sub-dimension 9.1: Framework for environmental policies targeting SMEs	Planning and design	4.11	3.87
		Implementation	2.35	2.81
		Monitoring and evaluation	1.95	2.47
		Weighted average	**2.80**	**3.06**
	Sub-dimension 9.2: Incentives and instruments for SME greening	Planning and design	2.85	3.06
		Implementation	2.13	3.02
		Monitoring and evaluation	1.91	2.12
		Weighted average	**2.30**	**2.85**
Serbia's overall score for Dimension 9			**2.53**	**2.94**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Since the last assessment, environmental policies have been mainstreamed into various strategic documents in Serbia. Great emphasis has been put on the transition to a circular economy since the adoption of the Roadmap for Circular Economy in Serbia in 2020 (Government of Serbia, 2020[108]), and

co-operation with the CCIS has been further amplified in this regard. However, implementation of green measures included in Serbia's previous SME Development Strategy (2015-2020) has remained largely limited, in part due to the lack of co-ordination between the various institutions in charge. Financial support available to SMEs for their greening projects, including in their post-COVID-19 recovery, has remained limited, and the funds available are mostly ad hoc and based on support from international development co-operation partners. While green public procurement is gaining momentum in Serbia, most non-financial tools have rarely been proven beneficial for SME greening (Table 18.26).

Table 18.26. Serbia's implementation of the SME Policy Index 2019 recommendations for Dimension 9

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Develop a co-ordination body or a unit for SME greening	No specific co-ordination body has been developed. There is no institution responsible for all green policies targeting SMEs (including the recent developments for a circular economy). Measures foreseen under the previous SME Strategy have not been implemented.	No progress
Target the demand side when developing SME greening policies, i.e. focus on raising awareness and providing advice and guidance to SMEs in adopting environmentally sound practices	Although there is no body formally in charge of raising awareness and the government's actions in this regard have been limited, the Chamber of Commerce and Industry of Serbia (CCIS) has been active in providing advice and guidance to SMEs. The CCIS is involved in a project to facilitate partnerships between businesses regarding the circular economy. Guidelines and informative documents are available in relation to green policies for SMEs. The CCIS has launched a circular economy portal to share best practices between businesses.	Moderate
Enhance financial support to SME greening	Some ad hoc financial support for installing solar panels has been made available to SMEs. However, the Green Fund still does not cover SMEs, and financial support is mostly available through support from international development co-operation partners.	Limited

Green policies targeting SMEs are increasingly mainstreamed into strategic documents, but the lack of a co-ordination body hampers proper implementation

Several recently adopted strategic documents include green policies targeting the private sector, in part driven by the long-awaited adoption of the Law on Climate Change in 2021.[74] In addition to the Roadmap for Circular Economy in Serbia (2020), which serves as a guiding document outlining courses of action for the transition from a linear to a circular economy (Box 18.14), the Industrial Policy Strategy (2021-2030) (Government of Serbia, 2020[78]) and the Programme for the Introduction of Cleaner Production[75] (planned to be adopted for the 2023-25 period) envisage sustainable, green and resource-efficient industrial production. The latter also promotes eco-efficient products, services and processes as well as resource efficiency by prescribing preserving raw materials, water and energy, and reducing the amount and toxicity of all emissions and wastes. Drafting the revised SME Strategy for the upcoming period began at the end of 2021 and should include environmental considerations in one of its main pillars as well.

Box 18.14. SMEs and the circular economy in Serbia

SMEs are important for achieving nationwide objectives regarding the circular economy, both by making their business operations more circular and by contributing to the innovation that can strengthen circularity across economies. As the circular economy is gaining momentum in Serbia, SMEs, which represent the largest share of enterprises in the economy, should lead the way in the transition from a linear to a circular economy.

Serbia was the first economy in the Western Balkans to prepare its Roadmap for Circular Economy in 2020, an important document that sets the guidelines for the transition toward a circular economy. The roadmap aims to initiate a dialogue between decision makers and representatives of industry, academia and civil society to encourage industry to innovate, increase market opportunities for production through circular business models, create new jobs and improve business while preserving the environment. The roadmap is accompanied by a communication plan that contains measures to raise companies' awareness of the circular economy and whose main goal is to inform and involve as many actors as possible and thus achieve broad social consensus for implementation.

The Programme for Circular Economy Development (2022-2024) was in the final stage of adoption at the time of writing. One of its objectives will be to support SMEs in the transition to a circular economy.

Circular economy has been increasingly included in strategic documents following the adoption of the roadmap. For instance, the Action Plan for the Industrial Policy Strategy (2021-2030) has a specific pillar on the promotion of circular economy and the education of business entities, including SMEs.

Several activities have been carried out to implement and raise awareness on circular economy principles, in particular as part of two projects undertaken by the CCIS:

The Academy for Circular Economy is an intensive programme intended for business representatives, established as a pilot project in 2018 and re-conducted in 2019 (with 40 participating companies), with a goal to empower them to initiate positive changes in line with circular economy principles, discover new opportunities to create additional lines of revenue and exchange practices of resource efficiency. Given the expressed interest of business representatives in the Academy, CCIS plans to reorganise it in 2022 and 2023 with a focus on 'green managerial' positions. Funds are provided by international development co-operation partners (UNDP, GIZ) and the Ministry of Economy.

The Digital Platform for Circular Economy was launched in March 2021 (https://circulareconomy-serbia.com/). This platform contains a Circular Economy Hub that serves as a virtual classroom on the topic of the circular economy. It aims to improve companies' knowledge of circular economy potential, related activities in the European Union, available grants and financial support. The hub also includes a "green alliance", a virtual space intending for companies to network, connect and create new business collaboration and good practice examples. The hub currently counts 42 business members.

Sources: OECD (2021[3]; 2021[114]).

The Ministry of Economy and the Ministry of Environmental Protection are in charge of the development of SME greening policies. However, the lack of a co-ordination body for SME greening policies and corresponding funds hampers proper implementation and monitoring of these policies. According to the government, there is limited staff and funds to provide environmental guidance for SMEs. Moreover, no overarching budget specific to environmental policies targeting SMEs has been mobilised. In this regard, implementation of green measures set out in the previous SME Strategy (2015-2020) has remained limited, such as awareness-raising activities or expert support on eco-innovation projects planned for the period.[76]

Business associations are involved in developing and implementing SME greening policies, in particular in providing environmental advice and guidance

While a co-ordinated approach between relevant ministries is lacking, business associations, in particular, the CCIS and its regional offices, are increasingly involved in implementing green measures and providing greening guidance to SMEs. The CCIS has been particularly active in implementing measures of the Roadmap for Circular Economy in Serbia and is facilitating partnerships among businesses (Box 18.14).

As part of its Eco-portal, the CCIS provides web-based guidance tools and information on green policies, which are useful to address barriers related to the lack of SMEs' awareness of green opportunities and obligations (OECD, 2021[114]). Guidelines on audit schemes and those on how to measure the carbon footprint of products (the latter in line with the international standard ISO 14067) are also available to SMEs. Moreover, a brochure on green tools has been available since 2019 and includes guidelines on eco-labelling, environmental management standards and green public procurement (CCIS, 2019[115]). However, the lack of data on the uptake of these tools by the private sector hampers their proper evaluation.

The Ministry of Environmental Protection collaborates with the Cleaner Production Centre of the Faculty for Technology and Metallurgy of the University of Belgrade, established in co-operation with the United Nations Industrial Development Organisation back in 2007, also active in encouraging and raising awareness on cleaner production. The centre organises regular awareness-raising events and has, to date, conducted energy audits for 70 companies (including SMEs) and trained more than 60 experts on resource-efficient and cleaner production. In order to support companies in post-COVID-19 recovery, the centre has developed a survey for companies that aims to identify their specific needs to improve economic and environmental performance in light of the crisis. The survey will be analysed in collaboration with the Ministry of Environmental Protection in the second half of 2022.

Limited financial incentives are available for SME greening, including as part of post-COVID-19 economic recovery programmes

The government does not provide any long-term financial incentives for the greening of SMEs and has not included greening aspects as part of its financial schemes to mitigate the impacts of COVID-19. SMEs are still not covered by the Green Fund, re-established in 2017, as it focuses on large and mainly infrastructural projects. Nevertheless, since 2020, SMEs have had access to two ad hoc programmes[77] of the Ministry of Economy, which provide non-refundable funds for the purchase of solar panels and solar power plants. As part of these programmes, in 2021, around EUR 705 000 of non-refundable funds were awarded to 25 companies. Moreover, the EBRD provided a EUR 20 million loan to UniCredit Leasing Serbia in 2021 to support local SMEs in investing in boosting their competitiveness, with more than half of the total loan amount aiming at financing investments and technical assistance in green technology and energy efficiency.[78]

Although some non-financial tools for SME greening are gaining momentum, their implementation remains limited

The Law on Public Procurement (2019) considers the environmental impact of procured goods, highlighting that the government should opt for products and services that do not harm the environment and that contribute to energy savings. Specific guidelines for green procurement, aligned with EU recommendations, were drafted by the PPO in 2019 (PPO, 2019[116]). Moreover, in line with the Law on Public Procurement's Action Plan for 2021, specific training was organised in this regard in December 2021 by the PPO with the UNDP's support to educate the contracting authorities and equip them with practical tools and examples to facilitate the application of green public procurement. While environmental aspects have still not been used in public procurement in Serbia (NALED, 2021[117]), these new developments should stimulate green products and services offered by all companies, including SMEs.

In addition to the guidelines on eco-labelling offered by the CCIS, the government has a functioning national eco-labelling system that contains label criteria for 16 product groups.[79] However, as of 2021, only two companies (larger enterprises) owned eco-labels for a total of seven product groups.

Regulatory instruments (such as performance standards, privileges in the permitting process or inspection frequencies) remain non-existent in Serbia.

The way forward for Dimension 9

- Ensure effective implementation of SME greening measures through cross-sectoral co-ordination. While green policies targeting SMEs have been increasingly mainstreamed in strategic documents, their translation into concrete actions and activities has remained limited. Given the cross-cutting nature of greening measures, Serbia should enhance its co-ordination mechanism with the drafting of the new SME Strategy to ensure proper implementation of measures. This role could be assumed by RAS, in close co-ordination with the Ministry of Environment. Whichever unit is entrusted with this task, it should ensure efficient and effective co-ordination of policies and corresponding funds among various government institutions to avoid duplication and to increase the uptake of the measures.
- Consider introducing regulatory instruments into the SME greening policy mix. First, Serbia could envisage the introduction of performance standards as part of its soon-to-be adopted Programme for the Introduction of Cleaner Production. For instance, the Fit for 5580 proposals by the European Commission, designed to help member states reduce emissions by at least 55% by 2030, include performance standards for the building and transportation sectors, among others, which are of relevance to SMEs (European Commission, 2021[118]). Second, the government could introduce special regimes for low environmental risk installations, the vast majority of which relate to SMEs, particularly those that have adopted environmental management systems. This would involve a shift from permitting requirements to standardised regulatory requirements, where activities that remain under certain thresholds are exempted from notification or face simplified and more standardised requirements for this. For instance, some economies use “general binding rules” that ensure standard conditions specific to a type of activity or a sector, either with obligatory notification of environmental authorities before engaging in an activity (such as in the Netherlands) or without such a requirement (such as in the United Kingdom) (OECD, 2021[114]). The frequency and scope of inspections, monitoring and reporting could also be reduced for those SMEs with a more successful environmental record.
- Enhance financial support to SME greening, in particular in the context of the COVID-19 pandemic. As recommended in the previous assessment, the Green Fund should expand its scope and include specific financial programmes to support SME greening as well. Financing SMEs’ renewable energy equipment or energy-efficiency products could become crucial for their recovery in the post-COVID-19 recovery phase if they are provided with the necessary incentives (UNECE, 2020[119]). Moreover, the government might consider facilitating SMEs’ access to green finance by connecting greening aspects to existing financial schemes. In 2020, Serbia issued the Law Establishing a Guarantee Scheme, which enabled the establishment of two dedicated SME credit guarantee schemes81 to mitigate the impact of COVID-19. Serbia could include green criteria in these credit guarantee schemes to facilitate SMEs’ access to green finance.

Internationalisation of SMEs (Dimension 10)

Introduction

Expansion into foreign markets and SME internationalisation are key factors in boosting SME productivity and competitiveness on a global scale. Smaller economies in the region often struggle with competing internationally or even accessing foreign markets, often due to a lack of technical assistance or resources. Supporting export promotion, sustainable integration into global value chains (GVCs) and opening digital sales channels need to be supported through concrete policy actions and enhanced governmental support. With such support, SMEs can broaden their reach, improve productivity, and introduce innovative practices.

Serbia is a small open economy with high growth potential, especially through export-oriented policies and internationalisation, which are essential components of deepened regional integration and inclusive growth. Reducing barriers to trade and supporting SMEs in their expansion efforts can significantly contribute to Serbia's competitiveness, which was considerably affected by the COVID-19 pandemic, putting additional pressure on SMEs to maintain liquidity and expand operations. Government support for internationalisation, both in the form of financial assistance and capacity building, can boost SMEs' productivity and competitiveness while allowing them to build back better and shift to innovative solutions.

Serbia performed relatively well under the internationalisation dimension, particularly in the area of export promotion. The economy made notable progress in implementing GVC programmes. However, monitoring and evaluation under all three sub-dimensions warrant intensified efforts.

The overall score (4.00) remained stable compared to the last assessment cycle. There was a slight decrease in sub-dimensions 10.1 and 10.2 due to missing key targets from the SME Strategy (2015-2020). The new SME Strategy was being drafted at the time of assessment. Nevertheless, Serbia advanced under sub-dimension 10.3, establishing a solid legislative framework for the promotion of e-commerce (Table 18.27).

Table 18.27. Serbia's scores for Dimension 10: Internationalisation of SMEs

Dimension	Sub-dimension	Thematic block	Serbia	WBT average
Dimension 10: Internationalisation of SMEs	Sub-dimension 10.1: Export promotion	Planning and design	4.65	4.61
		Implementation	4.37	4.24
		Monitoring and evaluation	3.67	3.65
		Weighted average	**4.31**	**4.23**
	Sub-dimension 10.2: Integration of SMEs into global value chains	Planning and design	4.00	3.88
		Implementation	4.28	3.57
		Monitoring and evaluation	3.00	2.70
		Weighted average	**3.94**	**3.49**
	Sub-dimension 10.3: Promoting the use of e-commerce	Planning and design	3.67	3.62
		Implementation	3.00	3.15
		Monitoring and evaluation	3.00	3.29
		Weighted average	**3.20**	**3.32**
Serbia's overall score for Dimension 10			**4.00**	**3.80**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

In line with Serbia's strategic documents, such as the SME Development Strategy (2015-2020) and the newly adopted Industrial Policy Strategy (2021-2030), the government has advanced in implementing

internationalisation programmes. Despite falling short of achieving key export promotion targets, Serbia progressed in assisting SMEs in integrating into GVCs, especially through promoting SME linkages with MNEs' supplier networks. Moreover, in line with the last assessment's recommendations (Table 18.28), Serbia implemented a new Supplier Development Programme, which includes financial support for SMEs, as well as a limited degree of advisory services. Absorption capacity and lack of targeted technical assistance to SMEs remain challenges for Serbia. However, with its developed network of special economic zones, there is a sound infrastructure to enhance knowledge and technology spillovers. In addition, Serbia further strengthened its legal framework for the promotion of e-commerce, with special emphasis on cross-border online trade.

Table 18.28. Serbia's implementation of the SME Policy Index 2019 recommendations for Dimension 10

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Increase SMEs' awareness of the programmes available for export promotion	Serbia made progress in increasing awareness and uptake of export promotion activities through both the Development Agency of Serbia and the Chamber of Commerce and Industry of Serbia's online portals and services.	Strong
Design supplier development programmes	The Government of Serbia launched a comprehensive Supplier Development Programme that aims to create and strengthen links between SMEs and MNEs and facilitate SME integration into GVCs.	Strong
Aim for strong and comprehensive monitoring and evaluation using concrete measures and key performance indicators to conduct long-term impact assessments of programmes	Little progress has been made in the area of monitoring and evaluation. While export promotion programmes are monitored, the Development Agency of Serbia does not benefit from an independent review and does not keep a public record of all support beneficiaries.	Limited
Develop programmes that promote e-commerce	Since the last assessment cycle, the government has implemented the Programme for E-commerce Development for 2019-2020 in collaboration with the United States Agency for International Development (USAID). The Government plans to conduct a review of the programme's implementation by the end of 2022.	Strong

Serbia strengthened its strategic framework for export promotion but fell short of meeting key targets

Export promotion in Serbia is outlined in several strategic documents, mainly the SME Development Strategy (2015-2020) and the newly adopted Industrial Policy Strategy (2021-2030) (Ministry of Finance, 2021[65]). The government has increasingly recognised the importance of SME internationalisation in both strategies, including the new SME Strategy, which was being drafted at the time of assessment. The strategy is due for adoption by the end of 2022. To further strengthen the strategic framework for export promotion, Serbia included dedicated provisions to broaden the domestic export base and seamlessly integrate into GVCs. The Industrial Policy Strategy (2021-2030) envisages quantifiable targets[82] relating to a clear shift to a more innovation-based economy and higher value added of the export base. In light of Serbia being relatively advanced in export promotion and integration into GVCs, and having well-developed special economic zones (SEZs), the targets are rather conservative and modest.

The target realisation of the SME Strategy (2015-2020) was mostly successful, especially in the area of boosting SME competitiveness and improving the quality of local suppliers.[83] However, Serbia did not meet key targets relating to export promotion. The strategy envisioned improved access to foreign markets. The share of exporters in the SME sector reached 3.8% in 2020, and the total share of exports in the total turnover of SMEs amounted to 9.2% in 2020, falling short of the established targets of 7% and 14%, respectively. Out of 35 activities planned under this pillar,[84] 27 were realised over the course of the

strategy, which amounts to 77.1%; 5 were partially implemented; and 3 were not realised at all (Government of Serbia, 2020[120]).

The reason behind falling short on export targets might be that Serbian SMEs still face obstacles in exporting their goods and services, mainly due to the important regulatory burden faced by businesses. Most SMEs quote a lack of clear procedures, complex requirements, low infrastructure capacity and difficult inspection procedures (UNECE, 2021[121]). Serbia undertook measures to remedy the outstanding issues exacerbated during the COVID-19 pandemic by posting health and customs clearance measures on line, facilitating transit through international co-operation agreements and the regional green corridor[85] (UNECE, 2020[122]).

Serbia intensified its export promotion efforts, but the programmes implemented vary in effectiveness

RAS implements export support programmes according to its annual work plans, regulations set in the public calls, and guides for the implementation of support programmes. SMEs are informed on how to qualify for financial support and the procedures of the selection process. In addition to RAS, export promotion activities are also supported by the CCIS. The efforts of both organisations to inform SMEs about available support mechanisms, raise awareness about foreign market expansion and provide educational and informational services are notable and constitute an improvement since the last assessment cycle. The intensified public-private sector collaboration greatly contributes to improving the effectiveness of tailor-made BSSs delivery by facilitating the pooling of resources for the implementation of targeted actions (tapping into the benefits from the economies of scale, reduced administrative transaction costs, etc.). These efforts are also in line with OECD best practices and recommendations from the previous assessment (OECD et al., 2019[73]).

Since the last assessment cycle, RAS has implemented two programmes to assist SMEs in their foreign expansion. The SME Internationalisation Programme[86] promotes individual participation in international fairs and provides institutional support to export-oriented SMEs aiming to increase their volume of foreign trade. While the programme can help increase awareness about Serbian products worldwide, participation in trade fairs and missions might not directly contribute to increasing SMEs' exports. That can be due to either management quality, heterogeneity of firms in accessing information, or the nature of trade events attended (Alvarez, 2004[123]). In addition, RAS is implementing the Export Promotion Programme,[87] which offers co-financing for consulting services support in foreign market access and positioning, capacity building in export promotion and improving production capabilities. The programme seems better aligned with the government's priorities of shifting to higher value-added exports and creating a more knowledge-based economy. Moreover, 51% of surveyed Serbian companies quote lack of export capacity as the reason for not exporting their goods and services; therefore, the programme is better targeted to improve their know-how and provide them with tailored guidance (Balkan Barometer, 2021[124]).

The government made noteworthy progress in reducing barriers to trade and conforming to EU standards

Reducing and overcoming trade barriers was one of the main targets of the SME Development Strategy (2015-2020), and its implementation was mostly successful. The new Customs Law came into force in June 2019, resulting in a significant simplification of customs procedures and a centralised customs clearance system.[88] The new law is a welcome development in harmonising national trade legislation with the *acquis*. Serbia has made considerable progress in that respect, especially within the scope of the implementation of the SME Development Strategy (2015-2020). The government intensified its efforts to further harmonise technical regulations with EU standards, adopting over 99% of European product standards through the ISS (Government of Serbia, 2020[120]). Serbia has a well-developed mechanism to ensure conformity with EU standards,[89] which includes conformity assessment bodies,[90] which ensure the safety of products available on the market. Though the system is well-developed and allows for increasing

the number of conformity assessment bodies,[91] the ATS faces capacity shortfalls due to limited resources. Furthermore, regional co-operation is lacking in the area of mutual acceptance of results issued by Serbian conformity assessment bodies, as the results are not recognised in Bosnia and Herzegovina and North Macedonia (UNECE, 2021[121]).

Linkages between SMEs and MNEs are at the centre of Serbia's efforts to integrate into GVCs

Since the last assessment cycle, the government has placed stronger emphasis on SME integration into GVCs, particularly in terms of promoting linkages between SMEs and MNEs. The government strives to create a conducive business environment by enhancing SME performance and competitiveness, targeting sectors[92] with higher technology complexity and value added. As Serbia's economic complexity is already the highest in the Western Balkan region, this is a well-targeted measure to further diversify the economy's export base (OECD, 2019[125]). Furthermore, it is in line with the newly adopted Industrial Policy Strategy (2021-2030), which envisions domestic SMEs becoming suppliers for larger enterprises and MNEs in order to integrate and move higher up the GVCs.

RAS implemented the Supplier Development Programme, which aims to boost SME participation and inclusion in GVCs through collaborating with MNEs. The programme covers mapping the needs of MNEs and matching them to the potential SME suppliers. In order for SMEs to match the high-quality requirements of MNEs, the programme envisions subsidising equipment procurement, upgrading production facilities and additional advisory support, ranging from assistance in production optimisation, management and certification. Despite the programme being a good first step, it seems to lack capacity building and training activities for SMEs. Technical assistance in matchmaking, networking and reaching MNEs is crucial for SMEs to connect to foreign investors (OECD, 2022[126]). While the programme does offer a degree of advisory services, it focuses more on the procurement of machinery and investing in tangible assets. Focusing on investing more in intangible assets could extend the government's support to equip SMEs with longer-term solutions. The programme was launched in 2019 and concluded with 19 contracts signed between SMEs and MNEs. In 2020, it was severely affected by the COVID-19 pandemic in terms of implementation and participation. In 2020, 13 SMEs signed contracts with larger enterprises, while in 2021, this number decreased to 9. The government set a clear target for the number of SMEs becoming suppliers of MNEs: the target value was set at 9 and 12 for 2022 and 2023, respectively. Therefore, Serbia is well on track to achieve the strategy's goals (Government of Serbia, 2021[127]).

The government has already taken steps to protect both SMEs' and MNEs' intangible assets and know-how. The Intellectual Property Office has implemented an action plan related to the intellectual property (IP) aspect of GVC integration. The government organised workshops and seminars on the importance and manner of protection of IP and services of Intellectual Property Diagnostics for SMEs and informed SMEs on the manner of protection, procedure and documents for protection at the national and international levels. Emphasising the transfer of intangible assets between larger firms and SMEs facilitates vertical integration (Atalay, Hortaçsu and Syverson, 2014[128]), thus allowing Serbian SMEs to benefit from technology transfers, R&D capital and know-how. Serbia should ensure that SMEs have sufficient capacity to absorb the innovation and know-how resulting from potential spillovers. This capacity results not only from a firm's prior endowments but also from its productivity and access to finance and skill-development activities; thus, government support is a vital element in facilitating knowledge transfers between MNEs and SMEs (OECD, 2022[126]).

Absorption capacity in Serbia can be further developed by leveraging the SEZs within the economy

Serbian SEZs already provide good institutional and physical infrastructure to enable smooth and productive knowledge transfers between MNEs and SMEs. Some of the SEZs have instituted R&D centres

within the zones and established collaborations with local universities to promote capacity building and linkages between companies and academia. As one of the leaders in SEZs in the Western Balkan region, Serbia has a unique opportunity to create vertical linkages between foreign investors and domestic suppliers. Its network of SEZs contributes to the presence of interconnected SMEs and the increase in specialisation, which in turn can result in intensified knowledge spillovers. However, many foreign companies tend to take advantage of their already established foreign supplier network, frequently bringing it to the SEZs. In order to create productive linkages between MNEs and local SMEs, Serbia needs to place more emphasis on improving supplier quality and reliability (OECD, 2017[129]). This can take the form of supporting certification and standardisation, capacity building, or upgrading production facilities, with the goal of stimulating competition between potential domestic suppliers to meet the requirements of MNEs.

Although e-commerce enjoyed a boost among consumers during the COVID-19 pandemic, it did not spill over to SMEs

In 2020, 36.1% of Serbians used e-commerce.[93] In 2021, that percentage increased to 42.3% (Statistical Office of Serbia, 2021[130]), signifying a boost in online consumption. However, this trend did not lead SMEs to increase their online engagement, particularly in the area of cross-border e-commerce. Only 23% of SMEs quoted e-commerce as a viable tool to mitigate the effects of the pandemic (UNECE, 2020[122]). Moreover, the majority of SME engagement through e-commerce aimed to increase domestic sales rather than cross-border trade.[94]

Despite a fairly well-developed legislative framework, SMEs seem reluctant to engage in cross-border e-commerce sales. In 2019, the Ministry of Trade, Tourism and Telecommunications adopted a new Law on Trade and Amendments to the Law on E-commerce. The new law is a comprehensive document, including previously unregulated aspects of e-commerce, such as definitions of an online store, expressing the price in foreign currency, regulating drop shipping and mystery shopper practices. Therefore, it is not the lack of regulation that creates a barrier to e-commerce. Scarce support in meeting international requirements, equipment procurement and e-commerce-specific advisory support were quoted as the main obstacles (UNECE, 2020[122]).

The government has taken measures to address the obstacles Serbian SMEs face in optimising e-commerce. Since the last assessment cycle, Serbia has launched a Programme for E-commerce Development for 2019-2020 and adopted an action plan for its implementation. The project is carried out in collaboration with USAID Co-operation for Growth Project. The programme's target groups are SME e-commerce traders, female populations in the field of e-commerce, companies providing postal services, consumers and inspection bodies. The goal of the programme is to remove technical barriers to e-commerce by building trust, strengthening the position of e-traders in the e-commerce market and developing logistics processes in e-commerce. While the programme addresses the obstacles quoted by SMEs, it lacks advisory support and capacity-building activities. The government plans to assess the impact of the programme by the end of 2022.

The way forward for Dimension 10

- **Intensify capacity building and advisory support for SMEs that aim to export and integrate into GVCs.** As lack of capacity is the main deterrent quoted by Serbian SMEs in their efforts to export and become suppliers for MNEs within the SEZs, the government could intensify its provision of training and capacity building within and beyond the SEZs, especially in the area of foreign expansion, market access, certification and standardisation, as well as incorporating innovative and digital practices. Such services should be tailored according to the results of regular and systematic training needs analysis and demand among SMEs. Expanding the range of the Supplier Development Programme to include broader and more targeted advisory and counselling support for SMEs would complement the programme's procurement of tangible assets and provide

SMEs with comprehensive, across-the-board support for more successful integration into GVCs (Box 18.15).

Box 18.15. Portugal's Clube de Fornecedores (Suppliers Club)

Portugal's Suppliers Club aims to integrate local SMEs into GVCs by leveraging MNEs located in the country. Through private and public entities, it targets both SMEs and start-ups and delivers a package of support services to help them collaborate with foreign companies. The project acts as a business-to-business (B2B) matchmaking service to identify the potential of the most productive partnerships.

MNEs that link with local SME suppliers provide them with advisory and consulting support to enhance the transfer of know-how, technology and information. SMEs are also entitled to financial support through the Portugal 2020 initiative. The goal is to upgrade SMEs' technological capabilities and meet the needs of investing MNEs. The programme has been successful in Portugal, with many MNEs boosting their engagement with domestic SMEs. Volkswagen, Bosch and Peugeot have all created their suppliers clubs in Portugal, contributing to a more resilient and flexible local economy.

While Serbia has implemented numerous initiatives to assist SMEs in integrating into GVCs, capacity building and advisory support are still lacking. While the Supplier Development Programme offers a degree of counselling, it focuses more on tangible assets procurement. For Serbian SMEs to take full advantage of the spillovers from FDI and collaborate with MNEs, they need to improve their absorption capacity. The Suppliers Club in Portugal focuses on both financial and non-financial support while emphasising the ability of domestic SMEs to upgrade their technological skills and capabilities. Serbia could leverage its well-developed network of SEZs and create supplier hubs with a clear focus on improving SMEs' ability to absorb technology and knowledge transfers.

Sources: OECD (2022[126]) and European Commission (2019[131]).

- Build trust among SMEs in e-commerce activities and offer capacity building for digitising their sales channels. E-commerce enjoys a relatively well-developed legislative framework in Serbia. However, the uptake of e-commerce practices among SMEs remains suboptimal, despite its popularity among consumers. While Serbia has already reinforced its legal framework, it could also further strengthen data protection and e-payment systems. Further developing SMEs' digital skills and promoting digital literacy can also prove crucial to increasing the adoption of e-commerce practices among SMEs.

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Notes

1. Annual percent change in unemployment rate for 2019 is 0.1% higher than the EU average as the data for 2010-20 has been updated to reflect the new methodology concerning the Labour Force Survey (LFS) in line with the EU Regulation adopted in 2021. Previous data for unemployment rate before revised methodology was implemented was 10.4% to 9.0%. The data presented in this section has therefore been amended and is now considered comparable to the 2021 data gathered from the LFS.
2. The Education Strategy Action Plan (2021-2023) commitment is to expand the number of school co-operatives from 150 currently to 500 by 2023. This relates to the programme of school co-operatives working at the system level.
3. This Education Strategy action on higher education seems to link to the policy measures introduced in Objective 3 of the Smart Specialisation Strategy (2020-2027) to introduce education focused on innovation and entrepreneurship.
4. Training on entrepreneurship education is included in the national catalogue of training provided by the Institute for the Advancement of Education. See https://zuov.gov.rs/lista-programa-od-javnog-interesa-koje-resenjem-odobrava-ministar/.

5. For more information on wider actions supporting entrepreneurship education taken by the Association of Business Women of Serbia, see http://poslovnezene.org.rs/category/aktuelni-projekti/page/2/.

6. There is a recent bylaw that provides guidance on school-level evaluations; see www.pravno-informacioni-sistem.rs/SlGlasnikPortal/eli/rep/sgrs/ministarstva/pravilnik/2019/10/2/reg. However, there is no available information on the specific areas of educational content or pedagogy that will be evaluated through this process and how this is presented at the system level.

7. See Activity 3.2.1 on p. 72 of the Smart Specialisation Strategy Action Plan (2021-2022) (Government of Serbia, 2020[38]).

8. These include the Law on the Foundations of the Education System, the Law on Pre-School and Primary Education, the Law on Secondary Education and the National Youth Strategy (2015-2025).

9. This refers to the broader-based understanding of the entrepreneurship key competence in the 2018 update of the European Key Competence Framework (European Commission, 2019[131]), where the entrepreneurship key competence was aligned to EntreComp. For practical information on EntreComp, see McCallum et al. (2018[46]).

10. For more information, see https://www.ja-serbia.org/preduzetnicko-obrazovanje/programi-za-osnovne-skole/.

11. For an example of an action supporting the digital economy, see http://poslovnezene.org.rs/2020/05/jacanje-kapaciteta-preduzetnica-za-digitalizaciju-poslovnih-procesa-i-pruzanje-savetodavne-i-tehnicke-podrske-za-lansiranje-na-trziste-brendiranih-tradicionalnih-prehrambenih-proizvoda-iz-jugozapadn/.

12. The Government Work Programme 2020-2022 includes actions related to start-up support for women (2.2.1) and actions (2.4.6) to increase the participation of women in innovative entrepreneurship, with a target of 20 projects per year in 2021 and 2022. See https://rsjp.gov.rs/en/news/action-plan-for-the-implementation-of-the-governments-program-for-the-period-2020-2022-adopted/.

13. For information on the establishment of the Co-ordination Body for Gender Equality, see https://www.rodnaravnopravnost.gov.rs/sr/o-nama/institucionalni-okvir.

14. The Association of Businesswomen has run the Success Flower competition for women's entrepreneurship over the past 15 years; see http://poslovnezene.org.rs/2021/08/do-15-avgusta-2021-produzen-xv-jubilarni-konkurs-cvet-uspeha-za-zenu-zmaja/.

15. According to "Women entrepreneurship in the time of the COVID-19 pandemic", researchers interviewed a sample of 93 women entrepreneurs, which showed that 76% of women-owned companies have been negatively impacted by the pandemic and women spent additional time on domestic responsibilities and family care instead of time they would otherwise have spent working in their businesses. See https://www.library.ien.bg.ac.rs/index.php/jwee/article/view/1309. This was backed up by a UN Women study that found that two in five women had to reduce their business workload in response to the pandemic; see https://www.secons.net/publications.php?p=118.

16. For more information, see www.parlament.gov.rs/upload/archive/files/cir/pdf/zakoni/2021/1800-21.pdf.

17. For information on recent public discourse where national family organisations demanded amendments to the Law on Financial Support to Families with Children (2018), where levels of support differentiated between self-employed and employed women, see

https://www.rts.rs/page/stories/sr/story/125/drustvo/4636356/preduzetnice-porodiljsko-mame-su-zakon.html.

18. For more information, see https://gender-data-hub-2-undesa.hub.arcgis.com/.

19. The new support measures for SMEs (business advisory and mentoring services to improve SME financial management) are based on projects funded by international development co-operation partners (e.g. the European Union, the Japan International Cooperation Agency and the United States Agency for International Development).

20. The DanubeChance2.0 EU Interreg project in particular aims to facilitate improved policy learning between policy makers and government agencies; research institutes and universities; financially distressed enterprises currently involved in insolvency procedures, or entrepreneurs who have already gone bankrupt but are ready for a fresh restart; business accelerators; and the public. The project promotes preventive restructuring measures, awareness of second-chance opportunities and enables a support ecosystem for honest restarters. It was implemented from July 2018 to June 2021.

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

22. The number of SMEs in Serbia grew by 20% between 2015 and 2019, representing 324 600 and 391 681 companies, respectively. Serbia's rank in the World Economic Forum's Global Competitiveness Index rose from 94th to 72nd place over the same period. Additionally, the estimated real annual growth rate of SME turnover increased from -2.9% in 2008-13 to 5.7% in 2015-19.

23. Activities fully implemented and activities partially implemented or ongoing at the time of reporting.

24. The SME Test is a policy tool promoted by the European Commission as a means to fully examine and respond to the potential impacts of a regulation on SMEs. Examination of SME aspects in RIA is the starting point of the SME Test methodology, and acts as a filter for policies which could have an important impact on SMEs. If the regulation is considered to have a high enough impact on SMEs, the process moves towards extensive consultation with stakeholders, assessment of impacts and preparation of mitigation measures. For more information, see https://ec.europa.eu/info/sites/default/files/br_toolbox-nov_2021_en_0.pdf.

25. While the share of RIA for which the PPS provided a positive opinion did somewhat increase from 2019 to 2020, the overall number of RIA conducted was lower, so this improvement cannot yet be considered a trend.

26. Namely, performance indicators to measure progress were lacking.

27. Despite the lack of performance indicators in the initial design of the strategy, the ex post analysis chose to focus on the evolution of Serbia's position in several international rankings to measure the impact of the strategy's implementation. Namely, in the United Nations' e-Participation Index, which measures stakeholder satisfaction and engagement through digital means, Serbia's position improved from 81st in 2014 to 38th in 2018. Moreover, Serbia's Online Service Index ranking increased from 0.39 to 0.73 over the same period, translating into a significant improvement in the coverage and quality of digital services.

28. The level of sophistication of online services used by the Office for IT and e-Government in Serbia is aligned with the European Commission's classification and can be divided into five levels: 1) Information: The web pages provide the user with informative material for the transaction of a

demand; 2) One-way interaction: The web pages provide the applications in electronic form and the user can download, fill in and deposit them to the public sector; 3) Two-way interaction: Apart from the informative material, the user can fill in an electronic form and electronically submit their data; 4) Transaction: At this stage, the electronic gate provides the user with the possibility of fulfilling demands, of completing transactions; 5) Personalisation: The supplier of services can perform actions with the fundamental objective to make the electronic platform more user-friendly. In addition, the service supplier can upgrade the services or provide the services automatically without the need for the citizen to do anything (European Commission, 2006[132]).

29. Based on the combined share of "completely satisfied" and "tend to be satisfied" responses to the Balkan Business Barometer survey's question: Could you please tell me how satisfied are you with each of the following in your place of living – Digital services currently provided to business by public administration?

30. See https://monitoring.mduls.gov.rs.

31. The Council for Public Administration Reform is composed of line ministers and directors of state institutions, while the Coordination Council for E-Government was composed of representatives of line ministries and more technical-level staff, under the chairmanship of the prime minister.

32. The once-only principle aims to ensure that users of digital services only need to provide certain information to the government once, which is then shared among administrations through the government's interoperable data exchange network.

33. For more information, see https://eid.gov.rs/en-US/qualified-electronic-certificate-in-the-cloud.

34. If the SBRA fails to answer a request within the prescribed five-day time frame as detailed in the relevant legislation, consent to the request is automatically conferred (Provisions of Article 19 of the Law on the Procedure of Registration with the Serbian Business Registers Agency, *Official Gazette of the Republic of Serbia*, Nos. 99/2011 and 83/2014).

35. As envisaged by the provision of Article 11, Paragraph 3 of the Company Law (*Official Gazette of the Republic of Serbia*, Nos. 36/11, 99/11, 83/14-other law, 5/15, 44/18, 95/18 and 91/19), "Signature notarisation on a Memorandum of Association, in the case of a digitised document, may be replaced by a qualified digital signature, or a qualified electronic stamp of a person authorised to authenticate signatures, manuscripts and transcripts under the law governing the certification of signatures, manuscripts and transcripts."

36. The register containing information on all available licences can be found at https://preduzetnistvo.gov.rs/elektronska-evidencija-poslovnih-licenci-2.

37. The Public Administration Reform Council replaced the Coordination Council for E-Government in 2021. It gathered on four occasions in 2019 but did not convene in 2020 (OECD, 2021[60]).

38. In 2020, the Standardised Services Set allocated RSD 38 028 351 (approximately EUR 324 000) for SME support. In 2021, the budget amounted to RSD 48 899 606 (approximately EUR 408 000) (Ministry of Economy, 2022[75]).

39. The Entrepreneurship Development programme provides youth and start-ups consisting of grants and loans of up to RSD 150 000 000 (approximately EUR 1 277 000) and RSD 350 000 000 (approximately EUR 2 980 000), respectively. A total of 251 applications were approved in 2020.

40. These include the Association of Business Women "Nadezda Petrovic" Cacak; the Association of Business Women "Ilinka Ilic" Kraljevo; the Association of Business Women "EVE" Valjevo; the Association of Business Women "Vizija" Kragujevac; the Association of Business Women Nis; and the Association of Business Women "Danica" Leskova.

41. Data has been taken from the assessment questionnaire filled out by relevant contributors.

42. For more information, see https://www.ebrd.com/news/2021/ebrd-and-eu-support-sme-competitiveness-in-serbia-.html.

43. The project has a budget of EUR 2.2 million and is due to be finalised in December 2022.

44. For more information, see https://preduzetnistvo.gov.rs/.

45. Information provided by the Public Procurement Office. In 2020, two different PPLs were applicable – the new PPL started to be applied as of July 2020; the Public Procurement Portal enabling the collection of more information on economic operators also became operational in July 2020.

46. PPL, Article 113.

47. PPL, Article 119 (2).

48. PPL, Article 130.

49. PPL, Article 131.

50. PPL, Article 135.

51. PPL, Article 5 (4).

52. PPL, Article 37.

53. PPL, Article 102.

54. PPL, Article 111.

55. PPL, Article 132.

56. PPL, Article 143.

57. PPL, Article 75.

58. In accordance with the PPL, a flat rate of RSD 120 000 (ca. EUR 1 000) is applied if the estimated value of procurement is below the threshold RSD 120 million (ca. EUR 1.02 million), above the threshold of RSD 120 million, the fee amounts to 0.1% of the estimated procurement value but cannot be higher than RSD 1.2 million (EUR 10 200).

59. See https://tvojnovac.nbs.rs/cirilica.

60. For more information, see European Commission (2021[76]).

61. The Smart Specialisation Strategy (2020-2027) has been launched and implementation is ongoing. S3 priorities have been identified as: 1) food for future; 2) information and communication technologies (ICTs); 3) creative industries; and 4) future machines and manufacturing systems. The Ministry of Education, Science and Technological Development is leading the S3 process. For more information, see https://pametnaspecijalizacija.mpn.gov.rs/.

62. For information on the start-up training programme provided by the Employment Agency, see www.nsz.gov.rs/live/trazite-posao/edukacija/obuka_za_zapo_injanje_sopstvenog_posla.cid257 (accessed on 20 February 2022).

63. For more information on the programme of standard services for MSMEs and entrepreneurs, see http://ras.gov.rs/razvoj-preduzetnishtva/projekti-1/program-standardizovanog-seta-usluga-za-mikromala-i-srednja-preduzea-i-preduzetnike (accessed on 20 February 2022).

64. The one-off subsidy amounting to RSD 250 000 (approximately EUR 2 000 per beneficiary, with RSD 270 000 [approximately EUR 2 300] for those with disabilities) is payable on establishment of a sole proprietorship, co-operative or other form of enterprise as long as the founder is employed

in it. Implementation is monitored for 12 months and in 2021, the planned number of beneficiaries was 3 500, of which there was a target to reach 100 persons with disabilities.

65. For more information, see https://fondzarazvoj.gov.rs/lat/proizvodi/podrska-investicijama-u-privredi (accessed on 20 February 2022).

66. For more information on DigComp, the European reference framework for the digital key competence, see https://joint-research-centre.ec.europa.eu/digcomp/digital-competence-framework-20_en.

67. For information on digital immunity, digital competitiveness and AI readiness tests, see https://cdt.org.rs/programi (accessed on 20 February 2022).

68. For more information, see https://preduzetnistvo.gov.rs/programi/podrska-digitalnoj-transformaciji-mmsp/ (accessed on 20 February 2022).

69. In the Strategy for Digital Skills Development (2020-2024), Commitment 3.2.4 calls for the establishment of special measures for investment in SME employees' digital skills. This would be realised through the introduction of education programmes for SME employees in the field of digital skills through the allocation of ICT vouchers, training at the request of employers, etc.

70. See https://preduzetnistvo.gov.rs/.

71. For more insight into how governments fund and organise SME training and consultancy, see ILO (2017[135]).

72. See Section 3 of the Strategy for Digital Skills Development (2020-2024).

73. The annual European Innovation Scoreboard provides a comparative assessment of research and innovation performance of the member states of the European Union and regional neighbours. It allows policy makers to assess relative strengths and weaknesses of national research and innovation systems, track progress, and identify priority areas to boost innovation performance. See the regional chapter on Innovation for SMEs (Dimension 8b) for further information.

74. In March 2021, Serbia adopted the Law on Climate Change it had prepared in 2018. By adopting the law, Serbia confirmed its unequivocal commitment to further economic growth based on the reduction of GHG emissions, which will achieve its greater competitiveness in the long run (OECD, 2021[3]).

75. The programme was conceived as a new document but represents a logical continuation of the Strategy for the Introduction of Cleaner Production (adopted in 2009), whose last action plan expired in 2015. Adoption of the programme has been pending since 2019.

76. Support measures for the SME greening part of the SME Development Strategy (2015-2020) included the organisation of awareness-raising workshops on eco-innovation and the green economy, and the provision of expert support to those companies preparing eco-innovation project proposals for Horizon 2020.

77. Entrepreneurship promotion programme through development projects and a support programme for SMEs for the purchase of equipment.

78. SMEs can use the funds to upgrade technology, processes or services, particularly those related to product quality, health and safety and EU environmental requirements. SMEs can also obtain technical assistance, including EBRD advisory support, and once they have successfully completed their investment, will be eligible for a cashback grant of 15% of the total loan amount, both of which will be funded by the European Union.

79. The *Rulebook on Closer Conditions, Criteria and Procedure for Obtaining the Right to Use Eco-Label, Elements, Appearance and Manner of Using the Eco-Label for Products and Services* is

currently in force (Official Gazette of RS, No. 49/2016). The rulebook was prepared in accordance with the requirements of the EU Regulation (EC) no. 66/2010 of the European Parliament and of the Council of 25 November 2009 on the EU Ecolabel.

80. The European Commission has launched the first tranche of its Fit for 55% measures that will support Europe's climate policy framework and put the European Union on track for a 55% reduction in carbon emissions by 2030, and net-zero emissions by 2050. The interconnected proposals cover areas of climate, land use, energy, transport and taxation to bring them into line with the targets agreed in the European Climate Law. For instance, proposed targets by 2030 include a 55% reduction of emissions from cars, a 50% reduction of emissions from vans, a 3% renovation of the total floor area of all public buildings annually and a benchmark of 49% of renewables in buildings. More information can be found at https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal/delivering-european-green-deal_en.

81. One of the schemes amounts to EUR 2.5 billion made available for liquid SMEs, while the other (EUR 500 million) aims to support SMEs experiencing a more than 20% drop in revenue between 2019 and 2020, or those that are at risk of default.

82. Target values for the number of companies to undergo training in export promotion and shift to higher value-added production: 2021–25 companies; 2022–30 companies; 2023–50 companies.

Target values of exports of the processing industry in EUR millions: 2021–16 500; 2022–17 600; 2023–19 000.

Target values for the number of new Serbian companies to become a supplier for MNEs: 2021-6 companies; 2022–9 companies; 2023–12 companies.

83. The targets of improving the quality of local suppliers and boosting competitiveness are measured by Serbia's position in the Global Competitiveness Index of the World Economic Forum (World Economic Forum, 2019[133]).

84. The fifth pillar of the SME Development Strategy (2015-2020) entails improving access to new markets.

85. Regional green corridors were launched to facilitate the supply of goods between the European Union, CEFTA and Western Balkan economies during the COVID-19 pandemic.

86. RAS offers up to 40% of co-financing of related costs. The total budget of the programme is RSD 40 million (approximately EUR 340 000).

87. The budget allocated to the initiative amounts to RSD 150 000 000 (approximately EUR 1 276 000). The project is ongoing, as the public call for applications closed in February 2021.

88. Centralised customs clearance indicates a customs declaration of goods can be submitted at a local customs office for goods that are presented at another customs office within the European Union.

89. The government prepared Draft Laws on Technical Requirements for Products and Conformity Assessment, Law on Amendments to the Law on Accreditation, Law on Metrology and Law on Precious Metal Objects, which all aim to increase conformity with EU standards and help SMEs integrate into GVCs.

90. The conformity assessment bodies are within the purview of the ATS.

91. To date, the ATS accredited 732 conformity assessment bodies.

92. The sectors targeted were the automotive industry, machinery, wood processing, furniture production, metal processing, the rubber and plastics sector, home appliances manufacturing and the electronic systems sector.

93. Individuals who have used e-commerce in the last three months.

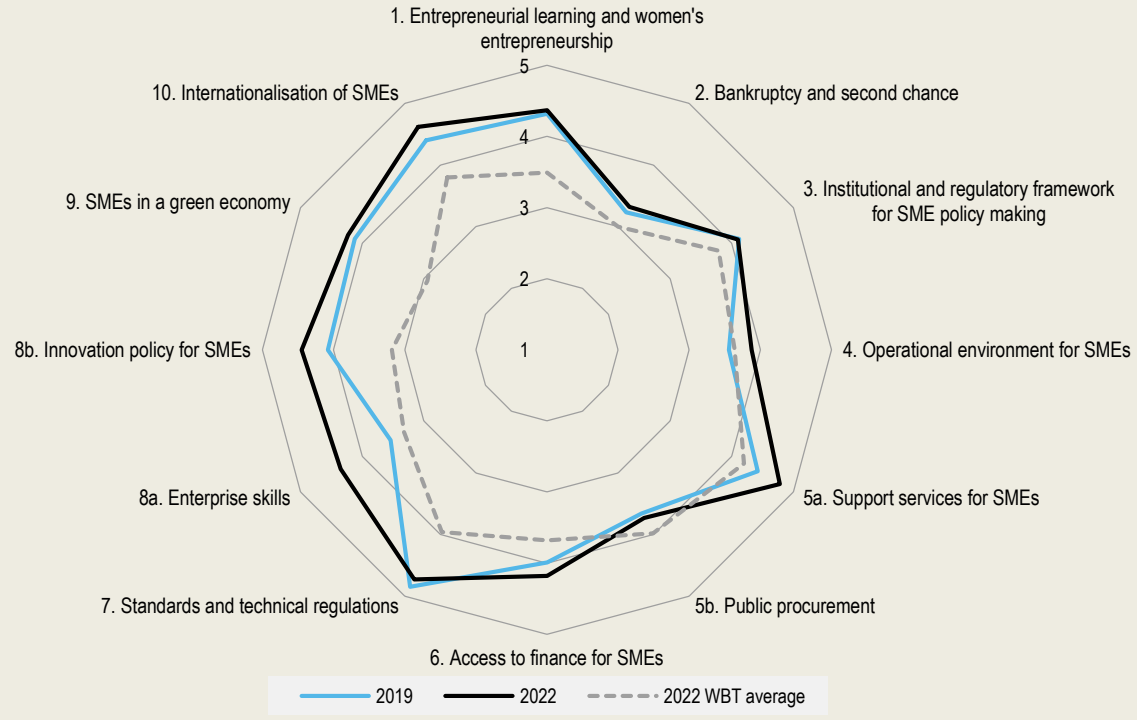
94. Some 32% of SMEs used it to expand sales to domestic markets, while 26% used it to start domestic sales through the e-commerce channel.

19 Turkey: Economy Profile

This chapter covers the progress made by Turkey in implementing the Small Business Act (SBA) for Europe over the period 2019-21. It starts with an overview of Turkey's economic context, business environment and status of its EU accession process. It then provides key facts about small and medium-sized enterprises (SMEs) in the Turkish economy, shedding light on the characteristics of the SME sector. It finally assesses progress made in the 12 thematic policy dimensions relating to the SBA during the reference period and suggests targeted policy recommendations.

Key findings

Figure 19.1. Small Business Act scores for Turkey (2019 and 2022)



Note: WBT: Western Balkans and Turkey.

Turkey has made progress in implementing the Small Business Act (SBA) since the publication of the previous report – the *SME Policy Index: Western Balkans and Turkey 2019* (Figure 19.1), and continues to reinforce an environment conducive to business and receptive to the needs of small and medium-sized enterprises (SMEs). Turkey ranks among the top three economies in almost all dimensions. The economy has achieved its highest average scores in the following areas: entrepreneurial learning and women's entrepreneurship; support services for SMEs; standards and technical regulations; enterprise skills; innovation policy; and internationalisation of SMEs, where it also outperforms the WBT average.

Main achievements

- **The development of digital government services for businesses continued at a strong pace.** The number of services available through Turkey's online portal for digital government services has increased significantly since the previous assessment. Inter-institutional co-ordination for the delivery of digital government reforms was strengthened, thanks to a more prominent role of the Digital Transformation Office of the Presidency. Significant developments have also been achieved in simplifying retail licensing, thanks to a single online entry point for applications, including business licensing. Additional reforms are underway to further streamline and digitalise licensing processes, in particular those related to investments.
- **Public business support services (BSSs) are thoroughly monitored and evaluated from the angle of effectiveness and impact.** Since the last assessment cycle, Turkey's Small and Medium Enterprises Development Organisation (KOSGEB) has formalised the monitoring and

evaluation system in place to assess the impact of all SME support programmes. The goal of establishing a formal structure for monitoring and evaluation was to identify inefficiencies in publicly provided BSSs and eliminate them accordingly. The results of undertaken assessments are envisioned to be included in future policy and BSSs design.

- **The entrepreneurial ecosystem at the national and regional levels has been further strengthened.** Both government and stakeholder financed actions have opened up diverse and accessible training opportunities targeting different themes, such as greening and digitalisation, types of entrepreneurs, including social entrepreneurs, and the different phases of SME development. Since the onset of the COVID-19 pandemic, training has been increasingly delivered on line.
- **The policy framework for SME innovation continues to be well developed**, with support programmes for innovation and research activities being strong and well targeted. Large-scale support programmes, implemented through KOSGEB and the Scientific and Technological Research Council of Turkey (TUBITAK), have boosted investments in research and development (R&D), particularly from the private sector. Support measures focus both on developing the innovation ecosystem, which is already a very lively one, as well as on building the innovation capacity of enterprises. Steps have also been taken to launch additional support aimed at stimulating collaboration between business and academia, thereby encouraging commercialisation.
- **Turkey remains the regional leader in supporting SMEs' greening transition**. Turkey's framework for environmental policies is solid and increasingly targets SMEs. Implementation of policies has been conducted at a good pace, particularly energy efficiency measures. Turkey has also consolidated inter-institutional co-ordination of green policies targeting SMEs through recently established working groups. Business associations have their own green policies and are leading the provision of advice and guidance to SMEs in this regard. Several financial incentives are available to SMEs through KOSGEB and line ministries. Other instruments, such as information-based tools, performance standards, and environmental management systems, have equally been introduced to incentivise SMEs to engage in greener practices.

The way forward

- **Develop insolvency prevention policy measures, including a fully-fledged early warning system,** as the current insolvency framework does not provide preventive measures besides the preventive concordat restructuring. The economy could implement other out-of-court settlements or implement a hybrid preventive insolvency procedure based on a pre-packaged reorganisation. The introduction of a fully-fledged early warning system could be undertaken by building on Turkey's already well-developed mentoring and advisory services to extend the programme offers to SMEs at risk of financial distress.
- **Step up efforts to improve its regulatory environment for SMEs**, mainly by ensuring the consistent use of regulatory impact assessment and public-private consultations. A framework for ensuring the consistency and quality control of both of these policy-making tools is lacking, and they are both used on an ad hoc basis. This limits the degree to which policy impacts on SMEs can be assessed and mitigated and the degree to which SMEs can be involved as stakeholders in policy making in a transparent and inclusive way.
- **Modify the national legislation on public procurement in accordance with EU principles and international good standards and 2014 EU Public Procurement Directives**, in particular by ensuring that economic operators have access to public procurement on equal footing regardless of their origin. Solutions and instruments beneficial for SMEs, such as the

wider possibility of using self – declarations and so-called self – cleaning as well as provisions concerning sustainable procurement, should be introduced.

- **Revitalise efforts to develop a more strategic approach to financial literacy**. A review of the previous action plan, as well as a comprehensive assessment of financial awareness and understanding of the broader population, and entrepreneurs, in particular, would help to identify existing shortcomings and reach agreement on priorities. A future action plan should be closely co-ordinated and implemented with all stakeholders, including the Capital Market Board (CMB), the Ministry of Education, KOSGEB and private-sector providers.
- **Develop a government-supported business-to-business matchmaking portal (B2B) to facilitate SME linkages with multinational enterprises (MNEs) and enable them to better integrate into global value chains (GVCs).** While SMEs in Turkey have wide access to information about integration into GVCs and have an array of support programmes at their disposal, they do not benefit from exposure on international markets, which would be granted by a government-run B2B marketplace. While there are private platforms available, there are no publicly funded websites, which would allow SMEs to be matched with International buyers, investors or MNEs. Facilitating SME-MNE linkages by providing a direct, government-supported channel to improve SME visibility and streamline negotiations could greatly contribute to SMEs' integration into supplier networks of Turkey-based MNEs.

Economic context and role of SMEs

Economic overview

Turkey is a service-based, upper-middle-income economy with a population of 84.7 million as of 2021, making it the largest in the Western Balkans and Turkey (WBT) region (TURKSTAT, 2022[1]). Although the economy's nominal gross domestic product (GDP) has been relegated to two ranks since the last assessment, it remains the 19th largest economy and is the 55th largest economy for GDP per capita (World Bank, 2022[2]). Its per capita GDP by purchasing power parity in stood at USD 28 393 in 2020 (in constant 2017 international dollars), increased by roughly USD 200 since 2019. Despite the constraining effects of the pandemic, economic activity remained strong due in part to resilient external demand (World Bank, 2022[3]). As a result, Turkey was among the few economies globally to experience positive economic growth during the COVID-19 crisis and the only WBT economy to record an increase at 1.8% of GDP (Box 19.1). Turkey recorded the highest rebound in real GDP growth in the region after Serbia, with an 11% increase in 2021 (Box 19.1) and is projected to grow another 2.7% in 2022 (European Commission, 2022[4]; IMF, 2022[5]).

As is the case with all economies of the WBT region, Turkey is dominated by the services sector, accounting for 54.2% of the economy's GDP, down by roughly 2% from the previous year, and 56.6% of total employment. As of 2020, the construction sector represents 5.2% of the GDP as a result of the Turkish government's special priorities of large infrastructure projects, particularly in the transport sector, through the Build-Operate-Transfer[1] project financing model. Meanwhile, finance and insurance activities recorded the highest growth in 2020 with 23.4%, followed by culture, arts, entertainment, recreation and sports with 16.7% and information and communication with 14.4%. In contrast, as a result of the pandemic, accommodation and food service activities decreased by 35.3% in 2020 (TUIK, 2022[6]). Comparatively, industry makes up 27.8% of GDP and 25.3% of employment, whereby the manufacturing sector accounts for 19.1% of GDP alone, followed by wholesale and retail trade with 12.4% and the repair of motor vehicles and motorcycles and the transportation and storage sector with a combined 7.9%. Agriculture accounts for approximately 6.6% of value added and 18.1% of employment, one of the highest averages in the region.

Although Turkey is the world's 10th largest agricultural producer as of 2019, the sector still experiences low productivity due to heavy reliance on small farms.

Box 19.1. Turkey's COVID-19 recovery programme

In terms of economic impact, Turkey, where distributive services and manufacturing contribute far more to GDP and employment than in the other WBT economies (a combined 63% of GDP compared to 33.5% EU average), was hit especially hard by severe disruptions to GVCs, leading to a 4.8% decrease in employment in 2020. Despite interruptions to the business environment, Turkey achieved a 1.8% GDP growth, the only economy of the WBT region to record a positive annual change in GDP that year, due in part to swiftly introducing fiscal and monetary support measures:

- **Subsidies:** The government began its short-term employment allowance programme by paying 60% of worker salaries of firms impacted by the pandemic.
- **Tax measures:** In March 2020, Turkey was quick to enact tax relief measures for businesses, including deferrals for taxpayers that were forced to temporarily suspend their activities due to COVID-19, postponement of social security payments, withholding tax reductions for tradespeople and restructured instalment plans for tax repayments. The economy also employed stark valued-added tax (VAT) cuts, as low as 1%, for hard-hit services sectors, particularly accommodation, transportation, catering, education and cultural activities.
- **Loans:** Loan moratoriums were put in place at the onset of the pandemic in March 2020, and the Central Bank introduced a programme to advance loans against investment commitments to reduce imports, increase exports and support sustainable economic growth. Working capital loans were introduced for businesses to preserve current employment levels with 36-month maturities, 6-month grace periods and a low-interest rate of 7.5%. The Banking Regulation and Supervision Agency extended the delay for classifying loans as non-performing from 90 to 180 days and increased the loan-to-value ratio on mortgage loans.
- **Credit lines**: The Credit Guarantee Fund (KGF) was quick to implement loan guarantees with low-interest rates of 4.5% and 36-month maturities for companies as well as individuals for the first time, increasing the total amount to TRY 500 billion (approximately 28.4 billion) in March 2020 and eventually doubling the limits of the KGF. The Ministry of Treasury and Finance also increased guarantee limits from TRY 12-35 million (approximately EUR 0.7-2 million) for SMEs and TRY 350 million (approximately EUR 20 million) for large enterprises.
- **Monetary policie**s: Turkey's Central Bank has been active in implementing monetary measures since the start of the pandemic, intervening to limit the depreciation of the Turkish lira and fall in securities prices, moratoriums on bankruptcy proceedings and the lowering of policy rates by 8.25%, restrictions on dividend payments.
- **SMEs and targeted groups:** The SME bank (Halkbank) subsidised credits to tradespeople and craftspeople in July 2020, while principal and interest payments were postponed for agricultural producers. The Turkish Bank Association also launched a new TRY 10 billion (approximately EUR 568 million) credit line in October 2020 for tourism firms to cover wages, rents and other fixed costs, along with delayed tax filing deadlines and increased work flexibility schemes. A separate blanket package was subsequently introduced targeting SMEs with a further TRY 10 billion (approximately EUR 568 million) as well as an additional lending facility for SMEs in the export sector. The government also provided additional financial support to vulnerable populations, providing 6.3 million families with TRY 1 000 (approximately EUR 57)

and raising minimum pensions to TRY 1 500 (approximately EUR 85) while expediting bonus payments.

Although numerous short-term economic support measures helped mitigate immediate economic damage, the central structural imbalance driven by excessive domestic consumption, widening account deficits and dependence on foreign savings remains a challenge.

Sources: IMF (2021[7]); OECD (2021[8]); Central Bank of the Republic of Turkey (2020[9]); Ministry of Trade (2021[10]).

Turkey is facing severe macroeconomic instability, making it particularly vulnerable to global market volatility and geopolitical risks (World Bank, 2021[11]). Spurred by an exchange rate crisis that began in 2018, inflation hit a record high of 61% in 2022 since 21.6% in 2003, with a 19.6% rise between 2020 and 2021 alone and 54.8% year-on-year in the first quarter of 2022 (TUIK, 2022[6]; European Commission, 2022[4]). Since September 2021, despite growing inflation, the central bank has cut the interest rates four times (500 basis points [bps] in total – gradually from 18% to 14%) which resulted in the depreciation of the Turkish lira – from 9.2 to the euro at the beginning of September to 19.4 at its highest on 16 December 2021. Despite the sizeable reduction in the central bank's key policy rate, commercial banks' interest rates on loans remained broadly stable in January 2022. The lira's increased volatility had a negative impact on the economic sentiment in the last months of 2021 as economic confidence took a step back from its 2021 high in September (102.4) to 97.6 in December, driven by a dive in consumer confidence as rising inflation has dented consumers' purchasing power (European Commission, 2022[4])

Turkey's current account balance showed a deficit of 5% in 2020, with some improvements observed in 2021 (-1.7%) (Table 19.1), reflecting a narrower merchandise trade deficit and higher net income from services due to the partial recovery in travel and tourism after the opening of borders following the first waves of the pandemic. The current account is likely to remain in deficit in 2022 since preliminary figures from the Ministry of Trade point to a widening merchandise trade deficit.

Table 19.1. Turkey: Main macroeconomic indicators (2018-22)

Indicator	Unit of measurement	2016	2017	2018	2019	2020	2021
GDP growth[1]	% year-on-year	3.3	7.5	3.0	0.9	1.8	11.0
National GDP[2]	EUR billion	769.6	760.2	688.9	673.4	637.1	..
GDP per capita growth[2]	% year-on-year	1.6	5.8	1.4	-0.4	0.7	..
Inflation[1]	% average	7.8	11.1	16.3	15.2	12.3	19.6
Government balance[1]	% of GDP	-1.7	-2.0	-2.8	-3.2	-2.9	..
Current account balance[1]	% of GDP	-3.1	-4.8	-2.8	-0.7	-5.0	-1.7
Exchange rate EUR/TRY[1]	Value	3.3	4.1	5.7	6.4	8.03	10.5
Exports of goods and services[1]	% of GDP	23.0	25.9	30.2	32.2	28.5	34.9
Imports of goods and services[1]	% of GDP	25.2	29.7	31.6	30.0	32.1	35.3
Net foreign direct investment (FDI)[1]	% of GDP	1.2	1.0	1.1	0.9	0.6	0.9
External debt stocks[2]	% of gross national income (GNI)	47.6	53.8	58.2	58.9	61.3	..
International reserves of the National Bank[1]	EUR billion	106.1	107.7	93.0	105.7	93.3	111.2
Gross international reserves[1]	Ratio of 12 months imports of goods and services moving average	5.8	5.1	4.5	5.6	4.9	4.7
Unemployment[1]	% of total active population	10.9	10.9	10.9	13.7	13.1	12.0

Sources: 1. European Commission (2022[4]); 2. World Bank (2022[12]).

The COVID-19 pandemic further exposed the deficiencies in Turkey's financial sector and monetary policies. While the government implemented strong interventionary support to mitigate the economic impact of the COVID-19 pandemic, which allowed it to avoid negative growth in GDP during 2020, its heavy reliance on credit measures further weakened the lira (European Commission, 2022[4]). The ongoing situation in Ukraine has also had a particularly heavy effect on the Turkish lira, having lost approximately 8% of its value against the US dollar within the first three weeks of the crisis while simultaneously weakening Turkey's risk premium. These spillovers, in combination with the stark interest rate cuts from September 2021, will likely have a negative impact on the economy's 2022 growth projections, which are now as low as 1.4% (European Commission, 2021[13]). The stark depreciation of the Turkish lira has also largely impacted the economy's government debt, which increased from 27.9% in 2017 to 39.7% at the end of 2020 and a further 2.3% to 42% in 2021 (European Commission, 2022[4]). Likewise, the volatility of the lira in the past months may constitute a barrier to attracting sufficient capital inflows to cover the deficit and the external debt.

The COVID-19 pandemic had a major negative impact on employment. Reduced economic activity and subsequent containment measures led to an important decline in Turkish labour force participation, which decreased by 4.3% from 2018 to 2020. Moreover, while the employment rate had been improving at a constant yearly rate of 3% between 2006 and 2018, it has reached its lowest level in 2020 since 2011 at 47.5% (OECD, 2021[14]) and remains substantially lower than the average in OECD economies, where it stands at 66% (OECD, 2022[15]). Unemployment also reached new heights in 2020, standing at 13.2% of the total active population compared to 9.9% in 2014. Youth unemployment remains a standing structural issue in Turkey and is once again marked by a strong gender gap. Unemployment in the 15-24 age group reached 22.8% in 2021, increasing by more than 40% from 2014 and is considerably higher for young women (28.7%) than for young men (19.6%) (OECD, 2021[16]). Moreover, sharp disparities in regional employment and unemployment rates remain to be addressed.

Turkey still faces significant skills challenges, and the inclusiveness of the labour market remains weak, despite some progress made in improving access to education (European Commission, 2021[13]). The economy has one of the highest qualification mismatches (43%) and ranked at the bottom 20% among OECD economies for skill activation in the labour market, intensive use of skills in the workplace and innovative stimulation of skills (OECD, 2019[17]). Moreover, the unemployment rate among people with higher education remains persistently high at 12.8% in 2020 (European Commission, 2021[13]). Promisingly, positive developments are planned as part of the Eleventh Development Plan (2019-2023) to further align the education system with the requirements of the labour market.

Business environment trends

Despite the difficult circumstances surrounding the COVID-19 pandemic, Turkey has made some progress in enhancing its business environment. The economy has adopted assistance and financing schemes to support companies through and beyond the pandemic by increasing the establishment of technology and industrial development zones and focusing on the technological transition of enterprises. Turkey is investing in 400 product groups in the fields of machinery, computers, electronics, optics, electrical hardware, pharmaceuticals, chemistry, and transport vehicles under a technology-focused Industry Support Programme. Turkey's Ministry of Industry and Technology has also developed a virtual one-stop-shop portal for information about sector-specific investment support to facilitate both domestic and foreign direct investment. In this regard, Turkey continues to be an open economy for investment, according to the OECD FDI Regulatory Restrictiveness Index. Its score has remained unchanged since 2017 at 0.059, marginally lower than the OECD average of 0.063, indicating that the economy has low trade barriers and maintains only a handful of restrictions, notably in the air, maritime, TV and radio broadcasting, and transport sectors (OECD, 2020[18]).

However, despite some progress, Turkey's business environment still has several key impediments and obstacles to business development, which are acknowledged in the economy's latest Economic Reform Programme (Box 19.2). Turkey's business environment is undermined by rigid regulations on product and labour markets and an intricate business support and taxation system (OECD, 2021[8]). This complex regulatory landscape remains a severe burden for businesses, making it especially difficult for firms to enter the market and move to the formal economy. Company registration and business licensing processes are not available and centralised on line, while the legislative environment is particularly difficult for companies to navigate. Legislative complications continue to be coupled with institutional challenges, particularly regarding the judicial systems, which remain slow and heavily backlogged, hampering the effective execution of legal actions and proceedings for companies. The backsliding of Turkey's judicial system is evidenced by consistent decreases in scores on Transparency International's Corruption Perception Index since 2013. As of 2021, Turkey holds a score of 38 (out of a possible 100), a 2-point decrease since 2020 and a 12-point decrease since 2013, ranking 96th place out of a total of 180 ranked economies (Transparency International, 2022[19]). Other institutional challenges that heavily affect a functioning business environment include weak regulations, particularly contract and intellectual property rights enforcement, as well as insolvency resolution. Delays in bankruptcy procedures and the implementation of the newly adopted concordat proceedings were emphasised due to the COVID-19 pandemic, under which a hold on pending and new proceedings was put in place. Furthermore, state influence on product markets remains high, with heavy interference in price setting and slowdown of privatisation of state-owned enterprises. Although intensive audits to investigate unfair pricing during the COVID-19 period resulted in positive outcomes, continued interference can be harmful to businesses that produce goods as it may affect their supply and demand patterns. Meanwhile, the large informal economy, estimated at 29% as of November 2021, continues to hamper the business environment despite the decline in informal jobs in sectors seriously affected by the COVID-19 pandemic, such as tourism and construction (TUIK, 2022[20]). The implementation of the Action Plan and Strategy for the Fight Against the Informal Economy (2019-2021) continued. However, results are difficult to assess as no concrete performance indicators were set and no data were published (European Commission, 2021[21]). According to the *OECD Economic Survey*, 60% of all informal workers are estimated to be working in micro and small businesses. While the agricultural sector consists of up to 80% of small informal businesses, only around 20% of employees are considered unregistered in manufacturing and other sectors (OECD, 2021[8]).

Box 19.2. Economic Reform Programmes

Since 2015, EU accession candidates have been obliged to produce annual Economic Reform Programmes (ERPs) that outline clear policy reform objectives and policies necessary for participation in the economic policy co-ordination procedures of the European Union. The ERPs aim to produce concrete reforms that foster medium and long-term economic growth, achieve macroeconomic and fiscal stability and boost economic competitiveness. Since their initial launch, ERP agendas have been required to include structural reform objectives in key fundamental areas:

- public finance management
- energy and transport markets
- sectoral developments
- business environment and reduction of the informal economy
- trade-related reform
- education and skills

- employment and labour markets
- social inclusion, poverty reduction and equal opportunities.

In addition to these essential fields, and as the objectives of EU policies continue to evolve to include cross-cutting sustainable sectors, the structural reform agendas of ERPs have embraced new commitments to progressive policy reforms since the last assessment that also cover:

- green transition
- digital transformation
- research, development and innovation
- economic integration reforms
- agriculture, industry and services
- healthcare systems.

Once submitted by the governments, ERPs are assessed by the European Commission and European Central Bank, opening the door for a multilateral policy dialogue with enlargement candidates to gauge their progress and priority areas on their path to accession. Discussions and assistance on policy reforms take place through a high-level meeting between member states, EU institutions and enlargement economies, through which participants adopt joint conclusions that include economy-specific guidance for policy reform agendas.

The findings of the *SME Policy Index 2022* provide an extensive technical understanding of the progress made on business sector-related policy reforms that are key to the ERPs of the EU accession candidates at both the regional and economy-specific levels. The SBA delves into the specific barriers to progress in ten policy areas essential to applying the larger objectives of the ERPs, like boosting competitiveness and economic growth to SMEs in the region.

Source: European Commission (2021[22]).

EU accession process

Turkey was one of the first economies, in 1959, to seek close co-operation with the European Economic Community. Turkey's formal involvement with the EU integration started with the signature of the Ankara Association Agreement on 12 September 1963 and the establishment of the Customs Union in 1995.

In 1999, Turkey was granted EU candidate status, and the accession negotiations were opened in 2005. Overall, 16[2] out of 35 accession negotiation chapters had been opened, with Science and Research the only one that is provisionally closed. However, following the decision of the General Affairs Council in June 2018, reiterated in June 2019, accession negotiations with Turkey were effectively frozen (European Commission, 2021[21]).

Chapter 20: Enterprise and industrial policy has been open since March 2007. This chapter aims to strengthen competitiveness, facilitate structural changes and encourage a business-friendly environment that stimulates SMEs. Implementing the ten Small Business Act (SBA) principles is one of the chapter's main requirements. Similar to the previous SBA assessments, the findings and recommendations of the *SME Policy Index 2022* provide monitoring and guidance for Turkey and the other enlargement economies in meeting the requirements for Chapter 20 in the EU *acquis* when negotiating their accession into the European Union. According to the latest enlargement report, Turkey is moderately prepared in the area of enterprise and industrial policy, a downgrade from the previous reporting period where it was rated at a good level of preparation. Major challenges concern the compatibility of localisation and public

procurement practices with the EU industrial policy principles, the lack of transparency regarding state aid for large investments, high levels of informality, long-term financing needs of SMEs and the lack of a strong legal framework for microfinance (European Commission, 2021[13]). Going forward, according to the enlargement report, Turkey is particularly advised to:

- remove schemes, such as local content requirements and public procurement price premiums, that are incompatible with industrial policy principles and substitute them with measures that encourage innovation effectively
- publish the results of the implementation of the industry strategy from 2019 to 2021, as well as the amounts distributed under the Industry Support Programme
- conduct an assessment study of all SME support measures for their impact and identification of gaps and overlaps (European Commission, 2021[13]).

EU financial support

Under the Instrument for Pre-accession Assistance (IPA), EU assistance to Turkey amounted to EUR 3.2 billion over seven years (2014-20). In 2018 the European Commission proposed significantly cutting the overall indicative allocation to Turkey due to a lack of progress on key reforms. In addition, over the same period, another EUR 480 million was mobilised through EU instruments such as the European Instrument for Democracy and Human Rights and the Instrument contributing to Stability and Peace or Cross-Border Cooperation. The European Union also supports Turkey's efforts to host over 3 million refugees through the EU Facility for Refugees in Turkey. This support amounts to EUR 6 billion until 2020, and in 2021, the European Commission proposed to allocate an additional EUR 3 billion in assistance to Syrian refugees and host communities in Turkey (European Commission, 2022[23]).

On 15 September 2021, the European Parliament adopted the new IPA III for the period 2021-27, through which the European Union will provide almost EUR 14.2 billion to support candidates and potential candidates in key political, institutional, social and economic reforms. Unlike previous IPAs, IPA III has a strategic and performance-based design without any economy-specific allocations from the onset. It clearly focuses on strengthening the rule of law, democracy, the respect of human rights and fundamental freedoms. In addition, IPA III promotes economic governance and reforms towards competitiveness, supports the implementation of the Economic and Investment Plan for the Western Balkans, supports the green and digital transition, and fosters regional integration and convergence with the European Union (European Commission, 2021[24]). Furthermore, the European Commission stated that the new IPA III would also underpin the evolving relations with Turkey through support for fundamental rights, the good functioning of the European Union-Turkey Customs Union and the green and digital agendas (European Commission, 2021[25]).

The European Investment Bank (EIB) has been supporting Turkey's development and integration with the European Union since 1965. It has lent over EUR 30.5 billion since the start of operations and EUR 12.3 billion between 2016 and 2019 (EIB, 2020[26]). However, in July 2019, following the EU restrictive measures, the Council invited the EIB to review its lending activities in Turkey, notably with regard to sovereign-backed lending; therefore, no loans were signed in 2020. The European Bank for Reconstruction and Development (EBRD) focus its operations in Turkey mainly on the private sector (89% of the project portfolio) (EBRD, n.d.[27]). In 2020, with a total amount of EUR 1.8 billion in investment, the EBRD supported the private sector as well as the public sector to finance the purchase of critical equipment needed by public hospitals in the fight against the COVID-19 pandemic (European Commission, 2021[28]).

Turkey was not a beneficiary of the European Union's Macro-Financial Assistance distributed to other neighbourhood and enlargement partners in response to the COVID-19 pandemic. Nevertheless, the European Union mobilised EUR 133 million from existing funds to support Turkey in its pandemic response, and EU member states, financial institutions and the European Commission have also provided aid through the Team Europe initiative (European Commission, 2022[23]).

Turkey has participated in the European Union's Competitiveness of Enterprises Small and Medium-Sized Enterprises Programme (COSME) since 2014, under which it benefited from support for entrepreneurship and entrepreneurial culture, access to finance for SMEs and access to markets (European Commission, 2021[29]). Under the European Union's Horizon 2020 Programme, participants from Turkey received EUR 277 million in funding for research and innovation projects, and Turkey joined the new Horizon Europe Programme for 2021-27 in October 2021, giving it access to the programme's budget of EUR 91.5 billion over this period (European Commission, 2021[30]). Under Horizon 2020, 203 Turkish SMEs received EUR 48.16 million, representing 17.16% of the total funding allocated to Turkey under the programme (European Commission, 2021[22]).

SMEs in the domestic economy

Turkey's classification of SMEs was first enshrined in the Regulation on the Definition, Qualifications and Classifications of SMEs in 2005 and has since been amended thrice, with the last revision having been implemented in March 2022. Since the last adjustment in 2018, the upper limits for turnover and balance sheets used to determine business classes were increased from TRY 3 million (approximately EUR 170 000) to TRY 5 million (approximately EUR 284 000) for microenterprises, from TRY 25 million (approximately EUR 1.4 million) to TRY 50 million (approximately EUR 2.8 million) for small enterprises, and from TRY 125 million (approximately EUR 7 million) to TRY 250 million (approximately EUR 14 million) for medium-sized enterprises (Table 19.2). The categories conform to the EU standard definition of SMEs by employee size but continue to diverge on the other criteria concerning annual income and assets despite the recent updates.

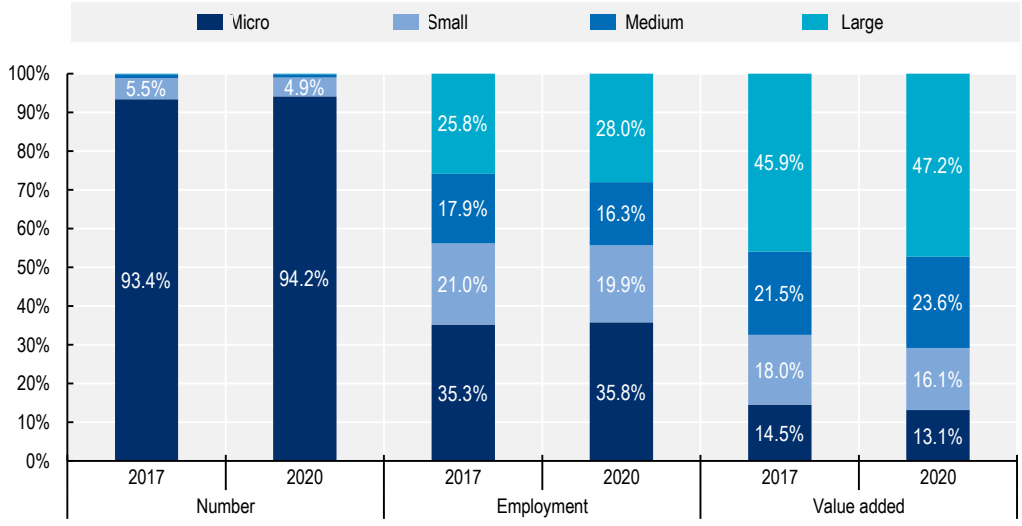
Table 19.2. Definition of micro, small and medium-sized enterprises in Turkey

	EU definition	Turkey definition
Micro	< 10 employees = EUR 2 million turnover or balance sheet	< 10 employees ≤ TRY 5 million turnover or balance sheet
Small	< 50 employees = EUR 10 million turnover or balance sheet	< 50 employees ≤ TRY 50 million turnover or balance sheet
Medium-size	250 employees = EUR 50 million turnover = EUR 43 million balance sheet	< 250 employees ≤ TRY 250 million turnover or balance sheet

Source: Official Gazette of Turkey (2022[31]).

In 2020, Turkey's roughly 3.3 million micro, small and medium-sized enterprises (MSMEs) accounted for 99.85% of all enterprises in the economy, an increase of almost 205 000 since 2017. Microenterprises accounted for 94.2% of all enterprises, while small enterprises made up 4.9%, medium enterprises 0.8% and large enterprises only 0.15% in 2020. The makeup of enterprises has remained overall stable since the last assessment, with the number of microenterprises increasing by only 1% since 2017, while small, medium and large enterprises all saw decreases of less than 1%. A similar trend was noted with regard to employment in SMEs, with microenterprises observing a 2.5% increase in employment, while small enterprises saw an approximate 1.3% decrease and medium enterprises saw a 1.5% decrease between 2017 and 2020 (Figure 19.2).

Figure 19.2. Business demography indicators in Turkey (2017-2020)



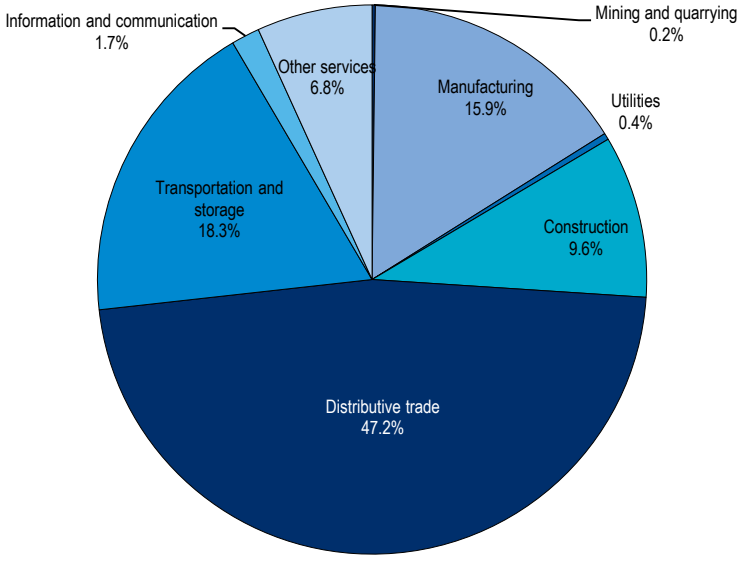
Source: TURKSTAT (2020[32])

Due to the effects of the COVID-19 pandemic on businesses, Turkey's overall gross value added in 2020 was approximately EUR 17 billion less than in 2019, a roughly 19.2% drop. Nevertheless, MSMEs' contribution to GDP remained consistent between 2019 and 2020 at approximately 53%, only a slight decrease of about 1% since 2017. SMEs in the economy also account for roughly 36.4% of total exports, with 19.4% of exports produced by medium-sized enterprises, 13.5% by small enterprises and only 3.5% by microenterprises (TURKSTAT, 2021[33]).

As the methodology in data collection for the sectoral distribution of SMEs in Turkey has been changed since the last assessment, the division of industries for 2020 is not directly comparable with that of 2017. Nevertheless, the distributive trade sector, which includes wholesale, retail trade, and the repair of motor vehicles and motorcycles, remains the overwhelming industry of SMEs in the economy at approximately 47%, followed by the transportation and manufacturing sectors at 18.3% and 15.9% respectively. Although the mining and utilities sectors make up a negligible part of total SME distribution, SMEs account for over 95% of the total number of enterprises in both sectors (Figure 19.3).

Micro, small and medium-sized enterprises account for 72% of total employment in Turkey, with the distributive trade and manufacturing sectors alone accounting for over 65% of total SME employment (TURKSTAT, 2021[33]). With the exception of the mining and utilities sectors, SMEs account for the vast majority of employment in nearly all industries of Turkey, with SMEs in construction and distributive trade accounting for as much as 86% and 82% of total employment in their respective industries, while large enterprises account for less than 1% of employment in other services. Approximately 98% of all manufacturing firms have fewer than 50 employees, while large firms account for only 0.5% of employment in the sector (OECD, 2021[8]).

Figure 19.3. Business demography indicators in Turkey (2017-2020)



Note: Agriculture excluded. The sector classification generally follows the Statistical Classification of Economic Activities in the European Community (NACE) Rev.2 classification of productive economic activities with the following exceptions: "Utilities" represents the sum of "Electricity, gas, steam and air conditioning supply" (D) and "Water supply, sewerage, waste management and remediation activities" (E); "Distributive Trade" covers "Wholesale and retail trade; repair of motor vehicles and motorcycles" (F); and Other Services here consists of (I) Accommodation and food service activities, (L) Real estate activities, (M) Professional, scientific and technical activities, (N) Administrative and support service activities as well as (S) Other service activities. For more information, consult NACE Rev. 2 Classification.
Source: TURKSTAT (2020[32])

Assessment

Description of the assessment process

The SBA assessment cycle was virtually launched on 7 July 2021, when the OECD team shared the electronic assessment material, comprised of questionnaires and statistical sheets, accompanied by explanatory documents.

Following the virtual launch, the Small and Medium Enterprises Development Organisation of Turkey (KOSGEB), which acts as the SBA Co-ordinator nominated by the European Commission, distributed the link to the assessment material to the appropriate ministries and government agencies and the statistical sheets to the Turkish Statistical Institute (TURKSTAT). These institutions compiled the data and documentation between July and September 2021 and completed the questionnaires. Each policy dimension was given a self-assessed score accompanied by a justification. The OECD team received the completed questionnaires and statistical data sheets on 27 September 2021 and then began an independent review. Additional information on certain elements was requested from KOSGEB.

A virtual preliminary findings meeting with Turkey was held on 11 January 2022 to present and discuss the preliminary *SME Policy Index 2022* assessment findings and initial recommendations for Turkey. At the same time, it served as an opportunity to seek the views of a broad range of policy stakeholders on how SMEs are affected by current policies and to gauge what more can be done across different policy areas to improve SMEs' performance and competitiveness in Turkey, particularly in the post-COVID-19 context.

The meeting allowed the OECD to validate the preliminary assessment findings. The draft SME Policy Index publication and the Economy Profile for Turkey were made available to KOSGEB for their review and feedback in March 2022.

Scoring approach

Each policy dimension and its constituent parts are assigned a numerical score ranging from 1 to 5 according to the level of policy development and implementation, so that performance can be compared across economies and over time. Level 1 is the weakest and Level 5 the strongest, indicating a level of development commensurate with OECD good practice (Table 19.3). For further details on the SME Policy Index methodology and how the scores are calculated, as well as changes in the last assessment cycle, please refer to Annex A.

Table 19.3 Description of score levels

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

Entrepreneurial learning and women's entrepreneurship (Dimension 1)

Introduction

Entrepreneurial learning raises learners' skills and develops the mindsets needed to change their lives and the world around them through entrepreneurial action for social and economic impact. It is the basis for empowering learners to know they can generate the creative ideas needed in the 21st century.

Women's entrepreneurship should be prioritised to support women's economic and social empowerment and drive improved stability and social and economic growth. It can also enable closing gender gaps in the workforce, supported by equality and gender impact analysis of policies affecting family care and social protection.

Turkey has maintained its strong focus on entrepreneurial learning and women's entrepreneurship. It continues to be one of the top performers at the regional level, with continued priority placed on both sub-dimensions. Entrepreneurial learning is evidenced within new policy design and practical implementation, featuring an innovative focus on science, technology, engineering and mathematics (STEM) and entrepreneurial learning based on social impact. Women's entrepreneurship has a strong base within the work of both government and non-government stakeholders, with a range of innovative actions evidenced at the level of implementation.

Turkey's scores have improved slightly since the previous assessment (when it scored 4.32). The economy scores highly across both sub-dimensions and, as previously mentioned, is above the regional average (Table 19.4).

Table 19.4. Turkey's scores for Dimension 1: Entrepreneurial learning and women's entrepreneurship

Dimension	Sub-dimension	Thematic block	Turkey	WBT average
Dimension 1: Entrepreneurial learning and women's entrepreneurship	Sub-dimension 1.1: Entrepreneurial learning	Planning and design	4.19	3.43
		Implementation	4.37	3.51
		Monitoring and evaluation	4.06	2.73
		Weighted average	**4.25**	**3.33**
	Sub-dimension 1.2: Women's entrepreneurship	Planning and design	4.20	3.97
		Implementation	5.00	3.83
		Monitoring and evaluation	4.00	3.11
		Weighted average	**4.56**	**3.73**
Turkey's overall score for Dimension 1			**4.37**	**3.49**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

The COVID-19 pandemic has deepened Turkey's challenges and socio-economic inequalities, particularly impacting women and youth (UN Women, 2020[34]). This may have had an impact on the level of progress observed. Women's entrepreneurship has advanced slightly, while entrepreneurial learning has remained stable. While new policy and practical innovations are observed across both sub-dimensions, they are accompanied by challenges of co-ordination for each of these policy areas, as they have not been clearly attributed to a national policy partnership since the end of the Entrepreneurship Council (Table 19.5).

Table 19.5. Turkey's implementation of the SME Policy Index 2019 recommendations for Dimension 1

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Apply EU competence frameworks (EntreComp and DigComp) to align key competence developments in education across levels and parts of the education system	Through the EntreCompEurope project funded by the European Union's COSME, work is being done to build a national stakeholder and practitioner community led by the Union of Chambers and Commodity Exchanges of Turkey (TOBB) and the Government Directorate for EU Affairs within the Ministry for Foreign Affairs.[1] This is not a formally recognised partnership, however. EntreCompEurope is also implementing online teacher training on how to develop and embed the entrepreneurship key competence, underpinned by EntreComp, into teaching, learning and assessment.[2] There are multiple initiatives for digital learning, but it is not clear whether the majority of these link to DigComp. DigComp is explicit in a pilot led by the Ministry of National Education to test the SELFIE tool in work-based learning in vocational education and training (VET).[3] However, there is no visible system-level development that contextualises learning outcomes for entrepreneurial or digital competences across the different curricula of Turkish formal education and training.	Limited
Scale up the well-functioning eGraduate system in VET to support impact evaluation across all parts of the learning system	The eGraduate system in VET is being successfully implemented, but this innovative approach has not yet been expanded to cover other areas of education. Universities use their own systems for tracking alumni, and data are not collated at the national level. Comprehensive analysis reports using the data from the eGraduate system are produced, most recently for 2020 (Government of Turkey, 2020[35]).	Limited
Establish system-level, compulsory provision of practical entrepreneurship experience in upper secondary, VET and higher education	The Education Vision 2023 strategy has inspired further development of school-business co-operation, with implementation still being developed. Promising initiatives, such as Denayap and the Entrepreneurs in High School projects, are expanding at both the regional and national levels. Compulsory provision of practical entrepreneurial experiences has not been established at the upper secondary level, and while Junior Achievement is delivering learning experiences across all levels of education, these are not yet accessible for all learners. The COVID-19 pandemic has created new challenges for delivering practical and entrepreneurial learning through digital learning environments, with evidence of the impact of COVID-19 on practical teaching.	Moderate
Check the gender sensitivity of new and existing policies affecting women's entrepreneurship	There is no clearly defined process for implementing gender sensitivity checks and no information on where or how these were carried out during this assessment period.	Limited
Introduce targeted, cross-sectoral evaluations of entrepreneurial learning and women's entrepreneurship policies and programmes	There is limited visible progress on this recommendation, though comprehensive insight into women's engagement in the SME Development and Support Organisation (KOSGEB)'s programmes is available through annual reports. This is limited in scope and analysis, however, and does not include actions carried out by other actors. The end of the Entrepreneurship Council, which previously oversaw the implementation of these policy areas, also poses a challenge.	Limited

1. For more information, see www.entrecompeurope.eu.
2. For more information on the EntreCompEdu programme, see https://entrecompeurope.eu/registration/.
3. The SELFIE pilot involved 23 schools across 3 regions and was a collaboration between the European Training Foundation, the Joint Research Centre and the Ministry of National Education (MoNE). A report concludes, "The MoNE recognises SELFIE WBL as a valuable tool for vocational schools to evaluate and monitor their use of digital technologies in learning, teaching and assessment voluntarily. In addition, as stated in the Education Vision 2023, the MoNE intends to establish an integrated educational data warehouse. Scaling up, therefore, depends largely on whether the MoNE can integrate SELFIE WBL with existing systems to provide usable data for the warehouse. As indicated by MoNE officials in the focus groups, such policy support would require access to the full, raw data, rather than the anonymised, aggregated data, which is an essential feature of SELFIE WBL." For more information on the results of the Turkish pilot, see European Training Foundation (European Training Foundation, 2021[36]).

Entrepreneurial learning is strongly evidenced as a cross-cutting theme within government policy

Entrepreneurial learning continues to be supported through a cross-section of policy areas, and a range of new strategies highlights the importance of entrepreneurial learning, including the Eleventh Development Plan (2019-2023) (Presidency of Turkey, 2019[37]), providing the umbrella policy framework, with some related links seen in the Industry and Technology Strategy 2023 (Government of Turkey, 2019[38]) and the National Artificial Intelligence Strategy (2021-2025) (Government of Turkey, 2021[39]). The Education Vision 2023 (Government of Turkey, 2019[40]) aims to deliver a paradigm shift in the education and training system towards a 21st-century skills model through innovative pedagogical practices with a strong emphasis on social entrepreneurship as part of the student learning experience. The National Youth Employment Strategy (Government of Turkey, 2021[41]) was also launched during this assessment period,[3] prioritising entrepreneurship as a career pathway for young people, including promoting vocational education, internships and developing an entrepreneurial culture among young people. The primary action areas to achieve these goals are entrepreneurship training via youth centres, extending KOSGEB entrepreneurship training and support to vocational high school students, and developing additional training actions within universities (Government of Turkey, 2021, pp. 64, 79-80[41]). Complementing this national policy landscape, there is a diversity of engagement and contribution from Regional Development Agencies (RDAs) and national and local non-governmental stakeholders.

There is now an opportunity for Turkey to define lead responsibility for national co-ordination and stakeholder engagement

The Entrepreneurship Council, linked to the National Entrepreneurship Action Plan and led by KOSGEB, previously co-ordinated policy and actions related to entrepreneurship. With the end of the National Entrepreneurship Action Plan in 2020 and a new streamlining of government strategy documents, there is no national policy partnership with a clearly defined responsibility for entrepreneurial learning. Wider policy partnerships exist, for which the most relevant would be the National Education Council, a permanent council of the Ministry of Education that oversees the implementation of the Education Vision 2023. Other partnerships include those linked to the National Employment Strategy (2014-2023) and the Industry and Technology Strategy 2023, with a new technology and communications action plan to take effect in 2022.

A significant shift is taking place towards a future-focused education and training system

National policy emphasises the development of the entrepreneurial mindset and practical entrepreneurial learning, focusing on linking to digital learning and social impact. This is guided by the 2023 Education Vision (Government of Turkey, 2019[40]), which offers an ambitious and convincing vision of an education system based on the 21st-century skills model. It prioritises using active learner-focused pedagogies with more autonomy and flexibility for schools and teachers to become learning facilitators, emphasising socio-emotional learning and skills such as self-confidence, creativity, teamwork and communication. The related Ministry of Education Strategic Plan (2019-2023) (Government of Turkey, 2019[42]) emphasises entrepreneurship, creativity and innovation as core values of the education and training system, confirming the inclusion of the entrepreneurship key competence in the main philosophy of Turkey's education and training system.

Practical implementation of entrepreneurship continues to be primarily carried out through specific areas of the core curriculum. In primary and lower secondary levels, it is developed through compulsory project-based learning[4] and is integrated as a cross-curricular element. In upper secondary, students can participate in an elective entrepreneurship course, while in vocational education and training, there is a compulsory entrepreneurship course for all learners.

The implementation of commitments within the Education Vision 2023 towards entrepreneurship education can be seen, with Design Skills Labs supporting experiential learning and experience-focused learning,

plus learning activities linked to social entrepreneurship being set up at multiple levels, such as designing school gardens as social and cultural entrepreneurial learning opportunities.[5] Robotics and coding workshops are also being delivered in schools and as extracurricular activities, such as Deneyap Türkiye.[6] Deneyap was established in 2019 to implement STEM education for 50 000 selected children over 5 years across 82 provinces nationally through 100 experimental technology workshops designed to develop skills such as entrepreneurship, creative thinking, critical thinking and problem solving. Complementing these actions, extracurricular mentoring and role model programmes are also evident[7] at local and regional levels. At the system level, moving forward, it will be important to understand the progress and impact of these actions, though an evaluation approach is not yet found in public documents.

Supporting teachers through guidance and training will be key to further cross-curricular implementation

Through the actions outlined across the 2023 Education Vision and the Ministry of Education Strategic Plan (2019-2023), there is a strong steer at the system level towards innovative learning practices and encouraging applied learning through practical learning experiences that allow learners to apply knowledge and to practice and develop their digital and entrepreneurial competences. Such a dynamic vision takes time to transform into change at the level of the day-to-day learner experience. It will be important to understand the emerging needs and continued progress made towards this evolution, which involves significant change for learners, teachers, education leaders and regional administrations with the competence for guiding education, as well as adjustments for parents/carers and wider stakeholders.

While policy documents highlight entrepreneurial education, and it can be seen in standalone curriculum courses, there is a need for comprehensive guidance and training for teachers to upskill and bring clarity to how entrepreneurship can be practically developed as a cross-curricular key competence within specific areas of the curriculum where it is not yet widely embedded, particularly for assessment. There has been some development of guidance, but it remains limited. However, in-service teacher training is available via government channels and on an ad hoc basis via non-government sources, such as EntreCompEurope. Pre-service teacher training that addresses the entrepreneurship key competence is not yet well developed, and there is significant scope to develop this across university-based pre-service teacher training faculties.

Turkey has expanded support for entrepreneurship in career guidance for VET

Entrepreneurship careers continue to be promoted and supported for students in universities supported by KOSGEB and the Scientific and Technological Research Council of Turkey (TUBITAK) due to a network of university business incubators and government-supported technoparks. Entrepreneurship careers have also been further developed in VET, where students now have access to entrepreneurship courses as well as start-up training via KOSGEB; they are entitled to support credits to set up their businesses and can access help for key processes, such as patent applications. Through the National Youth Employment Strategy, there is an innovative commitment to support entrepreneurship development through practical education-business co-operation opportunities. The focus is on increasing creativity and entrepreneurship through school-based project competitions on focused themes, including gastronomy, cultural tourism, sports tourism and destination development, and converting these projects into practical internship opportunities supported by the Association of Turkish Travel Agencies (TÜRSAB).[8]

Support for women's entrepreneurship is well-evidenced across Turkish policy, but a need for a strong co-ordination body to oversee implementation remains

The policy landscape supporting women's entrepreneurship is linked to a range of government strategies and policies, particularly the Women's Empowerment Strategy and Action Plan (2018-2023) (Government of Turkey, 2018[43]) set within the framework of the Eleventh Development Plan (2019-2023) (Presidency of Turkey, 2019[37]) and with direct relevance within the KOSGEB Strategic Plan (2019-2023) (Government

of Turkey, 2019[44]). The National Employment Strategy (2014-2023) (Government of Turkey, 2014[45]) is also pertinent, though the most recent action plan ended in 2019. This is complemented by RDAs that provide extensive start-up support and tailored programmes for women.

However, as in entrepreneurial learning, there is no clearly defined national policy partnership responsible for the co-ordination of policy and actions related to women's entrepreneurship. The scale of implementation across Turkey, coupled with the importance of this policy area (particularly in light of the impact of COVID-19), would benefit from stronger multi-stakeholder co-ordination. The Eleventh Development Plan (2019-2023) offers an ambitious range of actions, but there is no visible mechanism to gather those involved in delivering on these actions, while the Women's Empowerment Strategy has no co-ordination body to oversee its implementation. This co-ordination role was previously the responsibility of the Entrepreneurship Council led by KOSGEB, but this is no longer active, as mentioned above.

Stakeholders are actively involved in promoting and implementing women's entrepreneurship

Non-governmental women's entrepreneurship networks are active, with the TOBB Women Entrepreneurship Council[9] working at the national level and liaising with regional boards across 81 provinces and the Women Entrepreneurs Association (KAGIDER).[10] Both organisations are primary catalysts for the diverse range of significant actions in this assessment period, involving important wider partners and addressing priority themes, including sustainability, the green economy and digitalisation. Initiatives include the My Sister project,[11] which develops programmes to support women's economic empowerment and entrepreneurship; the KAGIDER compass, which brings together different online training courses into a single platform;[12] the Green Business Award by KAGIDER; and the Turkey Women Entrepreneur Competition.[13] Many initiatives collaborate with private-sector actors or corporate foundations, such as the Women First in Entrepreneurship project, launched as a collaboration between the Ministry of National Education and Vodafone,[14] offering extensive learning programmes via an online portal and app. The Ticaretin Kadinlari platform[15] is also available, hosted by KAGIDER and offering resources linked to a number of stakeholders.

Stakeholders have also sought to influence the procurement ecosystem through the development of a draft legislative proposal on public procurement to support and incentivise procurement by and with women-owned enterprises. Developed by KAGIDER in co-operation with the Women Employers and Industrialists Association (KAİSDER) and the Businesswomen and Executives Association of Bursa (BUIKAD), this proposal has been shared with relevant national ministries for consideration as a key tool to ensure improved access for women entrepreneurs to the public procurement marketplace.

Moving forward, the impact of the COVID-19 pandemic might prompt analysis of programming to ensure the intended impact is focused on areas of greatest need. An overarching co-ordination body could support this, particularly in light of the wide range of stakeholders and the scale of implementation.

Monitoring and evaluation is evident, but gender sensitivity checks and the availability of gender-disaggregated data could be further developed

Government-financed programmes are active in monitoring and evaluation with annual reports by KOSGEB. However, wider data are not collated, and the overall data and analysis do not provide a comprehensive picture of women's participation and contribution to the entrepreneurship ecosystem. In Turkey, this includes the potential to analyse data on access to finance via business angel investment through insights into the level of investment in the majority of women-owned enterprises and the number of female business angels registered in the Turkish register of business investors.[16] There also appears to be less emphasis on gender sensitivity checks during the policy development phase, with no clear process to implement these at the policy design stage nor to ensure that associated monitoring and evaluation planning ensures important gender-disaggregated data (UN Women, 2020[34]). Current policies do not

focus on ensuring the development of gender-sensitive policy nor on increasing the availability of relevant data, including that which would require regulatory reform, such as financial sources.

The way forward for Dimension 1

- **Identify national partnership bodies to take formal responsibility for the co-ordination of entrepreneurial learning and women's entrepreneurship.** The National Education Council could be granted formal responsibility for entrepreneurial learning. A multi-stakeholder partnership overseeing the implementation of actions relating to women's social and economic empowerment could be granted formal responsibility for women's entrepreneurship within its broader responsibilities.
- **Scale up the entrepreneur role model programme trialled through the Entrepreneurs in High School programme.** This could offer a valuable route to kick-starting stronger education-business co-operation at the level of curriculum in curriculum areas where this has not previously taken place and a channel to raise awareness and build entrepreneurial culture through direct contact with diverse entrepreneurs (Box 19.3).

Box 19.3. Entrepreneur role models through Big Ideas Wales

In Wales (United Kingdom), the Big Ideas Wales role model programme was established through Wales's first Youth Entrepreneurship Strategy in 2004. It now delivers entrepreneurial inspiration sessions to 60 000 students per year from lower and upper secondary, vocational colleges and programmes targeting those not in education, employment or training.

The programme engages entrepreneurs from diverse backgrounds and business types (including co-operatives and social enterprises) from across Wales. Each entrepreneur is trained to provide an engaging and interactive activity with learners, with an emphasis on their story and the entrepreneurial competences that have been important to their development. The pool of role models is gender-balanced, and workshops can be linked to subject areas as well as being generic. There is now a network of 300+ role models who inspire the next generation of entrepreneurs and help them on their entrepreneurial journey, working directly in their local community to share stories that feel relevant to learners. The aim is to open young people's minds to new ideas and opportunities, consider their entrepreneurial competences and help them think positively about their futures.

An impact study found that 66% of pre-16 respondents and 73% of post-16 respondents reported that the programme "helped me realise what I can achieve", while 55% of pre-16 respondents and 61% of post-16 respondents reported that the programme had "inspired me". There is a direct route to entrepreneurship careers, with the Big Ideas Wales programme actively signposting start-up support pathways and career guidance for young people. According to the impact study, 40% of pre-16 beneficiaries and 46% of post-16 beneficiaries believed the session "made me think about starting my own business".

A small-scale pilot has already been carried out in Turkey: the Entrepreneurs in High School project was successfully trialled by the TOBB Istanbul Young Entrepreneurs Board in co-operation with the Istanbul Provincial Directorate of National Education. The learning from this experience could be scaled up further, in line with the model used in Wales, with additional emphasis placed on developing the entrepreneurship key competence and opening up start-up pathways for young people.

Sources: TOBB Istanbul Genç Girişmciler Kurulu (2022[46]) and Business Wales, Welsh Government (2022[47]).

- **Develop innovative guidance to teachers on how to recognise learner progress and achievement in the "hard-to-reach" entrepreneurial learning outcomes developed through diverse learning contexts**, e.g. Design Skills Labs, robotic and coding workshops or activities such as those in Deneyap Türkiye. Insights could be drawn from the developments and practical training delivered through EntreCompEurope, involving TOBB and the Turkish government. This could be complemented by future-focused research into developing evidence-based guidance on effective methodologies to develop learners' entrepreneurial competences through digital and online learning.
- **Explore how to track and evaluate the implementation and quality of entrepreneurial competences in compulsory education**, with the potential to demonstrate this through the breadth of practical entrepreneurial experiences being delivered. Turkey recently trialled the SELFIE tool and could consider developing a similar tailored national approach to understand the progress and recognition of entrepreneurial competences among educators and learners.
- **Introduce comprehensive gender sensitivity checks across policy making related to women's entrepreneurship**, including across monitoring and evaluation planning to ensure the provision of gender-disaggregated data. A strong gender impact assessment during the policy design process can ensure that women are assured equal access, with additional measures such as family support measures or financial incentives. Ensuring gender-sensitive monitoring and evaluation can achieve a more complete understanding of women entrepreneurs' participation in and contribution to the economy and society, supporting evidence-based public policy (Meunier, Krylova and Ramalho, 2017[48]).
- **Enhance the level and depth of activity supporting women's entrepreneurship in Turkey with a comprehensive online portal to bring together awareness-raising, information, networks and resources** from government and non-government organisations active at both national and regional levels. This portal could be an expanded version of the existing Ticaretin Kadinlari platform, with broader content collated from multi-stakeholder sources at the national and regional levels, including access to finance and angel investment. This would be an important means of increasing access to and visibility of the support for this career option available to women. A German portal could serve as a good example for Turkey (Box 19.4).

Box 19.4. Germany provides a national portal bringing together support for women entrepreneurs from a wide range of actors

In Germany, the Bundesweite gründerinnenagentur (BGA) is a federal agency that acts as a national one-stop-shop offering support and information on women's entrepreneurship. It is widely regarded as the primary voice and policy lead for women's entrepreneurship in Germany.

Established by three federal ministries, the BGA gathers offers from across the public, political, business and academic sectors for female-focused support services from all sectors and stages of business development, collating these into a centralised online portal available in six languages. This comprehensive portal[2] provides access to a database of trusted and evaluated advisory services, sources of financing, online training, an events calendar, regional networks and a wide range of regularly updated resources and guides on themes relevant to women entrepreneurs.

This example offers a practical demonstration of a comprehensive government-level approach to increasing access to and visibility for women's entrepreneurship through the development of a multi-stakeholder portal collating support and services offered by government and non-government providers across Turkey. The impact of this example is evidenced through EU recognition as a model of success, national recognised as the leading voice for women's entrepreneurship in Germany and

significant national reach achieved through advisory sessions, events, publications and website visits supporting the rise in women's entrepreneurship in Germany.

1. BGA is a joint project of the German Federal Ministry for Education and Research, the Federal Ministry for Family, Senior Citizens, Women and Youth and the Federal Ministry of Economy and Technology.
2. See https://www.existenzgruenderinnen.de/ (accessed on 20 January 2022).
Source: BGA (2022[49]).

Bankruptcy and second chance for SMEs (Dimension 2)

Introduction

Firms enter and exit the market as a natural part of the business cycle, and policies can ensure that such transitions occur in a smooth and organised manner. Well-developed insolvency procedures and regimes can protect both debtors and creditors, striking the right balance between both parties, for example. This is particularly relevant for smaller firms as they lack resources compared to bigger firms. Therefore, governments need to ensure that bankruptcy proceedings are efficient, ease reorganisation procedures (instead of bankruptcies) and ensure that those starting again have the same opportunities in the market they had the first time.

In Turkey, where SMEs represent an important part of the economy, effective restructuring and discharge procedures can allow entrepreneurs to reintegrate into the market. This was particularly relevant in the context of the COVID-19 pandemic, where a number of firms faced financial difficulties or were at risk of financial distress, particularly in the tourism sector (OECD, 2021[50]).

Turkey increased its overall performance under bankruptcy and second chance since the previous assessment (from 3.23 in 2019 to 3.32 in this cycle) and is the second-best performer in the WBT region. Moreover, with a score of 3.74, Turkey is the second-best performer – after Bosnia and Herzegovina – on bankruptcy procedures (Sub-dimension 2.2) (Table 19.6).

Table 19.6. Turkey's scores for Dimension 2: Bankruptcy and second chance

Dimension	Sub-dimension	Thematic block	Turkey	WBT average
Dimension 2: Bankruptcy and second chance	Sub-dimension 2.1: Preventive measures		**3.00**	**2.74**
	Sub-dimension 2.2: Bankruptcy procedures	Design and implementation	3.62	3.42
		Performance, monitoring and evaluation	3.82	3.27
		Weighted average	**3.74**	**3.37**
	Sub-dimension 2.3: Promoting second chance		**2.00**	**1.96**
Turkey's overall score for Dimension 2			**3.32**	**3.00**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Turkey has improved its score since the 2019 assessment and performs above the regional average. The economy continued to work on insolvency prevention by introducing new support measures to SMEs (e.g. business advisory and mentoring services to improve SME financial management) during the COVID-19 pandemic under the SME Strategic Development Plan (2019-2023) (KOSGEB, 2019[51]). The advisory services were provided by Turkey's SME Development and Support Organisation, KOSGEB, while Credit Guarantee Fund (KGF) ensured the financing of government programmes worth EUR 485 million to support loans to SMEs during the COVID-19 pandemic (Kredi Garanti Fonu, n.d.[52]).

However, a fully-fledged early warning system, which serves as a basis for fostering a financially healthy ecosystem for SMEs and helps potentially distressed SMEs in the post-COVID-19 context, is still missing (Table 19.7).The Law on Enforcement and Bankruptcy was last amended in June 2021.[17] The amendments improved implementation of the preventive concordat, allowing for temporary automatic stay

until five months[18] and defined a moratorium on execution of court decisions and enforcement of creditors' claims for one year.

Shortened, simplified reorganisation proceedings for SMEs and debt discharge rules are still lacking in the legal framework on bankruptcy proceedings (Parliament of Turkey, 1932[53]). Amidst an increasing backlog of unaddressed insolvency cases and delayed legislative reform, insolvency remains costly and lengthy (see also Dimension 6 on access to finance) (European Commission, 2021[13]). Moreover, the law does not clearly differentiate between honest and fraudulent entrepreneurs. Second-chance programmes for SMEs do not exist, limiting the potential reintegration of honest entrepreneurs back into the economy.

Table 19.7. Turkey's implementation of the SME Policy Index 2019 recommendations for Dimension 2

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Develop a fully-fledged early warning system	An early warning system is still missing. The government provided advisory and mentoring services to SMEs regarding their long-term sustainable growth, even though these did not directly target the prevention of bankruptcies through KOSGEB.	Limited
Introduce SME and entrepreneur fast-track bankruptcy proceedings into the law	During the assessment process, no simplification measures, such as fast-track procedures or reorganisation processes, have been implemented or planned.	No progress
Further reduce the average cost and duration of bankruptcy proceedings	No progress has been recorded in reducing the average cost of proceedings. The legal framework involves two bankruptcy jurisdictions and a number of involved implementing parties. The bankruptcy administration consists of three persons (Art. 223), whereas the concordat is supervised by a commissioner and a board of creditors. Current bankruptcy proceedings are not optimised for minimum duration or minimal cost. Procedures are digitalised at a basic level, which does not contribute to reducing costs and duration.	No progress
Allow automatic discharge for entrepreneurs after liquidation/preventive concordat	The current enforcement law does not allow debt discharge in a bankruptcy liquidation.	No progress

Slight progress has been made regarding Turkey's insolvency legislative framework

Turkey's insolvency legal framework is based on the Enforcement and Bankruptcy Law from 1932, amended in November 2021, with the main novelty being the introduction of e-auctions during liquidation. The law is based on Switzerland's Debt Enforcement and Bankruptcy Act. As such, its focus is put on enforcement and bankruptcy liquidation in simple and ordinary forms; it does not cover fast-track procedures. The simple form provides for liquidating the assets of the debtor and distribution of proceeds to the creditor, a more complicated collective enforcement proceeding, while ordinary bankruptcy liquidation includes filing for bankruptcy, registering and investigating claims, etc. However, as such, the Enforcement and Bankruptcy Law is not harmonised with EU insolvency legislation, particularly in the areas of preventive measures, out-of-court restructurings, debt discharge, second chance and EU cross-border insolvency rules.

The legal framework offers two judicial reorganisation procedures: 1) restructuring by compromise upon settlement (Art. 309/m); and 2) the concordat (Art. 285). Restructuring by compromise is a hybrid procedure for reorganising the liabilities of joint-stock companies and limited liability companies. The procedure lacks an automatic stay/moratorium on the execution of court decisions and the enforcement of creditors' claims. Concordat is a reorganisation procedure that enables a debtor to restructure its debts, avoid insolvent liquidation, and has automatic stay, which debtors likely prefer. Concordat is possible if a

more favourable settlement to creditors is conceivable. It requires a double majority approval (half of the creditors representing at least two-thirds of the claims); however, the law does not protect non-secured creditors if their debts are not part of the plan. In addition, the party applying for concordat must pay a deposit and is required to submit a preliminary concordat restructuring plan proposal. This requirement supposes that the concordat plan should be drafted and discussed with creditors before its official filing at court, making it a hybrid process, similar to the restructuring by settlement procedure. The court confirmation binds all creditors, except secured creditors by a pledge on movables and/or a mortgage, and creditors with public claims within the scope of the Law on Collection of Public Credits and employees.

The public credit registry and the private registry credit bureau manage the exchange of credit information among financial institutions. Positive and negative credit information is stored in the system. An entrepreneur can be deleted from these credit databases five years after full discharge. The information from the Credit Registration Office (KKB) can be potentially used as an early warning tool for assessing SMEs' financial status (Credit Registration Office, 2022[54]). However, this would need to be provided free of charge and guarantee that SMEs could access it anonymously, as per EU Directive 2019/1023, allowing SMEs to conduct self-assessments (EU Parliament, 2019[55]).

The National Judiciary Informatics System (UYAP) was established as part of the Turkish e-government system and aims to reduce the time and cost of court processes, as well as increase the transparency of the judiciary system. The system gathers enforcement and bankruptcy data, but these are not differentiated or aggregated.[19] The latest data show a negative trend in the average duration of bankruptcy and insolvency proceedings (Table 19.8).

Table 19.8. Number and duration of bankruptcies and reorganisations in Turkey (2017-21)

	2017	2018	2019	2020	2021
Number of bankruptcies and reorganisations finalised on a yearly basis	6 673 290	7 677 020	7 457 018	6 259 964	4 523 997
Average duration of bankruptcy and insolvency proceedings (in days)	880	871	923	1 280	..

Source: UYAP Information System (2022[56]).

Moreover, following the 2021 amendments, the legal framework introduced e-auctions during liquidation via the UYAP system. The process of sales of the asset could be initiated by the debtor or the creditor, which was not previously the case. However, some shortcomings are yet to be addressed, such as the fact that the debtor's consent is not sought to grant sales authorisation. In addition, the appraisal costs, which are to be paid for each sales request, and the open-end electronic sale procedure with no time restriction could potentially increase the length and cost of bankruptcy and insolvency proceedings.

Preventive measures are yet to be implemented

Extraordinary provisional measures,[20] introduced in April 2019 within the Framework Agreements on Financial Restructuring, aim to limit the potential increase of non-performing loans until 2023. Bank loans could be partially or fully converted into equity participation in special purpose companies and investment funds established in accordance with the measure. As of 2021, 410 companies initiated the process, while 249 have successfully concluded their agreements, recovering a total debt of TRY 78 billion (approximately EUR 4.4 billion).[21]

Regarding regular preventive measures, no major progress has been recorded since the last assessment. An early warning system is still absent in Turkey. However, during the reporting period and the COVID-19 pandemic, solvent SMEs have been offered a range of advisory and mentoring services, both by the government and international development co-operation partners. These services aimed at increasing

SMEs' competitiveness and improving their financial management, and they indirectly contributed to preventing SMEs' insolvency.

Programmes to promote second chance among failed entrepreneurs are still lacking

Similarly to the 2019 assessment, second-chance programmes that would encourage or ensure the possibility of reintegration of honest entrepreneurs into the economy have not been promoted. On a positive note, the SME Strategic Development Plan (2019-2023) highlights the importance of second-chance policies. However, no concrete measures have been implemented or included in the SME Strategic Development Plan's action plan. Furthermore, the legal framework does not distinguish honest from fraudulent bankruptcies or define honest entrepreneurs.

The way forward for Dimension 2

- **Develop insolvency prevention policy measures, including a fully-fledged early warning system**. The Turkish insolvency framework does not provide preventive measures besides the preventive concordat restructuring. The economy could implement other out-of-court settlement, similar to the alternative debt settlement implemented in North Macedonia (Government of North Macedonia, 2014[57]) or implement a hybrid preventive insolvency procedure based on a pre-packaged reorganisation, as in Serbia[22] (Serbian Bankruptcy Supervision Agency, 2014[58]). Moreover, the economy should implement a fully-fledged early warning system. One option would be to build on Turkey's already well-developed mentoring and advisory services to extend the programme offers to SMEs at risk of financial distress (see Box 14.5).

Box 19.5. Early warning systems in the European Union

Early warning tools may include different instruments: alert mechanisms when the debtor has not made certain types of payments; advisory services provided by public or private organisations; and incentives under national law for third parties with relevant information about the debtor, such as accountants, tax and social security authorities, to flag to the debtor a negative development.

In the European Union, there are two competing models for early warning systems:

1. **Self-assessment tool:** Creating tools for SMEs and entrepreneurs to anonymously assess their economic situation. The self-test tool can be a simple software application on a public website. SMEs and entrepreneurs have only to enter basic financial data about their business. The application will produce a preliminary diagnostic with recommendations for remediation actions, like searching for a specific business advisory or mentoring support service. The application conducts a financial ratios diagnostic analysis. The quality of the diagnostic analysis depends on the quantity and quality of the data intake by the entrepreneur.

   This model is useful as a quick financial health check and should be complemented with a business advisory support service by a public institution or access to a commercial or professional association.
2. **Intervention mechanism:** This includes a series of steps to remedy the distress situation under external supervision. The mechanism is based on an early warning signal triggered for the SME, identification of problematic areas causing financial distress and reporting to company management with recommendations to take remedial measures. The process to remedy the identified issues then follows through a series of interventions by different actors, aiming to avoid company insolvency. The process can include:

- A company bookkeeper or external auditor spots an observation that may lead to financial distress. The early warning mechanism can be built on an obligation of the bookkeeper or auditor to inform the company's management of the issue.
- If management does not take action to remedy the situation, there may be subsequent communications with the board or even at the shareholders' meeting.
- If there is no adequate reaction of the enterprise organs, the mechanism can prompt the intervention of outside bodies, such as special mediation or even trigger a special preventive measure court procedure.
- Finally, if there is no intervention, the system may provide for creditors' actions related to the use of alternative dispute resolution.

Public creditors can play a significant role in an early warning system as they can identify a delay in tax and social security payments – a warning that enterprises are experiencing financial difficulties. Information on late payments should be carefully used together with diagnostic analysis, as companies tend to pay only public debt to avoid early warning detection mechanisms.

Source: IMF (IMF, 2021[59])

- **Introduce international cross-border insolvency rules** allowing for seamless participation in international insolvencies and protection of foreign creditors' rights in local bankruptcy procedures. This will lead to Turkey's better integration with its international partners.
- **Introduce simplified bankruptcy proceedings for SMEs.** SMEs have smaller scales of business and simpler operations. It is thus recommended to consider admissibility to short-track proceedings for SMEs with a maximum debt of EUR 1 million at the time of filing of bankruptcy. Only SMEs as debtors should be able to file for bankruptcy reorganisations. Requirements for restructuring plans should also be simplified. Administrative proceedings should be financially affordable for SMEs, and procedures should be simplified, e.g. there is no need for a creditors' committee. Simplified and fast-track procedures are particularly relevant in the aftermath of COVID-19 as they could allow for a quicker reintegration of businesses into the economy and save social payments that might result from potential unemployment (see Box 19.6).

Box 19.6. US Bankruptcy Code Subchapter V: Small Business Reorganisation

In 2019, the United States adopted a new subchapter of its Bankruptcy Law, which regulates the Small Business Reorganisation Act (SBRA), where "small-business debtor" is broadly defined as a "person engaged in commercial or business activities that has aggregated non-contingent liquidated secured and unsecured debts as of the date of the filing of the petition in an amount not more than USD 2 725 620; exclusion from this rule is available for businesses with aggregated debt of up to USD 7.5 million due to COVID-19 Interim measures."

The new legislation comes at the time of COVID-19 to strike a balance between formal Bankruptcy Liquidation (Chapter 7) and Bankruptcy Reorganisation (Chapter 11) proceedings for small-business debtors. The act lowers costs and streamlines the plan confirmation process to better enable small businesses to survive bankruptcy and retain control of their operations. The US SBRA significantly simplifies the court proceeding and places a maximum of three or five years of disposable income to be paid under the confirmed plan throughout the life of the plan's implementation. Initial statistics show that two-thirds of all filed Chapter 11 formal Court Reorganisations were transferred to SBRA filings. Initial data confirm that 80% of all filed plans are confirmed in 120 days.

Main principles

- No one but the debtor engaged in a non-publicly traded business activity (except if it complies with the aggregated debt level threshold defined in the law) can file a petition for small business reorganisation.
- No US trustee quarterly fees are paid.
- No exclusions in the proceeding: the debtor must file a plan within 90 days.
- No creditor committees: Creditor committees will not be appointed in Subchapter V cases unless ordered by the Bankruptcy Court for cause.
- No competing plans: The debtor has the exclusive right to file a plan, which must be filed within 90 days from the date of the bankruptcy petition unless extended for cause.
- No absolute priority: The debtor need not comply with the "absolute priority rule", which generally prohibits the owners from retaining equity unless all creditors are paid in full. A plan may be confirmed over the objection of one or more impaired classes of creditors. In order to obtain confirmation through a "cram down"[1], a debtor need only demonstrate that the plan is fair and equitable, does not unfairly discriminate and provides for the debtor's contribution of all of its projected disposable income.
- No disclosure statements: Disclosure statements are not required, although the plan must include information typically found in a disclosure statement, including a summary of historical operations, liquidation analysis and projections demonstrating an ability to make payments under the plan.
- No enforcement is allowed against the implementation of a cram down or a non-consensual confirmed plan, until the court case file is not closed (between three and five years from the plan confirmation).
- The debtor is in possession of its business, and the bankruptcy administrator only assists in assessing the viability of the business and facilitates the development of a consensual plan to reorganise the business.
- The appointed bankruptcy administrators have strong business qualifications and include lawyers, restructuring consultants and financial advisers with diverse backgrounds in such areas as business, law, accounting, turnaround management and mediation.
- Deferral of administrative expense payments: Administrative expenses that typically must be paid upon the effective date of the plan may be deferred over the life of the plan for up to five years.
- Discharge provisions: If the plan is confirmed with the consent of all affected creditors, the debtor will receive a discharge of its debts upon plan confirmation. For plans confirmed through "cram down", the discharge will take effect when all of the payments called for under the plan are made.
- Residential mortgage modification: The SBRA authorises a small-business debtor to modify a residential real estate mortgage to the extent that proceeds from the loan were used to fund the business, a form of relief previously unavailable under the Bankruptcy Code.

1. A cram down is the imposition of a bankruptcy reorganisation plan by a court despite any objections by certain classes of creditors. A cram down involves the debtor changing the terms of a contract with a creditor with the help of the court. This provision reduces the amount owed to the creditor to reflect the fair market value of the collateral that was used to secure the original debt.
Source: Bonapfel (Bonapfel, 2021[60])

Institutional and regulatory framework for SME policy making (Dimension 3)

Introduction

A strong institutional and regulatory framework is the basis for SME policy making. SMEs are often disproportionately affected by regulatory changes and pay a higher price for legislative compliance, given their limited resources compared to larger companies. Policy makers should therefore consider the unique needs of SMEs when designing policies that impact the private sector, especially given the importance of SMEs for the economy in terms of employment, value added and business demographics.

For a large economy like Turkey, where SMEs represent 99.8% of all enterprises, and 41.3% of all value added, applying the think small first principle is highly relevant when designing economic policies. Given the high impact of the COVID-19 pandemic on SMEs, and the persistently high level of regulatory burden in Turkey, designing policies around the needs of SMEs is especially important (TURKSTAT, 2021[33]).

Turkey's performance in this dimension has remained largely the same since the previous assessment, as its institutional framework for SME policies was already strong (Table 19.9).

Table 19.9. Turkey's scores for Dimension 3: Institutional and regulatory framework for SME policy making

Dimension	Sub-dimension	Thematic block	Turkey	WBT average
Dimension 3: Institutional and regulatory framework for SME policy making	Sub-dimension 3.1: Institutional framework	Planning and design	4.60	4.28
		Implementation	4.75	3.96
		Monitoring and evaluation	4.65	3.81
		Weighted average	**4.69**	**4.03**
	Sub-dimension 3.2: Legislative simplification and regulatory impact analysis	Planning and design	4.40	3.84
		Implementation	3.60	3.47
		Monitoring and evaluation	3.25	2.95
		Weighted average	**3.77**	**3.48**
	Sub-dimensio n 3.3 : Public-private consultations (PPCs)	Frequency and transparency of PPCs	3.24	4.00
		Private sector involvement in PPCs	4.25	3.92
		Monitoring and evaluation	3.24	3.10
		Weighted average	**3.64**	**3.79**
Turkey's overall score for Dimension 3			**4.10**	**3.79**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Turkey has begun implementing the KOSGEB Strategic Plan (2019-2023), which constitutes the main policy framework for the development of SMEs. Efforts to combat the informal economy among SMEs have also continued. Overall, the implementation of the policy recommendations has progressed strongly. However, no progress has been made in improving the use of regulatory impact analysis (RIA) and PPCs, which both lack frameworks to ensure their effective and consistent use (Table 19.10).

Table 19.10. Turkey's implementation of the SME Policy Index's 2019 recommendations for Dimension 3

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Improve the quality of legislative simplification actions	Turkey has continued implementing its Reduction of Bureaucracy and Simplification of Legislation (BAMS) initiative but has not yet improved its monitoring and evaluation. Objectives related to improving the business environment that are part of the Plan for Tackling the Informal Economy are monitored through the tax administration's annual reports.	Moderate
Enforce the effective application of regulatory impact analysis (RIA)	While a framework for RIA exists and RIA is being conducted on a case-by-case basis for some legislation, a mechanism to ensure its consistent use has not yet been developed.	Limited
Introduce a formal requirement to conduct public-private consultations (PPCs) and enforce their effective application	While PPCs are conducted in Turkey for some legislation and policies (such as the SME policy framework or the Eleventh Development Plan), a formal requirement to conduct consultations with stakeholders is still lacking. As such, no mechanism exists to ensure the consistent use of PPCs and measure the level of stakeholder engagement.	Limited

The implementation of SME policies and policies to reduce the share of the informal economy has continued

Turkey has made changes to the institutional framework of its SME policies since the last assessment. The main objectives and orientations of previous strategic documents, such as the last SME Strategy (2015-2018), were integrated into the KOSGEB Strategic Plan (2019-2023). The KOSGEB Strategic Plan provides a comprehensive SME policy framework and is aligned with overarching documents, such as the Eleventh Development Plan (2019-2023) and sectoral strategies, such as the Medium-Term Programme for 2020-2022, the Industry and Technology Strategy 2023, and the 2023 Turkey Export Strategy Action Plan, which also set goals related to the development of SMEs. The KOSGEB Strategic Plan (2019-2023) contains measures related to promoting innovation in SMEs, exports, supporting and promoting entrepreneurship, and supporting skills development and inter-SME collaboration. The Strategic Plan has a robust monitoring framework, as goals and activities are monitored through KOSGEB's annual activity report. Implementation of the Strategic Plan is advancing well, since as of 2021, 89% of its targets were achieved, and 78% of performance indicators were satisfied (KOSGEB, 2021[61]). Outside of KOSGEB's framework, the implementation of SME policies is monitored by the Presidency.

Regarding efforts to combat the informal economy, Turkey adopted its Strategy and Action Plan for Tackling the Informal Economy (2019-2022), in continuity with the previous Programme for Reducing the Informal Economy (2014-2018). Implemented under the leadership of the Revenue Administration, this policy framework is centred on five objectives: 1) raising voluntary compliance; 2) increasing audit capacity; 3) reviewing legislation; 4) developing inter-institutional data sharing; and 5) raising awareness on the importance of countering the informal economy across society. Regarding SMEs, the Action Plan focuses on increasing voluntary compliance by providing incentives for compliant and timely taxpayers, as well as raising awareness on the importance of fair competition through educational activities and consultancy services, co-ordinated by KOSGEB. While providing a comprehensive set of goals and actions to reduce informality, concrete performance indicators against which progress can be measured are lacking (European Commission, 2021[62]). KOSGEB has made efforts to raise awareness on the importance of fighting the informal economy through providing 400 trainings since 2019, as well as consultancy services to entrepreneurs. To strengthen auditing capacity and data sharing between institutions, a joint project co-funded by EU Instrument for Pre-Accession Assistance funds was approved in 2019 and was approximately 40% complete as of February 2021 (Revenue Administration, 2020[63]).

Efforts to improve the business environment have been focused on the digitalisation of procedures, and there is less focus on SMEs

Given that the KOSGEB Strategic Plan (2019-2023) covers its own strategic orientations and priorities for support to SMEs, it does not contain a framework for legislative simplification with the aim of improving the business environment for SMEs, an element that the previous SME strategy had. As mentioned previously, reviewing legislation is part of the Revenue Administration's Plan for Tackling the Informal Economy, with objectives focusing on identifying and amending legislation causing informality (Revenue Administration, 2019[64]).

The BAMS initiative, launched in 2014, is ongoing. Previously under the responsibility of the Prime Minister's Office, with the introduction of the presidential system in October 2019, the initiative was placed under the responsibility of the Digital Transformation Office of the Presidency, with an increased emphasis on continuing the digitalisation of procedures for businesses.

Despite an established framework, RIA is not being conducted to inform the design of policies in a systemic manner

Guidelines for conducting RIA have existed in Turkey since 2007 and include the assessment of SME aspects when relevant. However, the RIA threshold remains the same as in the previous assessment (an expected impact of at least TRY 30 million (approximately EUR 1.7 million)), therefore excluding a large share of legislation from the RIA requirement. Moreover, in practice, as outlined in the OECD *Regulatory Policy Outlook*, RIA is not being conducted for primary legislation and is only conducted for subordinate legislation on an ad hoc basis, at the discretion of the Presidency (OECD, 2021[65]).

The lack of effective and consistent use of RIA is a detriment to evidence-based policy making in Turkey and negatively affects the degree to which the government can measure the expected impacts on SMEs when designing policies. RIAs that are conducted are not shared with stakeholders, nor are they publicly available, limiting government transparency and accountability.

The SME agency allows for the representation and engagement of SMEs; however, a framework for the consistent and inclusive use of public-private consultations is lacking

SMEs in Turkey are primarily engaged in the policy-making process through KOSGEB. SMEs can be represented through business associations, whose presence in KOSGEB's General Assembly covers a wide array of sectors and branches of activity. KOSGEB also proactively engages the business community when developing policies or taking decisions. For instance, when developing its Strategic Plan (2019-2023), feedback from stakeholders was integrated through a survey; more than 76% of respondents were SMEs.

While SMEs are primarily engaged through KOSGEB's framework, and the business community is consulted regularly (for the development of major policy documents such as the Eleventh Development Plan), these consultations take place on an ad hoc basis and do not constitute a framework for the regular conduct of PPCs in the policy-making process. Such a framework is lacking in Turkey, as there are no formal requirements to engage stakeholders in PPCs at any stage of the policy-making or legislative process (European Commission, 2021[62]; OECD, 2021[65]). The absence of a framework affects the level of consistency and accessibility of PPCs to the business community, as there is no guarantee that businesses will be invited and represented in PPCs openly and inclusively, as participants in PPCs are invited at the discretion of the institutions. This also limits the government's accountability to businesses due to the absence of regular and transparent monitoring of consultations where stakeholders' comments are revealed to the general public.

The way forward for Dimension 3

- **Ensure and enforce the effective application of regulatory impact analysis.** There is significant room for improvement in ensuring the effective use of RIA in Turkey's policy-making process. The Presidency, as the primary centre-of-government institution, should establish a quality control mechanism through which it can ensure the consistency and quality of RIA conducted by different line ministries. The next step would be to establish regular monitoring and evaluation of RIA done by different line ministries, which the Presidency can report on, to identify the main areas on which to focus efforts to improve quality and capacity.
- **Develop a framework for public-private consultations and ensure their consistent application.** Turkey should establish a mandatory legal framework for conducting PPCs in its policy-making and legislative processes. Such a framework should make conducting PPCs a mandatory part of these processes and establish criteria for the duration, inclusiveness and transparency of PPCs. A centre-of-government institution can then be given the role of co-ordinating and ensuring the effective conduct of PPCs by different line ministries. Establishing a central online portal listing all ongoing PPCs as well as reports on past PPCs would greatly improve their accessibility and transparency.

Operational environment for SMEs (Dimension 4)

Introduction

From registering a company and obtaining a business licence to filing and paying taxes, SMEs interact with public institutions, physically or digitally, at all stages of their development. The operational environment in which SMEs must navigate is determined by the ease of using digital services, the number of procedures and the costs associated with their interactions with the government. Complex requirements imposed on businesses have adverse impacts on SMEs' ability to operate, take advantage of market opportunities efficiently and grow.

For an economy like Turkey, where SMEs make up the vast majority of businesses and produce the largest share of value added to the economy, increasing the availability of digital services for SMEs, including business registration and licensing, as well as improving the efficiency of administrative procedures, including tax compliance procedures, will be key to improving the operational environment by saving time and resources.

Turkey's performance in delivering digital government services has improved since the last assessment (when it was 3.92), chiefly driven by the increased availability of digital government services and strengthening of inter-institutional co-ordination (Table 19.11). While limited progress has been achieved regarding company registration, Turkey's performance in business licensing has increased (from 2.43 in 2019 to 3.45 in 2022).

Table 19.11. Turkey's scores for Dimension 4: Operational environment for SMEs

Dimension	Sub-dimension	Thematic block	Turkey	WBT average
Dimension 4: Operational environment for SMEs	Sub-dimension 4.1: Digital government services for SMEs	Planning and design	4.75	4.28
		Implementation	4.20	3.33
		Monitoring and evaluation	3.00	2.48
		Weighted average	**4.07**	**3.40**
	Sub-dimension 4.2: Company registration	Planning and design	3.60	4.42
		Performance	3.60	3.93
		Monitoring and evaluation	4.00	4.06
		Weighted average	**3.76**	**4.18**
	Sub-dimension 4.3: Business licensing	License procedures	3.66	3.88
		Monitoring and streamlining of license system	3.23	3.73
		Weighted average	**3.45**	**3.80**
	Sub-dimension 4.4: Tax compliance procedures for SMEs	SME tax compliance and simplification procedures	No scores	
		Monitoring and evaluation of SME-specific tax measures		
Turkey's overall score for Dimension 4			**3.88**	**3.64**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Throughout the current assessment period, Turkey advanced the development and availability of digital government services through the government's online portal. Institutional co-ordination and political legitimacy of digitalisation reforms were strengthened by reorganising responsibilities, giving a more prominent role to the Digital Transformation Office of the Presidency. Limited developments have been noted in optimising company registration since the last assessment. While one-stop shops for company

registration are available across Turkey, the process is not yet fully available on line. Guidelines for business licensing are clear but not yet centralised on an online portal. Important progress has nevertheless been achieved in simplifying retail licensing, thanks to a single online entry point for applications. Reforms are underway to further streamline licensing processes, in particular those related to investments. While taxes on labour income represent a high tax burden for self-employed workers, they can benefit from two simplified tax regimes that reduce their tax burden and their tax compliance costs. There are only limited tax simplification measures for SMEs, although the development of digital services for tax purposes has decreased tax compliance costs (Table 19.12).

Table 19.12. Turkey's implementation of the SME Policy Index's 2019 recommendations for Dimension 4

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Continue implementing a digital authentication system or e-signatures to widen the range of e-services	The use of e-signatures for digital services has not yet been fully established due to delays in rolling out electronic ID cards. However, the government has put in place other means for ensuring access to digital services requiring a high level of security, such as signing in using a bank account.	Moderate
Make the company registration process fully on line	No progress has been achieved in further digitalising the company registration process.	No progress
Continue to centralise the licensing process through PERBIS	Retail business licensing was greatly simplified with the establishment of the PERBIS platform in 2019 (with its pilot project in 2018). The portal is a single online entry point for various applications and is fully operational.	Strong
Improve the monitoring and evaluation of simplified tax regimes	The Turkish Revenue Administration conducts a Taxpayer Satisfaction Survey every two years, but an in-depth evaluation of the simplified tax regimes is lacking. The survey could be complemented with a more in-depth analysis of the effective tax burden that SMEs face using business tax returns data.	Limited

The policy framework for digital government reforms has been reorganised, and inter-institutional co-ordination strengthened

Turkey completed the implementation of its National E-Government Strategy (2016-2019), the primary policy document for developing digital government services. As a result, progress has been made in increasing the availability and use of digital government services (the share of enterprises with ten or more employees using digital services has already risen to more than 90% by 2017) and the interoperability of government data (Ministry of Development, 2018[66]). With the expiration of this strategy, objectives for developing digital government were integrated into Turkey's Development Plan, a much broader strategic document. Currently, the implementation of the Eleventh Development Plan (2019-2023) is monitored and co-ordinated through the Presidency's annual work programmes.

Turkey's Eleventh Development Plan (2019-2023) contains measures and objectives related to further developing digital government services. Measures include continuing the digitalisation of existing public services and ensuring their accessibility through the government portal, as well as focusing on "user-oriented service delivery" (Presidency of Turkey, 2019[37]). Focusing on user-oriented service delivery is particularly important, as the needs of businesses should be kept in mind when designing digital government services, rather than simply seeking to transpose existing services into a digital format. While the Eleventh Development Plan (2019-2023) sets targets and objectives for digital reform policies, it does not set a concrete action plan or a set of activities that can be monitored (the activities and goals are later articulated through the Presidency's annual work programmes).

The Eleventh Development Plan (2019-2023) also contains measures related to strengthening Turkey's governance structure for digitalisation reforms and improving its efficiency (Presidency of Turkey, 2019[37]). A Digital Transformation Office was established in July 2018 within the Presidency of the Republic, with the goal of steering digital transformation efforts in line with the presidential system of government introduced in 2018. The Digital Transformation Office co-ordinates the digital government reform efforts of public institutions and plays a leading role in several projects, including in the development of the government service portal, together with Turksat – Turkey's communications satellite operator, driving the digitalisation of public services and strengthening the political legitimacy for the horizontal steering of these processes. Once a month, the Digital Transformation Office convenes Digital Turkey meetings with stakeholders from the public and private sectors to define priorities, adopt solutions and assign tasks to individual institutions. Despite its effectiveness in co-ordinating the work of institutions, this highly vertical approach runs the risk of creating an over-reliance on central initiatives, with most institutions lacking their own digital government strategies. The Digital Transformation Office is currently working on a new Digital Transformation Strategy for 2022, which should set a broad strategic vision for the digital transformation of the economy.

Implementation and availability of digital services for businesses have advanced, but monitoring and evaluation could be improved

Turkey has had a functioning online portal for digital services since 2008 (https://www.turkiye.gov.tr), which serves as a one-stop-shop for digital services for citizens and businesses. The number of services on the portal is increasing, having almost doubled since 2018, with around 3 000 services available in 2018 and 6 390 in 2022.

Among the key services for businesses that can be fully completed on line are declaring and paying taxes and social security contributions (SSCs), certain services related to the cadastre as well as applying for SME support programmes. Turksat manages the online portal and ensures the basis for the delivery of digital government services according to common standards, in co-ordination with the relevant institutions. However, despite recognising the need to design and deliver services according to users' needs, the predominant approach thus far has been to concentrate on migrating services to the online government portal. In this regard, there is room for improvement regarding the overall service design culture in some institutions.

Monitoring and evaluation of business satisfaction with available digital services is conducted through surveys carried out by individual administrations (for example, the Turkish Revenue Administration for measuring satisfaction with digital services for filing taxes and KOSGEB for measuring satisfaction with SME support programmes and related services). However, these surveys are periodic, and while they measure user satisfaction at a given point in time for a given service, they do not allow the government to paint a comprehensive picture of satisfaction with digital services across different administrations. Statistics on the use of services are collected. However, there is room for improvement regarding the differentiation of users (businesses vs citizens and, in particular, SMEs vs larger companies) and the collection of production-related data such as usage patterns. The development of the Electronic Public Information Management System (KAYSIS) is a strong positive step toward the development of a continuous, agile and iterative system for the performance monitoring of services. KAYSIS collects data on service use and delivery times.

The key enablers of digital government services are being progressively strengthened, with significant room for improvement regarding open data

Turkey's online portal for digital services also serves as an interoperability platform for government institutions and allows for the exchange of data between institutions. However, more could be done to promote the exchange of data between public institutions, in line with a more general framework to develop a data-driven public sector, which is currently absent.

The rollout of electronic ID cards, facilitating access to electronic signatures by citizens and businesses, which was initially planned for completion by 2020, has been delayed and is now slated for 2022. Turkey has also made strides in developing a federated identity[23] model, where users can sign in and complete services requiring a similar level of security using several means, such as their personal citizen number, mobile signature or signing in using their bank account. While such a model presents advantages in terms of allowing for the use of digital identities across borders, it is mainly useful for individuals in their capacity as natural persons. Therefore, care should be given not to alienate businesses, especially SMEs (for whom the lines between personal and professional use are often blurred) when further developing the digital identity system.

In the area of open data, Turkey is lagging behind other WBT economies, as it has not yet established an open data portal and is currently working on establishing the necessary legal framework, as envisaged in the Eleventh Development Plan (2019-2023). The adoption of standards for open data publishing (annotation, formatting, updating) is essential for allowing its reuse by businesses for the creation of innovative products and services. More broadly, a framework for building a data-driven public sector is needed to establish a broader vision and context to make the most out of Turkey's potential for embracing open data.

Company registration processes are clear and well-designed, albeit not available on line

Limited progress has been achieved since the last assessment in optimising Turkey's company registration framework. Entrepreneurs can register their companies in 238 trade registry directorates located in chambers of commerce, which constitute one-stop-shops. All company registration-related administrative processes (setting up a new company, opening a branch, commercial pledges, liquidations and amendments on articles of association) are stored in the electronic Central Commercial Registration System (MERSIS), which is supervised by the Ministry of Trade. However, company registration has not yet been fully digitalised; entrepreneurs must be physically present at the Trade Registry Directorate to register their company, pay the relevant fees and get a MERSIS identification number. In addition, all companies must complete the company's tax registration at the tax office and register employees with social security at the social security institution at different windows. They receive a specific identification number for each procedure. Limited liability companies and corporate foundations must deposit 0.04% of their capital at the Competition Authority (Investment Office, n.d.[67]).

The time required to start a business remains similar to that of the previous assessment. According to the World Bank's *Doing Business* report, seven days and seven procedures are required to start a business in Turkey (World Bank, 2020[68]). Costs for company registration remain high, at 6% of income per capita, but are lower than in the previous assessment (10.6%) (World Bank, 2020[68]).

Monitoring and evaluation mechanisms of company registration are in place and under the responsibility of the trade registry directorates, supervised by the Ministry of Trade. Relevant statistics are publicly available on the number of entities in terms of company size and sector of activity and take enterprises' feedback into account (through the Presidency's Communication Centre [CIMER]). Monitoring at the local level is also undertaken by the Turkish Municipalities Union.

Information on business licences is clear but lacks a centralised approach

The Regulation on Business Licensing serves as written guidance on the procedure and relevant rates of obtaining a licence. While licensing procedures are clear, there is no centralised portal that provides entrepreneurs access to all licences. The overall process remains fragmented, as each ministry and municipality is responsible for issuing licences according to their competences. Nevertheless, retail business licensing has been greatly simplified with the establishment of the PERBIS platform, which started as a pilot project in 2018 and became fully operational in 2019. The platform serves as a centralised Retail Information System, creating a single online entry point for various applications, including business

licensing. The number of licences stored on the platform should be increased twofold by 2023 as compared to 2018, when it was 70.

Delays in obtaining a licence can be costly to entrepreneurs as they add uncertainty and additional costs to much-needed business transactions. According to the latest data available, 17 days are required to obtain an import licence, 18 for an operating licence and 25 for a construction permit, the first one being higher than the WBT average (11, 24 and 72 days, respectively) (World Bank, 2019[69]).

Turkey plans to undertake a number of reforms related to business permits and licences in line with the Eleventh Development Plan (2019-2023). First, processes carried out by public institutions for permits and licences and documents and fees required for their application will be reviewed and rationalised in compliance with the cost-recovery principle. Additional reforms are planned to facilitate the licensing process related to investments. In this regard, an information system should be introduced to be established to ensure fast, user-friendly, cost-effective processes for business licensing for investments. To enhance co-ordination and information sharing when issuing licences, co-ordination units should be established in relevant ministries and will provide regular contact with the Presidency Investment Office. In addition, data collection and studies have been initiated to prepare sectoral investment road maps to guide investors on the licensing procedures.

Turkey introduced a comprehensive set of tax measures to mitigate the impact of the COVID-19 crisis and to support the economic recovery

The measures that were introduced to mitigate the impact of the COVID-19 crisis and to support the economic recovery were available to all businesses, including SMEs. The filing and payment of the personal income tax (PIT), corporate income tax (CIT), SSCs and VAT were deferred (Ministry of Treasury and Finance, 2020[70]). Penalties for late tax payments could be paid in 18 instalments. Turkey has temporarily reduced its VAT rate on products such as food and beverages, passenger transportation, and maintenance and repair activities. Overall, these measures are broadly aligned with the measures taken in economies around the world, except for the reduction in VAT rates, which in most other economies mainly targeted products related to dealing with the pandemic.

Taxes on labour income put a high tax burden on self-employed workers

Self-employed entrepreneurs are subject to a progressive PIT rate schedule, with rates ranging from 15% to 40%. In addition, the self-employed pay SSCs at a rate of 34.5% levied on their gross income (but not less than the minimum wage) up to a ceiling of 7.5 times the minimum wage (IBFD, 2021[71]). The high burden created by the PIT and SSCs could incentivise self-employed workers to under-declare their income or to operate fully in the informal sector. This puts tax revenues under pressure and creates a tax-induced competitive advantage for tax cheaters. It requires strong tax enforcement strategies from the Turkish Revenue Administration and a solid tax compliance culture among the self-employed. To the extent that self-employed entrepreneurs do not contribute or contribute less than what they should, they will be entitled to lower social protection and replacement income (e.g. low pensions) in the future.

The PIT and employer SSCs incentives are available to SMEs and large businesses. Since 2016, start-ups with a manager younger than 29 years old are granted a three-year PIT exemption up to a maximum of TRY 75 000 (approximately EUR 4 250). In addition, R&D allowances that are granted to businesses that introduce new technology are not included in taxable personal income (IBFD, 2021[71]). There are multiple incentive schemes in place that lower PIT rates or employer SSCs, which reduce the tax burden in case employers hire workers with a service contract, for instance. Also, self-employed entrepreneurs can benefit in certain cases from tax (including SSC) reductions.

Businesses benefit from a reduction in their corporate or PIT rate when they pay their liabilities on time

The standard CIT rate in 2021 was 25% and is set to decrease to 23% in 2022 and 20% from 2023 onwards. Since 2018, businesses that have paid their taxes on time for the previous three years can benefit from a 5% reduction in their CIT liabilities (i.e. they pay 95% of their CIT or PIT – within the PIT, it only applies to personal business income – liabilities they should have paid without this tax incentive), provided that the amount of the reduction does not exceed TRY 2 million (approximately EUR 113 000) annually for 2022 (IBFD, 2021[72]). This measure aims to stimulate and reward tax compliance. The CIT incentive does not apply to businesses that operate in the banking, pensions and insurance sector nor to investment funds.

Self-employed workers can benefit from two simplified tax regimes

Small businesses are exempt from income tax and VAT if they meet a number of conditions. In 2022, businesses with annual purchases below TRY 200 000 (approximately EUR 13 000), sales below TRY 320 000 (approximately EUR 18 000) and gross business revenue below TRY 100 000 (approximately EUR 5 600) are exempt from income tax and VAT, but only if their annual rental costs are below TRY 16 000 (approximately EUR 900) within a metropolitan area or TRY 10 000 (approximately EUR 560) elsewhere. In addition, taxpayers that earn commercial income can, if they meet certain conditions, benefit from a simplified accounting/ bookkeeping system. Finally, tradespeople and artisans without a permanent establishment and who do not operate a commercial or industrial business activity are exempt from PIT.

The tax system creates an incentive for businesses to incorporate

As labour income is taxed at relatively high rates, owner-managers of closely held corporations would want to receive their remuneration in the form of lower-taxed capital income instead of higher-taxed labour income. While labour income is taxed at high SSCs and under the PIT, capital income is taxed at the CIT rate, and the after-tax profits that are distributed are taxed at a withholding tax rate of 15% (IBFD, 2021[72]). This differential tax treatment results in a significant tax-induced incentive for businesses to incorporate, which comes at a significant tax revenue cost for the government. As corporations face higher non-tax costs than unincorporated businesses, the tax-induced incorporation incentive may create additional costs for SMEs. Turkey could consider rebalancing the tax burden for unincorporated and incorporated SMEs, for instance, by lowering the PIT and SSCs.

There are only limited tax simplification measures

In 2021, the standard VAT rate was 18%, and there were two reduced VAT rates of 8% and 1%. As there is no quantitative threshold for mandatory registration for VAT, all businesses, except those that are explicitly exempt, are, in principle, VAT liable (IBFD, 2021[72]). For instance, businesses with a PIT exemption, which is subject to the simplified tax regime, and farmers benefit from a VAT exemption. Economies around the world often exempt small businesses from VAT according to a quantitative threshold, as compliance costs associated with VAT could be burdensome.

Simplified tax administration procedures and the development of e-services for tax purposes have decreased tax compliance costs for SMEs

There are several simplified tax administration procedures for self-employed entrepreneurs, but not for incorporated SMEs. Self-employed entrepreneurs that fall under the lump-sum tax regime are not required to keep books, file a tax return or make PIT prepayments. SMEs subject to the CIT must make quarterly tax prepayments like other businesses.

Turkey has developed e-services for tax purposes (Tax Communication Center, 2017[73]), which can significantly decrease tax compliance costs for SMEs. E-filing for PIT purposes is possible for all businesses. The electronic signature that is used to file tax returns on line is free of charge only for SMEs. The Turkish Revenue Administration introduced a mobile SME-specific app.

The way forward for Dimension 4

- **Improve monitoring and evaluation systems for digital government services.** Turkey should look to better measure the use of government services available through the online portal by continuously developing monitoring mechanisms for individual services, which could be done through the expansion of the KAYSIS system. To go a step further, production-related data (such as usage patterns) could be collected to gather information on users' overall experience when using digital services. Data should be disaggregated by size class of enterprises, allowing for the measurement of SME-specific satisfaction and usage patterns to identify whether SMEs experience particular difficulties in using digital services that larger companies do not.
- **Fully digitalise the company registration process.** Turkey should digitalise and integrate company registration as an online service, which would regroup all the required procedures. It would save time and reduce costs for entrepreneurs and improve access for smaller firms operating at a distance from the Registry's offices. Electronic registration also improves transparency and information sharing and makes it easier to introduce new online services later on.
- **Centralise all business licences under one portal, following the model of PERBIS.** A single online entry point for all licences would increase transparency, speed up processes, help carry out effective monitoring and streamlining, and lower administrative burdens and costs for SMEs. This could also be achieved by integrating licensing services on the government digital services portal.
- **Encourage businesses to grow by reducing the tax burden of unincorporated SMEs under the regular regime and assessing the potential hurdles to growth that the simplified tax regimes create for SMEs.** Information campaigns on the available tax incentives targeted at SMEs could ensure increased take-up.
- **Develop a strategy to ease tax administration procedures for SMEs by assessing the remaining hurdles**, including for VAT, for instance, through business surveys. Turkey could evaluate whether it wants to introduce additional measures to facilitate VAT compliance for SMEs. It could also evaluate whether the current bookkeeping rules for incorporated SMEs lead to high compliance costs and whether they could be simplified. Turkey could also assess to which extent digital services could be further developed to facilitate tax compliance for SMEs and other businesses.

Support services for SMEs (Dimension 5a)

Introduction

SMEs are more prone than larger companies to suffer from a lack of managerial and technical skills, suboptimal technology, limited access to markets and information, and a lacking entrepreneurial skillset, which can hinder their growth. Business support services (BSSs) provided or supported by the government – ranging from general information and advice to training, mentoring and technical services – seek to address these challenges, thus providing a tool to boost SME productivity. While the COVID-19 pandemic had negative effects on the provision of BSSs across the globe, particularly those involving direct contact with SMEs, it also provided an opportunity to reduce the cost of participation for SMEs by moving part of the activities on line.

BSSs play a crucial role in Turkey, which boasts over 3 million SMEs.[24] Facing increasing competition, SMEs need accessible and targeted BSSs to engage in innovative activities and boost their skills development. Comprehensive support, which should include both financial and non-financial measures available to SMEs, has proven most effective in ensuring high productivity and, thus, growth of Turkish SMEs. SMEs were particularly vulnerable to the effects of the COVID-19 pandemic; continuous, far-reaching support to ensure their viability and development is of great importance.

Turkey remains a regional leader in providing both public and private BSSs (Table 19.13). Since the last assessment cycle, during which Turkey scored 4.42, the economy improved under both sub-dimensions, outperforming its regional peers. This improvement is partially due to numerous new strategies emphasising public SME support and their successful implementation. Turkey also introduced a formalised system to assess the impact of support provided and thus advanced in monitoring and evaluation.

Table 19.13. Turkey's scores for Dimension 5a: Support services for SMEs

Dimension	Sub-dimension	Thematic block	Turkey	WBT average
Dimension 5a: Support services for SMEs	Sub-dimension 5a.1: BSSs provided by the government	Planning and design	5.00	4.17
		Implementation	4.86	4.24
		Monitoring and evaluation	4.33	3.88
		Weighted average	**4.80**	**4.15**
	Sub-dimension 5a.2: Government initiatives to stimulate private BSSs	Planning and design	5.00	4.63
		Implementation	4.70	4.21
		Monitoring and evaluation	4.60	3.84
		Weighted average	**4.77**	**4.26**
Turkey's overall score for Dimension 5a			**4.78**	**4.20**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Turkey's strategic framework for BSS provision is well developed, containing a variety of support programmes implemented through an array of parallel strategies. The economy moderately advanced in creating a roadmap to streamline support by establishing a new monitoring and evaluation system to ensure programme comparability. Similarly, considerable progress has been observed in reviewing the support available to SMEs, as the monitoring and evaluation system is structured and formalised, facilitating beneficiaries' feedback collection and the ability to identify any possible inefficiencies. SMEs in the economy are supported both through public and private BSSs, with the latter being at the centre of

new programmes prioritising the establishment of business incubators and accelerators. In addition, Turkey amplified its co-financing support for SMEs and introduced dedicated BSS programmes to assist SMEs in overcoming the COVID-19 pandemic (Table 19.14).

Table 19.14. Turkey's implementation of the SME Policy Index 2019 recommendations for Dimension 5a

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Improve the evaluation of support programmes' (long-term) effectiveness by conducting regular impact analyses	In 2019, Turkey introduced a formalised monitoring and evaluation system, which entails structured feedback collection from beneficiaries and an elaborate methodology to successfully monitor the provided BSSs' outcome and impact.	Strong
Consolidate and streamline the SME support measures	Although complementarity and coherence of SME support programmes are emphasised by the government, room for improvement remains. Due to the sheer size of the economy and the number of programmes available, it is a challenge to evaluate all of them together and ensure comparability to streamline SME support. Turkey's SME Development and Support Organisation, KOSGEB, has a new formalised monitoring and evaluation system that serves as a good basis for starting the work on identifying inefficiencies in BSS programmes and consolidating SME support.	Moderate
Stagger the reimbursement of funds under co-financing programmes	The government increased the co-financing threshold to 90% in some programmes; however, it is still contingent on presenting extensive documentation, which can be prohibitive to microenterprises. For BSSs approved by KOSBEG, SME beneficiaries can only apply for support payments upon the completion of the support programme.	Moderate

With a strong institutional framework for public BSSs, their uptake significantly increased, exceeding cautiously set targets

The government provision of BSSs in Turkey is well-regulated and benefits from a comprehensive legal and strategic framework. There is a number of strategies that govern promoting entrepreneurship and supporting SMEs: the KOSGEB Strategy Plan (2019-2023), the Eleventh Development Plan (2019-2023), the Medium-Term Programme (2020-2022), the Industry and Technology Strategy 2023, and the 2023 Turkey Export Strategy Action Plan. All strategies include measurable targets, provide a list of measures and an implementation timeline to achieve set SME support goals, and are based on stakeholder analysis.

The institutional framework is strong, with KOSGEB as the main body responsible for implementing SME support goals, with assistance from the Ministry of Trade, the Ministry of Industry and Technology and TUBITAK. KOSGEB's support[25] ranges from training to technical assistance for SMEs at every stage of development. Chambers of commerce provide consulting services, while the Ministry of Trade offers additional training and technical support initiatives. The regulatory structure for public provision of BSSs is comprehensive and has a wide, across-economy reach with 26 development agencies[26] throughout Turkey and Investment Support Offices within their purview.

Turkey has well-developed systems in place, which allow for regular and consistent assessments of SMEs' training needs. Regular research of the supply and demand for BSSs among SMEs is systematic, formalised and regulated by KOSGEB's Information Management and Decision Support Department. The department is tasked with establishing a framework to carry out studies on SME needs relating to training and support services, as well as to survey regional institutions on their capacity to collaborate and support SMEs. There is evidence of the results of these analyses being translated into future support programme design.

Owing in part to the aforementioned assessments of the demand and training needs of SMEs, KOSGEB has seen an increase in the uptake of its BSS programmes. The number of supported SMEs in 2020 was 65 359, which more than doubled the planned number of 30 853 for that year. The goal for 2021 was set at 39 862 SMEs and was exceeded by 47.5% (KOSGEB, 2021[74]). The current prediction for 2022 is set to 37 838; however, given Turkey's developed infrastructure for the public provision of BSSs, it is expected to be exceeded again, pointing to a conservative method of setting strategic targets. (KOSGEB, 2021[75]).

KOSGEB formalised its monitoring and evaluation of governmental BSSs programmes

Public BSSs are thoroughly monitored and evaluated from the angle of effectiveness and impact, although any policy adjustments made on the basis of such evaluation are not communicated to the public. Since the previous assessment, KOSGEB established a formalised mechanism for assessing the impact of all support programmes. The legal structure of the system starts with project design guidelines, encompassed in the Support Programme Design Directive, which sets the basic characteristics of support schemes and their target beneficiaries. It is followed by the Support Programme Monitoring and Evaluation Directive and Guidelines document, which dictates stages and aspects subject to evaluation. The new mechanism also defines the scope of sources of data collection through interviews, focus groups, surveys and case studies. The goal of establishing a formal structure for monitoring and evaluation was to identify inefficiencies in publicly provided BSSs and streamline the support accordingly. The results of assessments are intended to be included in future policy and BSS design.

The mechanism has already been implemented to evaluate five of KOSGEB's support programmes. The results of the assessments were then submitted to policy makers in charge of designing support programmes to be used in future BSS planning in order to improve its quality and better target it to SME needs. In addition, all development agencies are obliged to prepare an assessment report of implemented initiatives, which is publicly available on their website after each support programme closes.

By reinforcing its institutional framework for supporting private BSS provision, Turkey has positioned itself as the leader in the region

The entrepreneurship ecosystem has been steadily improving since the last assessment cycle. Private BSS provision is encouraged and supported by the Turkish government through new strategic documents such as Strategy Plan for 2020-2024. With the latter, the Ministry of Industry and Technology envisages strengthened infrastructure support, regional co-operation, competitiveness and access to finance for BSSs. The goal is to develop entrepreneurship with increased capacity for growth and integration into global markets as well as improve the business environment, conducive to research, innovation and co-operation between industrial enterprises, technology suppliers and other stakeholders, shifting to a higher-technology economy (Ministry of Industry and Technology, 2020[76]). The strategy has measurable performance indicators, including a target for the establishment of Digital Transformation Centres and Technology Development Zones (TDZs), which aim to provide a conducive physical infrastructure for newly established entrepreneurs and SMEs to engage in training and technology transfers. TDZs are envisaged to be formed in collaboration with KOSGEB, TUBITAK and relevant RDAs.

By reinforcing the ecosystem for entrepreneurship and the provision of private BSSs, Turkey has positioned itself as a leader in the region, strengthening the infrastructure for SMEs at early stages of development.

Though the government has amplified its co-financing mechanisms for SMEs, they do not require the use of accredited consultants

SMEs in Turkey have a variety of co-financing mechanisms available to them, which can be used to enlist the assistance of private-sector consultants. Since the last assessment cycle, KOSGEB's programmes, which focus on improving SME competitiveness, allow for a 60% co-financing threshold, compared to 50%

in the last assessment cycle. In addition, if an SME fulfils predefined conditions,[27] that threshold can be increased up to 100%. KOSGEB is also co-financing the services related to technological incubator projects[28] with a 75% support rate. The RDAs have their own co-financing schemes, which provide for hiring private-sector consultants. The amounts vary depending on the agency, though they range between TRY 40 000 (approximately EUR 2 300) to TRY 90 000 (approximately EUR 5 100).[29]

Despite developed co-financing mechanisms, with proper quality assurance systems provided by the Observation and Assessment Unit, little emphasis is put on ensuring the high quality of private BSSs. The co-financing support is not contingent on using the services of officially accredited consultants, which can leave room for suboptimal quality of support services rendered and limit the scope of monitoring private-sector consultants, which is crucial to ensure fair competition and a viable market of private BSSs. KOSGEB can provide access to a database of technical consultants, who need to fulfil education and experience requirements to be included, but the process is not formalised.

The way forward for Dimension 5a

- **Make financial support contingent on the use of accredited private-sector consultants**. Introducing this quality assurance mechanism would increase the quality of services provided privately and could contribute to improving outcomes for and the satisfaction of SME beneficiaries.
- **Intensify transparency efforts in reporting, monitoring and evaluation**. Though the monitoring mechanisms are well developed in Turkey, this practice could be effectively scaled up. A step further would be to make all information available to the public, such as the adjustments made based on the independent review of provided BSSs. This would increase transparency efforts and enhance the public's trust in government services and their efficiency.

Public procurement (Dimension 5b)

Introduction

Easy access to public procurement markets for SMEs and increasing their participation can boost competition by ensuring equal treatment and open access, thus promoting inclusive growth. Policy makers should therefore take into account the unique needs of SMEs, as they are disproportionally affected by complex procedures and often discouraged by the effort needed to take part in these procedures, all for an outcome which is unsure.

The use of the Electronic Public Procurement Platform significantly increased in Turkey during the COVID-19 pandemics. The circular *Impact of the COVID-19 Pandemic on Public Procurement Contracts* allowed time extension and contract termination of public procurement contracts based on force majeure related provisions increasing the flexibility of public procurement procedures.

Turkey scored 3.73 on this dimension (Table 19.15), which is lower than the average score in the region. It is, however, slightly higher than its score in the last assessment (3.66).

Table 19.15. Turkey's scores for Dimension 5b: Public procurement

Dimension	Thematic block	Turkey	WBT average
Dimension 5b: Public procurement	Planning and design	3.63	4.16
	Implementation	3.92	4.15
	Monitoring and evaluation	3.40	3.27
Turkey's overall score for Dimension 5b		**3.73**	**3.98**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

There have not been any major changes in the regulatory framework or in public procurement in Turkey since the last assessment. The legislative framework covering public procurement consists of the Public Procurement Law (PPL) (Public Procurement Authority, 2020[77]), adopted in 2002 and modified numerous times ever since; the Public Procurement Contract Law; and a comprehensive set of secondary and tertiary legislation. The Eleventh Development Plan (2019-2023) lists some general activities to support SMEs. The recommendations made in the last assessment were only partially implemented, and further alignment of national legislation with EU rules is needed (Table 19.16).

Table 19.16. Turkey's implementation of the SME Policy Index's 2019 recommendations for Dimension 5b

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Further align national legislation with EU rules and international best practice	No changes in the national legislation have been implemented to align with the provisions of the 2014 EU Public Procurement Directives. There is no equal treatment of foreign bidders due to the application of various types of domestic preferences.	No progress
Reduce the administrative burden of participating in public procurements	The Electronic Public Procurement Platform facilitates access to information and participation in procurement procedures. The administrative burden of participating in public procurement has been reduced. Economic operators may submit a self-declaration as proof of their qualifications together with their bids when e-procurement is used. Only the best and second-best tenderers are then required to submit additional documents that cannot be verified on line prior to the	Moderate

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
	contract award decision. The public procurement legislation prohibits the contracting authority from requesting documents or setting selection criteria that impede competition. Certain documents may not be requested by contracting authorities if the contract value is below a certain threshold.	
Focus on correctly implementing amended public procurement provisions by providing consultation assistance and training both to contracting authorities and economic operators, especially SMEs	The Public Procurement Authority (PPA) organises seminars dedicated to SMEs. For example, it organised the "Seminar on Recent Developments on Public Procurement for SMEs" in co-operation with the Turkish Union of Chambers and Exchange Commodities in November 2020. An e-learning platform – the EKAP Academy – is also available on the PPA's website.	Moderate
Constantly monitor and analyse obstacles faced by SMEs in accessing public procurement markets, including the costs of accessing legal protection in public procurement (fees paid to independent review bodies to challenge a contracting authority's decision)	According to information provided by the Turkish authorities, the PPA analyses, in particular, SMEs' difficulties in meeting selection criteria and applying for higher-value contracts.	Moderate

Public procurement is a strategic tool to increase domestic production

Turkey's main strategic document, the Eleventh Development Plan (2019-2023), states that "to increase domestic production in priority sectors, the public procurement system will be used as a leverage"[30] and "domestic production will be improved through public procurement and regulations".[31] The Eleventh Development Plan (2019-2023) also intends to increase domestic value added in the information and communications technology (ICT) sector "through public procurements and provisions incorporated into the authorisation contracts signed by the government with private operators." Accordingly, the scale and qualifications of the services required by public institutions are associated with the conditions to be satisfied by the firms that can provide these services, and a sound competitive environment should be established to allow for the development of SMEs and start-ups.[32] Regarding specific activities related to public procurement, the document mentions, among others: the elaboration of standard guidelines, an emphasis on the quality of services, alternative methods of procurement for commonly consumed material groups (in the health sector), online publication of procurement opportunities, improvement of procurement, the establishment of an electronic platform, consolidation of demand and joint procurement.

The regulatory framework, although compliant with basic EU standards, allows for domestic preferences

When awarding contracts, contracting authorities are obliged to respect the general principles of transparency, competition, equal treatment, reliability, confidentiality, public supervision, and appropriate and prompt fulfilment of needs with the efficient use of resources.[33] Contrary to the EU fundamental principles of non-discrimination and equal treatment for all economic operators, the PPL allows for preferential treatment of domestic suppliers and products. Preferential treatment is harmful for foreign companies, regardless of their size, both large and SMEs alike. Foreign SMEs might be particularly affected by provisions that exclude them from public procurement procedures, and in particular for smaller value contracts.

The PPL provides for the following types of domestic preferences:[34] the right to exclude foreign suppliers from public procurement procedures below a certain threshold;[35] a margin of price preference applied in favour of domestic suppliers in public procurement procedures for works or services;[36] a margin of price preference applied in favour of bidders who offer domestic goods in procurement procedures;[37] and the possibility (or obligation) of requiring that some or all of the products offered in the public procurement are of Turkish origin.

Large procurement contracts can be divided into smaller lots to encourage SME access to the public procurement market

The PPL foresees the customary tools for facilitating SMEs' access to public procurement. For instance, public contracts may be divided into smaller lots to facilitate the participation of SMEs. Access to public procurement is open to natural or legal persons, as well as to groups of economic operators (joint ventures) formed by natural or legal persons. The PPL provides more detailed rules on requirements that must be satisfied by these groups. Joint participation by suppliers may take the form of either a business partnership or a consortium; the difference is that members of a business partnership carry out the whole business jointly and have equal rights and responsibilities, while members of a consortium separate their rights and responsibilities according to their field of expertise, to carry out relevant parts of the business. Business partnerships may participate in any kind of procurement. However, if different types of expertise are needed, the contracting authorities should indicate in the tender documents whether or not a consortium is allowed to submit a tender.

The PPL specifies what types of documents must be submitted by economic operators as proof that they are able to perform the contract. The purpose of these documents is to demonstrate their economic, financial, professional and technical qualifications. The PPL also defines conditions under which economic operators are deemed to be ineligible and should be excluded from public procurement procedures. The tender documents (and notices or invitations relating to procurement or pre-qualification) prepared by the contracting authority should state what requirements and documents economic operators need to supply to prove their qualifications. The public procurement legislation prohibits the contracting authority from requesting documents or setting selection criteria that impede competition. Certain documents may not be requested by the contracting authority if the value of the contract is below a certain threshold

Contractors can choose their subcontractors freely; however, they have to submit the subcontractors' names to the contracting authority for confirmation. According to the general procurement specifications, subcontractors cannot undertake all of the work covered by the contract (subcontracts cannot amount to 100% of the contract).

The administrative burden of participating in public procurement has been reduced

Economic operators may submit a self-declaration of their qualifications together with their bid when e-procurement is used. Only the best and second-best ranked tenderers are then required to submit additional documents that cannot be verified on line prior to the contract award decision. However, there is still room for reducing administrative burdens. Under the EU Public Procurement Directives, evidence of their qualifications and other supporting documents could be required only from bidders whose offers are evaluated as the most advantageous (first ranked bidders); all bidders should only need to submit a self-declaration with their offer, confirming that they satisfy the requirements imposed by the contracting authority and will provide documentary evidence when the contracting authority demands it.

According to information provided by the Turkish authorities, the current practice in Turkey is that such documents are required from both the first and the second-ranked bidder. This can probably be explained by the risk that the winner withdraws from signing the contract, and the second-best bidder is kept as a reserve contractor ready to sign the contract instead. However, a compromise seems to be possible, such

as letting the contracting authorities decide, in concrete circumstances, what documents to request and from which economic operators, with due respect to the principle of equal treatment.

The institutional set-up supports contracting authorities and economic operators in conducting procurement activities

The Public Procurement Authority (PPA, n.d.[78]), established in 2002, is responsible for implementing public procurement rules, disseminating information about procurement opportunities, monitoring the application of the procurement rules and providing training on public procurement,[38] in addition to its role as the public procurement review body.[39] The PPA also operates the e-procurement system (EKAP, n.d.[79]). Although it is linked to the Ministry of Finance, the PPA is administratively and financially autonomous in exercising its duties. It provides training for both the contracting authorities and economic operators. It also organises seminars dedicated to SMEs. For example, it organised the Seminar on Recent Developments on Public Procurement for SMEs in co-operation with the Turkish Union of Chambers and Exchange Commodities in November 2020.

An e-learning platform called the EKAP Academy is available on the PPA's website.

Provisions on procurement review allow economic operators to challenge the decision of a contracting authority

The public procurement review procedures are composed of three stages: 1) a complaint is submitted to the contracting authority;[40] 2) an appeal is submitted to the PPA;[41] and 3) an appeal is submitted to the administrative court against the PPA's decision.[42] Review is available for candidates, tenderers or potential tenderers who claim to have suffered, or are likely to suffer, a loss of right or damage due to unlawful procedures or actions within the tendering process.[43] In compliance with EU requirements, complaints to the contracting authorities, in principle, must be submitted no later than ten days from the date on which the proceeding or action subject to the complaint was realised or should be realised, and in any case, before the contract is signed. The standstill period runs from the date on which the notice is first published. The period for applications regarding provisions on pre-qualification, or requirements that are not provided in the procurement notice, in turn, runs from the purchasing date of the related document. The appeal application fee payable to the PPA depends on whether the value of the procurement in question reaches the specific threshold specified in the PPL.[44]

A separate department in the PPA deals with appeal applications. Elaborate administrative routines have been put in place to secure the independence and integrity of the PPA as the review body and to resolve any conflict with its other functions (regulatory, monitoring and advisory).

The way forward for Dimension 5b

- **Modify the national legislation on public procurement to align with EU principles and international best practices and align it with the 2014 EU Public Procurement Directives**. In particular:
  - Ensure that economic operators have access to public procurement on an equal footing regardless of their origin, which means removing preferential treatment for domestic bidders.
  - Provide solutions and instruments that facilitate SMEs' participation in public procurement, such as a greater possibility of using a self-declaration as preliminary evidence that the tenderer fulfils the requirements to participate in the tender (Box 19.7) and so-called self-cleaning, as well as provisions concerning sustainable procurement.
- **Further reduce the administrative burden of participating in public procurement.** For example, evidence of qualifications and other supporting documents should only be required from bidders whose offers were evaluated as the most advantageous (first-ranked bidders). All bidders

should only need to submit a self-declaration with their offer, confirming that they satisfy the requirements imposed by the contracting authority and will provide documentary evidence when the contracting authority demands it. Alternatively, it could be left up to the contracting authorities to decide, in concrete circumstances, what documents to request and from which economic operators, with due respect to the principle of equal treatment.

Box 19.7. Self-declarations in the EU Public Procurement Directives: European Single Procurement Document

Economic operators participating in public procurement procedures in EU member states can prove compliance with exclusion and qualification (selection) criteria by means of self-declarations. Self-declarations are submitted with tenders or requests to participate, in principle, instead of certificates issued by public authorities or third parties. Certificates, statements and other means of proof – supporting documents – are then required only from the bidder to whom the contracting authority has decided to award the contract.

In EU member states, at least above the thresholds of application of the Public Procurement Directive, this self-declaration takes the form of the European Single Procurement Document (ESPD). Contracting authorities are obliged to accept ESPDs from economic operators as preliminary proof that the economic operator fulfils the following conditions:

a) is not in a situation in which economic operators should or may be excluded
b) meets the relevant selection criteria that have been set by the contacting authority
c) where applicable, fulfils the objective rules and criteria that have been set by the contracting authority for the purposes of short-listing (in the case of a multi-stage procedure).

The ESPD has a form established by the European Commission and is obligatory for EU member states in procurement covered by the EU Public Procurement Directive. The ESPD consists of a formal statement by the economic operator that relevant grounds for exclusion do not apply and/or that the relevant selection criterion is fulfilled, and the economic operator should provide the relevant information as required by the contracting authority. The ESPD should also identify the public authority or third party responsible for establishing the supporting documents and contain a formal statement to the effect that the economic operator will be able, upon request and without delay, to provide those supporting documents.

The possibility of using self-declarations should encourage the participation of economic operators, and in particular SMEs, by reducing the costs related to their participation in public procurement. Instead of evaluating numerous documents contracting authorities only need to verify that self-declarations are submitted by all of the participants of the procedure – bidders submitting tenders (in an open procedure) or candidates submitting requests for participation in two-stage procedures (for example, a restricted procedure) to decide whether they should be excluded or admitted to the procedure. Self-declarations and information included therein should be sufficient for the contracting authority to decide whether a given bidder (candidate) should be excluded or admitted to the public procurement procedure.

Sources: European Commission (2016[80]; n.d.[81]; 2017[82]).

Access to finance for SMEs (Dimension 6)

Introduction

Access to credit remains fundamental for achieving economic growth, allowing companies to expand their operations and invest in technology to gain in efficiency and productivity. However, the availability and affordability of credit are typically strongly correlated with firm size, meaning that smaller companies typically find it more difficult to access funding. Targeted and well-designed policy measures can encourage and complement private-sector provision of financing, where such market failures exist.

The COVID-19 pandemic has exacerbated credit constraints for small businesses and brought access to finance to a sudden halt. The crisis required a swift short-term targeted policy response to shore up firm finances without, however, losing sight of more long-term measures to provide sustainable financing opportunities for small businesses.

Against this background, Turkey remains the strongest performer in this dimension and has further improved its score to 4.18, up slightly from 3.99 in 2019 (Table 19.17). This increase is largely the result of strong performance in access to bank financing and further efforts to provide equity-based finance opportunities for early-stage companies and via capital markets.

Table 19.17. Turkey's scores for Dimension 6: Access to finance for SMEs

Dimension	Sub-dimension	Thematic block	Turkey	WBT average
Dimension 6: Access to finance for SMEs	Sub-dimension 6.1: Legal and regulatory framework	Creditor rights	4.00	4.27
		Registers	4.60	4.63
		Credit information bureaux	4.80	4.37
		Banking regulations	5.00	4.09
		Stock market	4.00	3.23
		Weighted average	**4.48**	**4.20**
	Sub-dimension 6.2: Bank financing	Bank lending practices and conditions	3.90	3.23
		Credit guarantee schemes	3.60	2.61
		Weighted average	**3.79**	**2.98**
	Sub-dimension 6.3 : Non-bank financing	Microfinance institutions	2.30	3.37
		Leasing	4.00	3.24
		Factoring	4.00	2.71
		Weighted average	**3.42**	**3.09**
	Sub-dimension 6.4: Venture capital ecosystem	Legal framework	5.00	2.73
		Design and implementation of government activities	4.90	2.57
		Monitoring and evaluation	4.30	1.47
		Weighted average	**4.81**	**2.40**
	Sub-dimension 6.5: Financial literacy	Planning, design and implementation	3.20	2.83
		Monitoring and evaluation	2.30	1.19
		Weighted average	**3.02**	**2.50**
Turkey's overall score for Dimension 6			**4.18**	**3.68**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Some progress has been made to improve access to finance for SMEs. Further improvements have been made to an already robust legal and regulatory framework, which now prioritises pay-outs to secured

creditors. However, amidst an increasing backlog of unaddressed insolvency cases and delayed legislative reform, insolvency remains costly and lengthy, thereby increasing creditors' risk aversion (European Commission, 2021[62]). Progress has been made in improving the availability of credit information. Turkey's credit bureau, the KKB, has commenced collecting information from non-financial service providers, including arrears from telecommunication providers, which will help more businesses build a credit history. Credit has grown strongly since the last assessment, despite a temporary deceleration in 2019, which was supported by a significant expansion of subsidised credit lines, large-scale guaranteed loans and financial support programmes for SMEs. While this credit impulse has helped to weather the impact of the COVID-19 pandemic, long-term finance opportunities, however, continue to remain limited. Non-bank financial instruments are available and used across the economy, while efforts have been stepped up further to develop venture capital and crowdfunding, with various state-supported and private venture capital funds in operation. Lastly, efforts to promote financial literacy remain somewhat uncoordinated amid a limited strategic approach.

Table 19.18 provides an overview of the key actions undertaken in response to the recommendations made in the previous assessment.

Table 19.18. Turkey's implementation of the SME Policy Index's 2019 recommendations for Dimension 6

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Strengthen the legal framework for secured creditors to increase predictability and effectiveness	Some progress has been made to prioritise pay-outs to secured creditors; however, enforcement of creditor rights remains limited amid ineffective insolvency resolution. Legislation to improve insolvency procedures is delayed and lacks consultation with private-sector stakeholders.	Limited
Foster the availability of long-term financing	While efforts have focused on ensuring liquidity and access to finance during times of economic crisis, Turkey's reliance on credit as a key mitigation measure has resulted in an increased risk appetite and market-undercutting lending practices, particularly of state-owned banks. In contrast, access to long-term financing has remained limited.	Limited
Expand the coverage of the credit bureau (KKB)	The KKB now includes information on arrears from telecommunication providers. This is a positive first step in expanding the source of data collected to assess the creditworthiness of companies, beneficial in particular to those with a limited credit history or collateral.	Moderate

A robust legal and regulatory framework supports access to finance, but bottlenecks in enforcing creditor rights remain unaddressed

Access to finance is embedded in a well-developed legal and regulatory framework in Turkey, adhering to Basel II and III core principles. Some progress has been made to strengthen the rights of secured creditors since the last assessment, which are now given absolute priority over other claims, such as labour or taxes. However, restructuring and enforcement continue to be lengthy, with proceedings taking five years on average (World Bank, 2020[83]). The situation has been exacerbated by the COVID-19 pandemic, which has further stalled insolvency procedures. While out-of-court mediation is promoted, the backlog remains significant, and legislation to improve insolvency procedures is behind schedule (European Commission, 2021[62]).

In 2018, a unified, fully accessible online collateral registry was established, which allows pledges on existing movable or immovable collateral to be extended to future products, proceeds and replacements of the original collateral, thereby greatly supporting SME credit applications. In addition, progress has been made in enhancing the credit information available via the KKB, which continues to cover around 80% of Turkey's population (World Bank, 2020[83]) and now also includes arrears from telecommunication providers. This makes Turkey the first and only WBT economy to leverage data from retail and utility

providers, helping enterprises with a limited credit history to evidence their creditworthiness. The Bank Association of Turkey, which runs the KKB, also continues to operate a Risk Centre, which collects risk-related information on borrowers for regulatory purposes and also offers risk analysis services to individuals.

Turkey has a well-developed capital market, operated via Borsa Istanbul, and market capitalisation more than quadrupled between 2010 and 2021 to nearly TRY 2.2 billion (approximately EUR 124 million) (BSAKA, 2020[84]). Following amendments to the Capital Market Law and restructuring of the stock exchange, the market segment for SMEs was reformed and merged with a segment for larger companies in 2020, the BISTSubMarket, aimed at low capitalised firms between TRY 40 million and TRY 70 million (approximately EUR 2.3-5.1 million), underlining the increasing importance of capital market finance for SMEs. At the end of 2021, 39 companies had been listed on the BISTSubMarket. Existing opportunities for investors beyond initial public offerings, however, remain limited.

Financial intermediation has expanded significantly, in particular through state-owned banks, but lending remains volatile

Traditional bank lending continues to dominate SME finance, accounting for 87% of financial sector assets in 2020 and growing (European Commission, 2021[62]). Following a sharp decline in credit in 2019 amidst market turbulences, credit growth rebounded strongly in 2020 and 2021, with private-sector credit growing by more than 34% (IMF, 2021[85]), while overall credit accounted for 66% of GDP (European Commission, 2021[62]). Rapid credit expansion, particularly via state-owned banks, has been a key vehicle in the government's response to the COVID-19 pandemic, accounting for nearly one-fifth of the government's entire stimulus package. This credit impulse, alongside regulatory measures including a temporary loan repayment moratorium and lowered reserve requirements, has ensured financial market stability, but concerns over increasing risk exposure, particularly of state-owned banks, have increased. Non-performing loans had declined to below 4% in mid-2021, but ongoing restructuring and impairment discretion limit a full assessment of non-performing loans.

SME access to finance has long been supported through multiple SME support programmes implemented by KOSGEB and large-scale guarantees offered via Turkey's credit guarantee fund, KGF.

In 2019, the authorities launched a new economic incentive package, IVME, providing EUR 4.5 million of subsidised credit lines via three state-owned banks. It is overseen both by public and private sector shareholders and backed by government funding of approximately TRY 5 billion (approximately EUR 283 million) annually. After significant expansion in 2017, following the introduction of the portfolio guarantee mechanism, overall volumes of extended guarantees dropped somewhat in 2018 and 2019, before rebounding in 2020 to TRY 163 billion (approximately EUR 9.3 billion), providing guarantees to over 280 000 SMEs (KGF, 2021[86]). Guarantees are typically offered in the amount of 80% of the total loan, but in response to the pandemic, the decision was taken to double KGF's credit limit to TRY 50 million (approximately EUR 2.8 million) and extend the fund's mandate to households.

Turkey's comprehensive and scalable policy support has helped create relatively favourable conditions for SME lending and continuously deepening financial intermediation. However, the continuous dependency of the availability of finance on broader macroeconomic trends, coupled with limited support measures to ensure long-term finance opportunities, underlines the remaining vulnerabilities of the sector.

Alternative sources of finance are available, and significant efforts have been made to provide start-up financing

Non-bank finance opportunities are present at large across Turkey, offering a viable alternative source of finance. Leasing and factoring markets are among the most advanced in the region, and some amendments to the legal framework have further consolidated these types of financial instruments since the last assessment. Spurred by the overall credit growth, both leasing and factoring have continued to

grow. At the end of 2020, leasing accounted for 1% of total financial market assets and factoring 0.7% (BRSA, 2020[87]). While this is a somewhat lower market share than in 2017 (1.5% and 1.2%, respectively), both segments have continued to grow strongly in absolute terms in recent years, in excess of 20%. In contrast, microfinance remains nascent amid limited regulation for this type of finance. Microcredit is mainly offered by non-governmental organisations in less developed regions of Turkey, suggesting that it may not be a suitable financial tool in an otherwise relatively mature financial industry.

Further progress has been made in providing equity-finance opportunities for early-stage companies, and previous efforts to develop a local market for venture capital are beginning to reap their benefits. Venture capital investments have increased steadily since 2017, from USD 77 million to USD 143 million in 2020 (Invest in Turkey, 2021[88]). In 2021, investment volumes increased to unprecedented levels to more than USD 1.2 billion, largely driven by significant investments in two early-stage Turkish companies.[45] In 2020, furthermore, Turkey introduced amendments to the legal framework governing venture capital in consultation with venture capital fund managers, expanding the definition of venture companies and thereby encouraging more venture companies to register in Turkey.

There are also several financial support schemes in place to boost venture capital activity. Under the Turkish Investment Initiative, the Istanbul Venture Capital Initiative (iVCi),[46] which was initially established in 2007, has now been fully allocated and has leveraged over EUR 1.5 billion in third-party capital, while the Turkish Growth and Innovation Fund, established in 2016, continues to invest EUR 200 million, co-financed by the European Investment Fund, the Turkish Treasury, KOSGEB and the Industrial Development Bank of Turkey. In 2019, under the Turkey Development Fund, two new state-backed funds (Regional Development Fund and Technology and Innovation Fund), amounting to TRY 750 million (approximately EUR 43 million), were launched in succession to the "fund of funds"[47] model of the Turkish Investment Initiative. The Technology and Innovation Fund aims to invest in technology ventures and new-generation start-ups, especially those operating in Turkey's widespread technoparks (see Dimension 8b for further discussion), while a Regional Development Fund supports SMEs with high innovation potential.

Historically, Turkey has had a very active network of business angels. However, following record-high investments in 2017 and 2018, overall angel investments halved in 2019, likely linked to economic turbulences during that year. Nevertheless, Turkish business angels financed 80 projects, totalling EUR 21 million in investments (EBAN, 2020[89]).

Lastly, progress has also been made in establishing a platform for crowdfunding. With support of the EBRD, new crowdfunding legislation entered into force in late 2019 and strengthened further in 2020 and 2021, which enabled and now regulates both equity- and debt-based crowdfunding in addition to the previously existing reward-based model. Operating under the supervision of the CMB, a new unified crowdfunding platform was launched in April 2021, raising TRY 35.87 million (approximately EUR 2 million) until February 2022. Lastly, in 2021, Turkey introduced legislation explicitly banning the use of crypto assets for payment purposes.

Efforts to promote financial literacy need to be revitalised

Progress in enhancing financial literacy has been mixed. Turkey does not have a dedicated strategy for financial literacy, and an action plan implemented by the CMB on Financial Education and Financial Consumer protection between 2014 and 2017 has ended without a successor document or impact evaluation. Nevertheless, the CMB continues to implement several training courses, though plans to launch a dedicated e-learning platform have not yet materialised. Entrepreneurs can also access training via KOSGEB's e-Akademi,[48] which among others, covers topics such as financial management. The digital nature of this training enables accessibility even in less urban areas of Turkey; there is, however, no information available on outreach and impact. Private-sector associations, such as the Banks Association of Turkey or the Financial Literacy and Inclusion Association, also offer some training. In a dedicated financial literacy section of the Finance and Banking portal (https://egitimportali.tbb.org.tr), the Banks

Association of Turkey offers guidance on financing and e-learning opportunities through a downloadable application. Lastly, while the economy's Eleventh Development Plan (2019-2023) includes some provisions for financial awareness-raising and aims to incorporate the topic into the national curriculum, current efforts are limited to the distribution of some materials targeting primary and secondary schools.

The way forward for Dimension 6

- **Tackle the increasing backlog of insolvency cases to provide certainty to secured creditors.** Rights between debtors and creditors need to be better balanced, while insolvency procedures need to be accelerated and costs reduced. Measures could include further promoting out-of-court settlements or introducing hybrid models where a court could intervene at points of key decision making, with a view to providing simpler and faster solutions to businesses and banks. Legal reform could reduce the maximum stay for creditors and introduce more flexibility in the treatment between creditors. In addition, in close co-ordination between relevant ministries and the regulator, efforts should be made to increase the courts' capacity to deal with insolvency cases.
- **Stimulate long-term financing opportunities for SMEs.** Despite significant credit growth, the availability of long-term debt financing has stagnated. As temporary measures introduced due to COVID-19 are phased out, the focus should shift from providing short-term capital to cover operational costs to measures encouraging lenders to provide longer-term investments.
- **Revitalise efforts to develop a more strategic approach to financial literacy.** A review of the previous action plan, as well as a comprehensive assessment of financial awareness and understanding of the broader population, and entrepreneurs, in particular, would help to identify existing shortcomings and reach agreement on priorities. A future action plan should be closely co-ordinated and implemented with all stakeholders, including the CMB, the Ministry of Education, KOSGEB and private-sector providers.

Standards and technical regulations (Dimension 7)

Introduction

Access to the European Single Market is conditional upon compliance with EU regulations and directives, which due to the New Approach Directives, also increasingly rely on conformity to European standards. While standards and technical regulations can enable trade by defining (minimum) criteria for products and processes, they may also represent a barrier to trade, particularly for SMEs. To lower these barriers, WBT economies need to have a national quality infrastructure (QI) system that is accessible and supportive of SMEs. At the same time, the recognition of an economy's procedures and institutions by the relevant EU QI bodies and associations requires a high level of alignment with the *acquis*.

The EU-27 receives 41% of Turkey's exports and is, therefore, its greatest trading partner (Eurostat, 2021[90]). For comparison, Turkey's other big trading partners, the United Kingdom and the United States, receive 6.6% and 6% of Turkish exports, respectively (International Trade Centre, 2021[91]). Hence, like the other WBT economies, the alignment of its QI legislation and harmonisation with the *acquis* is very important for Turkey's economy. Furthermore, having one of the most developed QI systems among all WBT economies is also a source of regional competitiveness for Turkey, as firms enjoy the full range of certification services in their home market, and Turkey also exports QI services to Western Balkan economies.

Turkey retains the highest score in the region in this dimension (Table 19.19). Its score has remained almost the same as in the previous assessment (4.73 in 2022 versus 4.78 in 2019). Turkey's QI system performs well in all dimensions, as it has an above-average score almost across the board. Despite already having a comprehensive QI system, Turkey has further improved access to standardisation (Sub-dimension 7.3), which is an area where many other WBT economies still fall short.

Table 19.19. Turkey's scores for Dimension 7: Standards and technical regulation

Chapter 15. Dimension	Sub-dimension	Thematic block	Turkey	WBT average
Dimension 7: Standards and technical regulations	Sub-dimension 7.1: Overall co-ordination and general measures	–	5.00	3.90
	Sub-dimension 7.2: Harmonisation with the EU *acquis*	Technical regulations	5.00	4.38
		Standards	4.73	3.77
		Accreditation	5.00	3.89
		Conformity assessment	4.71	4.22
		Metrology	3.77	4.13
		Market surveillance	5.00	3.96
		Weighted average	**4.70**	**4.06**
	Sub-dimension 7.3: SME access to standardisation	Awareness-raising and information	4.60	3.88
		SME participation in developing standards	4.50	3.21
		Financial support to SMEs	4.60	3.57
		Weighted average	**4.57**	**3.55**
Turkey's overall score for Dimension 7			**4.73**	**3.96**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Key developments in this dimension include the transposition of the newest EU market surveillance legislation (1020/2019) into national law and new legislation on technical regulation and product safety. Furthermore, the information provision about government support programmes was further improved through the creation of a new platform that allows searching programmes by geographic area, government institution and keyword (Ministry of Industry and Technology, 2021[92]).

The sole recommendation from the 2019 assessment regarded incorporating education on standardisation in national education curricula (Table 19.20). While the Turkish Standards Institution's (TSE) overall training activities increased before the COVID-19 pandemic (by 18% from 2018 to 2019), there was no progress in incorporating education about standards into the national curricula. While training targeted at firms and associations is, of course, important, incorporating basic knowledge about standards into more basic forms of education can have broader effects in the long term as it reaches much wider segments of the population.

Table 19.20. Turkey's implementation of the SME Policy Index's 2019 recommendation for Dimension 7

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Streamline education on standardisation in national curricula as a starting point for raising awareness of standards and standardisation	There has been no progress yet on this recommendation.	No progress

There is an elaborate web presence for exporters and a wide array of support programmes

Like all other WBT economies, Turkey's harmonisation process with the *acquis* is governed by the National Plan for EU Accession, which was most recently updated in July 2021 (Ministry of Foreign Affairs, 2021[93]). The chapter on free movements of goods includes a detailed list of all legislation to be adopted or updated, along with the envisioned year of adoption and the responsible institution. Such a plan, which unfortunately does not exist in all WBT economies, allows for good monitoring of the harmonisation process.

In terms of information access on standards and technical regulations for SMEs that want to export, various web pages exist with relevant information, such as the sites of the Turkish Exporters Assembly (TIM), the Turkish Chamber of Commerce and most recently, the Easy Export Platform hosted by the Ministry of Trade. While these websites provide very important practical advice and helpful trade statistics, they lack information related to conformity assessment procedures and technical regulations. Combining this information with some basic information about the Turkish QI and providing links to the above-mentioned pages, as is done, for example, by the Serbian Ministry of Economy (Serbian Ministry of Economy, 2021[94]), would further improve information access for exporters seeking information about compliance with international or European standards and regulations.

Horizontal quality infrastructure legislation is fully harmonised with the acquis

Turkey introduced a new regulation on technical regulation and product safety that entered into force in March 2021 and further aligns the Turkish legislation with the *acquis* (Ministry of Trade, 2020[95]). The law adopts the EU standard that the responsibility of the manufacturer is not only towards the consumer but

against all third parties (Yavuz, 2021[96]). With these new additions, Turkey is the only WBT economy whose horizontal QI legislation is fully aligned with the *acquis*.

In the area of standardisation, there have been few new developments, as Turkey continues with a very high adoption rate (above 99%) of European standards (CEN-CENELEC, 2021[97]) and an aligned legislative framework. In 2020, TSE published 1 859 standards, which is around 10% less than in 2019 (TSE, 2020[98]; 2021[99]). Training activities also fell, from 1 315 in 2019 to 715 in 2020, which can be primarily attributed to the COVID-19 pandemic (TSE, 2020[98]). In 2021, 207 international standards were translated into Turkish, compared to 50 in 2020. This large increase in translations considerably improves access to standards for SMEs, as the non-availability of standards in the local language is a barrier for many SMEs in the region.

In the area of accreditation, Turkey has, by far, the most comprehensive system among all WBT economies, as the national accreditation institution, TURKAK is a multilateral-agreement signatory with the European Co-operation on Accreditation in all nine accreditation fields. Having such a wide array of internationally recognised accreditation services has led TURKAK to also export its accreditation services to Western Balkan economies. TURKAK was also admitted to the mutual recognition of data agreement of the OECD Good Laboratory Practices Working Group in February 2020, which further underlines its capacities (European Commission, 2021[62]). As a response to the COVID-19 pandemic, TURKAK has also offered remote inspections.

Conformity assessment services were also fully operational during the COVID-19 pandemic, and the number of accredited conformity assessment bodies increased by 25%, from 1 580 in 2018 to 1 980 in 2021. Furthermore, Turkey updated its conformity assessment regulation in May 2021 (Ministry of Commerce, 2021[100]), fully aligning it with the *acquis*. TSE, which in addition to its function as a standardisation institute, also acts as a conformity assessment body, has introduced remote audit and inspection activities in accordance with international best practices and guidelines from the International Accreditation Forum.

While metrology services continued without interruption during the pandemic, this was also the area with the least progress, which also explains the slightly lower score in this category (Table 19.19). The latest Metrology Strategy covered the period 2015-18 and has not been renewed since then. The National Metrology Institute TUBITAK UME is a member of all the relevant international metrology associations (WELMEC, the European Association of National Metrology Institutes [EURAMET], the International Bureau of Weights and Measures). While TUBITAK UME participates in the development of digital calibration certificates at EURAMET, there have not been any concrete advancements with respect to the digitisation of legal metrology services.

Turkey adopted the framework regulation on market surveillance in July 2021, which aligns national law with the European Union's latest Market Surveillance Regulation 1020-2019 (Ministry of Trade, 2021[101]). This law is very important as it harmonises the legislative base in the area of electronic commerce, which is a growing trade segment that also offers great export opportunities for SMEs. Turkey is the only WBT economy that has aligned its legislation with Regulation 1020-2019. However, market surveillance checks decreased by 32% in 2020 compared to 2019. Furthermore, as surveillance remains very limited with regard to e-commerce and the share of fines on unsafe products decreased from 31% in 2019 to 26% in 2020, the European Commission has raised concerns about the enforcement of product safety legislation (European Commission, 2021[62]).

SMEs' access to standardisation

Turkey stands out in terms of awareness raising about standards, as it offers the widest array of online and offline information and activities among all WBT economies. TSE maintains a regularly updated news section on its website that is divided into region-specific sections. It also publishes a magazine, which requires registration to access. To raise further awareness about standardisation, TSE initiated a new

product in January 2019, providing 11 seminars in 11 different cities in Turkey and hosting 2 international standardisation conferences specifically targeting SMEs. Furthermore, TSE offers sector-specific brochures that present its services and the type of international standards that TSE certifies in this sector (TSE, 2021[102]).

On the other hand, activities to incentive the participation of SMEs in the development of standards remain very limited. While holding committee meetings on line may have lowered some barriers to participation, TSE does not offer any specific discounts for committee participants or financial support for SMEs that wish to participate in standards development but do not have the resources to do so (for an example, see Box 19.9). As SMEs constitute 99.8% of all firms in Turkey and comprise 64.5% of total turnover and 56.3% of total exports (TOBB, 2021[103]), it is very important to take their knowledge and experience into account to ensure their participation.

Companies seeking financial support to implement provisions required by international, European or national standards can find a wide array of financial support programmes in Turkey. Examples include export loans by the Turkish Eximbank, the Ministry of Commerce's support programme for exporting SMEs or the international accelerator support programme by the SME support agency, KOSGEB. To further assist firms in finding the right support programmes, the Ministry of Industry and Technology established a new platform that allows users to filter programmes by institution and region as well as by keyword search (Box 19.8).

Box 19.8. A search engine with all government support programmes

All WBT economies have some form of (export) support programme that assists firms, either financially or through some in-kind services, in meeting the requirements of international standards or regulations. However, these projects are offered by a large array of institutions, such as ministries, special agencies, business or trade associations, or projects directly managed by international development co-operation partners. It is, therefore, often very difficult for firms to even be aware of all the programmes and lines of support that exist.

To address this information access challenge, the Turkish Ministry of Industry and Technology has developed a website that lists 257 government support programmes across different agencies and which allows users to search for these programmes through keyword searches as well as through institutional or geographic filters. Each search entry contains the name of the programme, a status indicator showing whether the programme is still active or not, application deadlines and dates, as well as a direct link to key documents that describe the programme. Users can share this information via email or social media, and there is also a direct contact form to ask questions or send comments about the programme. The possibility to filter the different support programmes by institution or region makes this a very useful tool, as firms can quickly identify which support programme may be relevant for them. The second success factor of this platform is its direct embedment of documents, which lowers the search costs for firms, as they have the key information directly available on the platform without having to browse the respective agency's webpage. Hence, while having some upfront set-up costs, once in place, such a platform greatly reduces search costs and improves the visibility of government support programmes, particularly for agencies or institutions whose websites are not so frequently visited by firms.

Source: Ministry of Industry and Technology (2021[104]).

The way forward for Dimension 7

- **Foster the participation of SMEs in standards development through a specific programme or support line.** Due to the importance of SMEs to the Turkish economy, more efforts could be made to ensure their participation in standards development. As SMEs often face difficulties freeing up personnel to attend committee meetings, standardisation institutions can help create associations that represent their interests in national and international standards meetings. For example, in Germany, the standards body DIN founded the SME commission KOMMIT, which represents the interest of German SMEs in standard-related questions (DIN, 2021[105]). Furthermore, firms that participate in technical committee meetings can receive financial support (Box 19.9).

Box 19.9. Remunerating SMEs to participate in technical committee meetings: Germany's WIPANO programme

To increase the participation of SMEs in the development of standards, Germany's Ministry for Economic Affairs expanded its WIPANO programme to pay an allowance to SMEs that participate in national, European or international committee meetings. There is a lump-sum amount of EUR 1 000 for participation in a national committee meeting and EUR 2 000 and EUR 3 000 for participation in European or international committee meetings, respectively. Support is restricted to companies that have never, or at least not in the last three years, participated in a technical committee meeting.

As SMEs form the backbone of the German economy (and of many other economies), the German Ministry for Economic Affairs considers this support part of Germany's industrial strategy. SMEs that participate in such meetings can shape the standardisation landscape of tomorrow and benefit from a valuable exchange at the technological frontier with experts, competitors and researchers. As such, exchanges may very well benefit domestic innovation, as such incentive payments can also be worthwhile investments for other governments seeking to increase the participation of their SMEs in standards development.

As the Turkish economy is also highly reliant on SMEs, introducing mechanisms to increase their participation in technical committees would be beneficial for both the economy and its SMEs. SMEs participating in technical committees benefit from the knowledge exchange with their immediate peers as well as with larger corporations. At the same time, the standard body benefits from incorporating SMEs' knowledge into new or updated standards, making them better suited to the needs of SMEs.

Source: DKE (2021[106]).

Enterprise skills (Dimension 8a)

Introduction

SMEs, the cornerstone of job creation, provide a significant share of employment, with two out of three employed people working for an SME, acting as an engine for social development and economic growth. Yet to drive growth and reduce the tendency for start-ups to result in lower-paying jobs, SMEs need to invest in skills, digitalisation and innovation to boost productivity and higher paid employment. However, they need additional support to do so, as they may lack the resources and capacity to invest in training for managers and employees. They can be supported by relevant government-financed training, however, to close skills gaps and upskill the workforce. This is emphasised when it comes to greening businesses, for example, where the opportunity for sustainability in SMEs may be limited by a lack of awareness and skills or potential costs of actions for greening. Supporting SMEs through developing enterprise skills can create far-reaching impacts for families, local communities and economies.

Turkey is the top performer in the enterprise skills dimension, scoring 4.35, which represents an increase since the previous assessment period when it scored 3.54 (Table 19.21). This improvement reflects the ongoing emphasis in the economy on developing the entrepreneurship ecosystem (European Commission, 2021[107]) and the creation of a strong ecosystem approach to providing a broad range of support and training relevant to this dimension.

Table 19.21. Turkey's scores for Dimension 8a: Enterprise skills

Dimension	Thematic block	Turkey	WBT average
Dimension 8a: Enterprise skills	Planning and design	4.17	2.86
	Implementation	4.74	3.85
	Monitoring and evaluation	3.67	2.67
Turkey's overall score for Dimension 8a		**4.35**	**3.32**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

The strong ecosystem at the national and regional levels continued to develop through this assessment period, supported by a renewed emphasis on support for entrepreneurship and SMEs within the Eleventh Development Plan (2019-2023) (Presidency of Turkey, 2019[37]). There was an increase in the strength and depth of provision across the sector. At the same time, the scale of implementation across the economy renders it challenging to provide a coherent picture of all government and non-government actions taking place at the national or regional levels. The challenges of the COVID-19 pandemic have had an impact, changing the landscape of SME training and support toward online provision and increasing the focus on supporting businesses towards digitalisation. The theme of social entrepreneurship also comes through more strongly through expanded provision developed during this assessment period, echoing the educational priority based on this through the Education Vision 2023 (Government of Turkey, 2019[40]) across compulsory education and training (Table 19.22)

Table 19.22. Turkey's implementation of the SME Policy Index 2019 recommendations for Dimension 8a

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Improve co-ordination in the supply of SME skills training	Steps have been made to support improved skills intelligence, including drawing data from existing sources such as KOSGEB and ISKUR (Turkish Employment Agency). However, more efforts in mapping and analysing current provision would be needed to ensure focused and efficient provision.	Moderate
Introduce targeted, cross-sectoral evaluation of short- and medium-term results and the long-term impact of SME skills' support policies and programmes	There is evidence of strengthened commitment to in-depth data and analysis on the labour market and SME skills programmes by KOSGEB and ISKUR, but potential remains to consolidate this further at the system level. Moving forward, this should be strongly linked to the new Geleceğin Becerileri programme (Skills Gap Reduction Accelerator programme).	Moderate
Co-ordinate efforts by government and policy partners to exchange good practice on SME skills development	There are examples of practice exchange actions, but these are not implemented systematically on an annual or biannual basis.	Limited

There is strong policy and ecosystem support for SME skills development

There is a strong ecosystem of SME skills support and training in Turkey, supporting the drive towards increased entrepreneurship and innovation, which is central to the vision of the Eleventh Development Plan (2019-2023) and continued economic growth. This established support continues from the last assessment period and has expanded since 2019 with a broad range of sector commitments to support SMEs and entrepreneurship through the Eleventh Development Plan (2019-2023) (Presidency of Turkey, 2019[37]). This is translated into action through a range of national and regional strategic plans, most notably the KOSGEB Strategic Plan (2019-2023) (Government of Turkey, 2019[44]) and RDA strategies. Other relevant policy areas contribute with actions linked to Ministry of National Education and Ministry of Labour strategies (Government of Turkey, 2014[45]), smart specialisation, which is led at the regional level,[49] as well as the National Artificial Intelligence Strategy (2021-2025), which highlights SME skills, labour market skills matching and digital transformation. Strong institutional capacity driving implementation is centred on KOSGEB, the government agency leading entrepreneurship support, with wider implementation through ISKUR (Turkish Employment Agency), the Ministry of Industry and Technology and TUBİTAK TÜSSIDE (Turkish Industry Management Institute). This is complemented by a range of non-governmental actors, particularly TOBB, TESK (Turkey Tradespeople and Artisans Confederation), TURKONFED (Turkish Enterprise and Business Confederation) and TOSYOV (Turkish Small and Medium-Sized Enterprises Self-employed Persons and Managers Foundation),[50] alongside business support organisations, technoparks, R&D centres, educational institutions and non-governmental organisations. At the regional level, there is a network of development agencies that drive localised support and training solutions for the needs of their regions. This creates a depth of organisational engagement at the national and regional levels, offering multiple entry points to financial and technical support as well as practical training solutions for SMEs.

Skills intelligence is being transformed toward an enhanced system-level framework

While there has been a recognisable emphasis on the practical use of skills intelligence data for policy evidence and design, there are new efforts to prepare a system-level skills intelligence framework through the Geleceğin Becerileri programme,[51] launched in June 2021. This is a Skills Gap Reduction Accelerator Programme linked to a World Economic Forum initiative with cross-government leadership from the

Ministry of Labour and Social Security, the Ministry of National Education, the Ministry of Industry and Technology, and supported by the Istanbul Development Agency. Ambitious, it aims to map and realise the skills needed for the future of the labour market to provide evidence-based skills needs and skills anticipation insights to inform policy and decision making; support existing employees and the unemployed through upskilling and reskilling programmes; and establish financing models for lifelong learning. This new programme offers a channel to build on the portfolio of skills intelligence actions in Turkey that have continued from the previous assessment period, including regular training needs analyses by ISKUR[52] and data collection from key agencies such as KOSGEB, TUBİTAK, TESK and TOBB. Bringing together data and making links across the ecosystem is central to the programme design. Through its multi-stakeholder co-operation approach, the programme has the potential to close skills gaps and improve understanding of how training supply across different providers maps to labour market demands and SME skills. This offers an opportunity to upgrade the evaluation of SME skills programmes to a cross-government system-level approach to provide a comprehensive evidence base that can contribute to the Geleceğin Becerileri programme.

A diverse range of SME skills support and training exists at national and regional levels

Start-up training is financed primarily via KOSGEB and TUBİTAK, who operate government-financed programmes accessible to wider stakeholders, including RDAs. Implementation of training delivery is led by actors across the ecosystem, from government organisations, including KOSGEB, ISKUR and RDAs, to wider actors, particularly business network organisations at national and regional levels. The diversity and strength of the ecosystem and the government financing open up a wide range of training opportunities. For start-ups and founders, it covers different categories of entrepreneurs,[53] sectors and support for different phases of SME development, including growth,[54] investment readiness and internationalisation. The themes supported through training and advice stretch from sustainability,[55] green economy, resource efficiency[56] and circular economy to intellectual property and employees' digital competences. Practice-sharing actions at the national level are not widespread,[57] with no online repositories of national practices; this is an opportunity for Turkey to showcase innovative actions and improve quality and scale delivery through promoting insight across providers.

Online training for enterprise skills was already well developed in Turkey, but during the COVID-19 pandemic, this provision evolved and expanded to adapt to changing needs. KOSGEB provides online SME training via e-akademi,[58] newly launched as the portal through which KOSGEB will develop its web-based training offers. KOSGEB now actively seeks to expand the range of training available, including bringing in training available via other agencies. This includes a commitment to offering training in English and Arabic, which will open up access to migrant entrepreneurs, of which there is a large population in Turkey who can benefit. While this is a valuable training portal, KOSGEB could explore directing users to a broader-based information resource that provides primary sources of SME support and training available at national and regional levels as well as key platforms or networks that support the diversity of entrepreneurs and SMEs in Turkey. This would increase accessibility, with the potential for tangible impact on levels of entrepreneurship and innovation, including women and youth, who were particularly adversely affected during the pandemic (UN Women, 2020[34]).

There is good evidence of guidance and support for social entrepreneurship and co-operatives. The digital platform of the Turkey Social Entrepreneurship Network project was launched in 2020 and is an active hub for entrepreneur stories, information, access to training and networking.[59] KOSGEB has included social entrepreneurship as an eligible category for access to the entrepreneurship financial support programme[60] and is also raising awareness through training for regional actors on COSME funds for social economy missions.[61] Practical training is available at the regional level but is not accessible in all regions of Turkey.[62]

Digitisation of SMEs is a strong feature within SME support and training provision

The digitalisation of SMEs is strongly represented across policy and implementation and has been significantly ramped up with new programmes and funding during the COVID-19 pandemic. Policy prioritises this area as part of the Eleventh Development Plan (2019-2023) and part of a wider strategy, particularly the National Artificial Intelligence Strategy (2021-2025) (Government of Turkey, 2021[39]).

Alongside the main delivery of training for SMEs linked to digitalisation, there are also a number of specific initiatives that address digitalisation in different ways. Digitalisation as a tool for resilience and business contingency is the focus of a programme by the United Nations Development Programme (UNDP) called The Digital Way,[63] which is being launched in 2022 and aims to develop a matching platform providing training and business mentoring across pilot regions, in collaboration with RDAs. The COVID-19 Resilience and Response Project saw work with UNDP to mitigate the impact of the pandemic on fragile sectors – including 25 region-based fragile sector analyses and training for SMEs in these sectors. The COVID-19 Resilience and Response Project is funded by the Government of Japan and initiated by the UNDP.[64]

As a large-scale flagship initiative announced through the Eleventh Development Plan (2019-2023),[65] innovation centres and model factories are being set up across Turkey. These aim to boost innovation, digitalisation and the entrepreneurship ecosystem by supporting SMEs in the manufacturing sector in pivoting towards lean and technology-oriented approaches.[66] This is carried out under the co-ordination of the Ministry of Industry and Technology's General Directorate of Strategic Research and Efficiency, and work is taking place to actively grow this project through expanding the KOSGEB-led trainer pool in 2022.[67]

To widen access to digitalisation technologies for SMEs and provide bespoke pathways, TOBB has collaborated with Visa Turkey on the SMART SME Platform.[68] This digital transformation platform supports the digitalisation processes of SMEs in Turkey across all aspects. It offers access and a shopfront to a wide range of digitalisation solutions to enable SMEs to match their needs, alongside guidance, training and access to the D3A Digital Transformation Maturity Assessment by TUBİTAK TÜSSIDE.[69]These examples of innovative action on digitalisation can offer inspiration at the regional level as potential channels to address specific barriers to SME digitalisation.

The way forward for Dimension 8a

- **Improve the system-level evaluation of all government-led or government-financed SME skills programmes**, allowing for a comprehensive understanding of the impact of government funding on SME skills development and SME performance, and include this as part of the skills intelligence co-ordinated through the Geleceğin Becerileri programme. This should include gender and age-disaggregated data across all areas of data collection and analysis. Enhanced evaluation can provide a better understanding of the lasting impact of government investment and provide intelligence on how to refine and consolidate training offers across multiple providers.
- **Establish national opportunities for SME support and skills training providers to exchange practices to increase quality**, develop new collaborations between providers and disseminate the results of impact evaluation. Explicit inclusion of social entrepreneurship training can support this sector to be scaled up nationally and, in line with the priorities of the Education Vision 2023, a focus on education-business co-operation across all levels of education and training could be highlighted within training practices. This could include an awards scheme led by KOSGEB and link the Turkish entries to the European Enterprise Promotion Awards.[70]

Innovation policy for SMEs (Dimension 8b)

Introduction

Innovation and building a knowledge-based economy is a priority for Turkey, and globally. Recognising the link between innovation and productivity and its contribution to higher value-added economic output and competitiveness, policy makers have increasingly focused on creating an innovation ecosystem, typically with a strong focus on start-ups. However, equal attention must also be given to enhancing innovation capacity at the firm level.

Reflecting its size and economic maturity relative to the Western Balkan economies, Turkey has long outperformed the other economies of the region in this area. Since the last assessment, Turkey has further progressed in this dimension, increasing its overall score from 4.08 in 2019 to 4.45 in 2022, well ahead of the runner-up, Serbia, and the WBT average (Table 19.23). Improvements have been made, in particular in the policy framework and government institutional support services for innovation, and there is increased support for business-academia collaboration.

Table 19.23. Turkey's scores for Dimension 8b: Innovation policy for SMEs

Dimension	Sub-dimension	Thematic block	Turkey	WBT average
Dimension 8b: Innovation for SMEs	Sub-dimension 8b.1: Policy framework for innovation	Strategic approach	4.60	3.81
		Implementation of innovation policy	4.44	3.31
		Co-ordination of innovation policy	5.00	3.30
		Weighted average	**4.60**	**3.46**
	Sub-dimension 8b.2: Government institutional support services for innovative SMEs	Incubators and accelerators	4.71	3.27
		Technology extension services for established SMEs	3.67	2.14
		Weighted average	**4.30**	**2.82**
	Sub-dimension 8b.3: Government financial support services for innovative SMEs	Direct financial support	4.88	3.81
		Indirect financial support	3.60	2.26
		Weighted average	**4.37**	**3.19**
	Sub-dimension 8b.4: SMEs and research institution collaboration and technology transfer	Innovation voucher schemes and co-operative grants	4.20	2.85
		Institutional infrastructure for business-academia co-operation	4.60	2.99
		Intellectual property rights	4.33	3.05
		Weighted average	**4.39**	**2.95**
Turkey's overall score for Dimension 8b			**4.45**	**3.18**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

The 2021 European Innovation Scoreboard[71] categorised Turkey as an "emerging" innovator, down from "moderate" in previous years, largely owning to lower results of the Enterprise Innovation Survey (European Commission, 2021[13]). Overall, however, Turkey has a well-developed strategic framework for innovation, even though the finalisation of key documents is still pending. Large-scale support programmes, implemented through Turkey's SME Development and Support Organisation, KOSGEB and TUBITAK, have boosted investments in R&D, particularly from the private sector, accounting for 1.06% of GDP in 2020, but falling well short of the government's objective of 1.8% by 2023. Support measures focus both on developing the innovation ecosystem as well as on building the innovation capacity of enterprises. However, despite some progress, support continues to focus on regions with more mature innovation

systems, thereby increasing the gap between urban hubs and less developed regions in Turkey. Lastly, steps have also been taken to launch additional support aimed at stimulating collaboration between business and academia, thereby encouraging commercialisation. However, these efforts have yet to bear fruit.

Table 19.24provides an overview of the specific actions undertaken in response to the recommendations for this dimension made in the previous assessment.

Table 19.24. Turkey's implementation of the SME Policy Index's 2019 recommendations for Dimension 8b

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Scale up financial support for private-sector R&D activities	R&D investments have gradually increased in recent years, with the majority of investments now provided by the private sector. However, R&D expenditure still falls well short of the government's target of 1.8% of GDP by 2023.	Moderate
Refocus the location of technology development centres (TEKMERs)	Since the last assessment, the TEKMERs have been restructured, and seven new ones have been established. However, except for the new TEKMER in Bitlis, they are all located in the urban hubs in Turkey's most developed areas.	Limited
Encourage technology transfer and commercialisation	TUBITAK launched two new programmes in 2020 for Patent- and Order-based R&D projects and an initiative for a new support scheme for centres of excellence, including technology transfer. However, despite these and other long-existing initiatives to stimulate technology transfer and collaboration between research R&D institutes and the industry, little progress has been made to increase patenting and commercialisation. No progress has been made in reforming the legal framework for intellectual property protection, which could help encourage researchers to share their developments.	Moderate

The policy framework for SME innovation is well developed, with effective implementation mechanisms in place

Turkey has a well-developed policy framework supporting innovation, which is featured prominently in various key strategic documents, including the Eleventh Development Plan (2019-2023), as a priority for the economy's economic development. The previous Innovation Strategy expired in 2016, and work on developing a new Science, Technology and Innovation Strategy only commenced in 2019 and is not expected to be finalised until 2022. In addition, technology development is covered under the Industry and Technology Strategy 2023, which includes aspects such as digital transformation and high technology. Implementation of this strategy is progressing well, supported by a set of strategic action plans. An action plan for national research and innovation capacity is also in place.

Smart specialisation strategies have been formulated in some regions. With support from the European Union, co-ordination has increased at the national and regional levels, and five regions – Bursa sub-region, Izmir, Kocaeli, Konya and Manisa – have registered on the European Union's Joint Research Centre's Smart Specialisation Platform.[72]

Co-ordination of innovation policy remains somewhat complex. The Ministry of Industry and Technology formally oversees the design and implementation of innovation policy, while the Science, Technology, and Innovation Policy Council, established in 2018 under the new presidential structure, has the mandate to lead Turkey's innovation policy design, co-ordination and monitoring and to become an effective and centralised advisory body. As such, the council has also overseen the development of the forthcoming Science, Technology and Innovation Strategy.

Two agencies are responsible for implementing innovation policy: 1) KOSGEB, focused on SME development and supporting innovation activity within enterprises; and 2) TUBITAK, which supports R&D activities. Companies of all sizes, as well as research institutes, are eligible to benefit from these support programmes, but some programmes specifically target SMEs and start-ups. Both KOSGEB and TUBITAK

are fully funded by government resources and are fully staffed and operational, with large outreach in the regions.

Turkey has a very lively ecosystem for start-ups and innovation, though distribution of support remains somewhat uneven across regions

As of the end of 2020, over 80 public and private incubators existed across Turkey, many of which are located in dedicated TDZs, often offering both incubation space and advisory support. Following some restructuring of its technology development centres (TEKMER) initiative, KOSGEB has established seven new TEKMERs since 2019 across the urban regions around Ankara, Istanbul, Izmir and one in Bitlis. Progress has also been made to expand the network of TDZs, which is now operational throughout 49 regions of Turkey. As of early 2021, there were 87 such TDZs, compared to 81 during the previous assessment. Of these, 73 are fully operational, hosting over 6 200 tech firms and offering incubation, but also R&D opportunities and some technology transfer services. New legislation brought forward in 2021 has further enabled TDZs to offer incubation services outside of their current zones, which is expected to further boost the ecosystem in the medium term. An example of a very successful start-up incubation centre targeting newly established technology companies is shown in Box 19.10. KOSGEB also runs a support programme to develop international incubation centres in Turkey, aimed at promoting Turkish technology to international markets and the domestic tech space.

In addition, Turkey has attracted several accelerators, the number of which has increased to nearly 70 in 2021, compared to 48 in 2018, and which focus on specific industries within the ICT sector, particularly e-gaming. Nevertheless, some accelerators are increasingly shifting their focus to internationalisation and scaling, suggesting an increasing maturity of Turkey's start-up space. TUBITAK also continues to implement its BIGG acceleration programme, in operation since 2012, which supports idea-stage start-ups. In 2019 and 2020, over 560 and 530 enterprises, respectively, benefited from the programme, for a total of TRY 200 000 (approximately EUR 10 000) each.

Turkey's innovation ecosystem is comprehensive and also targets innovative companies beyond the initial start-up stage. However, while efforts are concentrated in areas with the greatest absorption capacity and demand, it remains fragmented throughout the regions.

Box 19.10. Turkey's TIM-TEB StartUp House

The Turkish Exporters Assembly (TIM) partnered with the Turk Ekonomi Bankası (TEB) to create a start-up incubation centre targeting newly established entrepreneurs. The TIM-TEB StartUp House provides tailored assistance to technology start-ups aiming to further develop and expand their operations. Specialised experts help SMEs in streamlining their operations, supporting innovation and boosting their competitiveness domestically and abroad. Entrepreneurs have tailored training and advisory services at their disposal across the economy. Start-ups in Turkey have access to a broad network of TIM-TEB incubation centres, as they are currently present in ten cities: Istanbul, Izmir, Denizli, Gaziantep, Edirne, Bursa, Konya, Mersin, Trabzon and Erzurum.

TIM-TEB StartUp House identified key obstacles faced by start-ups in Turkey, which include a lack of resources in small cities for start-ups to develop, lower value-added of commercialised technology products and services, a small number of potential investors and low uptake and awareness of government programmes. The StartUp House aims to assist companies in overcoming these hurdles by offering comprehensive entrepreneurship services and innovative solutions.

The project, launched in 2015, is an example of a sound public-private partnership, receiving over TRY 131 million (approximately EUR 7 million) of public funding for its participants. Start-ups can also

be advised on accessing financial support from the government, as well as generating more investment from private entities.

The TIM-TEB StartUp House supports 20% of all technology start-ups in Turkey, becoming one of the leading incubation centres within the economy. In the first four years of operations, the centre supported over 935 entrepreneurs, who, to date, have created a total of 7 209 jobs across Turkey. Furthermore, the StartUp House contributed to the entrepreneurial learning of students, with approximately 5 000 students attending training programmes.

Source: The Turkish Exporters Assembly and Turk Ekonomi Bankasi (2021[108]).

Direct and indirect financial support for innovation continues to be strong and targeted

Both KOSGEB and TUBITAK offer large-scale financial support schemes to support enterprise innovation and R&D, amounting to over EUR 70 million since 2019, while the RDAs also provide some assistance for innovative SMEs. Support programmes offer a range of instruments, including co-financing grants for start-ups and more established SMEs engaged in innovation, and for early-stage ideas development, R&D activities, and commercialisation. Programme grants vary significantly depending on the maturity of the innovation, and all programmes require co-financing by the beneficiaries.

For example, under the Technological Investment Support Programme, KOSGEB has awarded over EUR 12 million to 3 600 SMEs to support investments in the commercialisation of innovative projects. TUBITAK has provided nearly EUR 60 million in grants to support SMEs and R&D institutes. Furthermore, to help mitigate the impact of the COVID-19 pandemic, TUBITAK launched two specific calls under the umbrella of its SME R&D start-up support programme, offering financial support to an additional 48 projects. To date, this has resulted in the commercialisation of eight supported projects. Both KOSGEB's and TUBITAK's methodologies foresee a competitive, merit-based selection process, evaluated by an independent committee of national experts. However, despite the size of the financial support schemes, independent performance and impact assessments remain limited.

In addition to direct financial support, numerous measures exist to provide indirect financial incentives for innovation and research activities. For example, companies receiving public support for R&D activities can benefit from deductions in corporate and personal income taxation, while companies and their employees based in the TDZs are fully exempt – this regulation has been extended to cover remote working during the COVID-19 pandemic. In addition, 50% of insurance premiums for R&D staff are covered by the state budget. Innovation is also supported via public procurement, which provides purchase guarantees for technology transfer and foresees a compulsory use of local medium- and high-tech industrial products. While procurement is an important tool to encourage innovation and R&D, Turkey's public procurement regulation is not fully aligned with internationally recognised best practices around state aid and EU industrial policy principles because it favours domestic suppliers.

Private-sector investment in R&D is increasing alongside better linkages between academia and the business community

Investment in R&D, particularly by the private sector, has further increased in recent years, from 0.86% of GDP in 2014 to 0.95% in 2017 and 1.06% in 2019, when approximately two-thirds of R&D investments were made by the private sector. While this is a very positive trend, overall investments are below the government's target of 1.8% by 2023, and further efforts are needed to stimulate collaboration between R&D institutes and the private sector to maximise the impact of those support mechanisms already in place.

There is no dedicated innovation voucher or competitive collaboration grant programme in place, but TUBITAK runs several programmes to stimulate collaboration between research and the industry and has launched several new schemes since the previous assessment to support knowledge transfer and the commercialisation of research and patents, as well as the development of innovative clusters. TUBITAK's Support Programme for University-Industry Co-operation provides co-financing for industry-academia collaboration, with a focus on commercialisation. SMEs are especially encouraged to use this service and receive a grant for 75% of the cost, up to a maximum of TRY 1 million (approximately EUR 56 000). This work is supported by the University-Industry Co-operation Centres Platform, established in 2007, which promotes university-industry collaboration and technology transfer. A related online portal run by the Ministry of Industry and Technology to provide information on available support for R&D and facilitate interaction between researchers, entrepreneurs and investors, remains largely inactive. In addition, TUBITAK launched two new programmes in 2020, both for Patent- and Order-based R&D projects, as well as a Support Programme for the Centre of Excellence, whose aim is to establish specialised high-technology hubs and a Technology Transfer Support Programme.

There are numerous technology transfer offices operating throughout the economy, while the TDZs are expected to also expand their services in this area.

Turkey has long recognised the critical role innovation and R&D plays in the economy's export performance. Against this background, TIM, whose aim is to support and inform evidence-based trade policy and support the competitiveness of Turkish exports in international markets, has established an Innovation and Entrepreneurship Academy aimed at providing support and development opportunities for innovative entrepreneurs and starts-ups with export potential (Box 19.11).

Lastly, Turkey's legal framework for intellectual property rights does not currently encourage researchers to commercialise their innovations by guaranteeing an adequate split of royalties between the individual researcher and the organisation filing the patent. In addition, tax exemptions on income obtained via intellectual property rights are limited to corporations. On a positive note, an innovative idea owner can benefit from KOSGEB's intellectual property rights support by establishing a sole proprietorship without being a company and can also commercialise the product with the R&D and Innovation Support Programme and the SME TechnoInvestment Support Programme.

Box 19.11. Increasing business-academia collaboration: Turkey's Focused InoSuit Program

As part of the Innovation and Entrepreneurship Academy, the Focused InoSuit Program aims to facilitate university-industry co-operation with the objective to increase innovation management competence, strengthen the innovation management infrastructure, and design and adopt institutional innovation systems at the firm level. Specifically, it aims at:

1. building institutional innovation systems
2. creating strategic, organisational and cultural infrastructure as well as instructions, which would cultivate the processes and results of innovation
3. executing innovation projects in products, processes, organisational settlements or marketing activities
4. enabling innovative works and investments
5. enabling innovation management competency to make increase export figures
6. strengthening university-industry co-operation on the subject of innovation management
7. deepening the experience of universities on scientific knowledge, research and practice on the subject of innovation management.

The programme offers support tailored to the level of innovation competency of individual beneficiary firms, ranging from innovation management competences foundations and initial transformation to export leadership with innovation.

For a monthly fee, beneficiaries are assigned a dedicated InoSuit mentor, typically from within academia, who provides support over a period between 5 and 22 months (depending on the focus and level of innovation competency of the firm). Focus areas include the development of a baseline assessment and road map, the development of a vision and direction of innovation systems and infrastructure within the company, and defining innovation processes and strategies. In addition, support is provided to build relevant human resource capacity and infrastructure and build an innovation project portfolio.

Both beneficiary companies and selected mentors are required to regularly provide updates and conduct reporting, thereby increasing TIM's knowledge management and monitoring and evaluation capacity in this area.

Source: TIM (2021[109]).

The way forward for Dimension 8b

- **Complete the strategic policy framework.** Timely completion of the new National Science, Technology and Innovation Strategy, including an action plan, will complement the existing framework and provide clear objectives, targets and timelines for Turkey's strategic framework for innovation. In addition, a coherent and well co-ordinated approach to establishing smart specialisation strategies would maximise complementarity of efforts and leverage existing interregional linkages.
- **Rebalance the geographic focus of support measures.** Conducting a mapping of the support programmes implemented by KOSGEB, TUBITAK, and the regional development centres could help identify gaps in geographic coverage and potential overlap. While the restructuring of KOSGEB's TEKMERs has been a welcome step to maximise resources and a first step in gradually phasing out activities in Turkey's most developed regions, efforts should be stepped up further to support less mature innovation ecosystems. Within this context, regional smart specialisation could help address the outstanding gaps.

SMEs in a green economy (Dimension 9)

Introduction

Since SMEs, on aggregate, have a significant environmental footprint (small firms account for 50% of greenhouse gas [GHG] emissions in the world (ITC, 2021[110])), it is essential that the governments of the WBT region include them in their environmental considerations to achieve the net-zero goal for GHG emissions. On the one hand, like any other economic entity, SMEs face the consequences of environmental degradation, which can generate specific challenges for their survival and growth. On the other hand, and more importantly, SMEs can be a source of innovation and solutions to develop the technologies needed to address environmental challenges. Even without moving into new markets, SMEs can potentially improve the performance of their business by realising efficiency gains and cost reductions by greening their products, services, and processes. New green markets, such as the circular economy, can also create new business opportunities for SMEs. In this regard, tailored policies, incentives and instruments are necessary to enable them to participate in the green transition, as SMEs face a number of barriers (financial, informational, etc.) in their greening efforts, and more so than large firms (OECD, 2021[111])

For a fast-growing economy with rapidly increasing GHG emissions like Turkey, boosting economic growth that does not come at an environmental cost is particularly pertinent, especially in the post-COVID-19 context. The pandemic has put additional pressure on Turkish SMEs and their greening efforts, primarily due to issues with liquidity maintenance and access to finance. Well-coordinated and targeted financial and technical support will be required to overcome challenges in adopting sustainable practices.

With a score of 4.23, Turkey is the regional frontrunner in this dimension (Table 19.25). Its performance has slightly improved since the previous assessment (when it was 4.12), in particular thanks to improved co-ordination of green policies targeting SMEs.

Table 19.25. Turkey's scores for Dimension 9: SMEs in a green economy

Dimension	Sub-dimension	Thematic block	Turkey	WBT average
Dimension 9: SMEs in a green economy	Sub-dimension 9.1: Framework for environmental policies targeting SMEs	Planning and design	4.87	3.87
		Implementation	4.15	2.81
		Monitoring and evaluation	4.00	2.47
		Weighted average	**4.34**	**3.06**
	Sub-dimension 9.2: Incentives and instruments for SME greening	Planning and design	3.80	3.06
		Implementation	4.75	3.02
		Monitoring and evaluation	3.10	2.12
		Weighted average	**4.14**	**2.85**
Turkey's overall score for Dimension 9			**4.23**	**2.94**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Turkey's framework for environmental policies is solid and increasingly targets SMEs. Implementation of policies has been conducted at a good pace, particularly energy efficiency measures. In line with previous recommendations (Table 19.26), Turkey has consolidated inter-institutional co-ordination of green policies targeting SMEs through recently established working groups. Business associations have their own green policies and are leading the provision of advice and guidance to SMEs in this regard. As in the last assessment, several financial instruments are available to SMEs through KOSGEB, line ministries and international development co-operation partners. Other instruments, such as information-based tools,

performance standards, and environmental management systems, incentivise SMEs to engage in greener practices. Green public procurement measures, however, remain scarce.

Table 19.26 Turkey's implementation of the SME Policy Index 2019 recommendations for Dimension 9

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Ensure appropriate inter-organisational co-ordination to avoid potential overlaps in certain areas and a lack of action in others	To co-ordinate the work of the several ministries involved in green policies, a Green Reconciliation Working Group was established in 2020. The Working Group is mandated to harmonise Turkey's policies with the European Commission's Green Deal. KOSGEB also established a specific working group for Turkish SMEs in September 2021, focusing on the effects of the green economy and energy and environmental issues. Moreover, the National Energy Efficiency Action Plan Monitoring and Guidance Board was established in December 2019 to co-ordinate energy efficiency measures and comprises all relevant line ministries.	Strong
Start evaluating the effectiveness of SME greening policies on the ground	While all strategies are regularly monitored, an overall impact analysis of SME greening policies and programmes has not been carried out. Nevertheless, a national Lifecycle Assessment Database was developed in 2020 to evaluate the environmental impacts of the products and services produced in Turkey. Promisingly, the Eleventh Development Plan (2019-2023) envisages regular and improved collection, monitoring and evaluation processes of environmental data and its effective use in decision-making processes.	Limited

Green policies targeting SMEs have been increasingly integrated into various strategic documents, and implementation has been conducted at a good pace

While green policies have not been integrated into the new SME-related KOSGEB Strategic Plan (2019-2023), the framework of environmental policies targeting SMEs is solid in Turkey. The overarching Eleventh Development Plan (2019-2023) and the Medium-Term Programme (2022-2024) emphasise the importance of green growth and the role of SMEs in the green economy. In addition, the Green Deal Action Plan 2021, the Climate Change Strategy (2017-2023) and the National Energy Efficiency Action Plan (2017-2023) aim to enhance SME greening in Turkey through awareness-raising activities, allocation of funds and supporting SME energy efficiency. The Industry and Technology Strategy 2023 envisages green and clean industrial production, with a special focus on the circular economy (Box 19.12).

Box 19.12. SMEs and the circular economy in Turkey

When it comes to achieving objectives regarding the circular economy, SMEs are important in making their business operations more circular and contributing to the innovation that can strengthen circularity across economies. As the circular economy is gaining momentum in Turkey, SMEs, which represent the largest share of enterprises in the economy, should lead the way in the transition from a linear to a circular economy.

The circular economy framework is advanced in Turkey. Turkey has been making progress by aligning almost completely with waste-related EU directives and reducing municipal and hazardous waste. Most strategies adopted since the last assessment emphasise zero waste and the transition to a circular economy. In addition to the Industry and Technology Strategy 2023, the Eleventh Development Plan (2019-2023) emphasises waste management and the circular economy. The New Economy Programme (2021-2023) also puts zero-waste practices at the forefront of its environmental perspective.

Overall, the promotion of circular economy concepts is quite advanced compared to other WBT economies. The newly established Green Reconciliation Working Group is responsible for raising awareness on environmental topics, including waste management and recycling. A circular economy workshop specifically targeted at SMEs was organised in 2021 by KOSGEB within the frame of the COSME Turkey project and gathered 238 participants, 115 of whom were SMEs. Business associations are also involved in providing advice and guidance to SMEs in this regard. In this context, TIM has been co-implementing the Zero Waste Project[1] since 2017, which aims to reduce waste by recycling and repurposing through evaluating waste capacities and creating a waste inventory of enterprises under a common platform.

In addition, a national Lifecycle Assessment Database[2] was developed to assess the manufacturing industry's current environmental performance with internationally recognised performance indicators. An Industry Registry Information System to establish an "Economically Valuable Waste Monitoring System" is being created to save and recover natural resources and reduce the production of waste through the optimisation of their management cycle. To improve water efficiency, an SME water footprint has been calculated since 2021 on a basin basis, in the context of the study on Turkey's Water Footprint assessment, due in 2023.

SMEs in Turkey have access to several instruments and incentives for their circular transition. Financial and technical support that aims to boost eco-innovation and resource efficiency, such as through Green Organised Industrial Zones (OIZs) (Box 19.13), is expected to provide an impetus to advancing the circular economy in Turkey. Moreover, waste performance standards should incentivise SMEs to adopt greener practices.

1. The Zero Waste project was established in Turkey by the first lady, Emine Erdoğan, in 2017. The project added EUR 2 billion to the Turkish economy due to a large amount of material and food saved from reducing waste. The goals of the Zero Waste project in Turkey are to reduce waste by recycling by-products of agricultural activities and repurposing hazardous waste.
2. The Developing National Lifecycle Assessment Database project is carried out by TUBİTAK's Marmara Research Centre and Boğaziçi University. It aims to establish a Life Cycle Assessment Database of industrial energy and water supply processes. Some of its key objectives are establishing an effective information processing infrastructure, assessing the current data state and producing strategies to complete missing data.
Sources: (OECD, 2021[111]); (OECD, 2019[112])

All planned activities were implemented during the assessment period, and funds were mainly provided from the government budget. Awareness-raising on SME greening measures, such as resource efficiency, eco-labelling and waste management, has been carried out through activities, forums and fairs[73] and is planned to be scaled up in line with the Green Deal Action Plan. Moreover, SMEs have been provided with a variety of support to improve their energy efficiency, in line with the National Energy Efficiency Action Plan and the Industry and Technology Strategy 2023. In this regard, substantial financial support was provided to SMEs to achieve energy savings (see the section below on financial initiatives); energy-efficient engines were promoted to SMEs; and increased energy efficiency has advanced in industrial zones as part of the Development of the Green Organised Industrial Zones Framework for Turkey Project (Box 19.13). Activities to support eco-innovation are also ongoing, particularly with the establishment of model factories, which provide manufacturing SMEs with an opportunity to combine hands-on experience with theoretical training to promote sustainable methods of production and innovation centres, which will provide guidance on entrepreneurship, innovation and digitalisation.[74]

Box 19.13. Green Organised Industrial Zones in Turkey

In addition to energy management units in Organised Industrial Zones reported in the previous assessment, work to increase energy efficiency and environmental sustainability has been carried out in Turkey within the context of the Development of the Green Organised Industrial Zones Framework for Turkey Project. The project, which started in 2020, is implemented by the Ministry of Industry and Technology and funded by the World Bank (in the amount of EUR 275 million).

At the time of writing, 18 of the 346 OIZs across 81 cities were transformed into green zones, in line with circular economy principles. OIZs were established to provide all infrastructural necessities (such as energy supplies, solid waste elimination facilities and water purification systems) to industrial enterprises with an annual energy consumption of below 1 000 tonnes of oil. They contribute to more than one-third of Turkey's exports and employ 2.1 million workers – approximately one-third of total industrial employment in the economy.

Along with investments in green infrastructure, green OIZs will directly benefit the private sector, particularly SMEs, in scaling up clean production, resource and energy efficiency. The project will support investments in OIZs innovation centres, including model factories, to demonstrate new technologies and new practices, skills upgrading, standards and testing services for SMEs. Programmes that link firms in the OIZs to local universities and research institutes will also be introduced to help them introduce or commercialise eco-innovative ideas. Special focus will be put on clean production in the textile and leather industries, which consume large quantities of water. Moreover, promotion and technical assistance on the use of eco-labels will be provided.

Sources: Information provided by the Government of Turkey; World Bank (2021[113]).

All strategies are regularly monitored, and evaluation mechanisms exist, although an impact analysis of SME greening policies has not been conducted. While the collection of specific SME greening data is lacking in Turkey, the Eleventh Development Plan (2019-2023) envisages regular and improved collection, monitoring and evaluation processes of environmental data and its effective use in decision-making processes.

Progress has been achieved in co-ordinating SME green policies through a whole-of-government approach, with a prominent role given to business associations

The Ministry of Commerce, in co-operation with other line ministries, is in charge of developing SME greening policies and the national SME agency, KOSGEB, is the main body implementing greening measures.

Given the abundance of policies and programmes available to SMEs for their greening efforts, important progress was achieved in enhancing appropriate inter-organisational co-ordination among the various bodies responsible for these actions through specific working groups. A Green Reconciliation Working Group was established in February 2020 to enhance co-ordination and harmonise Turkey's policies with the European Commission's Green Deal. The Working Group is mandated to accompany the private sector with the different tools and instruments available for their greening transition. It met several times in 2021, with the participation of business associations; its main result being the drafting of the Green Deal Action Plan for the 2021-2024 period. Moreover, KOSGEB established an SME-specific Working Group in September 2021, focusing on the green economy, energy and environmental issues. Along with the

establishment of the Working Group, KOSGEB personnel[75] have been trained on international environmental policy, in particular on the European Commission's Green Deal.[76] Since its creation, the Working Group has prepared a roadmap for KOSGEB Green Deal Studies by taking into account relevant strategic and legislative changes announced within the scope of the Green Deal, focusing on the circular economy and clean and safe energy issues.

As recommended in the previous cycle, effective co-ordination of programmes and monitoring of policies on energy efficiency has been achieved with the establishment of the National Energy Efficiency Action Plan Monitoring and Guidance Board in December 2019. Institutions in charge of implementing the National Energy Efficiency Action Plan have been regularly trained to ensure proper co-ordination (some 17 trainings were held with 205 representatives from 37 institutions during 2019-20[77]).

The Ministry of Industry and Technology has increasingly given development agencies a central role in promoting SME greening measures by announcing in 2020 that their focus should be on resource efficiency for the following two years. During this period, development agencies in Turkey informed and trained businesses in their region on energy efficiency measures, water management and clean production.[78]

The Turkish government regularly consults the private sector when developing SME greening strategies. On top of guidance on complying with environmental regulations provided by government authorities and KOSGEB, SMEs can benefit from advice and guidance on carrying out green practices from business associations. There is a number of business associations in Turkey that have their own policies (including on greening aspects) and are increasingly becoming leaders in the provision of information-based tools to SMEs for their greening measures (see the section below on information-based instruments).

A range of financial initiatives are available to support SMEs in their greening efforts in Turkey

As in the last assessment, SMEs in Turkey have access to a broad range of financial support for their greening efforts, particularly to improve energy efficiency and invest in eco-innovation, through KOSGEB, line ministries and international development co-operation partners.

KOSGEB provides financial support, along with trainings and technical assistance to SMEs. Under KOSGEB's Enterprise Development Support Programme, in line with the Energy Efficiency Law, specific support on energy efficiency is provided to SMEs, which covers up to 70% of consultancy, analysis and training costs (up to EUR 7 500). Moreover, eco-innovation projects are supported under KOSGEB's R&D Innovation Support programme. For instance, one of the projects it supported in 2021 (for the amount of EUR 9 500) aimed at developing bioplastics to improve production efficiency.

The Ministry of Energy and Natural Resources has an energy efficiency grant programme for establishments that consume more than 500 tonnes of oil equivalent (toe) per year. The programme offers a 30% grant up to EUR 95 400 per project.[79] Moreover, within the scope of the Efficiency Improvement Project Support Programme, conducted from 2009 to 2020, EUR 2.3 million was provided for 306 projects, achieving financial savings of EUR 7.7 million and energy savings of 72 000 toe.

The Ministry of Industry and Technology has also provided financial subsidies to the private sector (SMEs and larger companies) for green investments since 2012. Within the scope of the Investment Incentive System, SMEs can benefit from VAT exemption, customs duty exemption, tax deduction and interest support. For investment loans, up to a EUR 90 000 interest share is covered by the ministry.[80]

As in the last assessment, international development co-operation partners and banks also support energy efficiency projects for SMEs through the Turkish Small and Mid-Size Sustainable Energy Financing Facilities (TurSEFF and MidSEFF) launched by the EBRD with support from the EIB and the European Commission. By 2021, TurSEFF had supported over 2 000 projects (360 in 2021), generating 671 MW of renewable energy. Through the MidSEFF programme, which ended in 2020, 1 515 MW of renewable

energy was created through the 80 projects supported. The subsequent Green Economy Financing Facility Turkey programme was launched in 2022 in the amount of EUR 50 million.

While information-based instruments on green practices are widespread in Turkey, the impact of other non-financial tools remains rather limited

SMEs are increasingly provided with information-based tools for their greening efforts, with business associations playing a leading role in this regard (Box 19.12). For instance, the Business Council for Sustainable Development (SKD Turkey), comprised of 13 private-sector entities, has a platform that enables interaction and partnership among enterprises of all sizes, particularly on the transition to a low-carbon economy and resource efficiency. TIM has also been active in developing and promoting greening measures for SMEs through several programmes. TIM runs several (digital) mentoring and training programmes on the minimisation of waste, the acquisition of energy from waste, the development of waste management business models for exporters and corporate carbon footprints. TIM's Ecological Export Academy facilitates partnership and best-practice exchange between firms.

Eco-labels and environment management systems (EMS) are legislated in Turkey and promoted by KOSGEB. For example, the Green Deal Action Plan 2021 has a special target that aims to put into practice the environment label system, along with newly introduced criteria. In this regard, TIM provides technical assistance on environmental certifications (in particular, for the Renewable Energy Resource Guarantee System). Nevertheless, there are no aggregate data on the number of green certificates attributed to SMEs.

In the WBT region, Turkey stands out for its regulatory instruments, in particular, its performance standards, which set requirements for recycling and should incentivise SMEs to adopt greener practices. The Regulation on Packaging Waste Control, which introduced performance standards for packaging waste management in 2017, was revised in 2021. The amended regulation stipulates that until 2026, 70% of glass, 55% of plastic, 60% of metal, 75% of paper and 25% of wood should be recycled by the manufacturer. Increased percentages are also planned for 2031 (Government of Turkey, 2021[114]).

Green public procurement policies were planned to be introduced in the last assessment with the promotion of goods and services with a minimum energy efficiency rating. However, no activities have been undertaken, and this option has been insufficiently used in practice.

The way forward for Dimension 9

- **Strengthen evaluation tools to ensure efficient implementation of SME greening policies, green certification and support programmes.** Turkey would need to improve its approach to monitoring the impact of different measures and tools to support the greening of SMEs. Cross-sectoral and systematic evaluation of greening measures targeting SMEs would help identify bottlenecks hindering SME greening and assess the impact of the financial support programmes offered by different institutions. Moreover, evaluation mechanisms will be necessary to ensure the efficiency of green certification awarding procedures. To ensure appropriate evaluation of measures, Turkey should also improve SME-specific greening data collection (on energy efficiency, green products, EMS and beneficiaries of public support measures). The recently formed working groups could be entrusted with these tasks in co-operation with TURKSTAT.
- **Introduce green public procurement measures to impose direct supply chain pressure on environmentally friendly goods and services.** Introducing green public procurement measures would boost the demand for resource-efficient, durable, recyclable, repairable products and promote new business models that offer functionalities and services instead of selling products. By using their purchasing power to choose goods and services with lower environmental impact, Turkish public authorities can help drive down the costs of such purchases and make them more affordable (OECD, 2021[111]). In order to reach SMEs to enter the public market, green public procurement needs to be designed to address certain barriers that may limit their participation

(such as dividing contracts into lots by default, encouraging larger firms to form partnerships with smaller suppliers and increasing access to relevant information on green purchasing policy) (see Dimension 5a on public procurement for SMEs). Green public procurement can be used as a tool to further promote and implement SMEs' green practices, as seen in Denmark (Box 19.14).

Box 19.14. The Danish model of green public procurement

As part of Denmark's 2018 circular economy strategy, several initiatives were developed to promote green purchasing:

- **The Forum on Sustainable Procurement**: A national knowledge-sharing network where procurers from public and private organisations can keep updated on best practices, methods and tools for green procurement through a website, newsletters and various events.
- **The Partnership for Green Public Procurement**: A collaboration between frontrunner municipalities, regions and other public organisations committed to making extra efforts in partnership with other organisations to reduce the environmental impact of their procurement actions and drive the market in a greener direction.

These two initiatives appointed a joint secretariat for procurement to ensure co-ordination. Soon after, an additional task force on green procurement was developed to focus on the circular economy and has expanded to target – in addition to public institutions – private enterprises, including SMEs. Moreover, the Ministry of Environment established an annual event on green purchasing called the Green Procurement Week.

One of the main initiatives developed by the task force on green procurement was the creation of an online portal called "The Responsible Procurer", where procurers can find green criteria ready to copy and paste into tender documents for a number of product areas and total-cost-of-ownership tools for selected product areas.

The Danish government is set to prepare a number of new total cost and lifecycle tools and incorporate costs or revenues from waste management and resale into existing and new tools.

Sources: Ministry of Environment of Denmark (European Commission, 2021[62]) and OECD (2020[115]).

Internationalisation of SMEs (Dimension 10)

Introduction

Expansion into foreign markets and SME internationalisation are key factors in boosting SME productivity and competitiveness on a global scale. Supporting export promotion, sustainable integration into global value chains and opening digital sales channels need to be supported through concrete policy actions and enhanced governmental support. With such support, SMEs can broaden their reach, improve productivity, and introduce innovative practices.

With over 3 million SMEs,[81] the key challenge faced by the government in Turkey is increasing the productivity and absorption capacity of SMEs, as well as their competitiveness, in order to successfully integrate into the global market. The COVID-19 pandemic has put an additional strain, particularly on SMEs; therefore, a broad range of well-coordinated policies is required to boost SMEs' internationalisation and productivity.

Turkey established itself as a leader in the region, outperforming the Western Balkan economies under all sub-dimensions (Table 19.27). The economy also improved its score since the last assessment cycle, when it scored 4.40. Due to a number of strategic documents and their successful implementation, the economy performed particularly well in the area of export promotion and promoting the use of e-commerce. Since the last assessment cycle, Turkey has improved under almost all sub-dimensions; however, there is still room for improvement in monitoring and evaluation, especially in the area of SME integration into GVCs.

Table 19.27. Turkey's scores for Dimension 10: Internationalisation of SMEs

Dimension	Sub-dimension	Thematic block	Turkey	WBT average
Dimension 10: Internationalisation of SMEs	Sub-dimension 10.1: Export promotion	Planning and design	5.00	4.61
		Implementation	4.93	4.24
		Monitoring and evaluation	4.56	3.65
		Weighted average	**4.88**	**4.23**
	Sub-dimension 10.2: Integration of SMEs into global value chains	Planning and design	4.11	3.88
		Implementation	4.79	3.57
		Monitoring and evaluation	3.00	2.70
		Weighted average	**4.23**	**3.49**
	Sub-dimension 10.3: Promoting the use of e-commerce	Planning and design	5.00	3.62
		Implementation	4.75	3.15
		Monitoring and evaluation	5.00	3.29
		Weighted average	**4.88**	**3.32**
Turkey's overall score for Dimension 10			**4.62**	**3.80**

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Turkey has advanced considerably in the area of SME internationalisation, particularly in terms of export promotion and e-commerce. The government has successfully implemented numerous SME support programmes and amplified their monitoring and evaluation. With multiple strategies in parallel, Turkey places a clear focus on shifting the economy's exports into higher value-added positions and integrating

domestic SMEs into supplier bases of MNEs operating in Turkey through an array of capacity-building projects and financial support. The economy made progress in implementing the last cycle's recommendations (Table 19.28), particularly in the area of raising awareness about available SME support, which in turn led to an increase in uptake. Furthermore, by introducing an enhanced monitoring and evaluation system for all SME support programmes, which formalises the process of feedback collection, Turkey has advanced in implementing improved evaluation measures and impact assessment tools.

Table 19.28. Turkey's implementation of the SME Policy Index 2019 recommendations for Dimension 10

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Reform customs services by considering the needs of SMEs	Turkey has a Single Window System in place for streamlining customs procedures. Since the last assessment cycle, the Ministry of Trade introduced an amendment to the Customs Regulation, further facilitating procedures for transit regimes (Ministry of Trade, 2021[116]). However, while the cost and time for exports and imports were reduced, SMEs remain without adequate support, such as information help desks for keeping up with current legislation.	Limited
Improve the flow of information and increase awareness of support programmes among SMEs, especially for export promotion	Turkey made progress in improving the flow of information about available support, as available on the Ministry of Industry and Technology's online portal at https://www.yatirimadestek.gov.tr/. The portal contains a question-and-answer feature, which allows SMEs to directly pose a question and receive an answer from the experts from the Investment Support Offices. In addition, the website encompasses a list of investment incentives and an automated informative tool on support available to SMEs and potential investors. Additional information can be found on KOSGEB's website. Limited progress has been made in raising awareness about current programmes and direct B2B matching between MNEs and SMEs.	Moderate
Introduce better evaluation through measures that also assess the impact and effectiveness of its programmes	Turkey made some progress in creating a formalised structure for SME feedback collection during the support programme implementation. The structure entails a formalised system to survey support beneficiaries through interviews and focus groups. Nevertheless, there is limited advancement in the area of evaluation and assessment of projects' impact in the area of GVC programmes.	Moderate

Turkey developed a broad range of export promotion programmes while maintaining its strong regulatory framework

Turkey has a well-developed strategic framework for export promotion. It is defined by both its obligations under the World Trade Organisation and the Customs Union between Turkey and the European Union. Turkey is implementing multiple strategies in parallel: the Ministry of Economics' Strategic Plan (2018-2022), the Eleventh Development Plan (2019-2023), the KOSGEB Strategic Plan (2019-2023) and the 2023 Turkey Export Strategy and Action Plan. As a consequence, it has numerous export promotion programmes in place that are successfully implemented by ministries and government agencies.

Since the last assessment cycle, there has been a shift in the strategic focus of the KOSGEB Strategy Plan (2019-2023) to include establishing a guidance and technical consultancy system for SMEs to encourage institutionalisation and intensified branding of Turkish exports (KOSGEB, 2019[78]). The strategies consistently highlight Turkey's strategic commitment to increasing and expanding the economy's exports. The Eleventh Development Plan (2019-2023), for example, sets a target of USD 226.6 billion in exports by 2023 (Presidency of Turkey, 2019[37]).

Export promotion falls within the purview of the Ministry of Trade's General Directorate of Exports, TIM,[82] and KOSGEB. All bodies assist SMEs in their export promotion efforts by implementing support programmes. Since the last assessment cycle, the government has implemented multiple programmes,[83]

with focus ranging from SME export preparation, boosting international competitiveness, foreign market research to assistance in branding, as well as international trade fair participation, support in the digitalisation of operations and foreign market expansion (Box 19.15).

Box 19.15. SME Export Mobilisation Training Programme in Turkey

TIM is an umbrella organisation for 61 export associations and over 100 000 exporters across 27 sectors. Within the framework of the SME Export Mobilisation Training Programme, TIM organises capacity-building activities with the goal of encouraging SMEs in the region to export their products and services. The programme consists of a series of training modules for SMEs to learn about starting to export, boosting their export capacity and available support and financing. The SME Export Mobilisation Training Programme was inaugurated in 2019, and since then, TIM has organised 17 trainings for SMEs with 3 designated target groups: newly established enterprises aiming to develop their operations, more mature SMEs intending to export and SMEs with the goal to expand their exports further.

As a result of the SME Export Mobilisation Training Programme, 37 000 companies started exporting their products and services to 147 countries and regions. Catering to three distinctive groups of SMEs at different stages of development, the Programme provides tailored support adapted to SMEs' needs. The latest training in Eskişehir was focused on the defence and aviation sectors. The city became one of the leaders in the region, exporting USD 924 million in the first months of 2021. Its defence and aviation exports amounted to USD 246 million in the first months of 2021, increasing by 12% compared to the same period in 2020. The five most exported products of Eskişehir are turbo-jets, plastic products, magnesite, aircraft and helicopter parts, and iron and steel materials.

Source: The Turkish Exporters Assembly (OECD, 2021[8]).

Export promotion support programmes have been consistently meeting and even slightly exceeding their set targets. Under the Turquality programme, which aims to increase the global visibility of Turkish brands and therefore increase the export volume, the total number of supported brands amounted to 289 in 2019, slightly exceeding the 280 target. Additionally, the target of 46 UR-GE projects – supporting the development of international competitiveness – was exceeded by 56.5% to amount to 72. The target of 2 100 exporters supported through trade fair participation was met. Between 2020 and 2021, 653 SMEs were supported through KOSGEB's International Market Support Programme, which aims to enhance the trade openness of Turkish SMEs and improve their export capacity. Some 70% of the funding available for export promotion activities and SME integration into GVCs is within the structure of the International Market Support Programme (OECD, 2021[117]).

Moreover, the Central Bank of the Republic of Turkey (CBRT) introduced a dedicated loan scheme – the Advanced Loans Against Investment Commitment – to increase exports and reduce imports. The loans of a maximum maturity of ten years and with favourable interest rates of 150 basis points below the policy interest rate will be managed by the Investment and Development Bank of Turkey. In 2021, CBRT also started extending export and foreign exchange earning services rediscount credits against Turkish lira denominated bills in addition to its existing foreign exchange (FX) rediscount credits programme.

The government continues to improve the positioning of SMEs in GVCs and foments MNE-SME linkages[84]

Turkey supports SMEs in their integration into GVCs through the Directive on Supporting Certificates of Market Access and Supporting the Improvement of International Competitiveness Programme. Both

initiatives are linked to the Eleventh Development Plan (2019-2023), the 2023 Turkey Export Strategy and Action Plan and the new Foreign Direct Investment Strategy (2021-2023). The strategies governing GVCs integration are consistent in aiming for the higher positioning of Turkish SMEs within value chains as well as a shift to higher value-added activities through establishing MNE-SME linkages and integrating SMEs into large enterprises' suppliers' networks by improving the quality and capacity of the SME supplier base. Turkey emphasised the importance of technology, with the government consistently increasing the support payments to medium-high and high-tech enterprises to promote higher value-added Turkish exports. However, the share of SMEs in high and medium technology segments is limited, compared to 56.9% of SMEs active in lower technology manufacturing (European Commission, 2021[107]).

The government adopted the Foreign Direct Investment Strategy (2021-2023)[85] (Presidency of Turkey, 2021[118]) that includes policies aiming to improve the supplier base in Turkey. The strategy envisages creating a programme for Turkey-based MNEs and their SME suppliers to assist in the SMEs' R&D projects and provide them with co-financing opportunities. Furthermore, the strategy aims to establish dedicated platforms to improve MNE-SME co-operation and stimulate joint venture projects. As one of the bodies responsible for implementation, KOSGEB increased its budget[86] dedicated for that purpose, illustrating an increased commitment to SME integration into GVCs.

Within the framework of the Foreign Direct Investment Strategy (2021-2023), the government plans to promote SMEs' integration into GVCs through increased participation in MNE supplier networks by focusing on upgrading the quality of the supplier base in Turkey and therefore incentivise Turkey-based MNEs to search for domestic SME suppliers. The newly implemented Global Supply Chain Entry Support Programme grants support for machinery and software procurement, training, consultancy services, certification, and standardisation for SMEs in the manufacturing sector to upgrade their production facilities, improve their competitiveness and assist them in adhering to international standards. The latter is particularly important in the context of Turkey, which has a Customs Union agreement with the European Union.

In addition to shifting the exports to high-technology areas and improving the suppliers' base quality across the economy, while promoting intensified MNE-SME linkages, Turkey's New Economy Programme envisages reduced import dependency. Coupled with the trade protection measures[87] introduced during the COVID-19 crisis, this commitment to reducing import dependence may conflict with Turkish ambition to deepen international integration of the economy. While having potential short-term benefits (in terms of domestic production and employment), these policies risk having a negative impact on further integration into global production networks (due to increasing the cost of participation in GVCs) (OECD, 2021[8]).

GVC programmes' effectiveness varies and demonstrates a need for facilitated SME outreach to MNEs

KOSGEB's GVCs programmes, though well targeted, do not enjoy a high uptake, missing 2021 targets. In 2021, there was an almost twofold drop in the number of SMEs that collaborated with large enterprises as a result of KOSGEB's projects passing from 100 in 2020 to 56 in 2021, while the set target was 132 (KOSGEB, 2022[119]). Although Turkey's efforts to include the stakeholders, the private sector and potential support beneficiaries in the programmes' design process are worth noting, the information on GVC integration can be found through a variety of websites (Ministry of Trade, KOSGEB and the Investment Support Offices), instead of a centralised portal dedicated to SMEs aiming to collaborate with MNEs. While KOSGEB's website offers relevant information about SME integration into GVCs, it does not provide a B2B marketplace for SMEs to gain additional exposure and match them to relevant Turkey-based suppliers. There are currently no government-coordinated B2B portals to directly match SMEs with potential investors.

While feedback collection from GVC programme beneficiaries has advanced, monitoring and evaluation mechanisms could be improved

In February 2019, the government introduced a formal framework for feedback collection – the KOSGEB SME Guidance and Technical Consultancy Services Regulation – containing guidelines for analysing the current SME landscape, identifying and solving outstanding issues, and developing skills and competencies to successfully compete in domestic and international markets. KOSGEB conducts regular visits to survey and interview potential SME support beneficiaries about their support needs and suggestions on the programmes available to them, which further strengthens the feedback collection system. This structure can contribute to designing more targeted, efficient and effective support measures for SMEs.

In addition, GVC integration activities are subject to an independent budgetary review by the Supreme Court of Public Accounts on an annual basis. Furthermore, KOSGEB presents the results of its programmes in activity and performance reports. However, monitoring and evaluation from the angle of programme effectiveness seems to be lacking from the reviews conducted by the Supreme Court of Public Accounts, while KOSGEB's reporting does not cover the information on the real impact of undertaken projects, thus limiting the information flow and lowering the transparency and accountability within the economy. The government collects data on SME integration into GVCs with limited information on its availability. In publicly available reports, KOSGEB publishes information on the number of SMEs that started collaborating with larger enterprises. How these SMEs actually perform after having integrated into the supplier networks of MNEs, and whether the collaboration is beneficial for them is not communicated in the report.

Turkey's strong framework and broad support for e-commerce facilitate the achievement of ambitious strategic goals

Turkey has a fairly well-developed strategic framework for e-commerce promotion, which is linked to the Eleventh Development Plan (2019-2023). The government has set a legal and strategic framework for e-commerce, e-payments and consumer protection, in line with EU Directives. Within the Ministry of Trade, the E-Commerce Directorate was established and entrusted with implementing e-commerce and e-payment programmes. SMEs have access to continuous support through the Programme to Support Market Research and Market Entry.

The Eleventh Development Plan (2019-2023) envisages a target of a 10% ratio of e-commerce in the retail market by 2023 (Presidency of Turkey, 2019[37]). In 2018, that ratio stood at 4.5%. In 2019 and 2020, it increased to 7% and 15.7%, respectively, exceeding the plan's 2023 target. Similarly, the target was exceeded in the first months of 2021, with the e-commerce ratio reaching 17.6% (Ministry of Trade, 2021[120]).

The government also plans for the e-commerce transaction volume to reach TRY 300 billion (approximately EUR 17 billion) in 2023. Since the previous assessment, the e-commerce transaction volume raised from TRY 136 billion in 2019 (approximately EUR 7.6 billion) to TRY 226.2 billion (approximately EUR 13 billion) in 2020. Furthermore, the Eleventh Development Plan (2019-2023) aims for the percentage of online shopping to reach 43% in 2023. In 2019, it amounted to 34.1% and 36.5% in 2020, thus well on track to achieve the target, given the general increase in online commerce.

At the peak of the COVID-19 pandemic, approximately 40% of the population used the e-commerce sales channel to purchase goods and services, which illustrates that Turkey is well-versed in e-commerce practices that have a cross-economy outreach and the e-payment infrastructure to do so. The Eleventh Development Plan (2019-2023) also envisages 5 000 websites with the Trust Stamp in 2023. At the time of writing,[88] there were 76 websites with the Trust Stamp; thus, to achieve its goal, Turkey needs to accelerate and amplify its efforts to raise awareness among online businesses.

SMEs in Turkey have access to a variety of e-commerce support programmes; the E-Commerce Academy grants them training opportunities in the area of search engine optimisation, global online marketing, social media marketing, cyber security and managing a digital sales channel, among others. Since the last assessment cycle, in accordance with Decree 2573, e-commerce membership fees for participation in the B2B online marketplace are subsidised for up to two years for a maximum of three different platforms. The Ministry of Trade provides SMEs with a 60% reimbursement of e-commerce annual membership fees, advertising and promotional material expenses, access to market reports from international databases, 50% reimbursement of virtual trade fair participation, training services for e-export and grants for e-commerce-related activities. To combat the negative effects of the COVID-19 pandemic, the government extended the timeline of approved support projects for another six months.

The way forward for Dimension 10

- **Strengthen efforts to effectively monitor and evaluate the impact of SME global value chain activities and their impact.** While GVC programmes in Turkey are monitored, evaluated, and subject to an independent review, data on their real impact on SME performance and expansion is missing. Placing emphasis on the impact assessment of GVC programmes and SME activity after the support programmes have ceased would give KOSGEB and the government a broader insight into potential inefficiencies of the programmes and their viability, allowing for improvements and modifications to better suit both the SMEs and their MNE collaborators. The recently implemented KOSGEB monitoring system is a solid basis for a comprehensive impact assessment of GVC programmes. Analysing support given to SMEs in their efforts to integrate into GVCs to ensure comparability between the programmes and measure their effectiveness for SMEs could contribute to better streamlining support provided.
- **Develop a business-to-business matchmaking portal or directory to connect multinational enterprises to their potential SME suppliers more effectively**. While SMEs in Turkey have wide access to information about GVC integration support and have an array of support programmes at their disposal, they do not benefit from exposure in international markets, which would be granted by a government-run B2B marketplace. The government should create a consolidated portal, available free of charge, granting SMEs global exposure while linking them directly to an interested MNE (see Box 19.16 for a relevant example from Korea). The government should ensure that SMEs, by presenting their offer on the platform, could be directly matched to an MNE, which has predefined their demand for particular suppliers prior to registering on the platform. Facilitating SME-MNE linkages by providing a direct channel for negotiations, supported by the government, could greatly contribute to SME integration into Turkey-based MNEs' supplier networks.

Box 19.16. A B2B matchmaking platform in Korea

The Korea Trade-Investment Promotion Agency (KOTRA) introduced a BuyKorea platform, a global marketplace operated by the agency that reports to the government. Potential buyers can post inquiries about specific products through the website, ensuring they will get an answer directly from the supplier, eliminating the need for an intermediary and lowering transaction costs. The buyers can also directly request a quote from the companies featured on the portal. Furthermore, the website features the latest trade news, information on trade shows and industry trends, making it a one-stop-shop for potential investors and buyers.

The platform is accessible to large enterprises and individual customers alike, and payment is enabled by PayPal or a credit card, which further facilitates cross-border transactions. At the time of assessment, the portal contained offers of 260 000 Korean products (including semi-transformed products, parts and

components, semiconductors) available for purchase from an estimated 50 000 sellers. The products are divided into easily accessible categories, making the portal user-friendly, and granting facilitated global exposure to Korean SME suppliers. Their products reach an estimated 3.4 million buyers. The platform is available free of charge in English and Korean. Registration is required for buyers and suppliers alike.

While Turkey provides broad and comprehensive support to SMEs aiming to integrate into GVCs and the information on available programmes is well diffused, the economy lacks a centralised B2B portal to facilitate direct linkages between SME suppliers and MNEs. Turkey could leverage KOSGEB's expertise and platform to create a government-run B2B marketplace, available free of charge, to showcase Turkish products for exports and potential suppliers for interested investors. The platform would be in line with Turkey's branding programmes, as it could include a number of Turquality products, gaining international exposure.

Source: KOTRA and buyKUROEA (2021[121]).

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Notes

1. A build-operate-transfer (BOT) contract is a model used to finance large projects such as infrastructure projects developed through public-private partnerships. The BOT refers to the initial concession by a public entity to a private firm to both build and operate the project. After a set time frame, pre-define in the contract, e.g. 30 years, the control of the project/infrastructure is returned to the public entity.

2. Opened accession negotiation chapters: Free Movement of Capital; Company Law; Intellectual Property Law; Information Society and Media; Food Safety, Veterinary and Phytosanitary Policy; Taxation; Statistics; Enterprise and Industrial Policy; Trans-European Networks; Environment; Consumer and Health Protection; Financial Control; Regional Policy and Co-ordination of Structural Instruments; Economic and Monetary Policy; Financial and Budgetary Provisions.

3. The National Youth Employment Strategy Action Plan consists of 13 concrete targets and 109 measures across 3 main policy objectives: strengthening education-business co-operation; increasing the employment of NEETs; and focusing on future jobs.

4. See the following:

   Primary and lower secondary: Seen in: 1) the Production, Distribution and Consumption Unit within the Social Studies course, a compulsory course at the basic education level, where the guidance states, "While this learning area is being studied, it should be ensured that the students acquire skills such as cooperation, innovation, entrepreneurship and research with the value of responsibility" (see http://mufredat.meb.gov.tr/ProgramDetay.aspx?PID=354); 2) in the introductory part of the compulsory Science course at the basic education level, learners are asked to create strategies and use promotional tools to market a product in order to develop entrepreneurship skills, e.g. students can prepare newspaper, Internet, television advertisements or shoot short films for promotional purposes (see http://mufredat.meb.gov.tr/ProgramDetay.aspx?PID=325, accessed on 15 January 2022).

   Upper secondary: Seen in the elective Entrepreneurship course, which is a one-hour lesson per week (see http://mufredat.meb.gov.tr/ProgramDetay.aspx?PID=788).

   Vocational education: Seen in: 1) the fifth learning unit of the Vocational Development Workshop course curriculum, called Entrepreneurial Ideas, Business Establishment and Execution. This takes place in 9th grade for two hours per week (see http://meslek.eba.gov.tr/?p=Ogretim-Programi&tur=mtal&sinif=9); 2) the Ahi Culture and Entrepreneurship course, compulsory for one hour per week in 12th grade framework curriculum.

5. This is also a commitment in the Ministry of Education Strategic Plan (2019-2023), Action 3.3, though more detail is required.

6. For more information, see https://www.deneyapturkiye.org/.

7. Junior Achievement Turkey runs e-talks by entrepreneur role models via Zoom (https://www.gencbasari.org/duyuru), and a project introducing entrepreneur role models into schools is ongoing, though impact information is limited (see www.istanbulggk.org/girisimciler-liselerde-projesi/ and www.istanbulggk.org/girisimciler-liselerde-2020-odulleri-sahiplerini-buldu/).

8. For more information, see https://www.tursab.org.tr/tursab-akademi.

9. For more information, see https://www.tobb.org.tr/TOBBKadinGirisimcilerKurulu/Sayfalar/AnaSayfa.php.

10. For more information, see https://kagider.org/.

11. For more information, see https://kizkardesim.net/.

12. For more information, see https://kagider.org/tr/projeler/kagider-pusula.

13. For more information, see https://kagider.org/tr/projeler/turkiyenin-kadin-girisimcisi-yarismasi.

14. For more information, see https://turkiyevodafonevakfi.org.tr/en/projects/other-projects/women-first-in-entrepreneurship/.

15. For more information, see https://www.ticaretinkadinlari.com/.

16. For more information, see https://melekyatirimcilardernegi.org/business-angels-law-of-turkey/.

17. The Law on Enforcement and Bankruptcy was amended at the end of 2018, July 2019, July 2020 and June 2021.

18. Article 287: The extension is three months temporary, plus two months exceptional extension.

19. The data gathered and published at UYAP does not differentiate between enforcement cases and bankruptcy cases. Thus for 2021, the report shows: 8 017 753 opened cases and 7 657 120 closed, leaving 22 571 596 unresolved cases. For 2020, there were 6 342 827 reported opened cases, 6 259 964 closed and 22 196 090 pending (UYAP Information System, 2022[56]) The data show a 28% increase of opened enforcement cases and bankruptcy cases, a 22% increase in closed cases and a minor change in the backlog of 22 million pending unresolved cases. While in 2020, the number of opened cases was 1.3% more than the closed cases, in 2021 it grew 3 times to a 4.7% higher number of opened cases compared to resolved cases, which a 1.6% increase in pending unresolved enforcement and bankruptcy cases.

20. The measures provided for extending the maturities of loans, loans refinancing, providing additional loans, deducting the principal, interest, default interest, delay penalties and dividends and any other receivables arising from the loan relationship, including banks to give up partially or completely, to reduce collateral, to receive principal, interest or dividends.

21. The most affected economic sectors that restructured their debt in 2019 were energy (90%) and tourism (5%). In 2020, manufacturing (28%), construction (21%), transport (9.65%) and tourism (9.51%). In 2021, construction (17%), manufacturing (16%), tourism (13.65%) and energy (13.41%) (The Turkish Exporters Assembly and Turk Ekonomi Bankasi, 2021[108]).

22. The Insolvency Law of Serbia, Article 158, provides for pre-packaged hybrid bankruptcy reorganisation plans.

23. A federated digital identity system allows users to connect to different platforms using different digital identity management systems, thanks to attributes that are scattered across these systems.

24. According to the *Small and Medium Enterprises Statistics, 2020* published by TURKSTAT on 28 October 2021, there are 3 295 995 SMEs in Turkey (TURKSAT, 2020[32]).

25. KOSGEB is implementing a variety of support programmes, including the Entrepreneurship Training, the Traditional Entrepreneur Support Programme (conditional on completing the training) to the Advanced Entrepreneur Support Programme and the Business Plan Reward Support Programme. Additionally, it provides financial support through the SME Finance Support Programme.

26. The main goal of development agencies is to develop and advance the institutional and technical capacity of SMEs while increasing their competitiveness and innovation capacity domestically and internationally.

27. The special conditions include winning the dedicated KOSGEB SME and Entrepreneurship awards, fitting into defined scopes of other KOSGEB's projects or areas of work, such as certification, employment support, female entrepreneurship support or domestic goods production support.

28. İŞGEM and TEKMER programmes.

29. For more information, see https://www.trakyaka.org.tr/tr/44109/2021-Yili-Teknik-Destek-Programlari-Ilani; https://izka.org.tr/2021-yili-teknik-destek-programi/ and https://zafer.gov.tr/tr-tr/Faaliyetler/Proje-Destekleme/Ge%C3%A7mi%C5%9F-Destek-Programlar%C4%B1/Teknik-Destek-Programlar%C4%B1/2021-TD.

30. Eleventh Development Plan, Article 324.

31. Eleventh Development Plan, Article 377.

32. Eleventh Development Plan, Article 468.

33. PPL, Article 5.

34. PPL, Article 63.

35. The value of the threshold is set in Article 8 of the PPL.

36. The first two types of preferences are related to the origin (seat) of an economic operator (bidder); the other two concern the origin of the goods.

37. A price advantage of up to 15% should be provided in favour of Turkish bidders in services and works, and to bidders (both domestic and foreign) offering Turkish products where the supply of goods is involved. Foreign bidders can also benefit from the price advantage if they obtain a domestic goods certificate for items they produce in Turkey, or offer products with a domestic goods certificate. Where tenders are found to be equal at the evaluation stage, preference may be given to the supplier whose offer contains more Turkish content. Compulsory domestic preferences (a price advantage of up to a maximum of 15%) are applied when purchasing medium- and high-technology products. In 2015, the Ministry of Industry and Technology adopted a list of these products. The list is updated in January of each year based on opinions in the sector, and is reported to the PPA.

38. PPL, Article 53.

39. PPL, Article 56.

40. PPL, Article 55.

41. PPL, Article 56.

42. PPL, Article 57.

43. PPL, Article 54.

44. PPL, Article 53.

45. In 2021, Getir, a delivery service provider, raised over USD 978 million in funding, while Dream Games, a mobile game start-up, raised USD 205 million.

46. iVCi was Turkey's first-ever dedicated fund of funds and co-investment programme. Investors in iVCi were KOSGEB, the Technology Development Foundation of Turkey, the Development Bank of Turkey, Garanti Bank, the National Bank of Greece Group and the European Investment Fund. iVCi has acted as a catalyst for the development of the venture capital market in Turkey. By leveraging on the European Investment Fund's experience, iVCi has provided access to finance to Turkish companies through investments in independently managed funds and co-investments. iVCi has now successfully completed its investment period, having fully committed to ten portfolio funds and leveraged over EUR 1.5 billion in third-party capital.

47. A Fund of Funds (FOF) is an investment vehicle where a fund invests in a portfolio composed of shares of other funds rather than investing directly in stocks, bonds, or other securities. The strategy of investing in a fund of funds aims to achieve broad diversification and asset allocation where investors can get broader exposure with reduced risks compared to investing directly in securities (Corporate Finance Institute, 2022[124])

48. See KOSGEB Distance Education and Learning Management System at https://lms.kosgeb.gov.tr/.

49. For more information on the smart specialisation approach driven at the regional level in Turkey, see https://s3platform.jrc.ec.europa.eu/turkey.

50. See:

    TOBB – Union of Chambers and Commodity Exchanges of Turkey, https://www.tobb.org.tr/

    TESK – Turkey Tradespeople and Artisans Confederation, https://www.tesk.org.tr/

    TURKONFED – Turkish Enterprise and Business Confederation, https://turkonfed.org/

    TOSYOV – Turkish Small and Medium-Sized Enterprises Self-employed Persons and Managers Foundation, https://tosyov.org.tr/ and https://tosyovakademi.org.tr/.

51. For more information, see https://www.geleceginbecerileri.com/en/gelecegin-becerileri-programi/.

52. For more information on the 2020 labour market research developed by ISKUR, see https://media.iskur.gov.tr/45570/turkiye.pdf, which is complemented by a range of regional level intelligence. See, for example:

    Niğde: https://media.iskur.gov.tr/45193/nigde.pdf

    Kırşehir: https://media.iskur.gov.tr/45182/kirsehir.pdf

    Kırıkkale: https://media.iskur.gov.tr/45180/kirikkale.pdf

    Aksaray: https://media.iskur.gov.tr/45136/aksaray.pdf.

53. The Entrepreneur Trainee Academy supports entrepreneurial internships for aspiring entrepreneurs at leading companies and is led by the TOBB Istanbul Young Entrepreneurs Board. See www.istanbulggk.org/girisimci-stajyer-akademisi/.

54. The "I Can Manage my Business" programme was launched in 2019 with the support of 27 banks in Turkey and as a collaboration with TÜRKONFED, the UNDP and Visa Turkey. The aim of the project is to support SMEs in gaining the knowledge and skills they need to realise their growth

potential. For more information, see https://www.visa.com.tr/visa-everywhere/social-impact/i-can-manage-my-business/about-the-project.html.

55. For example, via a programme by Ahiler Development Agency that addresses sustainable development within the manufacturing sector. For more information, see İmalat Sanayiinde Verimlilik ve Kurumsallaşma Mali Destek Programı at https://www.ahika.gov.tr/destekler/destek-programlari-arsivi.

56. For example, via a resource efficiency training led by the Bebka Development Agency; see https://www.bebka.org.tr/haber/bebkadan-yenilenebilir-enerji-ve-kaynak-verimliligi-semineri-730.

57. The Turkish Women Entrepreneurs Physical/Online Network Program and the Export Academy Program of the Ministry of Commerce were selected as good practice examples by the SheTrades platform. See https://www.shetrades.com/outlook/good-practices/0.

58. For more information, see https://lms.kosgeb.gov.tr/.

59. For more information, see https://www.sosyalgirisimcilikagi.org/.

60. See available support via KOSGEB at https://en.kosgeb.gov.tr/site/tr/genel/destekdetay/7210/entrepreneurship-training and ISTKA at https://www.istka.org.tr/media/132422/%C4%B0stka_2021_g%C4%B0r.pdf.

61. For more information, see https://cosme.kosgeb.gov.tr/sosyal-ekonomi-misyonlari-cagrisi-egitimi-gerceklestirildi/.

62. See information on the Ahiler Social Entrepreneurship training at https://www.ahika.gov.tr/assets/upload/dosyalar/ahika-2021-sogep-bilgilendirme-toplantisi-sunumu.pdf and the OKA Social Innovation Summer School final report at https://oka.ka.gov.tr/assets/upload/dosyalar/sosyal-inovasyon-yaz-okulu-final-raporu-38-80.pdf.

63. For more information, see https://www.tr.undp.org/content/turkey/en/home/projects/smes-through-digitalization.html.

64. For more information, see https://www.tr.undp.org/content/turkey/en/home/projects/COVID-19-response.html.

65. This work is carried out in collaboration with UNDP and supported by EU funding. See https://www.tr.undp.org/content/turkey/en/home/projects/applied-sme-capability-building-center--model-factory-.html and https://www.tr.undp.org/content/turkey/en/home/presscenter/pressreleases/2021/02/UNDP-Model-Fabrika-ve-Yenilik-Merkezleri.html.

66. For more information, see https://www.tr.undp.org/content/turkey/en/home/presscenter/pressreleases/2021/02/UNDP-Model-Fabrika-ve-Yenilik-Merkezleri.html.

67. For more information, see https://www.kosgeb.gov.tr/site/tr/genel/detay/8139/model-fabrika-egitmeni-yetistirme-programi.

68. For more information, see https://www.visa.com.tr/visa-everywhere/social-impact/i-can-manage-my-business/about-the-project.html.

69. For more information on TÜBİTAK TÜSSIDE, the Turkish Industry Management Institute established to conduct R&D in management sciences, see https://tusside.tubitak.gov.tr/, and on the D3A study, see https://www.akillikobi.org.tr/tubitak-d3a/#.

[70] For more information, see https://ec.europa.eu/docsroom/documents/45256. The European Enterprise Promotion Awards is led by KOSGEB. Information is lacking, however, on how it is implemented and whether practices submitted are also shared at the national level.

71. The annual European Innovation Scoreboard provides a comparative assessment of research and innovation performance of the countries of the European Union and its regional neighbours. It allows policy makers to assess the relative strengths and weaknesses of national research and innovation systems, track progress, and identify priority areas to boost innovation performance. See the regional chapter on Innovation for SMEs (Dimensions 8b) for further information.

72. See https://s3platform.jrc.ec.europa.eu/where-we-are.

73. For instance, the Energy Efficiency Forum and Fair is organised every year by the Ministry of Energy and Natural Resources.

74. Following model factories in Ankara, Bursa, Konya, Kayseri provinces, innovation centres and model factories are now operational in Izmir, Mersin and Gaziantep under the Turkey Resilience Project in Response to Syria Crisis (TRP), implemented by the UNDP in co-operation with the Ministry of Industry and Technology, and with funding from the European Union. Aiming to boost innovation, digitalisation, entrepreneurship ecosystems and productivity in manufacturing, the centres will ensure a technology-oriented transformation of the local manufacturing industry, improve competitiveness and prepare enterprises for the new industrial revolution to trigger sustainable growth.

75. The Working Group is comprised of KOSGEB personnel working in the Departments of Technology, Innovation and Indigenization; European Union and Foreign Relations; Project Management and the Directorates of İzmir, Bursa (West Bursa), İstanbul (İMES).

76. The training was held in July 2021 within the scope of the COSME Turkey Project. Presentations on the Paris Agreement, the United Nations Sustainable Development Agenda and the Green Deal were conveyed to the participants.

77. This measure was undertaken as part of the IPA Technical Assistance for Enhancement of Institutional Capacity in Energy Efficiency programme.

78. For instance, the Fırat Development Agency has provided preliminary energy audits to four SMEs in Malatya, four SMEs in Elazig and two SMEs in Bingöl to encourage them to engage in energy efficiency measures.

79. Conditions for 2022 are available at https://enerji.gov.tr/duyuru-detay?id=191.

80. For instance, investments for energy efficiency projects designed to save energy in manufacturing industry plants with a minimum 500 toe of annual energy consumption by at least 20% on the baseline, with a simple payback period of five years or shorter are allowed to benefit from VAT exemption, customs duty exemption, land allocation and loan interest rate support up to 5%.

81. According to the *Small and Medium Enterprises Statistics, 2020* published by TURKSTAT on 28 October 2021, there are 3 295 995 SMEs in Turkey (TURKSAT, 2020[32]).

82. TIM is an umbrella organisation of the Exporters Associations based on Turkish Joint Stock Company of The Union of Exporters of Live Animal. It was established by the decision of the Council of Ministers and falls within the framework of the Law No. 5910 Turkish Exporters Assembly and Law on the Establishment and Duties of Exporters Associations.

83. SME Export Preparation Loans from Turkexim Bank and the Ministry of Trade, Report Purchase Support, Supporting the Development of International Competitiveness Programme, Foreign Market Research Support, Branding And TURQUALITY® Support, Overseas Business Trip

Support, Supporting Digital Activities in Market Entry and KOSGEB's International Market Support Programme.

84. This assessment focuses on the MNE-SME linkages formed by integrating local SMEs into supplier networks of MNEs operating in Turkey.

85. The Strategy aims to increase Turkey's share in the global foreign direct investment (FDI) flows to 1.5% as of 2023 by increasing its performance in terms of the quality FDI profiles, which are defined as "investments supporting technological transformation, employment and current account balance".

86. The budget increased from TRY 610 434 000 (approximately EUR 34 million) in 2019 to TRY 776 087 000 (approximately EUR 44 million) in 2020.

87. As a response to the COVID-19 pandemic, Turkey introduced additional customs duties of 2-50% on a range of goods to protect domestic industries from the impact of the COVID-19 crisis. The surcharges rose to 17%, affecting countries with which Turkey does not have a free trade agreement (OECD, 2021[8]).

88. 8 March 2022; see http://www.guvendamgasi.org.tr/guvendamgasialan.php.

Annex A. Methodology for the 2022 Small Business Act assessment

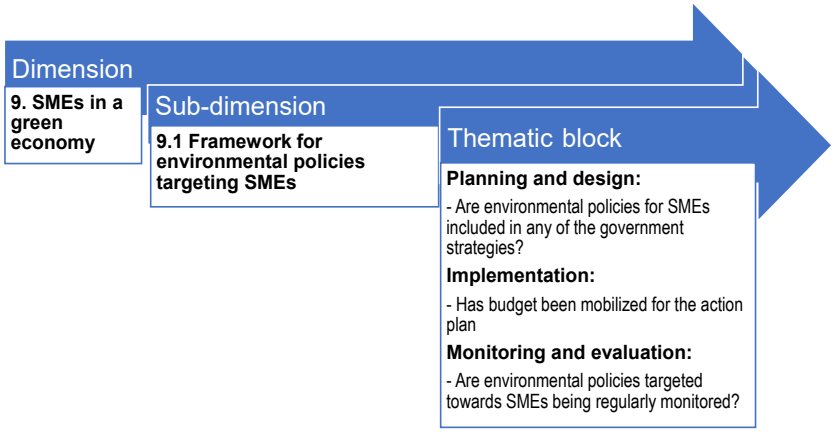
This section provides a detailed overview of the assessment methodology for the 2022 SME Policy Index.

Overview of the 2022 assessment framework and scoring

The process comprises two parallel assessments, a self-assessment by the government and an independent assessment by the OECD and its partner organisations' independent assessment, with inputs from a team of local experts (see the Policy Framework and Assessment Process chapter).

The assessment grid is built upon the ten principles of the SBA, divided into 34 sub-dimensions. The sub-dimensions are usually also divided into thematic blocks, each with its own set of indicators. The thematic blocks are typically broken down into three components, representing different stages of the policy cycle: planning and design, implementation, and monitoring and evaluation (Figure A A.1). In a few sub-dimensions where this approach is not applicable, for example in relation to the SME definition or the availability of some financial instruments within the access to finance dimension, thematic blocks may differ.

Figure A A.1. Dimension, sub-dimension and indicator level examples



The approach of assigning scores to reflect different stages of the policy cycle, allows governments to identify and target the stages where they have particular strengths or weaknesses. Each policy dimension, and their constituting parts, is assigned a numerical score ranging from 1 to 5 according to the level of policy development and implementation, so that performance can be compared across economies and over time. Level 1 is the weakest level, whist level 5 is the strongest, indicating a level of development

commensurate with OECD good practices (Table A A.1). The levels are determined through a participatory and analytical process, which is conducted by means of a self-assessment by the government and an independent assessment by local consultants.

Table A A.1. Description of score levels

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

The assessment framework comprises qualitative and quantitative indicators, which are scored based on questions in the following forms:

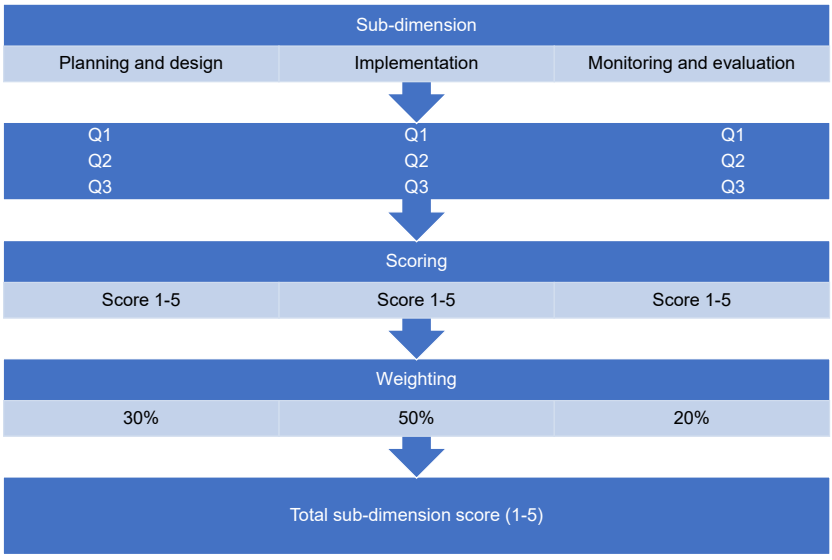
- **Binary questions,** allowing yes or no answers, such as "Does your government have a strategy / policy / plan in place for digital government?"
- **Multiple-choice questions**, such as "Is it possible to conduct online company registration?" These questions offer a drop-down list of answers, such as "yes, and it applies to all phases of the company registration process", "yes, but it does not apply to all phases of the company registration process", and "no".
- **Open-ended questions**, acquiring further descriptive evidence to add to the binary and multiple-choice questions. These questions are not themselves scored. Examples include "What is the budget for the SME implementation agency?" or "How many people work in the agency?" and "How many ministries are represented in the governance board?"

Whenever possible, economies are asked to support their answers with evidence, by providing source documents such as strategies and budget plans. Assessment framework is accompanied by a Glossary of key terms and concepts, which contains a comprehensive set of definitions of key terminology and concepts used in the qualitative questionnaires, The Glossary consists of two sections: 1) glossary of general terms relevant across 12 policy dimensions of the SME Policy Index and 2) glossary of dimension specific terms, if relevant for a given dimension. The terms are largely supported with references and examples to help respondents answer the questions.

Each of the core questions is scored equally within the thematic block. For binary questions, a "yes" is awarded full points and a "no" receives zero points. For multiple-choice questions, scores for the different options range between zero and full points, depending on the indicated level of policy development.

The scores for the core questions are then added up to provide a score for each component. Scores are initially derived as percentages (0-100) and then converted into the 1-5 scale. Scores for the thematic blocks are then aggregated to attain a score for the sub-dimension, with each thematic block being weighted based on expert consultation. In general, planning and design accounts for 30% of the score, implementation 50%, and monitoring and evaluation 20%, to emphasise the importance of policy implementation (Figure A A.2). Weights were applied at sub-dimension level and thematic block level in the same way.

Figure A A.2. Scoring breakdown per sub-dimension



Main changes to the assessment framework since the 2019 SBA assessment

Since 2019, the SBA assessment framework has been updated to reflect the impact of the COVID-19 pandemic and governments' responses to it. This was done through the introduction of open-ended questions, none of which were scored, but which impacted the narrative of the report and helped put some government policies into context, particularly related to any challenges that they may have encountered (i.e. redirection of resources to more immediate support to SMEs and subsequent delays in implementation of previously planned policies).

Across several dimensions, new questions were horizontally added to increasingly capture governments' policies related to SME greening and digitalisation, namely in areas where this is relevant for the WBT region's post-COVID recovery and EU accession contexts (i.e. on the consideration of environmental and social criteria for public procurement bids for Dimension 5b or on the development of digital tools by export promotion agencies for Dimension 10).

Statistical data have been collected to allow for comparison of performance over time

As in the previous assessment cycle, the approach to data collection integrates national statistics, company-level data from other international organisations, or independent company surveys to measure the performance of policies on the ground. Table A A.2 provides an overview of the types of statistics and data collected, their purpose within the SME Policy Index, and their main sources.

Table A A.2. Data types and sources

Type of data	Main purpose within the SME Policy Index	Source
Macroeconomic data and business statistics	Statistical information for the economy reports Support of the policy narrative written by the independent expert	National statistical offices International databases and entrepreneurship indicator programmes (OECD, Eurostat, World Bank, etc.)
Statistics on policy outputs	Measurement of the policy intensity and the actual policy output Measurement of policy convergence towards the EU average	Section on open questions in the SBA assessment questionnaires Data from the SBA Factsheets
Survey data	Measurement of SME perceptions of the effectiveness and usefulness of certain SME policies Measurement of policy convergence with the EU average	BEEPS Survey Eurobarometer data from the SBA Factsheet where available Balkan Barometer – Business Opinion survey

Annex B. The Small Business Act assessment's scoring model for Bosnia and Herzegovina

Constitutional set-up of Bosnia and Herzegovina

The governance structure of Bosnia and Herzegovina (BiH) comprises the institutions of the state of Bosnia and Herzegovina, the governments of the two territorial and administrative entities – the Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS) – as well as Brcko District (BD). At the entity-level, both the Federation of Bosnia and Herzegovina and Republika Srpska have significant constitutional autonomy and regulate independently the matters which the Constitution of Bosnia and Herzegovina has not assigned to the state government.[1] The entities' parliaments have jurisdiction over a range of policies, among them healthcare, education, agriculture, culture, labour, police and internal affairs. Both entities have a president, prime minister and 16 ministries. The Federation of Bosnia and Herzegovina is furthermore divided into ten federal units (cantons), each with its own constitutions that prescribe their legislative, executive and judiciary authority, as well as the functioning of government authorities.

The 2022 SBA Assessment of Bosnia and Herzegovina

Bosnia and Herzegovina submitted three assessment questionnaires for the SBA assessment, one for the state and one each for both entities. Information from all three questionnaires has been taken into account in the analysis. Given that the Brcko District only represents approximately 1% of the total population of Bosnia and Herzegovina, it has not been included in the scoring but information related to policy developments in the Brcko District has been included in the narrative where relevant.

SME policy making in Bosnia Herzegovina is much more decentralised than in the other economies covered by the SBA assessment. Therefore, information from the two entities has been taken into account in the calculation of the total scores. Policy recommendations have been formulated to emphasise the importance of policy co-ordination in Bosnia and Herzegovina for averting the possibility that local policy measures infringe on the principle of a single domestic market and distort competition among enterprises based in different entities.

Based on these considerations and the availability of data, a scoring system involving four models has been developed (Table A B.1)

Table B.1. Overview of the four scoring models

Model 1	Model 2	Model 3	Model 4
1/2 (FBiH) 1/2 (RS)	2/3 (state) 1/6 (FBiH) 1/6 (RS)	1/3 (state) 1/3 (FBiH) 1/3 (RS)	State level only

For most of the dimensions (Entrepreneurial learning and women's entrepreneurship, Bankruptcy and second chance, Operational environment for SMEs, Support services for SMEs, Enterprise skills, Innovation policy for SMEs, and SMEs in a green economy), a score has been derived by calculating a simple average of the two entities' scores. This approach (Model 1) has been adopted principally because major policies, mechanisms and institutions under these areas exist mainly at the entity-level and needed to be reflected in the scoring as such.

For two dimensions (Access to finance, and Standards and technical regulations), the second model was selected, giving two-thirds of the weight to the state and one-sixth to each of the two entities, since responsibilities under these dimensions lie mainly at the state-level. However, inputs from the entities were also recognised and included in the scoring.

For two other dimensions (Institutional and regulatory framework for SME policy making and Internationalisation of SMEs), a score has been derived using the third model, which allocates one-third of the weight equally to the two entities and the state. Finally, the Public procurement dimension only takes state-level information into consideration.

Table A B.2 gives an overview of all the SBA dimensions, providing the rationale for the selection of the scoring models.

Table B.2. Application of the scoring models to the SBA dimensions

SBA dimension	2022 SBA assessment	Rationale
1. Entrepreneurial learning and women's entrepreneurship	Model 1	Competencies for this dimension are main held at the entity-level. However, inputs from the state-level are also recognized and included in the scoring.
2. Bankruptcy and second chance	Model 1	In Bosnia and Herzegovina there are no state-level responsibilities or programmes for this dimension.
3. Institutional and regulatory framework for SME policy making	Model 3	Legislative simplification efforts are being undertaken at the entity level. However, all three levels of government in Bosnia and Herzegovina have legal frameworks in place that define the general principles and procedures on conducting regulatory impact assessment (RIA) and public-private consultations (PPCs).
4. Operational environment for SMEs	Model 1	In Bosnia and Herzegovina, entities are responsible for their own company registration processes. Moreover, there are no services available for obtaining licenses for SMEs at the state-level. Although the state level has competences for tax compliance procedures, this policy area was not scored in this assessment cycle. State-level inputs were taken into account for sub-dimension 4.1 on digital government services as there has been some progress in co-ordinating public administration reform, and were factored into the score for this sub-dimension.
5a. Support services for SMEs	Model 1	Support services for SMEs are designed and implemented at the entity-level. Moreover, a dedicated agency for the provision of support services exists in each of the entities.
5b. Public procurement	Model 4	Public procurement is regulated by the state Law on Public Procurement.
6. Access to finance for SMEs	Model 2	Responsibilities under this dimension are predominantly at the state-level. However, inputs from the entities are also recognised and included in the scoring.
7. Standards and technical regulations	Model 2	The greater weight (2/3) is given to the state to recognise its competences in overall policy co-ordination and transposition of standards and technical regulations. However, entity performance was also scored, as the initiatives and programmes to facilitate SMEs access to standardisation are dominantly at the entity-level.
8a. Enterprise skills	Model 1	Competencies for this dimension are mainly at the entity level.
8b. Innovation policy for SMEs	Model 1[1]	Since the mechanisms and institutions to support SMEs in innovative activities are generally at the entity-level, the scoring model accounts for their performance. Collaboration between SMEs and research institutions is also established and supported at the entity-level. However, the scoring model also recognises the importance of the state, particularly for overall policy co-ordination and intellectual property rights.
9. SMEs in a green economy	Model 1	SME greening policies are devised and implemented at the entity-level and there are no institutions at the state level that are in charge of promoting a green economy. Moreover, strategies and action plans that include goals for the green economy are adopted at the entity-level.

SBA dimension	2022 SBA assessment	Rationale
10. Internationalisation of SMEs	Model 3	This dimension covers policies which can be introduced at both the state and the local level. In Bosnia and Herzegovina, institutions that play a role in export promotion exist at both levels, however, programmes to support SME integration into global value chains and programmes to promote e-commerce, are implemented at the entity-level.

Note: 1. For Dimension 8b, model 1 is applied, with the sole exception of the thematic block on intellectual property rights which took into consideration state-level-inputs as well.

Notes:

[1] The competences of the institutions of Bosnia and Herzegovina are prescribed by Article III, paragraph (1) of the Constitution of Bosnia and Herzegovina. The competences of the entities are prescribed by the same article, in paragraph (2). Paragraph (3) of the article stipulates that all government competences not expressly assigned to the state-level government belong to the entities.

Annex C. Relevant SME-related indicators per dimension

Monitoring and evaluation is key to evidence-based policy making, and the use of relevant indicators is essential for policy makers to measure the effectiveness of policies. This assessment cycle underlined once again the need for WBT economies to expand SME data collection and upgrade their monitoring and evaluation systems for various policy areas. The following indicators (divided by policy dimension), which currently are not systematically collected across the region, should be considered for collection and close monitoring by the respective governments in the region:

Dimension 1 – Entrepreneurial learning and women's entrepreneurship

- Share of students in formal education engaged in entrepreneurial learning programmes, by level of education (% of total number of students per level of education)
- Share of young people having acquired at least one practical entrepreneurial experience prior to leaving school (% of 15-14 years)
- Number of enterprises with formal co-operation with VET institutions, by enterprise size class.
- Share of women-owned enterprises by size class and sector
- Growth rate of women-owned enterprises
- Newly established enterprises, by gender of owner (% of new employer enterprises by gender of owner, last year available)
- Share of women participants in SME support programmes (% of total number of participants)

Dimension 2 – Bankruptcy and second chance

- Number of bankruptcies, by enterprise size class: micro, small, medium, large
- Number of bankruptcies at the beginning of period (SMEs)
- Number of bankruptcies at the end of period (SMEs)
- Number of newly opened bankruptcies (SMEs)
- Number of closed bankruptcies (SMEs)
- Share of insolvency procedures which result in rehabilitation rather than liquidation of the enterprise
- Share of second chance entrepreneurs (% of all active entrepreneurs)

Dimension 3 – Institutional and regulatory framework for SME policy making

- Employment share of 0-3 year old enterprises by size class
- Enterprise birth and death rate by size class
- Share of less than 1 year old enterprises and 1, 2, 3, etc. year old enterprises by size class
- Examination of SME aspects in RIA (% of RIA for relevant legislation / regulations in which impacts on SMEs are considered)
- Steps in RIA that meet the quality standards established by the government (number or share of RIA, by step of the RIA process)
- Participation of SMEs in PPCs (SMEs as a % of total participants in PPCs for relevant legislation)

Dimension 4 – Operational environment for SMEs

- Number of SMEs using digital government services (number of SME users, by service)
- Share of total SMEs using digital government services (% of total SMEs, by service)
- Share of SMEs using digital government services (% of total SMEs, by service and sector of activity)
- SME rate of satisfaction with digital government services (SME satisfaction rate, by service)
- Completion rate of digital services by SMEs (% of commenced digital services completed, by service)
- Number of days required and costs connected to completing the overall company registration process, including obtaining compulsory licences for standard business activities (number and % of GNI per capita)

Dimension 5a

- Share of SMEs benefitting from publicly (co-)funded business support services (BSSs) (expressed as a % of the total number of SMEs)
- The number of locally available specialised training services disaggregated by category
- BSSs beneficiaries' performance after using publicly (co-)funded services measured by turnover growth, SMEs' GDP contribution and annual tax revenue
- Amount of resources earmarked for publicly (co-)funded BSSs in local currency
- Beneficiaries' satisfaction with BSSs measured by satisfaction surveys

Dimension 5b

- SMEs' share in the total value (or number) of public contracts awarded
- Share of SMEs having taken part in a public tender/public procurement procedure
- Success rate for participation of SMEs in public procurement

- Success rate for participation of large companies in public procurement
- Share of e-procurement platform usage (value of contracts submitted via e-procurement platform / total value of procurement contracts)
- Share of SMEs submitting proposals in a public electronic tender system (e-procurement)
- Average delay in payments from public authorities (in days)

Dimension 6

- Outstanding business loans, SMEs (volumes in national currency)
- Outstanding business loans, total (volumes in national currency)
- New business lending, SMEs (volumes in national currency)
- New business lending, total (volumes in national currency)
- Short-term loans, SMEs (initial maturity < 1 year) (volumes in national currency)
- Long-term loans, SMEs (initial maturity > 1 year) (volumes in national currency)
- Government direct loans to SMEs
- Government guaranteed loans, SMEs (volumes in national currency)
- Interest rate for new business loans, large firms (%)
- Collateral, SMEs (% of SMEs needing collateral to obtain bank lending)
- Non-performing loans, SMEs (% of total SME loans)
- Total annual volume of microfinance loans
- Total annual leasing volume
- Total annual factoring volume
- Venture capital investments, total volume

Dimension 7

Key data for this dimension has been systematically collected in the region

Dimension 8a

- Share of enterprises providing training to their employees, by enterprise size class (% of corresponding firm group)
- Share of SME employees who had training during the last year, by gender (% of female/male employees)
- Participants in state-financed SME training, by gender (% of all attendees)

Dimension 8b

- SMEs introducing product innovations (% of SMEs)
- SMEs introducing business process innovations (% of SMEs)
- Labour productivity in SMEs

- R&D expenditure in the business sector (% of GDP)
- Non-R&D innovation expenditures (% of turnover)
- Sales of new-to-firm innovations (% of turnover)
- Exports of medium and high technology products as a share of total product exports (% of total product export)
- High-growth enterprises
- Tax incentives for business R&D expenditures (% of GDP)

Dimension 9

- Share of SMEs that adopted/use environmental management system (such as ISO 14001; EMAS), green certification (of business practices) and eco-labels (of products)
- Share of SMEs that offer green products or services, and share of those with a turnover share more than 50% generated by green products or services
- Share of environmental public procurement contracts of contracts with environmental technical specifications, as share of total number (or value) of contracts
- Number and share of SMEs that have benefitted from public support measures for greening measures

Dimension 10

- Budget of export promotion agencies
- Export performance of SMEs participating in government export promotion programmes (volume of free on board exports in EUR)
- Number of SMEs with active business linkages with MNEs
- SMEs' share in indirect exports
- Share of SMEs with a website enabling an online purchase
- Share of SMEs with an e-payment system, allowing the receipt of secure payments online

SME Policy Index

Western Balkans and Turkey 2022

ASSESSING THE IMPLEMENTATION OF THE SMALL BUSINESS ACT FOR EUROPE

Small and medium-sized enterprises (SMEs) are essential drivers of sustainable economic growth in the Western Balkans and Turkey, where they make up 99% of all firms, generate 65% value added and account for 75% of employment. Nevertheless, SMEs across the region continue to face obstacles such as difficulties accessing financing, low levels of digital uptake, regulatory barriers and relatively low participation in international trade. The situation has been further exacerbated by the COVID-19 pandemic: SMEs found themselves fighting for survival amidst reduced demand, lockdowns and travel restrictions, and supply chain disruptions.

This report provides an overview of the implementation of the Small Business Act for Europe during the period 2019-22. It is designed to help policy makers design, implement and monitor policies to support the recovery of SMEs from the pandemic, boost their competitiveness based on OECD and EU good practices, and further enhance the region's economic growth and resilience.

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