



SME Policy Index

Western Balkans and Turkey 2022

ASSESSING THE IMPLEMENTATION OF
THE SMALL BUSINESS ACT FOR EUROPE

Pocketbook



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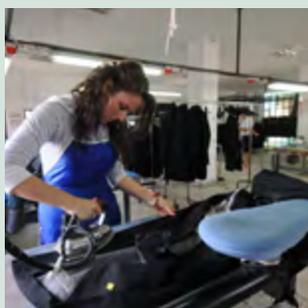
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OECD SOUTH EAST EUROPE REGIONAL PROGRAMME

The OECD South East Europe Regional Programme supports economies in the region in the design and implementation of reforms in favour of stronger growth, higher investment and full employment.

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

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

As a result of the joint work with regional counterparts, the Programme has produced actionable policy reports with recommendations for future policy actions based on best practices from EU and OECD and helped design and implement reforms to strengthen private sector development, competitiveness and to raise living standards.

www.oecd.org/south-east-europe



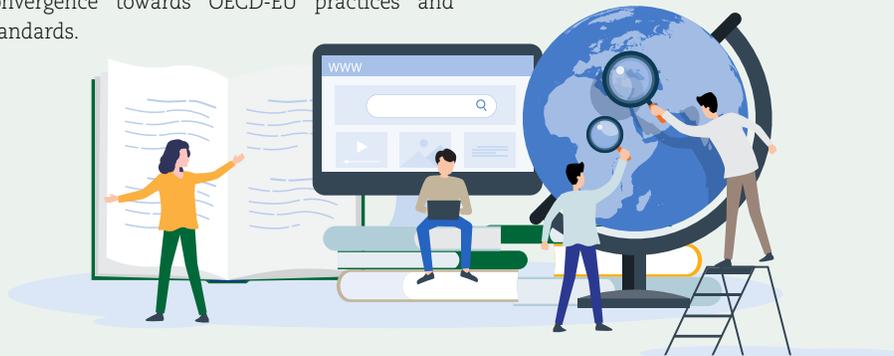
A TOOL FOR MONITORING PROGRESS ON SME DEVELOPMENT

The Small Business Act for Europe (SBA) Assessment was developed to improve SME policy-making and enhance the capacity of policy makers to address related challenges in the seven EU pre-accession economies: Albania, Bosnia and Herzegovina, Kosovo*, North Macedonia, Montenegro, Serbia and Turkey.

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

To conduct the assessment, a dedicated methodology – **the SME Policy Index** – was developed by the OECD, the European Commission, the European Training Foundation and the EBRD¹.

The Index identifies strengths and weaknesses in SME policy design, implementation and evaluation, and allows for comparisons across time and economies. The assessment was carried out a total of six times for the Western Balkan and Turkey in 2006, 2009, 2012, 2016, 2019 and 2022.



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

METHODOLOGY

SCOPE

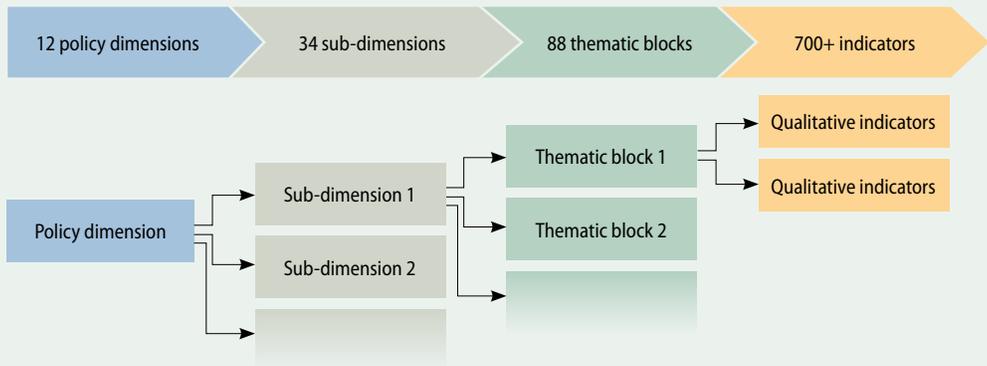
The SME Policy Index assessment framework was developed to respond to the priorities identified in the ten principles of the SBA.

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

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

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

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



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

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



METHODOLOGY

ASSESSMENT PROCESS

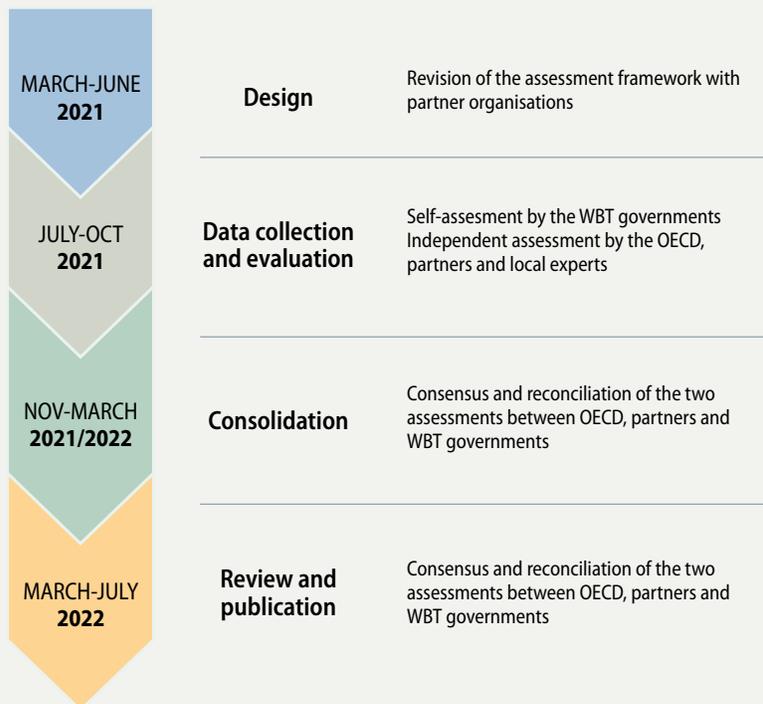
Policy areas are given a score from 1 to 5, with Level 1 being the weakest and Level 5 the strongest. The overall score is derived by the **two assessments** and subsequent consultations with all key stakeholders in the participating countries.

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

The **final scores** are 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.

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

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





In 2020, SMEs made up 99.7% of all enterprises in the Western Balkans and Turkey (WBT).

THE ROLE OF SMEs IN THE WESTERN BALKANS AND TURKEY

In 2020, SMEs made up 99.7% of all enterprises in the Western Balkans and Turkey (WBT). Micro enterprises make up by far the highest share: they accounted for 91.4% of all enterprises in the WBT on average in 2020, ranging from 77.4% in Bosnia and Herzegovina to 93.3% in Montenegro. The share of small enterprises ranged from 2.98% in Montenegro to 17.7%

in Bosnia and Herzegovina, while the share of medium-sized enterprises ranged between 0.61% in Montenegro to 4.08% in Bosnia and Herzegovina. Large enterprises make up only 0.26% of all businesses in the average WBT economy, ranging from 0.10% in Montenegro and Serbia to 0.85% in Bosnia and Herzegovina.



Most SMEs in the Western Balkans and Turkey operate in the distributive trade sector. In 2020, the share of all SMEs operating in this sector ranged from 6.98% in Bosnia and Herzegovina to 48.3% in Montenegro. Consequently, it is not surprising that the distributive trade sector also accounted for most of SMEs' contribution to employment, followed by manufacturing and other services.



Distribution of SMEs by sector (2020 or latest year available)

	ALB*	BIH	KOS	MKD*	MNE	SRB*	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%

Note: * 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.

Value added and employment generated by SMEs

SMEs' contributions to employment and value added vary heavily between economies, with spreads of 18.5 percentage points and 24.2 percentage points. 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 81.96% 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.

The contribution of SMEs to overall value added varies between the WBT economies. In Turkey for example, value added by SMEs in 2020 accounted for 52.8% of GDP, just below the EU average of 52%. In all other WBT economies, SMEs contribute more in terms of value added than the EU average.

Source: European Commission (2021), SME Annual Report 2020/21

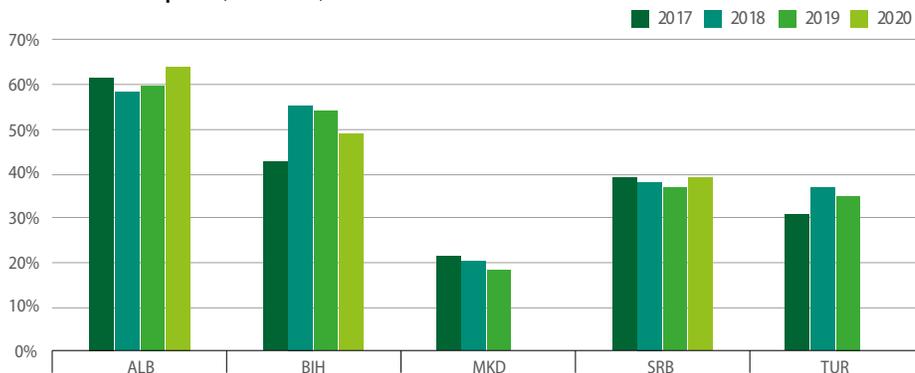


Export performance of SMEs

SMEs' share of exports reached a relative plateau during the assessment period. 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 Western Balkans and Turkey economies, Albania enjoyed the highest share of SMEs in the economy's exports, amounting to 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-19 recovery period, the SMEs' share of exports is bound for an increase in 2021 and 2022.



SMEs' share of exports (2017-2020)



Note: Data for Kosovo and Montenegro were unavailable for this assessment. Data for North Macedonia and Turkey for 2020 were unavailable. 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.

THE IMPACT OF THE COVID-19 PANDEMIC

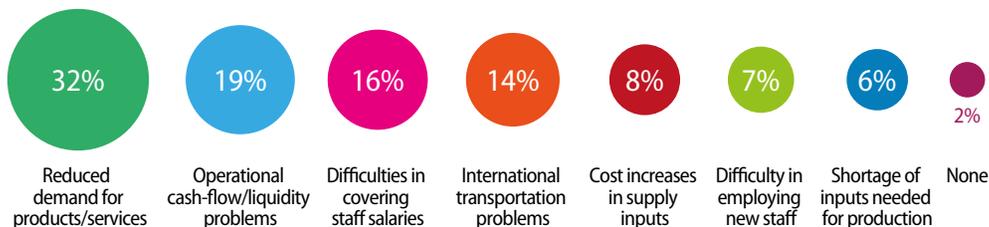
The COVID 19 pandemic threatened the survival of SMEs ...

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 during the pandemic, such as staff salaries and rents. They also introduced measures to defer various payments, such as income tax or value-added tax, which eased SMEs' liquidity constraints.

SMEs across the region 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.

Greatest challenges that affect enterprises as a result of COVID-19 (total)



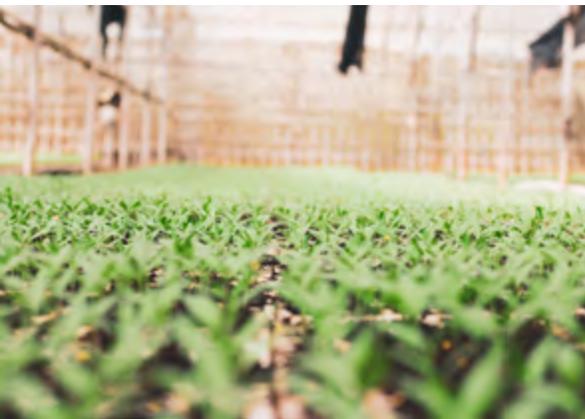
Note: The data comes from a business survey conducted in the Western Balkans in 2020 by the OECD.

Source: OECD (2020), the COVID-19 Crisis in the Western Balkans: Economic Impact, Policy Responses, and Short-term Sustainable Solutions, OECD, Paris.

... while accelerating their digital transformation ...

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 81.6% in 2021. 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%. 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%. 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%. 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%).

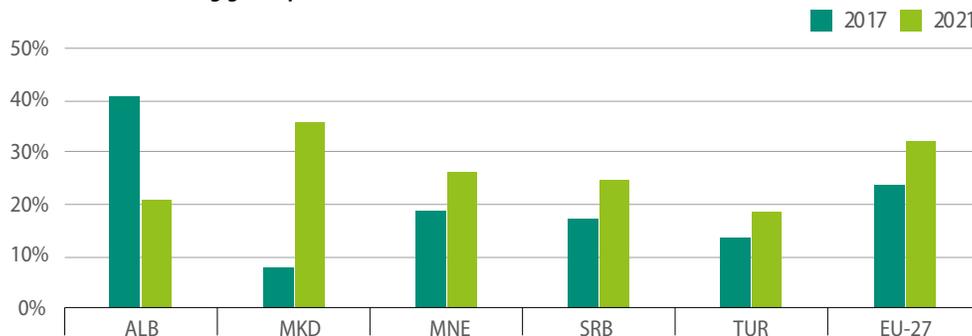




... and green transition

Greening of SMEs has also seen a boost since 2019, with financial incentives having been multiplied, albeit unevenly across the region. Over the same period, the average regional share of SMEs offering green products or services increased from 20% to 25%, while in some economies it even outperformed EU average of 32%. The role of green funds in supporting SME greening efforts has grown, through dedicated programmes and credit lines. However, green aspects have rarely been included in post-COVID economic recovery programmes in the region.

Share of SMEs offering green products or services (2017 and 2021)



Note: Data for Bosnia and Herzegovina and Kosovo are unavailable.

Sources: European Commission (2022), Eurobarometer: SMEs, Resource Efficiency and Green Markets, <https://europa.eu/eurobarometer/surveys/detail/2287>, European Commission (2020), Green Agenda for the Western Balkans; Government of Turkey (2021), Green Deal Action Plan

SME sector statistics (2020 or latest year available)

	ALB		BIH*		KOS		
	Number	Share	Number	Share	Number	Share	
Number of enterprises							
Micro	95 558	93.20%	24 792	77.38%	39 480	91.93%	
Small	5 674	5.5%	5 660	17.69%	2 914	6.78%	
Medium	1 173	1.1%	1 307	4.08%	487	1.13%	
Large	169	0.20%	272	0.85%	67	0.16%	
SMEs	102 405	99.80%	31 726	99.15%	42 881	99.84%	
Employment							
Micro	186 400	37.00%	65 963	13.30%	71 460	31.30%	
Small	111 347	22.10%	115 357	23.25%	58 580	25.60%	
Medium	114 767	23.04%	131 918	26.59%	42 550	18.59%	
Large	91 472	22.80%	182 676	36.86%	56 100	24.51%	
SMEs	412 514	81.90%	313 238	63.14%	172 770	75.49%	
Value added (in thousands EUR)							
Micro	1 011 521	22.20%	656 616	11.39%	–	–	
Small	1 182 938	25.90%	1 294 211	22.41%	–	–	
Medium	1 188 713	26.00%	1 569 971	27.18%	–	–	
Large	1 181 881	25.90%	2 253 554	39.02%	–	–	
SMEs	3 383 173	74.10%	3 521 797	60.98%	–	–	
Share of exports							
Large	–	36.00%	–	64.00%	–	–	
SMEs	–	64.00%	–	49.10%	–	–	

Note: * 2019 data due to unavailability of 2020 data. For Albania, entrepreneurs are included as micro-enterprises. For Bosnia and Herzegovina, data do not include unincorporated enterprises. Due to unavailability of state-level data, data for Bosnia and Herzegovina have been calculated by aggregating the data of the Federation of Bosnia and Herzegovina and the Republika Srpska. Share of exports refers to total value of exports.

MKD		MNE		SRB		TUR	
Number	Share	Number	Share	Number	Share	Number	Share
Number of enterprises							
52 409	90.59%	35 878	96.30%	388 385	96.20%	3 112 048	94.19%
4 528	7.83%	1 110	2.98%	12 187	3.00%	160 976	4.87%
771	1.33%	229	0.61%	2 716	0.70%	26 145	0.79%
145	0.25%	38	0.10%	584	0.10%	4 919	0.15%
57 708	99.75%	37 217	99.90%	403 288	99.99%	3 299 169	99.85%
Employment							
123 332	31.79%	62 032*	–	439 762	29.70%	6 031 956	35.78%
87 533	22.56%	41 639*	–	246 883	16.16%	3 137 955	19.92%
75 967	19.58%	37 784*	–	278 816	18.80%	2 621 045	16.32%
101 106	26.06%	–	–	518 409	34.90%	4 161 861	27.98%
286 832	73.94%	141 455*	–	965 461	65.10%	11 790 956	72.02%
Value added (in thousands EUR)							
989 555	21.63%	964 261	53.00%	5 851 598	23.00%	13 710 468	13.14%
1 106 978	24.20%	–	–	4 060 721	16.00%	16 753 545	16.05%
1 009 547	22.07%	436 647	24.00%	5 144 574	20.20%	24 612 602	23.59%
1 468 896	32.11%	418 453	23.00%	10 367 359	40.80%	49 276 078	47.22%
3 106 080	67.89%	1 819 361	77.00%	15 056 892	59.20%	55 076 615	52.78%
Share of exports							
–	73.99%	–	–	10 223 930	60.50%	106 281 221	63.42%
–	25.88%	–	–	6 674 253	39.50%	167 154 059	36.60%

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



POLICY DIMENSIONS



Dimension 1 – ENTREPRENEURIAL LEARNING AND WOMEN'S ENTREPRENEURSHIP

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.

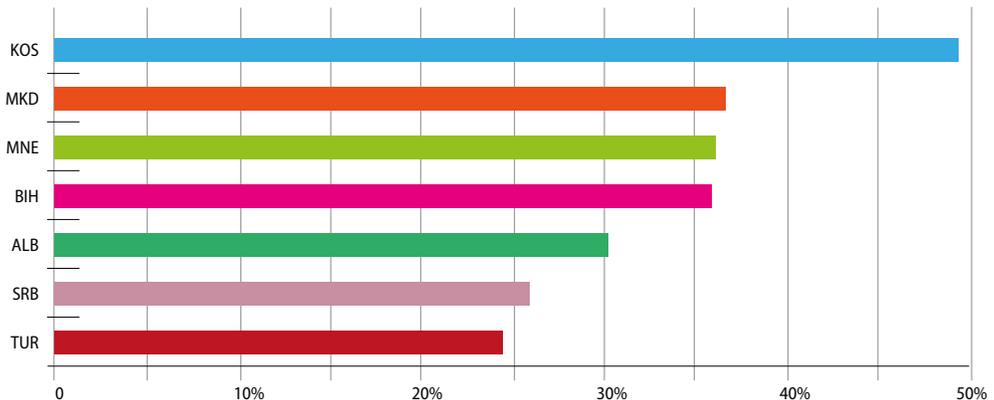


Supporting women's
entrepreneurship brings both social
and economic development.

KEY STATISTICS

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, and encourage more social and co-operative entrepreneurs.

Youth unemployment (%) of total labour force aged 15-24 (2020)



Source: International Labour Organisation, ILOSTAT database



ACHIEVEMENTS

- **Entrepreneurial learning features in national policy across all assessed economies**, and ranges from stand-alone strategies to being a component of wider strategic policy instruments.
- **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.
- **The use of EntreComp has increased during this assessment period.**
- **Women's entrepreneurship is more prominent in the policy landscape of all WBT economies**, with most progress being made in designing and implementing policies.
- **Practical entrepreneurial experiences are more diverse in delivery mechanisms, and innovative in terms of content and theme, such as digital, social and green topics.**
- **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.

THE WAY FORWARD

- **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.

- **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.

- **Encourage best-practice sharing between organisations and policy makers involved in entrepreneurial learning.**

- **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.

- **Build stronger national partnership approaches supporting women's entrepreneurship.**

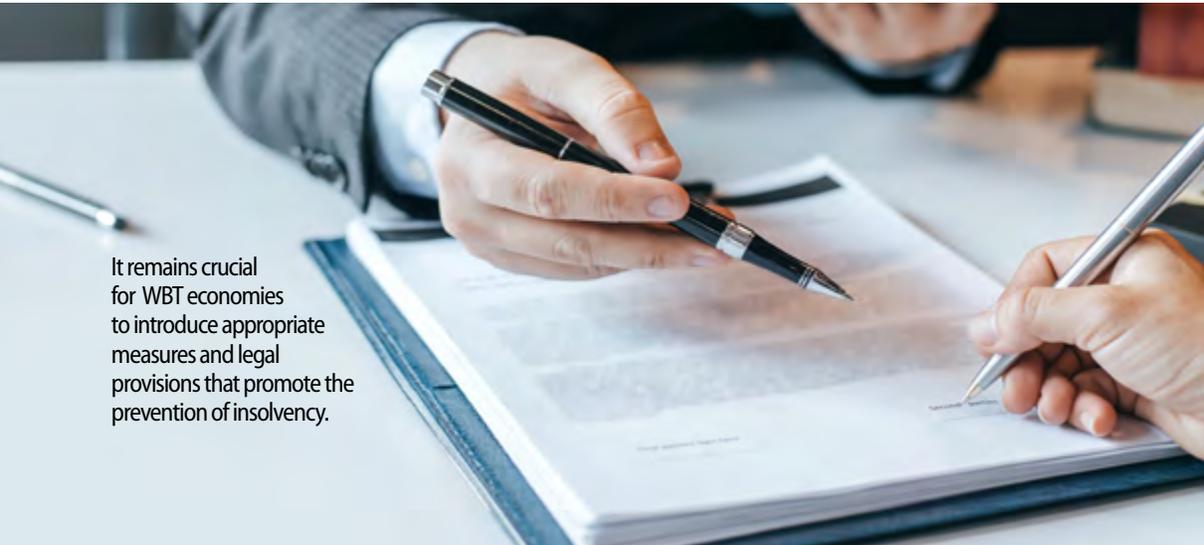
- **Develop rigorous monitoring and evaluation across all economies, moving toward an outcomes-based understanding of the change created due to actions** related to entrepreneurial learning and women's entrepreneurship.

- **Act now in all economies to establish an indicator framework for entrepreneurial learning and 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.

Dimension 2 – BANKRUPTCY AND SECOND CHANCE FOR SMEs

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. 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.

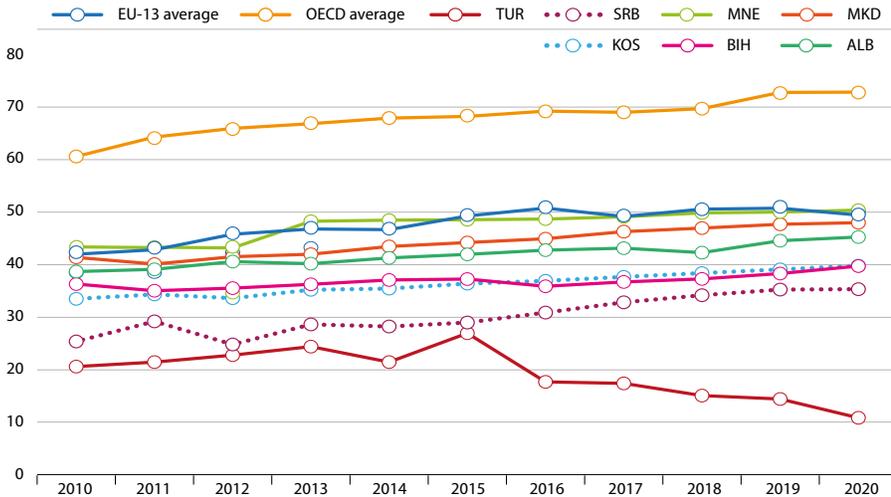


It remains crucial for WBT economies to introduce appropriate measures and legal provisions that promote the prevention of insolvency.

KEY STATISTICS

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. 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.

Recovery rate for resolving insolvency



Notes: Data for Japan, Mexico and the United States are missing for 2010-2012 when calculating the OECD average; data for Malta are missing for 2010 when calculating the EU-13 average. EU-13 member states: Bulgaria, Croatia, Cyprus², the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic and Slovenia.

Source: Based on 2020 data from World Bank.



Since 2018, the recovery rate has increased for all economies in 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. All WBT economies are still performing below the OECD average.

Time and cost of resolving insolvency

	ALB		BIH		KOS		MKD		MNE		SRB		TUR		OECD average		EU-13 average	
	Cost (% of estate)	Time (year)																
2017	10	2	9	3.3	15	2	10	1.5	8	1.4	20	2	14.5	5	9.7	1.8	12.4	2.5
2018	10	2	9	3.3	15	2	10	1.5	8	1.4	20	2	14.5	5	9.7	1.8	12.4	2.5
2019	10	2	9	3.3	15	2	10	1.5	8	1.4	20	2	14.5	5	9.3	1.7	12.4	2.5
2020	10	2	9	3.3	15	2	10	1.5	8	1.4	20	2	14.5	5	9.3	1.7	12.4	2.5

Notes: Notes: Data for Japan, Mexico and the United States are missing for 201012 when calculating the OECD average; data for Malta are missing for 2010 when calculating the EU-13 average. EU-13 member states: Bulgaria, Croatia, Cyprus², the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic and Slovenia.

Source: Based on 2020 data from World Bank.

ACHIEVEMENTS

- **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 created by the debtor, 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.**
- **Several economies have introduced electronic bidding options for assets sold in bankruptcy liquidation proceedings.**
- **The Western Balkans and Turkey economies introduced interim measures to support an increased number of enterprises facing financial distress caused by the COVID 19 pandemic, which contributed to bankruptcy prevention, albeit indirectly.**



THE WAY FORWARD

- **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.

- **Strengthen monitoring and evaluation of insolvency policies, which remain weak across the region.** 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.

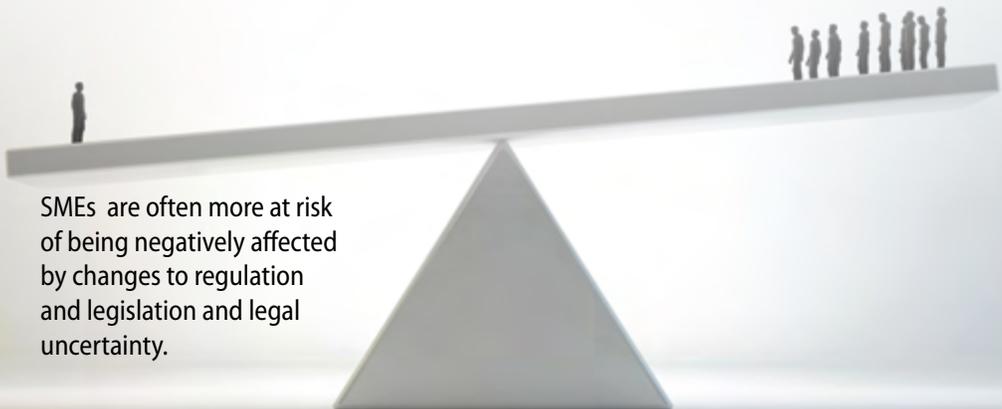
- **Streamline liquidation processes by introducing digital tools.** Digitalising the liquidation process would enhance transparency, save time and cost of the currently lengthy liquidation procedures, anticipate potential conflicts within the creditors' committee, and protect creditors' rights as claims are recovered from the best market price reached through a competitive bidding procedure.

- **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.

Dimension 3 – INSTITUTIONAL AND REGULATORY FRAMEWORK FOR SME POLICY MAKING

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 they have fewer resources, they are also often more at risk of being negatively affected by changes to regulation and legislation and legal uncertainty.

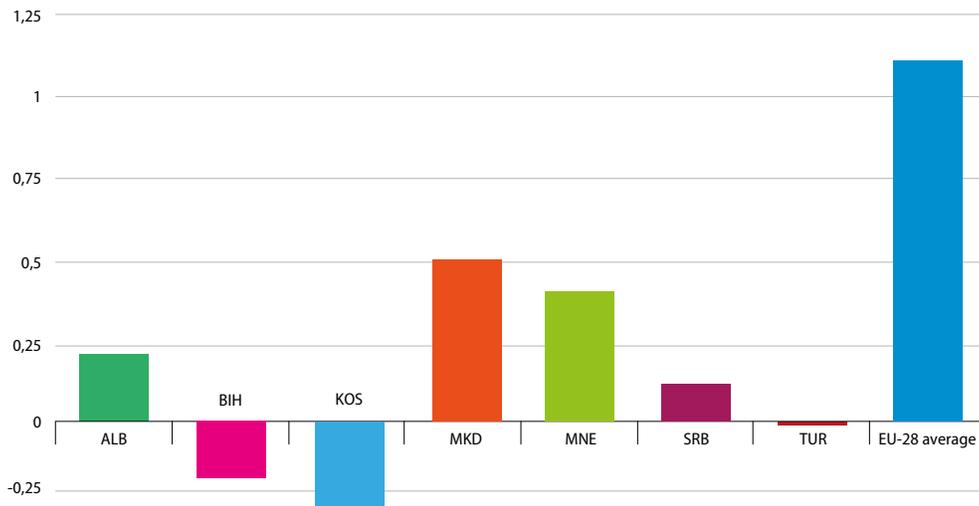
Having a comprehensive and coherent SME policy framework is essential for ensuring SME growth and development, namely by focusing government policies on improving SMEs' productivity, innovation, skills and general competitiveness. All these areas are key for realising broader economic development objectives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



KEY STATISTICS

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).

Global Competitiveness Index: Burden of government regulation in the Western Balkans and Turkey region (2020)



Notes: 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 (officially counting from 1 February 2020).

Source: Worldwide Governance Indicators

ACHIEVEMENTS

- **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.

- **Some WBT economies have continued to implement regulatory reforms** to improve the business environment through comprehensive legislative simplification programmes.

- **Some WBT economies improved their frameworks for conducting effective regulatory impact assessment**, 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.



THE WAY FORWARD

- **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.

- **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.

- **Initiate regulatory impact assessment earlier in the policy process.**

- **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.

- **Strengthen inter-institutional co-ordination for effective use of public private consultations.** 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.**

Dimension 4 – OPERATIONAL ENVIRONMENT FOR SMES

From registering a company and obtaining a business license 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.

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 it has also accentuated the gaps that remain.

For WBT economies heavily impacted by the pandemic, increasing the availability of digital services for SMEs and improving the efficiency of administrative procedures will be key to improving the operational environment by saving time and resources.



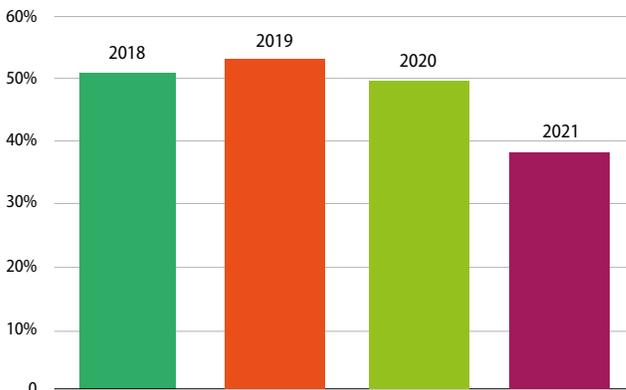
The operational environment in which SMEs must navigate is determined by the ease of using digital services, the number of procedures and the costs associated with their interactions with the government.



KEY STATISTICS

The satisfaction of businesses with available digital government services has declined since 2019 (from a regional average satisfaction rate of 54% to 39% in 2021), 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.

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



Notes: 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

Reforms to ease the process of starting a business have been undertaken in the majority of WBT economies to reduce the number of days and procedures required. The rollout of electronic registration services has also progressed, albeit as an uneven pace across the region, as online portals were only available in Albania, Kosovo and North Macedonia in the previous cycle.

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			

Source: Information provided by the respective governments in the SME Policy Index 2022 questionnaire.

ACHIEVEMENTS

- **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.

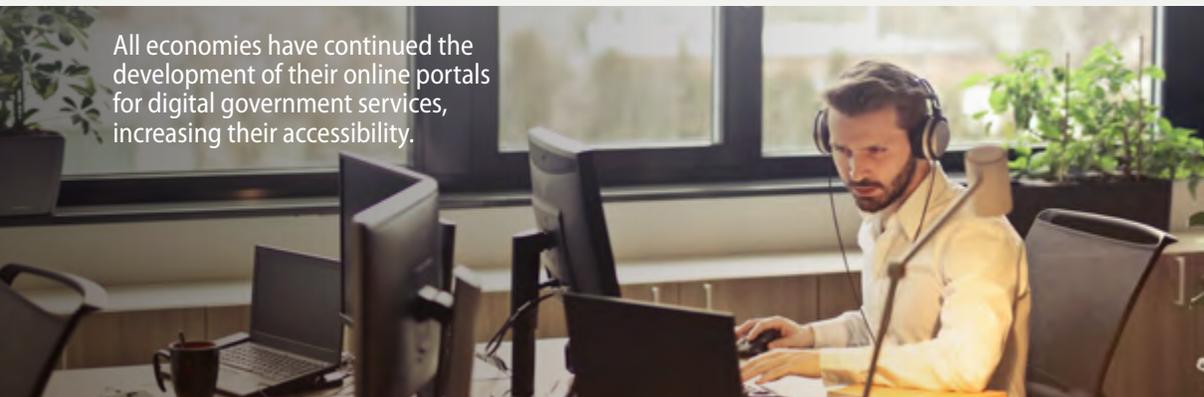
- **All economies have continued the development of their online portals for digital government services, increasing their accessibility.**

- **Reforms to simplify and digitalise company registration processes and increase interoperability have been undertaken to reduce the number of days and procedures required to start a business.**

- **While business licensing has been centralised in all WBT economies, deregulation and digitalisation reforms are ongoing to reduce administrative barriers for businesses.**

- **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.

All economies have continued the development of their online portals for digital government services, increasing their accessibility.



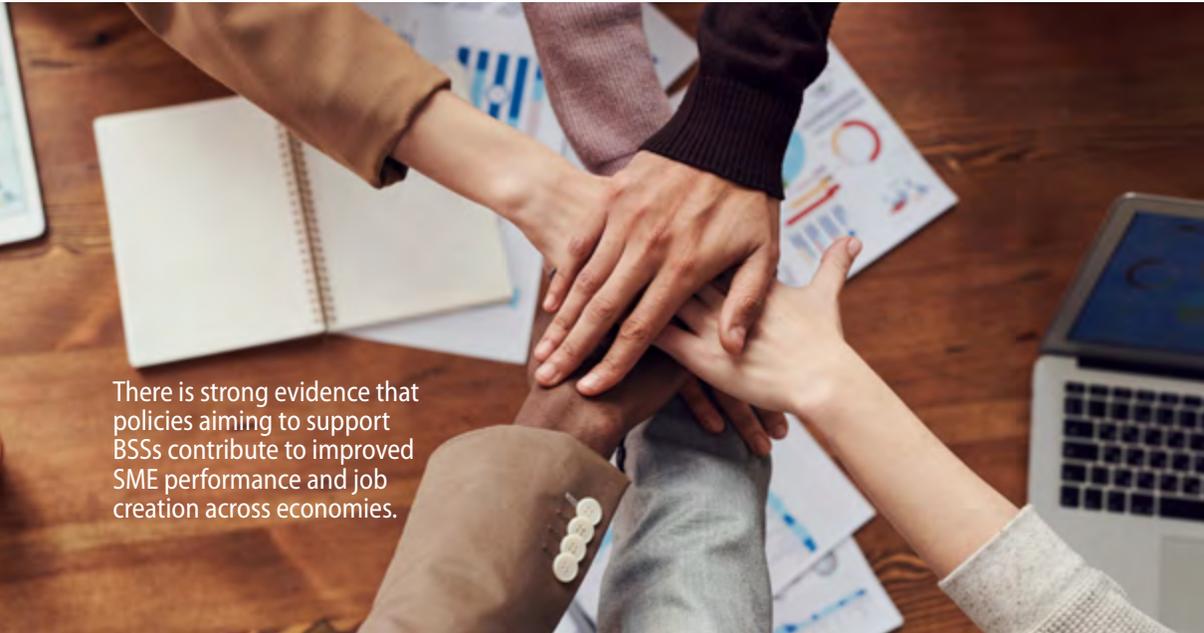
THE WAY FORWARD

- **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.
- **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.
- **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.
- **Continue to digitalise company registration processes.** Western Balkan economies should continue to further digitalise their registration processes.
- **Streamline the process of electronic licensing and strengthen co-ordination between institutions in charge of issuing business licences**
- **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.

Dimension 5a – SUPPORT SERVICES FOR SMEs

SMEs in the Western Balkans and Turkey region often struggle with low productivity and competitiveness. In order to boost their growth, SMEs should have the opportunity to benefit from accessible business support services (BSSs), offered both by the government, as well as 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. Complementing the financial support with technical assistance and training has proven to be beneficial for supporting SMEs in overcoming the challenges they face in their day-to-day operations and their efforts to expand and develop.



There is strong evidence that policies aiming to support BSSs contribute to improved SME performance and job creation across economies.

KEY STATISTICS

All economies in the region provide public BSSs to SMEs, ranging from informational and educational services, training, mentoring and consulting to physical infrastructure support. 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

Business support services provided by governments by service category

	ALB	FBIH	RS	KOS	MKD	MNE	SRB	TUR
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.

Source: Data provided by the governments from Western Balkans and Turkey

ACHIEVEMENTS

- 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.**
 - **Across the region, the assessed economies have expanded the range of BSSs provided.** Some economies added training services in previously unaddressed areas, such as digitalisation or women entrepreneurship, while others introduced new advisory or mentoring services, oftentimes in collaboration with international partners.
 - **Governments across the region support private BSSs through co-financing and business incubators and accelerators.** All of the economies 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.
-



THE WAY FORWARD

- **Develop a strong monitoring and evaluation mechanism to measure the impact of public BSSs.** Evaluation of provided BSSs should be the crucial element in BSSs policy design. To demonstrate the viability of provided services, the governments should measure performance of SMEs after taking up provided initiatives, not only their satisfaction from the programmes. A framework to measure performance of SMEs after taking up provided initiatives could give valuable insight into both positive and negative effects of selected incentives.
- **Conduct regular training needs analysis to better adapt BSSs to SMEs' actual skills needs.** Regular and consistent TNAs would help to fill the gaps in BSS provision, better target the support provided and create more effective BSS provision systems.
- **Introduce quality assurance mechanisms for private sector consultants** and develop a system to collect feedback from beneficiaries of private BSSs to ensure a high quality of services provided by accredited consultants.
- **Continue supporting the creation and development of business incubators and accelerators and adopt a flexible approach to designing support measures.** What is needed to expand this support and make it more comprehensive is increased responsiveness and flexibility in adequate provision of BSSs. Trainings and workshops should be tailored to the needs of the beneficiaries, which requires an ex ante assessment.

Dimension 5b – PUBLIC PROCUREMENT

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

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

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

Procedural rules are often complex and the effort needed to take part seems too great for SMEs, given the uncertain outcome.



KEY STATISTICS

In WBT economies, the value of awarded contracts amounts to 6-12% of GDP. 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. In Serbia, in 2020, SMEs represented 85% of bidders in public procurement but were only awarded slightly less than 50% of the procurement market. 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.



ACHIEVEMENTS

- **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. Additional improvement can be observed in public procurement legislation, especially provisions for enhancing the participation of SMEs.

- **More of the public procurement market is open to foreign companies on a level playing field than in 2019.**

- **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.

- **Application of electronic procurement solutions has been significantly enhanced** due to the establishment or improvement of central public procurement portals.

- **Access of economic operators to legal protection measures has been facilitated** by the introduction of the possibility to submit appeals electronically.



THE WAY FORWARD

- **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 inconsistencies in those economies which have adopted new Public Procurement Laws, concerning domestic preferences, participation of consortia, exclusion of economic operators, self-cleaning and subcontracting.
- **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.



Dimension 6 – ACCESS TO FINANCE FOR SMEs

Access to affordable finance is a key driver of 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. 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.

The COVID-19 pandemic has demonstrated the need to strengthen the resilience of the private sector, and SMEs in particular. As economies emerge from the crisis, 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.

Access to affordable finance is a key driver of economic growth.



KEY STATISTICS

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A well-functioning and stable financial system is therefore critical for sustainable private sector development. 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.



Key banking sector indicators (2012-2021)

	Private sector credit, as % of GDP			Credit constrained firms, as % of firms needing a loan		NPLs, as % of total gross loans			Bank assets, as % of total financial sector assets
	2014	2016	2020	2012-14	2018-20	2014	2016	2021	2020
ALB	39.3	36.6	38.6	62.4	36.9	22.8	18.3	5.6	89.4
BIH	60.2	57.9	58.5	24.7	42.8	14.0	11.8	5.7	88.8
KOS	37.0	38.9	51.6	43.3	39.8	8.3	4.9	2.2	67.6
MKD	52.0	49.3	60.0	57.0	57.7	15.9	11.5	6.2	92.5
MNE	50.5	49.0	56.2	67.6	49.0	10.8	6.3	3.4	82.0
SRB	40.8	40.9	45.5	51.9	23.2	21.5	17.0	3.6	90.0
TUR	63.5	69.4	75.1	13.3	65.4	2.8	3.2	3.0	91.0

Sources: World Bank (2021), World Development Indicators (database), <https://databank.worldbank.org/source/world-development-indicators>
 EBRD (2021), BEEPS VI, European Bank for Reconstruction and Development, <https://www.beeeps-ebird.com/data>
 CEIC Data (2022), Global Economic Data, Indicators, Charts and Forecast, <https://www.ceicdata.com/en>
 and respective regulatory bodies, IMF Financial Sound Indicators, IMF Article IV consultation staff reports, respective central/national banks.

Credit information coverage in the WBT economies (2012-2020)

	Public credit registry coverage (% of adults)			Private credit bureau coverage (% of adults)		
	2013	2016	2019	2014	2016	2020
ALB	13.1	38.9	56.2	n/a	n/a	n/a
BIH	39.1	37.6	47.1	4.9	10.4	14
KOS	22.2	38.1	41.4	n/a	n/a	n/a
MKD	25.2	30.8	41	n/a	n/a	n/a
MNE	34.8	40	41.7	77.1	94.5	100
SRB	n/a	n/a	n/a	100	100	100
TUR	23.5	76.6	80.2	71.7	n/a	n/a

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

Source: World Bank indicators.

ACHIEVEMENTS

- **Financial stability and intermediation have remained resilient**, owing to tightened regulations following EU best practices and increased banking supervision. Large-scale liquidity measures, subsidised credit lines and scaled up state-backed credit guarantee schemes ensured consistent access to finance for SMEs during the COVID-19 pandemic.
 - **Credit guarantee funds were introduced or strengthened in all WBT economies' COVID-19 stimulus packages**, with the exception of Montenegro where work is still ongoing.
 - **Market penetration for some non-bank financial instruments has increased**, particularly microfinance, where legal frameworks support this kind of activity. Leasing has also gained some traction while legal frameworks for factoring have been improved in some economies.
 - **Venture capital (VC) legislation to support ecosystems conducive to VC has progressed in some economies**. Despite remaining at an early stage across the Western Balkan region, VC investments in Turkey have reached unprecedented levels.
 - **Economies are increasingly supporting financial literacy development**, particularly Montenegro and North Macedonia, who have undertaken benchmarked assessments of financial literacy levels and have initiated or adopted dedicated financial education strategies.
-

Credit guarantee funds were introduced or strengthened in WBT economies' COVID-19 stimulus packages.



THE WAY FORWARD

- **Increase enforcement capacity to protect creditor rights**, specifically 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.

- **Increase access to bank lending by strengthening systems to support lending decisions.** Further measures are needed to improve the quality and reliability of the information in cadastres and facilitate the collateralisation of movable assets.

- **Transition temporary COVID-19 credit guarantee funds into a more permanent support mechanism.** The economies should expand public credit guarantee schemes across the region and establish more sustainable structures that allow for public-private co-ownership, clear additionality and sound risk assessment, in line with international best practice.

- **Raise awareness about the opportunities of alternative finance.** To combat low uptake of factoring and other alternative financing solutions in the region, , economies should enhance outreach efforts through joint awareness-raising activities with factoring service providers or aggregators, or the launch of dedicated state-backed initiatives in support of factoring.

- **Further build on efforts to create an environment conducive to venture capitalists** by introducing a dedicated legal and regulatory framework to regulate and incentivise venture capital, based on consultation with practitioners and on gap analyses.

- **Improve monitoring and analysis of levels of financial awareness and understanding** by undertaking a baseline assessment of financial literacy levels, ideally based on a best practice methodology, and disaggregated by specific demographics, such as age, gender, enterprises.

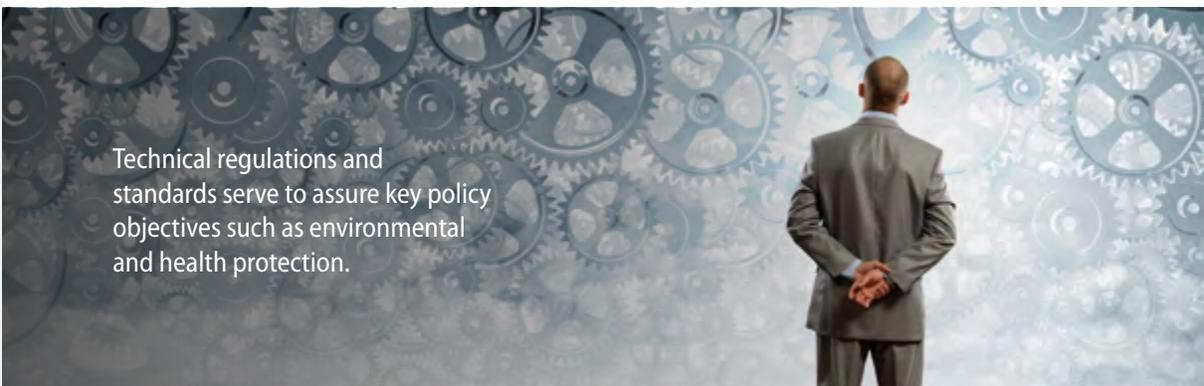
Dimension 7 – STANDARDS AND TECHNICAL REGULATIONS

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.

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 sufficient language skills.

In this context, SMEs in WBT economies must have access to reliable and efficient quality infrastructure 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.

A man in a grey suit stands with his back to the camera, looking at a wall of gears. The gears are of various sizes and are arranged in a pattern that recedes into the distance. The lighting is soft, and the overall tone is professional and technical.

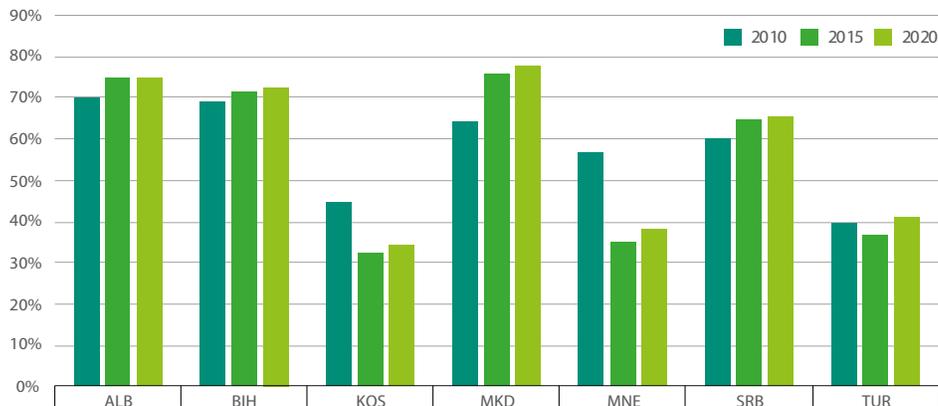
Technical regulations and standards serve to assure key policy objectives such as environmental and health protection.

KEY STATISTICS

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. The share of EU exports increased between 2010 and 2020 in six out of seven economies and remained stable in Albania.

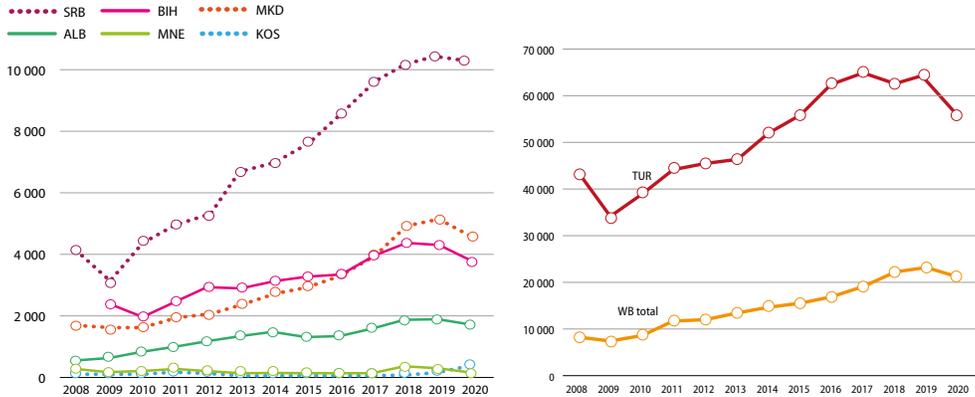
Export growth slowed significantly in 2019, then contracted in 2020 with the outbreak of the COVID-19 pandemic. The 2020 decline in EU-destined exports was more pronounced in Turkey (-10.9%) than in the Western Balkans (-6.4%). Nevertheless, the latter trend can be attributed primarily to the slowdown in global trade due to COVID-19, as the share of European exports remained stable in all seven economies in 2020.

Share of EU exports in total WBT exports (2010-2020)



Source: Eurostat (2021), "International trade of EFTA and enlargement countries", https://ec.europa.eu/eurostat/databrowser/view/EXT_LT_INTERCC__custom_1877851/default/table?lang=en

WBT exports of goods to the European Union (2010–2020) – EUR million



Source: Eurostat (2021), "International trade of EFTA and enlargement countries", https://ec.europa.eu/eurostat/databrowser/view/EXT_LT_INTERCC_custom_1877851/default/table?lang=en





ACHIEVEMENTS

- **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.

- **Regional co-operation happens at various levels (bilaterally and multilaterally)** and has continued during the COVID 19 pandemic.

- **Overall, quality infrastructure activities are centrally co-ordinated in most WBT economies.**

- **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.

- **Financial support for SMEs that seek certification according to European or international standards was expanded.** There exists at least one SME support programme related to standards in each WBT economy.

THE WAY FORWARD

- **Establish a centralised, single information source for SMEs and other firms interested in exporting to the European Union.** Such a single information source can be provided by establishing a web portal that presents key information in a user-friendly way and provides links to potential support programmes and the national QI bodies.

- **Further strengthen regional collaboration in quality infrastructure beyond bilateral co-operation.** 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.** More frequent evaluation and comparison of national law with EU regulations can reduce the amount of unaligned legislation and reduce the time until which legislation is harmonised.

- **Incentivise SMEs' participation in technical standards committees through specific measures,** such as travel support, online participation or representation by associations.

- **Develop guides that explain the conformity assessment process and standards development in the local language,** in particular as 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.

Dimension 8a – ENTERPRISE SKILLS

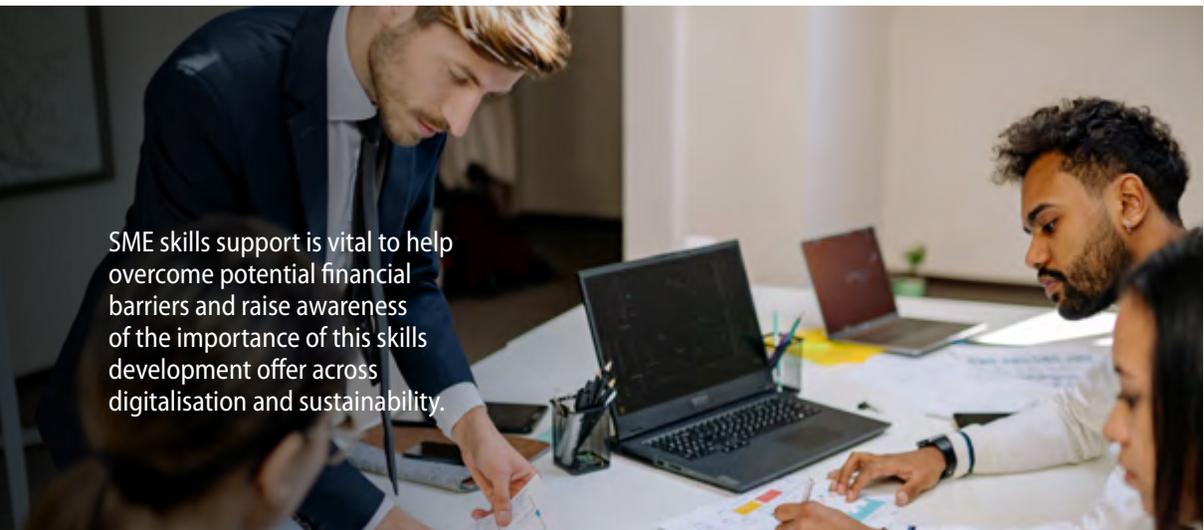
Enterprise skills are critical to ensuring that businesses, cooperatives and social enterprises reach their potential and positively contribute to social cohesion and sustainable economic growth.

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. Enterprise skills are even more needed 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.

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.



SME skills support is vital to help overcome potential financial barriers and raise awareness of the importance of this skills development offer across digitalisation and sustainability.

Skills intelligence has incrementally improved during this assessment period with some emerging examples of inspiring practice.



ACHIEVEMENTS

- **Skills intelligence has incrementally improved during this assessment period with some emerging examples of inspiring practice.** Most economies undertake actions that develop national skills intelligence ranging from training needs analyses, sector-based studies to analysis of employment statistics.
- **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 through increasing policy support for development of the social economy sector.**
- **Start-ups have access to more training.** All the economies in the WBT have started to invest more in financial and non-financial support for start-ups.

THE WAY FORWARD

- **Upgrade skills intelligence.** 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 and the European Skills Index led by Cedefop.
 - **Mainstream SME skills, including the gender perspective, into smart specialisation strategy (S3) development and implementation.** This will support both S3 priority domains and associated value chains at national and local levels, equipping them with the skills, including re-skilling and up-skilling, to support the changing nature of the economy as S3 domains develop and grow.
 - **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.
 - **Establish comprehensive monitoring and evaluation of all programmes related to SME skills.** This work should be supported by consistent, gender-disaggregated data gathered from government financed SME support and training actions.
-



Dimension 8b – INNOVATION POLICY FOR SMEs

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.

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.

Recent developments and global trends, in particular the outbreak of COVID-19, 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.

Innovative practices and activities help firms expand and boost productivity, even if only a small percentage of them advance to the global technological frontier.



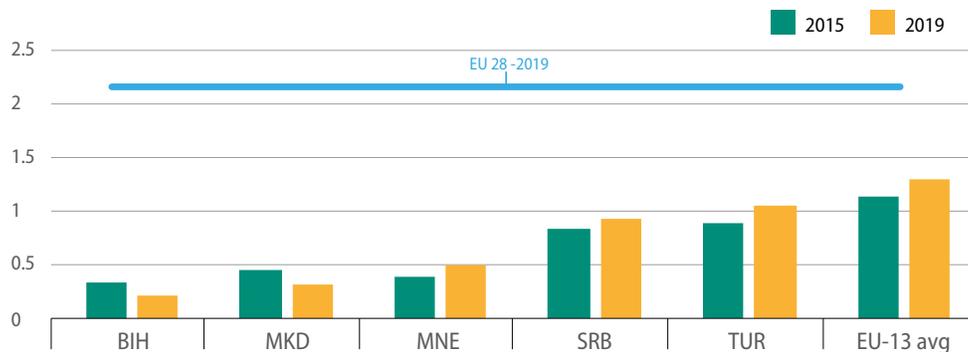
KEY STATISTICS

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.

Spending on R&D as a percentage of gross domestic product (GERD) remains low across all WBT economies and is even decreasing in some.

The region's limited yet gradually growing innovation capacity is also reflected in its performance in high value-added exports, which is improving, although at varying levels. The COVID-19 pandemic is likely to have further contributed to an increasing level of innovation, including through more active e-commerce.

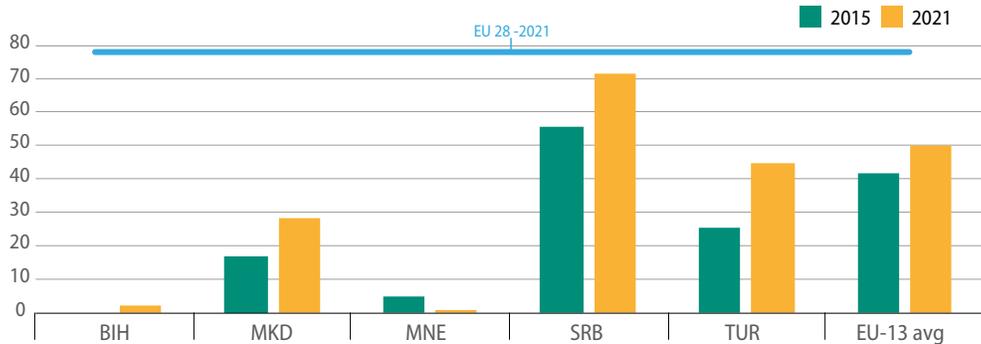
Gross domestic expenditure on R&D as a percentage of GDP (GERD) (2015 and 2019)



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

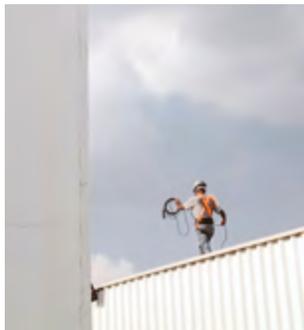
Sources: UNESCO Institute for Statistics (2020), Science Technology and Innovation Database, <http://data.uis.unesco.org>
Eurostat (2020), "Gross domestic expenditure on R&D (GERD) at national and regional level", <https://ec.europa.eu/eurostat/data/database>

Knowledge intensive service exports, European Innovation Scoreboard (2015-2021)



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, Cyprus⁷, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic and Slovenia.

Source: EIS (2021), European Innovation Scoreboard Statistics, European Commission, Brussels, <https://ec.europa.eu/research-and-innovation/en/statistics/performance-indicators/european-innovation-scoreboard/eis>



ACHIEVEMENTS

- **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.**

- **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.



THE WAY FORWARD

- **Complete innovation policy frameworks and further strengthen implementation and co-ordination capacity.** This is especially helpful following governmental restructuring or the establishment of new public agencies that may have overlapping objectives and responsibilities.
- **Increase regional linkages in the context of smart specialisation.** 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.
- **Build an innovation ecosystem beyond start-up support and include more targeted services to truly support innovative ideas and technology absorption capacity.** A balanced policy mix to support start-ups and those that have the ability or potential for innovation and knowledge development would help to ensure that ecosystems are designed to truly support innovative ideas and build technology absorption capacity.
- **Scale up and consolidate financial support.** Comprehensive monitoring and evaluation, including via external performance assessments, will help identify existing bottlenecks and consolidate measures.
- **Further diversify public support measures and disseminate information on indirect financial support for R&D to increase take-up.** This should be coupled with targeted awareness-raising campaigns, for instance via the platforms of the innovation funds or equivalent agencies.
- **Identify existing bottlenecks for business-academia collaboration** and emphasise the link between scientific research and academia in designing the institutional infrastructure for innovation and research and development.

Dimension 9 – SMEs IN A GREEN ECONOMY

SMEs play a key role in achieving the net-zero goal for greenhouse gas emissions (GHG) as they make up for 50% of greenhouse gas emissions in the world and 63% in the EU.

Environmental issues are also important from an SME perspective as they face consequences of environmental degradation and are exposed to energy-price volatility and uncertainty, which can generate specific challenges for their survival and growth.

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.

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.

SMEs can be a source of innovation and solutions to develop the technologies needed to address environmental challenges.



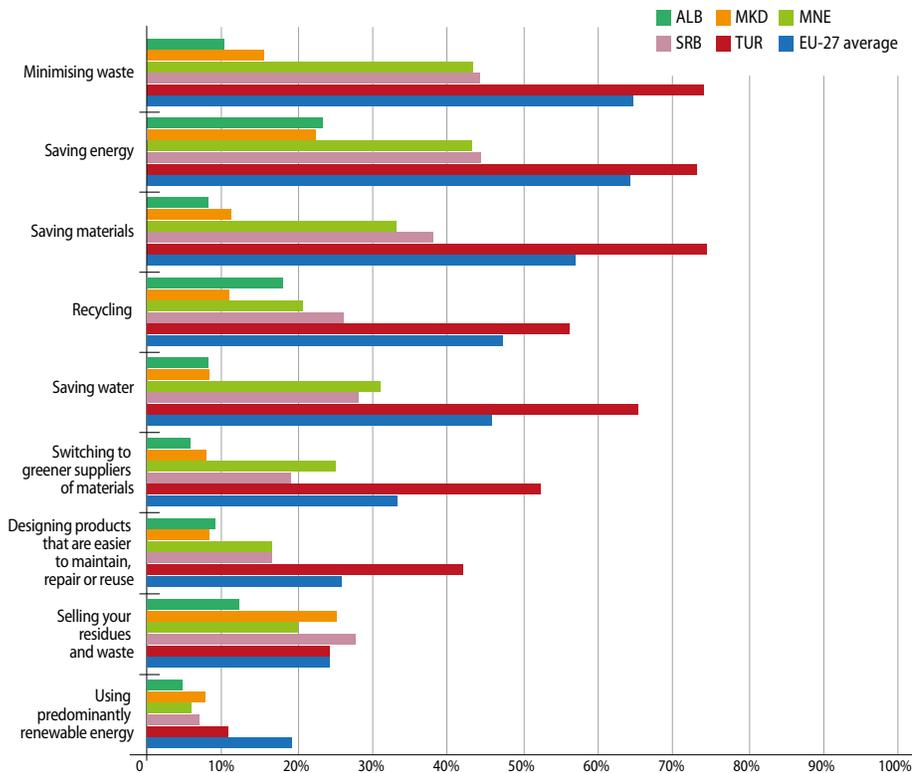


KEY STATISTICS

SME greening has gained momentum in the region in recent years. The share of SMEs offering green products or services has increased in the majority of WBT economies, with 36% of North Macedonia's SMEs offering green products or services, an even higher proportion than in the EU.

The majority of SMEs also took at least one action to become more resource-efficient, in particular minimising waste or saving energy or water. While all Western Balkan economies still perform below the EU average, Turkey's SMEs perform better than those of the EU in saving materials, water and energy and minimising waste, reflecting the government's long-term commitment to SME greening.

Resource efficiency measures undertaken by SMEs (2021)



Note: Data for Bosnia and Herzegovina and Kosovo are unavailable.

Sources: European Commission (2022), Eurobarometer: SMEs, Resource Efficiency and Green Markets, European Commission, Brussels, <https://europa.eu/eurobarometer/surveys/detail/2287>

ACHIEVEMENTS

- **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.
- **Circular economy frameworks are incrementally being developed**, with some economies having prepared their roadmaps towards circular economy, serving as guiding documents for the development of respective strategic documents.
- **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.



THE WAY FORWARD

- **Strengthen cross-sectoral co-ordination and evaluation tools to ensure effective implementation of SME greening measures.** Effective co-ordination among the relevant stakeholders is also essential to create a synergy between the various financial instruments and avoid overlaps. To ensure appropriate evaluation of measures, WBT economies should improve SME-specific greening data collection.
- **Step up awareness-raising activities and the provision of advice and guidance to SMEs on adopting environmentally sound practices.** On top of activities to disseminate guidance on good practices, targeted advisory services could be provided directly to SMEs to help them identify greening possibilities and access resources.
- **Consider introducing regulatory instruments into the SME greening policy mix.** Governments could envisage the introduction of performance standards as part of their energy, waste management or cleaner production strategies as well as special regimes for low environmental risk installations.
- **Enhance financial support to SME greening, particularly in the context of the COVID-19 pandemic.** The WBT governments can offer direct subsidies to SMEs and fiscal measures such as favourable tax policies and exemptions on import charges. Programmes could also be developed to convert loans into grants when the expected environmental performance is demonstrated.
- **Introduce green public procurement measures to impose a direct supply chain pressure on environmentally friendly goods and services.** By using their purchasing power to choose goods and services with a lower environmental impact, public authorities can help drive down the costs of such purchases and make them more affordable.

Dimension 10 – INTERNATIONALISATION OF SMEs

Western Balkan and Turkey economies all rely on international trade as the driver for economic growth. Given SMEs's 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 global value chains (GVCs). Administrative hurdles, lack of export capacity, hindered access to finance and low-quality, narrow export base can all contribute to hampered internationalisation and increased inwardness of businesses, especially in the post COVID-19 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.



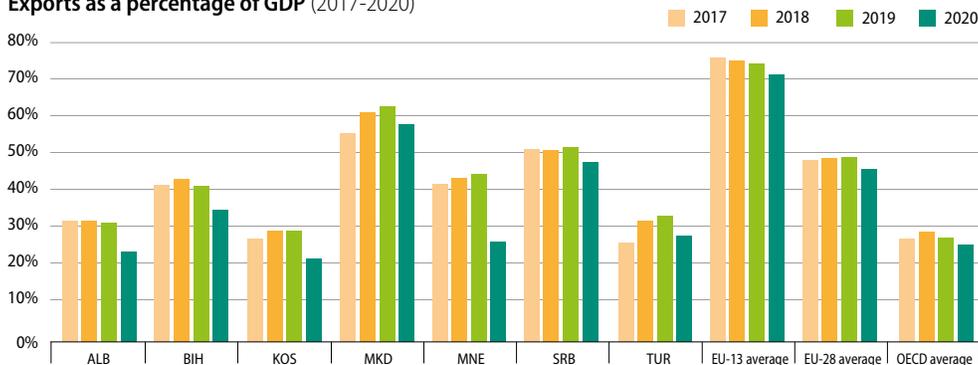
KEY STATISTICS

North Macedonia has the highest rate of exports as a percentage of GDP, amounting to 58.1% in 2020. Kosovo had the lowest rate of exports as a percentage of GDP the same year, amounting to 21.7%. All economies in the Western Balkan and Turkey region, as well as the EU and the OECD, experienced a drop in exports in 2020, as a result of the COVID-19 pandemic.

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

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

Exports as a percentage of GDP (2017-2020)



Note: OECD and EU averages are calculated as simple averages. EU-13: Bulgaria, Croatia, Cyprus², the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic and Slovenia.

Source: World Bank (n.d.), "Exports as a percentage of GDP", dataset, <https://data.worldbank.org/indicator/NE.EXP.GNFS.CD>

ACHIEVEMENTS

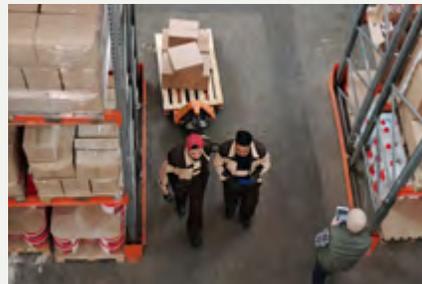
- **Export promotion is highlighted in all of the SME-specific strategic documents in the Western Balkan and Turkey region.** All economies have included broad support for increasing the volume of exports, as well as for improving their complexity and sophistication by shifting to higher value-added activities.

- **With the exception of Montenegro, all WBT economies have export promotion agencies, although with varying mandates.**

- **All WBT economies included support for SME integration into GVCs through increased SME-FDI linkages and indirect exports.**

- **Four of the assessed economies advanced considerably in the area of cluster formation and development.** The governments of Albania, Bosnia and Herzegovina, Kosovo and Montenegro implemented cluster development programmes and intensified their institutional support for industrial groupings by boosting financial and non-financial incentives for SMEs with cluster potential.

- **Despite underdeveloped legal structures, almost all assessed economies have introduced e-commerce initiatives since the last assessment cycle.**



THE WAY FORWARD

- **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.
- **Continue boosting monitoring and evaluation for export promotion programmes and reinforce data collection mechanisms.** On top of monitoring satisfaction of SMEs benefitting from government support schemes, the governments should define and monitor quantifiable targets as well as introduce performance-based monitoring and evaluation.
- **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.
- **Reinforce the capabilities of investment promotion agencies to ensure they can execute their mandates.**
- **Enhance performance-based monitoring and data collection for policies promoting SME integration into GVCs.** 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.
- **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.
- **Strengthen monitoring and evaluation mechanisms, while also including impact assessment studies of e-commerce programmes.**



FOOTNOTE & ENDNOTES

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



www.ec.europa.eu



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

Footnote by all the European Union Member States of the OECD and the European Union:

The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

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SME POLICY INDEX

Western Balkans and Turkey 2022

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 65% of value added and account for the 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 over a hundred of government representatives from the Western Balkans and Turkey as well as local and regional stakeholders, including SMEs, and benefitted 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.

