



SME POLICY INDEX

WESTERN BALKANS AND TURKEY 2022

ASSESSING THE IMPLEMENTATION OF
THE SMALL BUSINESS ACT FOR EUROPE

Key findings of the forthcoming publication

Rome,
22 June 2022



The sixth cycle of the SME Policy Index assesses SME-related policies in six Western Balkan economies

- The SME Policy Index is a benchmarking tool designed to assess policies that support SMEs and monitor progress in policy implementation over time.
- It is structured around the 10 principles of the Small Business Act (SBA) for Europe which allows for benchmarking not only between Partner Countries but also with EU Member States.
- In the WB region, the assessment has been conducted every three years since 2007, allowing to measure progress and convergence towards OECD and EU good practice.
- The purpose of the SBA Assessment is to improve SME policy-making in Partner Economies and to enhance the capacity of policy-makers.
- The objective is to create a favourable business environment 'on the ground' and to foster entrepreneurship and competitiveness.
- OECD has undertaken the 2022 Assessment with support from the EC, EBRD and the ETF.

12 policy dimensions

- 1 Entrepreneurial learning and women's entrepreneurship
- 2 Bankruptcy and second chance
- 3 Institutional and regulatory framework
- 4 Operational environment for SMEs
- 5a Support services for SMEs
- 5b Public procurement
- 6 Access to finance
- 7 Standards and technical regulations
- 8a Enterprise skills
- 8b Innovation policy for SMEs
- 9 SMEs in a green economy
- 10 Internationalisation of SMEs





Hit hard by the pandemic, the SME sector bounced back quickly, but recovery was cut short by another shock

- About half of enterprises in the Western Balkans had to suspend their business activity temporarily due to COVID-19 as they've faced reduced demand for their products or services :
 - 1/3 reported reduced demand for goods and services as the greatest challenge imposed by COVID
 - 82% reported losses in revenue compared to pre-COVID levels.
- Nevertheless, the COVID-pandemic did not interrupt the general trend in increase of the number of SMEs per 1000 inhabitants that rose by 13% over the last couple of years.
- Preliminary evidence shows that government measures across the region may have prevented a massive wave of business closures.
- Some caution is warranted, as the scale of permanent business closures due to the COVID-19 crisis may yet to be fully reflected in official statistics. As support will be phased out, businesses that have hung on may eventually collapse on the back of increasing debt.
- The war in Ukraine will pose new challenges for the region's businesses:
 - Inflation: Increased operational costs, due to surging prices in energy and inputs, as well as to labour costs,
 - Trade: Supply problems in certain products due to supply chain disruptions and sanctions on Russia/Belarus,
 - Access to Finance: Increased need for access to finance to avoid cash-flow problems in the context of increased monetary tightening and increasing private sector debt since the pandemic.

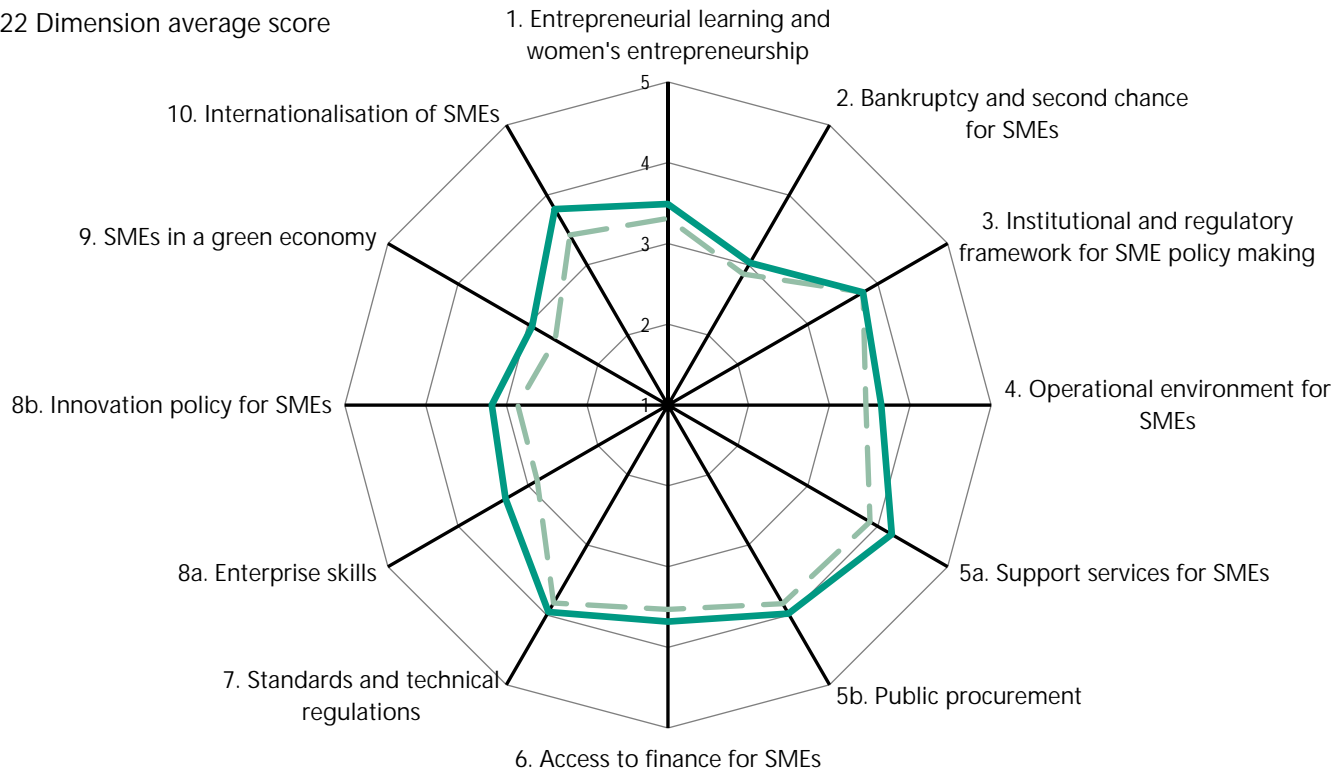




2022 assessment results show improvements across policy areas

— 2019 Dimension average score

— 2022 Dimension average score



The strongest performance is in the areas of:

- Dimension 3: Institutional and regulatory framework for SME policy making
- Dimension 5a: Support services for SMEs
- Dimension 5b: Public procurement
- Dimension 7: Standards and technical regulations
- Dimension 10: Internationalisation of SMEs

The most room for improvement is in the areas of:

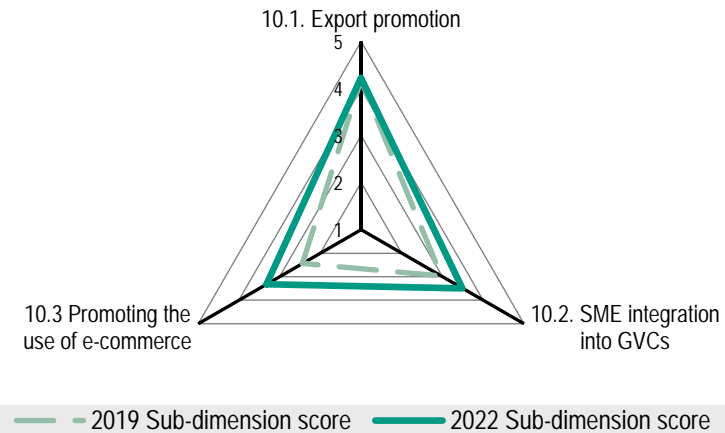
- Dimension 2: Bankruptcy and second chance
- Dimension 8a: Enterprise skills
- Dimension 8b: Innovation policy for SMEs
- Dimension 9: SMEs in a green economy






SMEs' e-commerce activities were accelerated by COVID-19

- ❖ Successive lockdowns caused by the pandemic accelerated the adoption of digital technologies by businesses.
- ❖ The governments in the region implemented programmes (including financial support) that supported SME digitalisation and e-commerce.
- ❖ The effectiveness of programme implementation on online sales practices among SMEs varies across the region as many programmes have a very broad focus without SME-specific targets.
- ❖ Data collection mechanisms have improved across the region, as more economies have started keeping track of their SMEs' e-commerce activities.
- ❖ However, even with these advancements, e-commerce programmes are not accompanied by relevant institutional and policy measures which would guarantee their effective supervision, potentially resulting in insufficient customer protection and further decreasing the already weak general trust in e-payments and cybersecurity.



The most significant improvements since 2019:
Kosovo*, Albania and Serbia

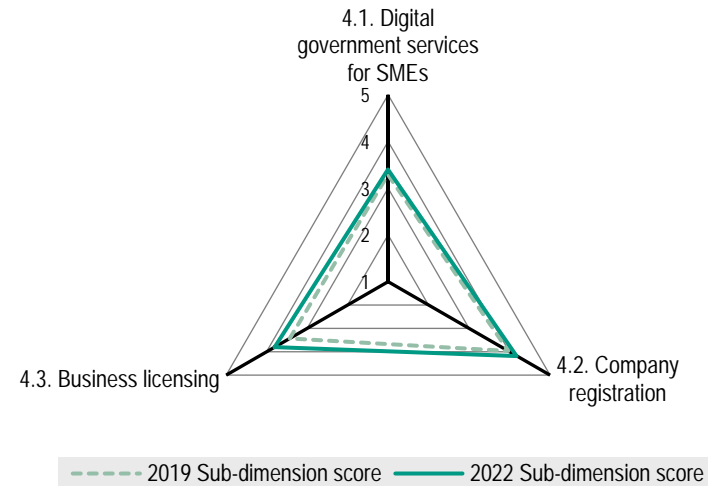
 27% of SMEs in Serbia,
18% in Bosnia and Herzegovina
and 9% in North Macedonia
are using the e-commerce channel
for sales.





Digital government services for SMEs have been further developed

- ❖ Western Balkan economies have continued to develop their policy frameworks for delivering digital government services, using different approaches.
- ❖ Some economies have also made efforts to simplify administrative procedures alongside their digitalisation, further reducing the administrative burden for businesses.
- ❖ However, the rollout of digital services has been uneven across the region, with Albania and Serbia making the most progress so far.
- ❖ Progress has been made in strengthening the key enablers for digital services, namely government data interoperability, digital signature and open data.
- ❖ The region has room for improvement in ensuring that digital government services meet businesses needs and that their use by SMEs is properly monitored and evaluated.



Top performers and the most significant improvements since 2019:
Albania and Serbia



95% of all administrative procedures in Albania were partially or fully doable online in 2021.



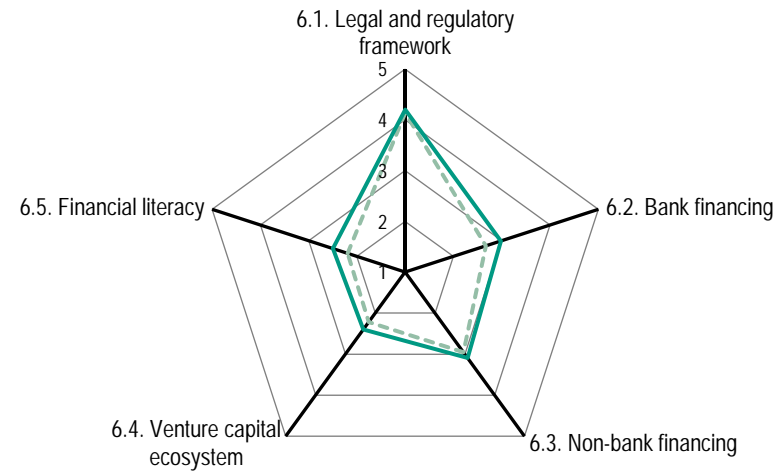
Serbia had 1 790 datasets available on its open government data portal in 2021 (up from 85 in 2019)





Access to finance for SMEs has been further strengthened

- ❖ Financial intermediation has remained resilient across the region.
- ❖ Private sector credit grew noticeably, further fuelled by government support measures in 2020 and 2021, though the long-term effect of these temporary crisis response measures remains to be seen.
- ❖ Non-bank financing sources, such as microfinance, leasing and factoring, have gained momentum but have yet to realise their full potential.
- ❖ While progressing, venture capital remains in the early stages in the region, although some economies have introduced legal frameworks to stimulate it. The Enterprise Innovation Fund remains the only VC fund active in the region.
- ❖ Progress identified in the previous assessment with regards to the availability of business angel investors has somewhat been reversed amid limited support for business angel investments.
- ❖ Across the region, some economies have initiated the development of dedicated crowdfunding legislation.



----- 2019 Sub-dimension score ——— 2022 Sub-dimension score

Top performers:
North Macedonia and Serbia



55% of GDP

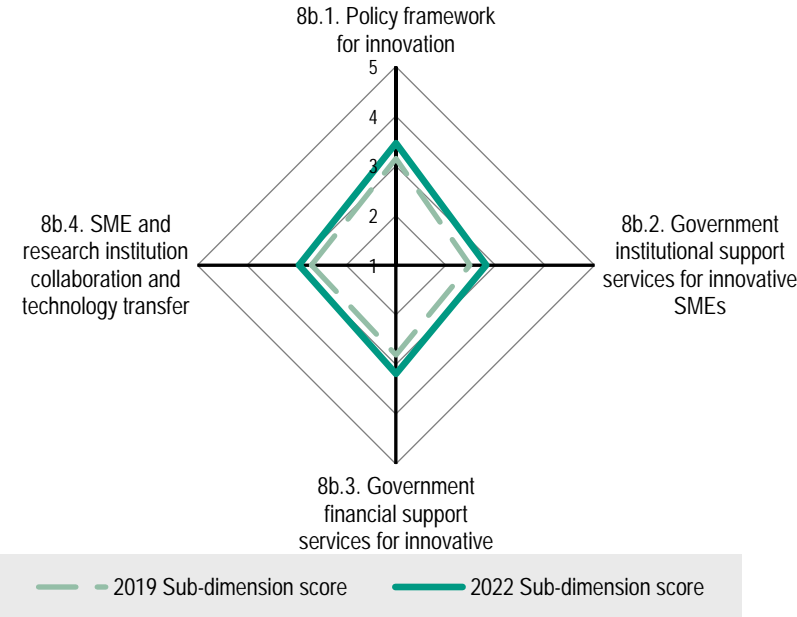
is the share at which stood private sector credit in 2020, a 6 percentage point increase since 2016





SMEs are recognised as key players for innovation-based economies

- ❖ Most economies have a comprehensive framework for innovation policy, with smart specialisation advancing, but regional discrepancies are becoming increasingly apparent.
- ❖ Efforts to build an innovation ecosystem are progressing, with multiple incubators operating throughout the region, supported by public funds or self-sufficient.
- ❖ Financial support has expanded, thanks to increased state budgets for innovation agencies and dedicated COVID-19 programmes. Indirect financial support is increasingly available.
- ❖ The COVID-19 pandemic is likely to have further contributed to an increasing level of innovation, including through more active e-commerce.
- ❖ Business-academia collaboration remains nascent. Financial support schemes specifically targeting co-operation in R&D remain limited.



Top performers:
Serbia, North Macedonia and
Montenegro



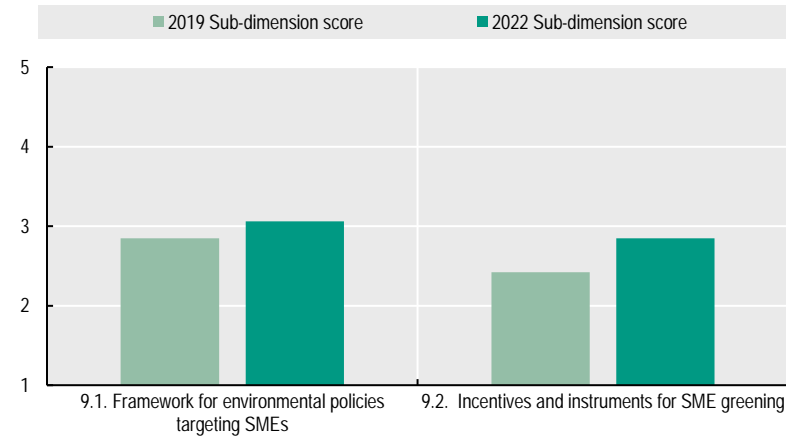
0.56% of GDP
*is spent on R&D across the region,
well below the EU target of 3%*







SME greening policies have continued to gain momentum

- ❖ SME greening policies have been mainstreamed into several strategic documents, with energy efficiency and eco-innovation lying at their forefront.
- ❖ Circular economy frameworks are incrementally being developed, with Serbia and Montenegro having prepared their respective roadmaps.
- ❖ Financial incentives have been multiplied, albeit unevenly across the region, most of which target energy efficiency and renewable energy projects.
- ❖ While the role of green funds in supporting SME greening efforts has grown, through dedicated programmes and credit lines, it remains dependent on external financial support.
- ❖ Environmental aspects have rarely been included in post-COVID economic recovery programmes, pointing to a lost opportunity to enhance SME greening.
- ❖ 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.



Top performers:
Montenegro and North Macedonia

 **25%** of SMEs on average offer green products or services, a 5 percentage point increase since 2018

 **39%** of SMEs on average work on saving energy to become more efficient, compared to 64% of SMEs in the EU



Thank you for your attention!

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