

## *Annex A*

### **Methodology for the Small Business Act assessment: Technical annex**

The SME Policy Index 2016 uses two separate scoring methodologies depending on the dimensions being assessed: one for the human capital dimensions (Dimensions 1 and 8a), and the other for all other dimensions. Both are described below.

#### **Scoring methodology for Dimensions 1 and 8a**

While the methodology for the 2016 assessment has been altered since the 2012 assessment (see Box A.1), the human capital dimensions (Dimensions 1 and 8a) are assessed using a different methodology.

The indicators used to assess Entrepreneurial learning (Dimension 1) and Enterprise skills (Dimension 8a) follow the model employed in earlier assessments i.e. a five-step incremental policy model. This involved the use of a framework of 22 qualitative indicators to give a score based on the level of policy development in a certain policy area, where level 1 is the weakest policy framework and level 5 the strongest (Box 0.1). The five-step structure of each indicator provides economies with a ladder of policy steps to build policies and delivery arrangements for lifelong entrepreneurial learning and enterprise skills.

The levels are assigned to each indicator through a participatory and analytical process, conducted through: 1) self-assessments by national SBA human capital experts; 2) dedicated multi-stakeholder focus groups in each economy led by ETF and SEECCEL to peer-review evidence; 3) cross-economy peer reviews between national expert teams; and 4) follow-up bilateral exchanges. The approach is described in greater detail in *Building Capacities: Entrepreneurial Learning and SME Skills* (SEECCEL, 2016).

The assessment of Women's Entrepreneurship (a sub-dimension within Dimension 1) applied a pilot methodological approach that follows the new approaches in the 2016 assessment for the other SBA dimensions (as described below).

Overall, the aggregated levels for each dimension are calculated by allocating weights to each indicator according to its relative importance. Core indicators are given a weight of 3; secondary indicators are weighted 2 or 1.

#### **Scoring methodology for the other dimensions**

For all other dimensions, the indicators and assessment grids used in 2012 (see OECD, 2012) have been replaced by detailed questionnaires comprising approximately 450 questions, filled out by national governments and independent experts. These questionnaires allow more precise information to be obtained and cross-checked, in particular on the actual implementation of policies and measures. The questionnaires have been carefully designed to ensure comparability with the 2012 indicators and assessment grids.

### Box A.1. What's new in the 2016 methodology?

In 2014, following consultation with the SBA co-ordinators in the Western Balkans and Turkey, the partner organisations agreed to introduce certain improvements to the 2016 SME Policy Index. The objective of these changes was twofold:

1. To better capture the intensity, quality and effect of policies and reforms. To this end, detailed policy assessment questionnaires have been developed with detailed questions to assess performance throughout the entire policy cycle, from policy design to actual implementation and monitoring and evaluation.
2. To complement the information used for the scores with other sources of data that better capture the context and “broader picture” of SME development policies in the Western Balkans and Turkey, such as national statistics and firm-level survey data.

The modifications introduced in 2014 have preserved the fundamental features of the SME Policy Index and the core elements of the original methodology, including the multi-dimensional approach based on the ten SBA principles, the intra-regional benchmarking focus, the participative assessment method, and the five-level scoring framework, so as to ensure comparability over time.

Although, like the 2012 assessment, the questionnaires have been structured by dimensions and sub-dimensions, the sub-dimensions have now been divided into thematic blocks, each with their own set of questions (Table A.1). These thematic blocks are typically broken down into the three components or stages of the policy process (design, implementation, monitoring and evaluation), with some deviations in certain dimensions. This approach is aimed at allowing governments to identify and target specific weaknesses within their policy processes, and to increase the emphasis on implementation and monitoring and evaluation of policies.

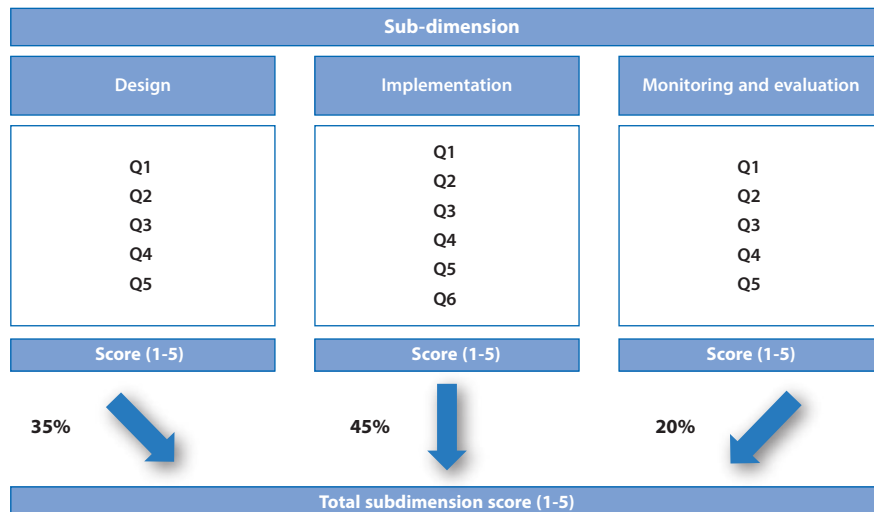
Table A.1. Example of thematic blocks for the Institutional framework sub-dimension

Design	Implementation	Monitoring & evaluation
Is there a multi-year SME strategy in place?	Has budget been mobilised for the action plan?	Are there any monitoring mechanisms in place for the implementation of the strategy?

Each questionnaire contains two types of questions: 1) core questions to determine the assessment score; and 2) open questions to acquire further descriptive evidence.<sup>1</sup> Each of the core questions (Q1, Q2, Q3, etc.) is scored equally within the thematic block. For binary questions, a “Yes” response is awarded full points and a “No” response receives zero points. For multiple choice questions, scores for the different options range between zero and full points, depending on the indicated level of policy development.

The core questions are scored individually and then added to provide a score for each thematic component. Scores are initially derived as percentages (0-100) and then converted into the 1-5 scale (Figure A.1). Scores for the thematic blocks are then aggregated to attain a score for the sub-dimension, with each component being weighted based on expert consultation. In general terms, a 35-45-20% split has been used to emphasise the importance of policy implementation. The sub-dimensions are then aggregated using expert-determined weightings based on the relative significance of each policy area to reach an overall 1-5 level per dimension (see below).

Figure A.1. Questionnaire scoring



### Changes to the SBA assessment dimensions since the 2012 SBA assessment

Since 2012, several dimensions in the assessment have been revised in order to assess a broader range of SME policies (e.g. integration of SMEs into global value chains) and address potential gaps in measurement (e.g. performance of bank financing in terms of actual levels of financial inclusion) as well as to undertake a minor reorganisation and streamlining of sub-dimensions. The weightings of the sub-dimensions have been adjusted to allow for these additions whilst maintaining as much comparability with the 2012 assessment as possible.

The SBA Assessment 2016 further included the monitoring of the Technical Assistance (TA) pillar of the Western Balkan Enterprise Development and Innovation Facility (EDIF). This pillar aims to enhance the regulatory environment for both innovative high-potential SMEs (IHPSMEs) and investors through the implementation of a set of specific policy reforms. Four regional policy priorities (the EDIF TA Pillar's reform priorities) were identified:

1. increase the investment readiness of entrepreneurs
2. improve the regulatory framework for venture capital schemes and provide support for business angels
3. dedicate sufficient funds to the implementation of innovation related policies and programmes and/ or implement policies to increase the capacity and readiness for innovation in companies
4. improve business licensing systems.

The beneficiary economies (Albania, Croatia, Kosovo, the Former Yugoslav Republic of Macedonia, Montenegro and Serbia) formally committed to the EDIF TA Pillar's reform priorities at the EDIF launch event on 5 December 2012 in Paris, thereby agreeing to implement these policy measures, with some support of the EDIF technical assistance funds.

The monitoring has been integrated in the regional Small Business Act for Europe assessment. For each EDIF TA priority, a dimension or sub-dimension has been created. An overview of the changes to the dimensions is provided in Table A.2 (for more details see the thematic chapters in Part I of this report).

Table A.2. Overview of changes to SBA assessment dimensions

Dimension	Changes introduced since the 2012 assessment
Entrepreneurial learning and women's entrepreneurship (Dimension 1)	Eight new indicators have been added under the entrepreneurial learning sub-dimension. The indicators reinforce 1) the policy environment, in particular through interfacing entrepreneurial learning policy with a country's wider entrepreneurship policy drive; and 2) policy implementation, with more specific attention given to entrepreneurship promotion in vocational and tertiary education. For the women's entrepreneurship sub-dimension, the questionnaire methodology was used in line with the three thematic blocks.
Bankruptcy and second chance for SMEs (Dimension 2)	All questions relating to laws and procedures have been grouped under the first sub-dimension (Laws and procedures), leaving only discharge procedures and targeted government programmes to promote second chances under the Promoting second chance sub-dimension.
Operational environment for SMEs (Dimension 4)	A third sub-dimension on business licensing has been added in order to monitor the EDIF TA priority on business licensing
Support services for SMEs and start-ups (Dimension 5a)	This dimension has been streamlined into two sub-dimensions covering the public provision of SME support infrastructure and services and measures to stimulate private sector provision of business support services to SMEs. Previously, the dimension was broken down into various sub-dimensions based on the type of support instrument and the promotion of private markets was not explicitly considered. The restructured dimension provides for the monitoring of the EDIF TA pillar on investment readiness.
Public procurement (Dimension 5b)	The public procurement dimension was kept as a single dimension with the same indicators as in the previous assessment. However, the dimension was restructured in line with the thematic blocks (regulatory framework, implementation and monitoring and evaluation).
Access to finance for SMEs (Dimension 6)	The dimension has been expanded with the addition of sub-dimensions on bank financing and financial literacy. BEEPS results, macro statistics (e.g. credit registry coverage, leasing penetration rate and factoring penetration rate), and indicators from international benchmarks (e.g. the World Bank <i>Doing Business</i> report), have been integrated to better capture policy outputs and outcomes. Several questions on venture capital ecosystem have been added to monitor this EDIF TA priority. The extent of the changes means the scores are not directly comparable with the 2012 scores for this dimension.
Standards and technical regulations (Dimension 7)	The dimension on standards and technical regulations was kept as a single dimension with the same indicators as in the previous assessment. However, the dimension was restructured in line with the thematic blocks (regulatory framework, implementation and monitoring and evaluation).
Enterprise skills (Dimension 8a)	Two new indicators have replaced the Access to training indicator: E-training for SMEs and Training for internationalisation of enterprises.
Innovation policy for SMEs (Dimension 8b)	The dimension has been restructured from two sub-dimensions to three by dividing Support services for innovation into financial and non-financial support and incorporating the EDIF TA pillar monitoring.
SMEs in a green economy (Dimension 9)	The dimension has been substantially revised based on the <i>OECD Greening Toolkit for Eastern Partnership Countries</i> . Two sub-dimensions have been created, measuring the strategic framework and existing tools to promote SME greening. The 2012 scores for Dimension 9 have been recalculated based on the updated methodology to allow for direct comparison between 2016 and 2012 scores.
Internationalisation of SMEs (Dimension 10)	The existing export promotion sub-dimension has been expanded to assess the role and performance of the export promotion agency/body in the implementation of SME internationalisation strategies. Two more sub-dimensions have been introduced: one measures the integration of SMEs into global value chains and the other looks at trading performance by using World Bank data.

## Supplementary data

The 2016 SME Policy Index has also tried to supplement the formal assessment framework described above with additional data and statistics. With a few exceptions (e.g. for Dimensions 6 and 10), this additional data has not been incorporated into the scores. Instead this information is used to support the policy narrative with additional details on policy outcomes and SME perceptions. Two types of additional data have been collected:

1. Structural business statistics and business demography data (on enterprise birth, death and survival rates) were requested from the seven national statistics offices, along with statistics on policy outputs related to the SBA policy dimensions based on the EU SBA fact sheets, which benchmark EU countries based on the principles of the SBA. Data gathering is improving in the Western Balkans and Turkey, with structural business statistics broken down by size class being to some extent available in all economies. Gaps remain however in data collection and harmonisation and limit the regional comparison of statistics to certain statistics and certain economies. Individual overviews of the structural and business demography statistics available are included in the country profiles (see Part II). In addition, this effort was useful as a mapping exercise to highlight statistical data gaps across WBT economies as a significant constraint on policy making (see Part I, Chapter 3).
2. The Business Environment and Enterprise Performance Survey (BEEPS) conducted by the EBRD and the World Bank (Box A.2) has been used to feed into the narrative assessment of countries and dimensions. The BEEPS results have also been integrated into Dimension 6 scores (see above and Part I, Chapter 6) and analysed in the relevant thematic chapters (e.g. access to finance for SMEs, enterprise skills and innovation, SME internationalisation) to provide insights into the potential impact of policy measures on firms. Finally, BEEPS results (including perceptions regarding constraints to business in each WBT economy) have also been analysed in the profiles included in Part II of this report.

In addition, the economy profiles (Chapters 11 to 16) now include a more in-depth analysis of the key challenges facing the SME sector, as well as more detailed recommendations to help the Western Balkans and Turkey monitor reforms. The Way forward section of the profiles now includes detailed reform recommendations.

### Box A.2. BEEPS

The Business Environment and Enterprise Performance Survey (BEEPS) is a joint initiative of the European Bank for Reconstruction and Development (EBRD) and the World Bank Group (the World Bank). It is a firm-level survey based on face-to-face interviews with managers. The survey was first undertaken on behalf of the EBRD and the World Bank in 1999-2000, when it was administered to approximately 4 100 enterprises in 25 countries in Eastern Europe and Central Asia (including Turkey) to assess the environment for private enterprise and business development. Since then, five rounds of the survey have been carried out.

The fifth round of BEEPS in 2011-14 (BEEPS V) covered almost 16 000 enterprises in 30 countries, including an Innovation Module covering product, process, organisational and marketing innovation, as well as management practices in manufacturing enterprises with at least 20 employees. All seven WBT economies were surveyed in 2013 (Table A.3).

## Box A.2. BEEPS (continued)

Table A.3. BEEPS V in the WBT economies

Economy	Sample size	Sectorial breakdown
Albania	360 (274 small, 64 medium, 22 large)	Manufacturing (111), retail (117), other services (132)
Bosnia and Herzegovina	360 (210 small, 109 medium, 41 large)	Manufacturing (117), retail (115), other services (128)
Kosovo	202 (116 small, 73 medium, 13 large)	Manufacturing (71), retail (34), other services (92)
Former Yugoslav Republic of Macedonia	360 (246 small, 94 medium, 20 large)	Manufacturing (125), retail (98), other services (137)
Montenegro	150 (99 small, 35 medium, 16 large)	Manufacturing (50), retail (46), other services (54)
Serbia	360 (196 small, 112 medium, 52 large)	Manufacturing (118), retail (112), other services (130)
Turkey	1 344 (549 small, 484 medium, 311 large)	Manufacturing (1085), retail (120), other services (139)

*Note:* Firm size levels are based on 5-19 employees (small), 20-99 (medium), and 100+ (large).  
*Source:* EBRD (2014), “BEEPS V 2012-2014”, <http://ebrd-beeps.com>.

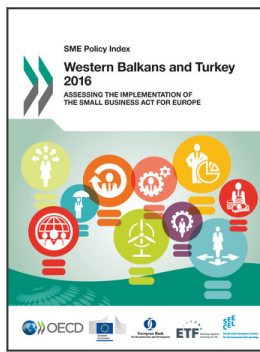
## Note

- Core questions include: 1) binary or yes-no questions (e.g. “Does a legal definition of SMEs exist in your country?”); and 2) multiple choice questions (e.g. “Does a multi-year SME strategy exist?” for which various responses are available (e.g. strategy is in the process of development, draft strategy exists but yet not approved by the government, strategy exists, has been approved by the government and is in the process of implementation, or there is no strategy in development). In either case, countries are requested to provide evidence (source and/or explanation) for the answers. Open questions (e.g. “What is the budget for the SME implementation agency?”; “How many people work in the agency?” or “How many ministries are represented in the governance board?”) are used to provide further details on the responses to the core questions, but are not directly scored.

## References

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