

Executive summary

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

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

Key findings

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

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

SMEs have increasingly adopted digital tools

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

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

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

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

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

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

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

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

Way forward

Ensure a level playing field for SMEs

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

Expand SME data collection and ensure regular evaluations

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

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

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

Reinforce the SME greening momentum for sustainable development

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

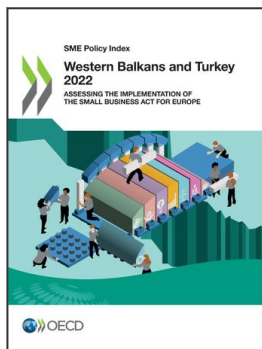
induced by recent external shocks, can generate specific challenges for the growth and survival of SMEs. At the same time, SMEs can be a source of innovative solutions to address these challenges.

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

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

Increase SME competitiveness through regional co-operation

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



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