





SME POLICY INDEX

WESTERN BALKANS AND TURKEY 2022

ASSESSING THE IMPLEMENTATION OF THE SMALL BUSINESS ACT FOR EUROPE

Launch of the publication Bosnia and Herzegovina

2 September 2022



Presentation outline



Objectives and features of the SME Policy Index 2022 publication



Overview of SME Policy Index 2022 assessment for Bosnia and Herzegovina





Main objectives and key features of the SME Policy Index 2022 publication

SME Policy Index objectives:



provide inputs for national SME development strategy and other national development strategies as well as guide the ERPs,



monitor alignment in enterprise policy with the EU acquis, especially with respect to Chapter 20.

SME Policy Index Western Balkans and Turkey 2022 ASSESSING THE IMPLEMENTATION OF THE SMALL BUSINESS ACT FOR EUROPE WOOD OF THE SMALL BUSINESS ACT FOR EUROPE

Key features of 2022 edition:



increased focus on **analysing the implementation of the policy recommendations** provided in the 2019 edition,



analysis of the impact of the COVID-19 pandemic on policies,



horizontal approach to the themes that are becoming of increasing importance for the region (e.g. greening, digitalisation),



examples of the **latest OECD and EU policy trends**, instruments, tools and good practices.





Presentation outline



SME sector in Bosnia and Herzegovina

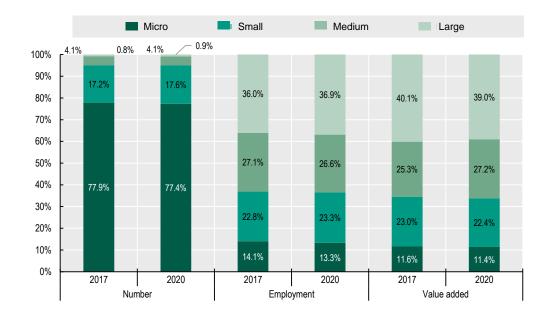
Overview of SME Policy Index 2022 assessment for Bosnia and Herzegovina

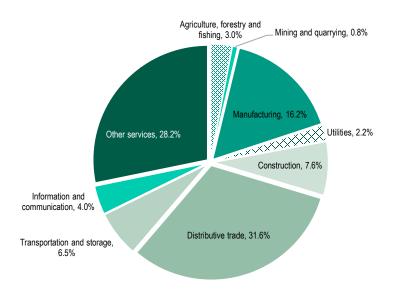




SME sector in Bosnia and Herzegovina

- SMEs accounted for 99.5% of all enterprises in 2020
- SMEs represented 63.1% of employment in the business sector, a decrease of 0.8 percentage points since 2017
- SMEs accounted for 61% of value added by businesses, a 1.2percentage-point increase from 2017.





- The distributive trade sector remains the overwhelming industry of SMEs in the economy at 31.6%
- At 16.18%, the manufacturing sector follows as the second-highest number of SMEs
- Most of Bosnia and Herzegovina's companies (over 70%) are located in the FBiH entity, with around 30% in the RS entity





Presentation outline



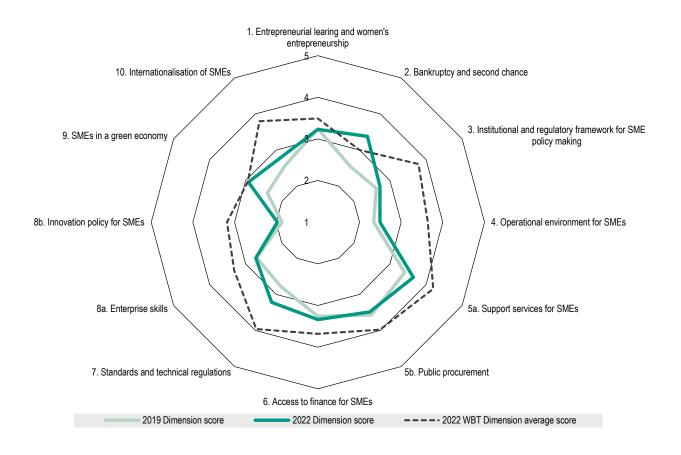
SME sector in Bosnia and Herzegovina

Overview of SME Policy Index 2022 assessment for Bosnia and Herzegovina





2022 assessment results for Bosnia and Herzegovina show improvements across policy areas



The strongest performance is in the areas of:

- Dimension 2: Bankruptcy and second chance
- Dimension 5a: Support services for SMEs
- Dimension 6: Access to finance

The most room for improvement is in the areas of:

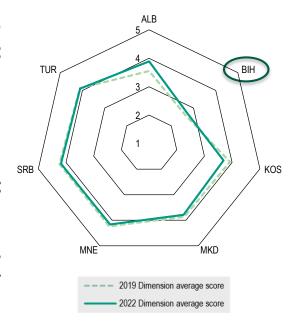
- Dimension 3: Institutional and regulatory framework for SME policy making
- Dimension 4: Operational environment for SMEs
- Dimension 8b: Innovation policy for SMEs





Despite minor improvements, the creation of a strong institutional and regulatory framework for SME policy making remains a challenge

- 1 Strategic Guidelines for the Harmonisation of support to SMEs (2021-2027) have been developed, although not yet adopted
- 2 The business environment remains fragmented and diverging regulatory policies constitute a barrier for SMEs
- 3 The examination of impacts on SMEs in regulatory impact assessment (RIA) was introduced at the entity level
- 4 Aggregate reporting of public-private consultations (PPCs) is conducted at the state level, but not at the entity level





33% of OECD

recommendations from 2019

have been partially or fully implemented in Bosnia and Herzegovina

Bosnia and Herzegovina were satisfied with PPC procedures in 2021, compared to a regional average of 22%



67% of state-level institutions

institutions

reported having **no or low public participation** in PPCs in 2020





Institutional and regulatory framework for SME policy making – Way forward

• Strengthen the quality control of RIA, ensure its effective use at all levels of government and improve monitoring and evaluation.

Montenegro provides an example of good practice regarding monitoring and evaluation of RIA, as the Ministry of Finance conducts aggregate reporting of RIA conducted by various line ministries and assesses both their respect of formal obligations as well as quality standards in 7 different areas: problem definition, goal definition, options definition, impact assessment, fiscal impact assessment, consultation with stakeholders, and monitoring and evaluation.

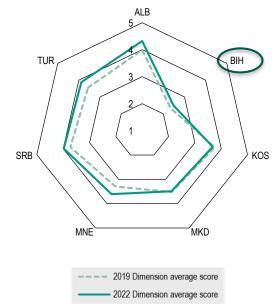
• Improve the quality of PPCs and increase efforts to engage the business community. The entities can take inspiration from the state level regarding monitoring and evaluation, as the state level Ministry of Justice conducts aggregate reporting of PPCs. At all levels of governance, increased quality control and proactive outreach efforts would be welcome.

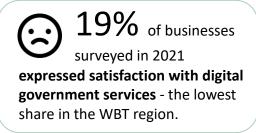




Some progress has been made in improving the operational environment for SMEs in Bosnia and Herzegovina, but it could still be further improved

- 1 Progress has been made in both entities to reduce the costs associated with business registration, with more progress in RS
- Information on business licensing is centralised, but licensing procedures are not yet digitalised in either entity
- Measures to simplify tax administration procedures have been implemented, but more could be done to reduce tax compliance costs for SMEs
- 4 Digital government services for businesses are underdeveloped compared to other regional economies







944 administrative procedures in the RS

were being reviewed at the time of writing, as part of the project for optimization of administrative procedures.



42% of businesses

surveyed in BiH in 2021

considered licensing procedures to be a major obstacle to their operations.





Operational environment for SMEs – Way forward

- Operationalise the Strategic Framework for Public Administration Reform. Priority should be given to achieving consensus between all levels of government in Bosnia and Herzegovina on concrete common and individual goals, resources and timelines.
- Ensure the implementation of key enablers of digital government services.
- Consider digitalising the business licensing application process.

Albania has successfully digitalized its business licensing process, through the National Business Centre, which plays the role of a co-ordination body and is in charge of interoperability and exchange of data between public institutions. Such a system could be developed at the entity level in Bosnia and Herzegovina, while centralizing information on licenses could be done at the level of the economy

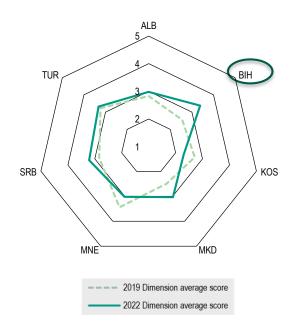
• Evaluate the taxes paid by businesses and the tax simplification procedures that aim to facilitate tax compliance; also evaluate to which extent stamp duties can be reduced, especially for SMEs.





Bosnia and Herzegovina has improved its performance in ensuring an effective bankruptcy system

- The legal framework for insolvency has been harmonised throughout the territory of Bosnia and Herzegovina
- Neither entity has established a fully-fledged early warning system
- Some progress has been made in Republika Srpska regarding promoting second chance
- Simplified bankruptcy procedures for SMEs are lacking



₩ 0.83 BiH's score increase

In the Bankruptcy and Second Chance dimension from 2019 to 2022, making it the regional leader in this dimension



positive legislative amendments

were made across BiH, leading to the alignment of the legislative framework for insolvency





Bankruptcy and second chance – Way forward

Develop a fully-fledged early warning system

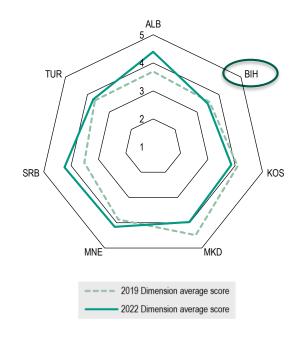
In the **European Union**, there are two competing models for early warning systems. Firstly, a self-assessment tool that can help businesses proactively assess their financial situation and take preventive measures if necessary. Second, an intervention mechanism that detects SMEs at risk of bankruptcy and takes appropriate preventive measures.

- Introduce simplified procedures for SMEs
- Promote second chance to honest entrepreneurs
- Finalise the digitalisation of liquidation proceedings



Progress in the field of public procurement has been limited with the lack of improvements in the legislative and policy frameworks

- Measures to harmonise the PPL with EU Directives were not implemented
- Improvements made in the draft amendments to the **PPL** with regard to transparency
- Very formalistic approach to implementing the PPL imposes more burden and costs on operators and is unfavorable to SMEs' participation
- Preferential domestic treatment was prolonged after 2020





is the amount of Bosnia and Herzegovina's public procurement market



of the value of awarded contracts during the COVID-19 pandemic in BIH.



ঠিভ্র 71% of contracts in BiH

were concluded following a procedure in which only one tender was submitted (2020)



Public procurement – Way forward

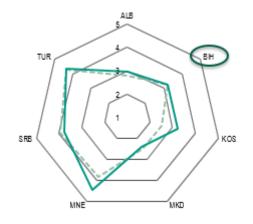
- Complete the implementation of the 2014 EU Procurement Directives. It would also be beneficial to introduce anti-corruption mechanisms into the legislation.
- Complete the establishment of electronic public procurement.
- Reduce the administrative burden of participating in public procurement, by simplifying provisions for economic operators to prove their compliance with exclusion and qualification criteria.

Economic operators in the EU can prove compliance with exclusion and qualification criteria by means of self-declarations (the **European Single Procurement Document**). These are submitted with tenders or requests to participate, instead of certificates issued by public authorities or third parties. Supporting documents are required only from the bidder to whom the contracting authority has decided to award the contract.



Progress was made in the area of entrepreneurial learning and women's entrepreneurship, but overall development is still fragmented

- Progress made developing entrepreneurial learning as a key competence at the state level
- Increased focus on developing women's entrepreneurship
- Challenges remain to fully integrate entrepreneurship as a key competence into all learner experiences at the entity level
- Monitoring and evaluation are lacking across all levels of government







recommendations from 2019 have been fully implemented in Bosnia and Herzegovina



16% of GDP in

Bosnia and Herzegovina

is lost due to gaps in the participation of women entrepreneurs



34.4% of women

participate in the labour force in Bosnia and Herzegovina





Entrepreneurial learning and women entrepreneurship – Way forward

 Build a multi-stakeholder policy partnership for entrepreneurial learning, as set out in the new state-level strategy.

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

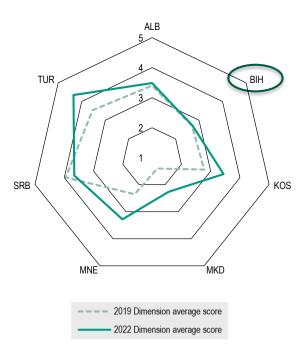
- Ensure there are active women's entrepreneurship strategies covering all areas of the economy addressing actions related to financial support, training, leadership, inclusion of women in key decision-making bodies and actions that support women who are primary carers in accessing entrepreneurship as a valid career pathway.
- **Upgrade the depth and quality of monitoring and evaluation** of actions related to women's entrepreneurship and increase the availability of gender-disaggregated data relevant to women's economic engagement and SME development.





Strategic actions are starting to take place to strengthen skills development

- 1 Progress made in development and co-ordination of skills intelligence
- 2 Enterprise skills have been included as a priority in various strategies though they have not been included in the ERP
- The Smart Specialisation Strategy process remains at an early stage
- Underdeveloped online access to information
- Second Second





1.28 million EUR

is the amount of the EU-funded project "Improvement of labour market research" in BiH



10 million EUR

is available in grants to SMEs in BiH through EU4Business to support skills provisions for entrepreneurship, export-oriented sectors, tourism and agriculture



Enterprise skills – Way forward

 Hold multi-stakeholder policy dialogue on the co-ordination of skills intelligence, placing priority on actors with competence for labour and employment and sector-based organisations.

Albania has recently allocated a budget to the Albanian Investment Development Agency (AIDA) to lead the creation and implementation of a national skills intelligence framework through a specific department.

 Support the development of indicators for SME skills intelligence to guide future monitoring and evaluation related to SME skills at all levels.



Strengthening skills intelligence through statistical barometers

A set of statistical barometers has been developed in Kosovo* to strengthen the skills agenda.

This example shows a pathway to **shaping a domestic skills intelligence framework.**

It aims at supporting evidence-based policy making using robust information on **skills mismatch** and **future skills needs.**

These initiatives have been funded by international development cooperation partners towards sustainable action led by a partnership of public and private sector institutions.



Picture: Kosovo Labour Market Barometer, example of statistics collected

The three barometers so far established are:

- 1 Labour Market Barometer, which collect information and analysis from 12 institutional data sources
- VET Barometer, which collects 200+ variables from 20 vocational education and training (VET) schools
- 3 **Skills Barometer**, launched in December 2021, which will collect 3-5-year forecasts of skills needs from businesses in Kosovo to inform government and other institutions

^{*}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.





What can Bosnia and Herzegovina learn from this example?

Relevance for Bosnia and Herzegovina

- Extensive research to collect and analyse data is ongoing in BiH to provide state- and entity-level skills intelligence on a range of themes.
- This process is led by the EU-funded Improving Labour Market Research programme.
- Kosovo's example can be used to expand this process and create a system-based online database gathering information and analysis from several data sources.
- Skills barometers would be beneficial for Bosnia and Herzegovina's **smart specialisation process.**
- They are also good practice of ensuring sustainability for the work initiated through funding by external partners.

For example, the Labour Market Barometer was developed with the support of **ALLED2** and is now managed by the **Employment Agency**.

Improving skills intelligence is the foundation of upskilling and reskilling for SMEs and their employees.

The European Commission has highlighted the significant constraints in the Western Balkans to business caused by skills; national skills intelligence must form a critical part of any solution.







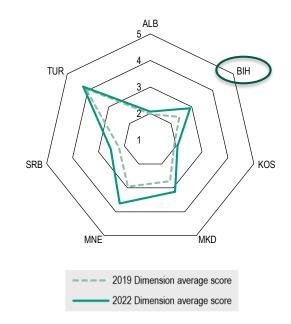
More information is available on the European Skills Agenda for Sustainable Competitiveness, Social Fairness and Resilience and skills barometers





Green policies targeting SMEs have gained momentum and incentives have been scaled up to encourage the green transition

- Environmental policies targeting SMEs are included in SME strategies
- Despite the absence of specific co-ordination bodies, the private sector is involved in developing and implementing green measures
- Progress has been made in implementing resource efficiency measures
- Green access to finance has been facilitated





16 energy audits

were conducted as part of the Energy Efficiency Network in Industry project in BiH



 $321\,$ SMEs in RS

were supported by the Fund for Environmental Protection and Energy Efficiency in 2019-2020





SMEs in a green economy – Way forward

- **Strengthen monitoring mechanisms** and introduce evaluation tools to ensure efficient implementation of policies and support programmes.
- **Enhance financial support to SME greening**, particularly in the context of the post-COVID-19 recovery.

With the aim of connecting greening aspects to its COVID-19 recovery programme, the **Development Bank of North Macedonia's** credit line KOVID3 offers SMEs the possibility to apply for a 30% grant if they plan to implement projects related to the green economy.

• **Support SMEs' transition to a circular economy** by creating an appropriate policy framework and building on existing support programmes.





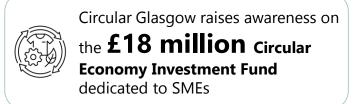
Supporting SMEs' transition to a circular economy

The Glasgow Chamber of Commerce hosts "Circular Glasgow" to build best practices and capacity on the circular economy across businesses.

Its aim is to facilitate partnerships and peer-to-peer learning between businesses of all sizes to encourage SMEs to engage in circular practices.

Following each edition, ways to turn the winning ideas into pilot projects are explored.

Its work has been used to develop Glasgow's Circular Economy Route Map (2020-2030) to reflect and shape a circular economy approach.



Activities as part of Circular Glasgow

- Workshops and events a series of knowledge-sharing business-tobusiness networking events
- Circle Assessment an online tool which helps businesses understand opportunities to become more circular
- 3 Circle Lab an online hackathon event to find a circular solution to local challenges







What can Bosnia and Herzegovina learn from this example?

Relevance for Bosnia and Herzegovina

- Eco-innovation and resource efficiency measures can be used as the basis upon which further, more targeted circular economy policies can be built.
- Building on enhanced co-operation with Chambers of Commerce, the governments could facilitate circular economy initiatives, such as Circular Glasgow.
- Circular Glasgow could easily be scaled up at entity-level.
- Access to green finance could be promoted as part of the event
- These activities could create the basis for drafting the strategic documents required to promote and implement efficient circular economy policies

In the Western Balkans, only **Serbia** (2020) and **Montenegro** (2022) have prepared Roadmaps for the Circular Economy, important documents which set the guidelines to draft relevant strategies.

SMEs are important for achieving objectives regarding the circular economy, both by making their business operations more circular and by contributing to the innovation that can strengthen circularity across economies.

The Green Deal and the new Circular Economy Action Plan are the EU's guidelines on this topic.







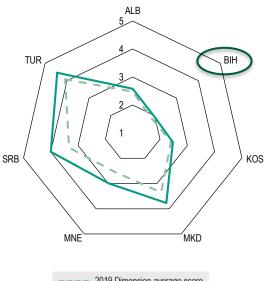
More information is available on the <u>EU</u> <u>Green Deal</u> and the <u>EU Circular Economy</u> Action Plan





Limited progress was made in promoting innovation in SMEs

- Regulatory frameworks for innovation remain fragmented with limited co-ordination efforts
- 2 Structures and scope of institutional support mechanisms for innovation are inconsistent among entities and remain overall underdeveloped
- Financial support for innovation remains limited and is primarily funded by international donor schemes
- Collaboration between businesses and academia remains low, but an institutional infrastructure is improving



---- 2019 Dimension average score
2022 Dimension average score

🖟 € 3.9 million

In funding made available by Sweden to support innovative ideas across both Bosnia and Herzegovina and Sweden

500 SMEs in BiH

digitalised their businesses between 2019 and 2020 under the GIZ supported "Innovation and Digitalisation in SMEs" project.



€ 125 000

In funding for projects to increase technology transfers and raise awareness in RS since 2019



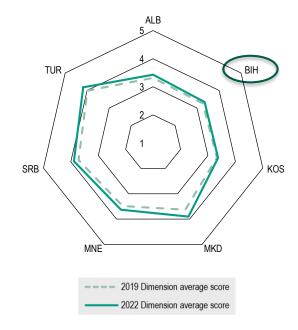
Innovation policy – Way forward

- Harmonise strategic priorities and enhance the co-ordination of innovation policy, especially in Bosnia and Herzegovina's context given the complexity of its institutional set-up.
- Increase the scale of financial incentives to foster innovation by allocating a sufficient budget to design meaningful and co-ordinated financial support schemes.
- Introduce measures to stimulate collaboration between the private sector and scientific research, by addressing business-academia collaboration in SME innovation action plans.



Despite improvements to credit guarantee schemes and non-bank financing frameworks, limited progress has been made in supporting access to finance

- 1 Further harmonisation of legal frameworks with EU standards across the economy
- 2 Supervision of banking sector is low due to fragmented institutional frameworks
- 3 Strong COVID-19 support measures ensured a stable banking sector
- Use of alternative financing options is limited despite improved legislation
- Financial literacy remains low and without progress





47.1% of the population

Is covered by Bosnia and Herzegovina's public credit registry



40% decrease

In the number of nonperforming loans from 2017 to Q1 2021 in BiH



25 micro-credit organisations

now exist in BiH, an almost double increase since the last assessment



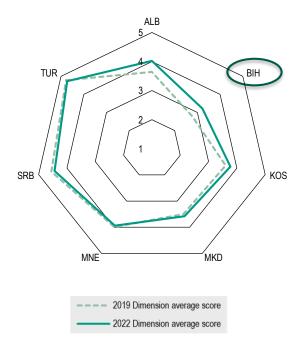
Access to finance – Way forward

- Continue to harmonise financial market regulation and enable the exchange of information.
- Strengthen the mandate and structure of the credit guarantee funds. A review of the existing performance of the funds would help identify bottlenecks and ensure more targeted support for those most in need.
- Raise awareness about the opportunities of non-bank finance and improve data collection.
- Develop a more compressive and co-ordinated approach to promote financial literacy, in collaboration with all stakeholders. The strategy should include both measures for entrepreneurs and the broader public, including pupils, while defining a clear implementation mechanism and the body responsible for its execution.



While some progress has been made in aligning with EU standards and technical regulations, Bosnia and Herzegovina lacks a coherent approach

- 1 An economy-wide strategy for quality infrastructure (QI) remains absent; RS has a QI strategy while FBiH does not
- 2 Alignment with the *acquis* is advancing slowly, compared to other WBT economies, and some mandatory standards are in conflict with EU standards
- With the exception of RS, information on standards for exporting SMEs is not centrally available
- Much more could be done to financially support standardisation efforts by SMEs





72% of BiH's exports

went to the EU single market in 2020, up from 69% in 2010



30% more

conformity assessment bodies were nationally accredited in 2021 than in 2019



93% of EU

standards were adopted in Bosnia and Herzegovina in 2022, up from 87% in 2019





Standards and technical regulations – Way forward

- Create an action plan for harmonising standards and technical regulations with the EU acquis.
- **Create an economy-wide QI strategy.** While the entities do have prerogatives in this regard, increased co-ordination and a joint vision will be essential to ensure economy-wide coherence.

Serbia has developed a QI Strategy (2015-2020), providing important guidance for identifying common as well as dimension-specific challenges, co-ordinating the activities of the different QI institutions, and setting joint as well as dimension specific targets. As the authorities for QI services differ in Bosnia and Herzegovina with some services being co-ordinated and implemented at the state level and others at the entity level, having a joint QI strategy is of particular importance.

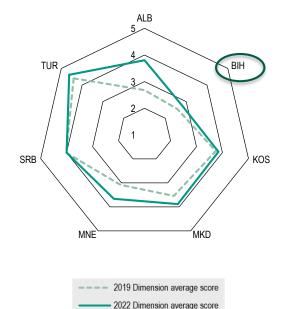
 Improve access to information on standards and technical regulations and increase financial support for standardisation to ease access of SMEs to the single market.





Despite a strong strategic focus on SME internationalisation, programme implementation remains hampered

- 1 Both entities adopted new strategic frameworks emphasising export promotion as strategic goal
- 2 Export promotion support varies both in scope and financing across different levels of government
- Integration into GVCs remains a priority across all levels of government
- 4 Lack of broader support for SME integration into GVCs stalls implementation efforts
- The legal framework for the promotion of e-commerce is practically non-existent across different levels of government





10% of SMEs in

started selling their goods online during 2020



45% of surveyed

SMEs in BiH

use **e-commerce** to sell their goods and services



43% of surveyed SMEs in Bosnia and Herzegovina

quote **lack of export capacity** as a major deterrent to exporting





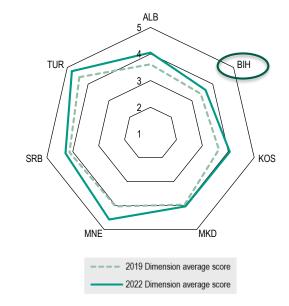
Internationalisation of SMEs – Way forward

- Introduce capacity-building activities and training to upgrade the skills of the labour force.
- Reinforce investment facilitation and aftercare services.
- Strengthen data collection processes across levels of government.
- Develop a comprehensive legal and strategic framework for e-commerce and e-payments.



SMEs in Bosnia and Herzegovina benefit from a broader range of support services, albeit uneven across entities

- 1 Strategic frameworks for public BSS provision have been reinforced
- 2 A co-ordinated approach to BSS provision is lacking, with support varying in range, scope and agency coordination
- 3 Private BSSs remain supported by the governments across entities, although unevenly
- Monitoring and evaluation are uneven across entities



 \swarrow 3129 support

services were provided by Bosnia and Herzegovina in this assessment cycle.



33%

of OECD recommendations

have been partially implemented in Bosnia and Herzegovina.





Support services for SMEs – Way forward

- Reduce reliance on international development co-operation partners and external funding, and prioritise entity-level development of business support services (BSSs) for SMEs.
- **Increase efforts to introduce a quality assurance mechanism**, such as an accreditation system for private-sector consultants that SMEs must use under co-financed support programmes.
- **Strengthen the monitoring and evaluation mechanisms** for public and private BSS provision.

To help policy makers create comparable support programmes and establish a set of standards to which all initiatives can adhere to provide the highest quality services, the **United Kingdom** has created a dedicated framework for evaluating business support interventions.

• Conduct effective, regular analysis of the demand and supply of BSSs in order to fill the gaps in BSS provision so as to provide more targeted and customised support for SMEs.

KOSGEB in Turkey conducts systematic, regular and formalized impact assessments of their support programmes. KOSGEB extends the evaluation practice to regional institutions to assess their institutional capacity to support SMEs on the ground. The development agency also conducts regular training needs analysis, the results of which are then used in future support programme design.





SME support programme monitoring and evaluation in Georgia

Enterprise Georgia (EG) structured its pilot monitoring and evaluation framework by developing a success indicators catalogue to assess the financial and economic impact of its support programmes.

The goal was to **measure the impact on beneficiaries**, as well as their **feedback** after participating in the programme.

EG selected a representative sample of beneficiaries of various forms of support to evaluate their impact using **35 indicators**.

- 1 Impact level indicators are mediumterm and define the key results of Enterprise Georgia activities
- **Department level indicators** are programme-specific and measure the specific outcomes and activities.

Impact level indicators

- Contribution of beneficiaries to the total SME segment turnover
- Number of new jobs
- % growth in labour productivity
- % change in financial performance of beneficiaries
- Contribution of EG support to beneficiary growth

Department level indicators

- % of beneficiaries reporting not being able to carry out the project without EG's funding
- Number of credits and leases co-financed
- Number of technical assistance projects cofinanced
- % of subsidized SMEs that report to apply new knowledge/expansion
- % of SMEs with improved business processes or strategies





hat can Bosnia and Herzegovina learn from this example?

Relevance for Bosnia and Herzegovina

- Additional improvements are still needed across entities in performance-based monitoring and evaluation of SME support programmes.
- BiH needs to strengthen systematic data collection for SME support programmes, building on the data already collected.
- BiH could also **collect additional data** on the financial. economic and operational performance of SMEs after the uptake of provided support programmes.
- The FBiH could further **amplify its online registry** and add financial and economic indicators to further track the uptake and performance after benefitting from available BSSs.
- RS' Register of Incentives, containing a record of granted support funds, could be **extended in scope** to track the implementation and monitor the outcomes of BSSs.

Build on already collected SME-specific data:

- Number of enterprises
- Turnover
- **Employment**
- Investments
- **Exports**
- Feedback on provided support

Collect additional data after the uptake of BSSs:



岷 Financial indicators



Economic performance



Operational performance







Thank you for your attention!

For further information please contact:

Available on the OECD iLibrary as of 8 July

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