ACCESS TO FINANCE & INNOVATION IN THE WESTERN BALKANS

Findings from the Small Business Act Assessment

Belgrade
1 March 2017
1. Introduction

2. SBA Assessment 2016: Key findings on «Access to Finance» and «Innovation»

3. Other Relevant OECD Work for the Western Balkans
A forum where governments can compare policy experiences and address the economic, social and governance challenges of globalisation as well as to exploit its opportunities.
1. Introduction
The OECD South East European (SEE) Regional Programme

- Provides policy advice to **improve economic reform agendas and foster competitiveness & SME development** in:
  - Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo*, the Former Yugoslav Republic of Macedonia, Moldova, Montenegro, Romania, Serbia and Turkey;

- **Strong legacy:** Established in 2000, it is the oldest regional programme at the OECD;

- **Close partnership with the European Commission;**

- **Local presence** through high-level national project co-ordinators and comprehensive in-country stakeholder networks;

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*This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence.*
1. Introduction
What is the Small Business Act assessment?

The Small Business Act (SBA) Assessment is a detailed, multi-dimensional assessment of the quality of SME policies.

- It is based on the EU’s SBA for Europe which allows for benchmarking not only between Partner Countries but also with EU Member States.

- The purpose of the SBA Assessment is to improve SME policy-making in Partner Countries and to enhance the capacity of policy-makers.

- The objective is also to improve the business environment 'on the ground' and to foster entrepreneurship and competitiveness.

- The dedicated methodology – the SME Policy Index – has been jointly developed by the partner organisations for the application of the SBA in enlargement and neighbourhood countries. Current partners are:
1. Introduction
SBA Assessment Coverage

The SBA Assessment:
• Western Balkans and Turkey
• Eastern Partnership (2016)
• The Mediterranean Middle East and North Africa (2014)

Other SME Policy Indexes:
• ASEAN (2014)

SME Policy Index Western Balkans and Turkey 2016 covers:
• Albania
• Bosnia and Herzegovina
• Kosovo*
• The Former Yugoslav Republic of Macedonia
• Montenegro
• Serbia
• Turkey

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1. Introduction
The SBA Assessment dimensions (2016 edition)

1. **Institutional, regulatory and operational environment (OECD)**
   - Dimension 3: Regulatory framework for SME policy making
   - Dimension 4: Operational environment for SMEs
   - Dimension 2: Bankruptcy and second chance for SMEs

2. **Access to finance (EBRD)**
   - Dimension 6: Access to finance for SMEs

3. **Human capital (ETF+SEECEL)**
   - Dimension 1: Entrepreneurial learning and women’s entrepreneurship
   - Dimension 8b: Enterprise skills

4. **Support measures for SME competitiveness**
   - Dimension 8b: Innovation policy for SMEs (OECD)
   - Dimension 5a: Support services for SMEs and start-ups (OECD)
   - Dimension 5b: Public procurement (EC)
   - Dimension 9: SMEs in a green economy (OECD)

5. **SME internationalisation**
   - Dimension 10: Internationalisation of SMEs (OECD)
   - Dimension 7: Standards and technical regulations (EC)
2. SBA Assessment 2016
Access to finance for SMEs - Overall Results for the Western Balkans

Level 5: Level 4 + significant record of concrete and effective policy implementation

Level 4: Level 3 + concrete indications of effective policy implementation

Level 3: Solid framework in place

Level 2: Draft/pilot, some signs of government activity

Level 1: No framework

Key facts and recent evolution

- The legal and regulatory framework surrounding secured transactions has improved in most economies in the region.
- Banks remain the most important source of credit for SMEs which have been disproportionately affected by credit constraints.
- There is a number of economies that have increased their efforts to improve financial literacy which should translate into better skills among SMEs.

*Note that the 2012 and 2016 scores might not be directly comparable due to changes in methodology.
2. SBA Assessment 2016
Access to finance for SMEs – Results by sub-dimensions

Domestic credit to the private sector as a share in GDP has decreased between 2009-2014. The banking sector in the WB is also struggling with higher shares of non-performing loans, ranging from 8% in Kosovo* to around 23% in Albania and Serbia (2014).

Apart from microfinance, non-bank financing remains relatively moderate in most economies.

Financial literacy is a major improvement area.

Source: OECD SME PI 2016
Despite some tangible steps to improve the environment for venture capital, the legal framework remains at infancy levels across much of the Western Balkan economies.

Example:
- The Former Yugoslav Republic of Macedonia has the best score, however activities remain at a relatively early stage and investment volumes are low and scattered, but the government has taken important steps to improve the ecosystem in support of venture capital, which was also included as a priority in its innovation strategy 2012-2020.

Discussions during the regional policy meeting on venture capital resulted in the following main recommendations:
- Venture capital should be **well anchored in the overall financial markets**, which require a certain degree of regulation.
- However, governments should **preferably not interact in the daily operational activities of venture capital funds**, and limit themselves to only establishing the general venture capital framework in their economies.
2. SBA Assessment 2016
Innovation – Overall Results for the Western Balkans

**Level 5:** Level 4 + significant record of concrete and effective policy implementation

**Level 4:** Level 3 + concrete indications of effective policy implementation

**Level 3:** Solid framework in place

**Level 2:** Draft/pilot, some signs of government activity

**Level 1:** No framework

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**Key facts and recent evolution**

- Compared to 2012, **policy frameworks and infrastructure for innovation** in the region are gradually improving – particularly in FYR Macedonia.

- There is a **growing number of financial instruments** available in the region, which specifically focus on innovation.

- However, the **size of these financial instruments** remain relatively small.

*Note that the 2012 and 2016 scores might not be directly comparable due to changes in methodology.*
Significant progress made in formulating innovation policies, but this progress remains uneven.

Although Kosovo has developed a new policy, it has yet to adopt. Only in FYR Macedonia, there is an inter-governmental body for innovation policy co-ordination as of 2015.

The implementation of the innovation policies is mostly delayed due to lack of necessary funding.

Incubators, technology parks, and innovation centres are present in the region – though FYR Macedonia and Serbia were the only economies with technology transfer offices in 2015.

Mechanisms to promote co-operation between SMEs and research institutions are generally underdeveloped. FYR Macedonia and Montenegro have created online platforms/databases to facilitate contact.
A number of policy frameworks provide budgets to promote SMEs but few of them directly tackle innovation and even fewer provide direct access to finance.

In Serbia, the Innovation Fund has made substantial progress in offering financial instruments to support innovation.

The Fund for Innovation and Technological Development was established in FYR Macedonia in 2015.

Non-financial R&D and innovation incentives are not yet widely utilised in the region – few R&D incentives exist such as the deduction of value-added tax (VAT) on scientific equipment.
2. SBA Assessment 2016
Access to Finance & Innovation: Main Challenges and Recommendations

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<thead>
<tr>
<th>Access to Finance</th>
<th>Promote financial instruments covering the entire SME growth cycle</th>
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<tbody>
<tr>
<td>Lack of alternative financing instruments</td>
<td>Need to develop different financial mechanisms (e.g. grants, loans, vouchers) that address the needs of all types of SMEs (pre-seed, start-up, mature)</td>
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<th>Lack of policies for an accessible funding and limited availability of credit information</th>
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<td>Governments should encourage the establishment of private information bureaus or consider hybrids between private bureaus and public credit registries to help boost the scope and depth of credit information</td>
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<th>Weak formal monitoring &amp; evaluation mechanisms for financial literacy programmes</th>
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<td>While financial literacy programmes exist in some form in all WB economies, formalised monitoring and evaluation frameworks can boost the performance of existing programmes</td>
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<th>Financially Unsustainable Infrastructure</th>
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<td>Few of the incubators, innovation centres and S&amp;T parks can operate without substantial public/donor support. Development of a sustainable business model is recommended.</td>
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<th>Weak co-operation between academia and private sector</th>
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<td>Governments should introduce new mechanisms and incentive programmes to promote technology transfer.</td>
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3. Other relevant OECD work

**Competitiveness in South East Europe 2016 (second edition to be published in 2017)**
The publication offers quantitative and qualitative assessment of key policy dimensions related to competitiveness in six economies of South East Europe.
- Separate dimensions on «research, development and innovation» and «access to finance».

**Social Innovation Policy Framework for Croatia (2016)**
A policy framework is presented with the objective of promoting social innovation in Croatia.
- In the financial instruments pillar of this framework, various specific financing tools are analysed.

**OECD Triple Helix Competitions in the Balkan countries (2016)**
The organised competitions offered a unique opportunity for companies to transform their ideas into innovative products or services in cooperation with academia and government institutions.
Thank you for your attention!

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## 2. SBA Assessment 2016
### Access to finance for SMEs – Assessment Framework

| 6.1 Legal and regulatory framework | • Creditor rights | • Banking regulations |
| • Register | • Stock market |
| • Credit information bureau |

| 6.2 Bank financing | • Lending practices |
| • Credit guarantee scheme |

| 6.3 Non-bank financing | • Microfinance | • Leasing |
| • Savings and Loans Associations | • Factoring |

| 6.4 Venture capital | • Legal framework | • Monitoring and evaluation |
| • Implementation |

| 6.5 Financial literacy | • Planning, design and implementation |
| • Monitoring and evaluation |
### 2. SBA Assessment 2016
Innovation – Assessment Framework

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<th>8b.1 Policy framework for innovation</th>
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<tbody>
<tr>
<td>• Innovation strategy</td>
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<tr>
<td>• SME inclusion in innovation strategy</td>
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<td>• Coordination body</td>
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<td>• Intellectual Property legislation</td>
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<th>8b.2 Government institutional support services for innovative SMEs</th>
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<tr>
<td>• SME and research institutions linkages</td>
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<tr>
<td>• Institutional support services (e.g. incubators, science and technology parks, innovation centres etc.)</td>
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<td>• Financial support for innovation infrastructure</td>
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<td>• Information support</td>
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<th>8b.3 Government financial support for innovative SMEs</th>
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<tr>
<td>• Financial support recognised in innovation strategy</td>
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<td>• Financial support schemes</td>
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<td>• R&amp;D tax incentives</td>
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