



ACCESS TO FINANCE & INNOVATION IN THE WESTERN BALKANS

Findings from the Small Business Act Assessment

Belgrade
1 March 2017

Presentation outline



1. Introduction

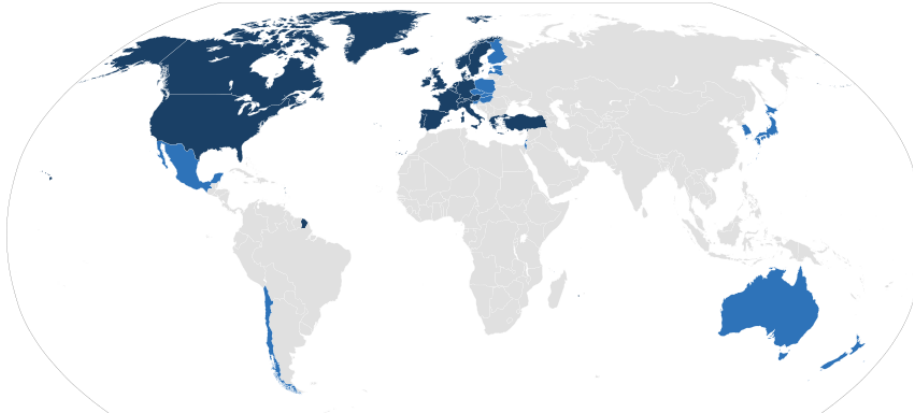
**2. SBA Assessment 2016: Key findings on
«Access to Finance» and «Innovation»**

**3. Other Relevant OECD Work for the Western
Balkans**

1. Introduction

OECD at a glance

35 Member countries



Policy expertise

Horizontal policy areas

- ✓ Competitiveness
- ✓ Territorial Development and Public Governance
- ✓ Investment
- ✓ Entrepreneurship, SMEs and Local Development
- ✓ Employment, Labour and Social Affairs
- ✓ Trade
- ✓ Education
- ✓ Tax Policy and Administration

Sector-specific policy areas

- ✓ Agriculture
- ✓ Industry
- ✓ Science and Industry
- ✓ Financial and Enterprise Affairs

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;

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



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

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)

2 ***Access to finance (EBRD)***

Dimension 6: Access to finance for SMEs

3 ***Human capital (ETF+SEECCL)***

Dimension 1: Entrepreneurial learning and women's entrepreneurship

Dimension 8b: Enterprise skills

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

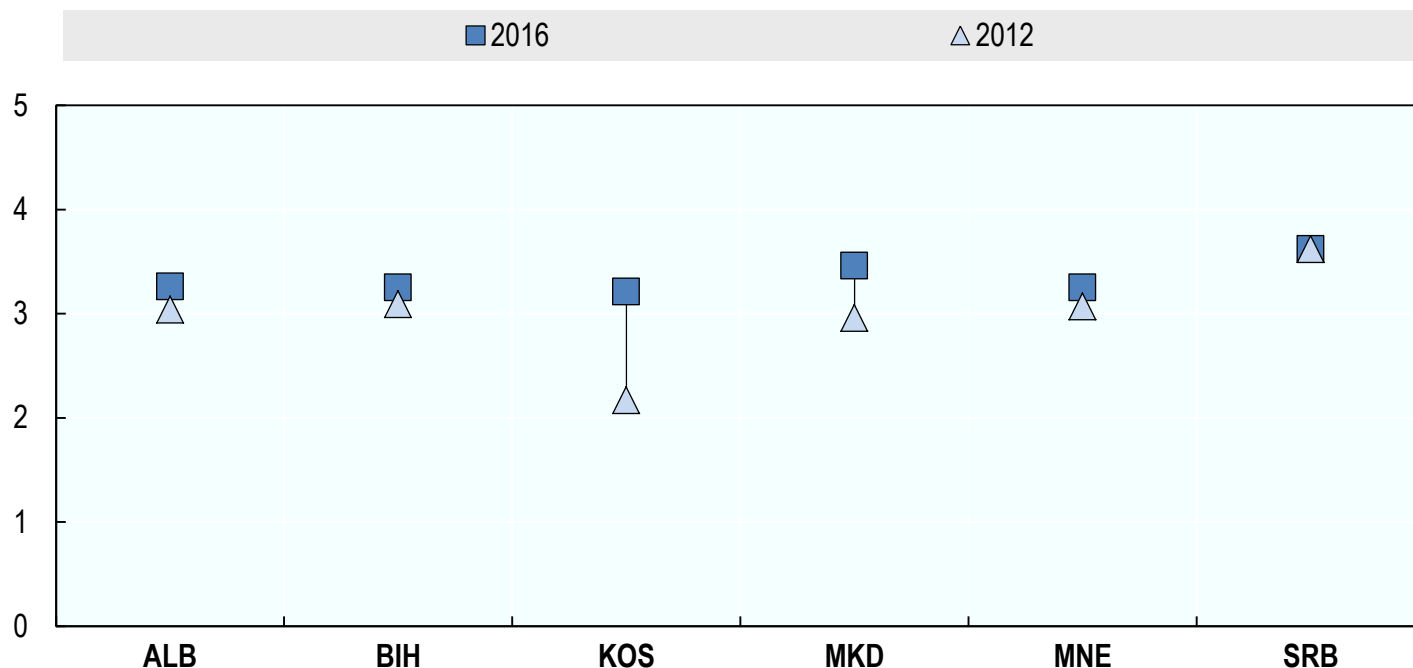
Level 5: Level 4 + significant record of concrete and effective policy implementation

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



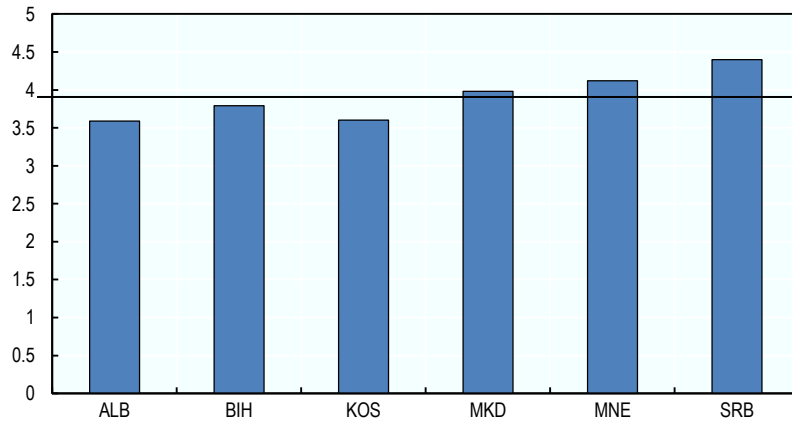
Key facts and recent evolution

- 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.

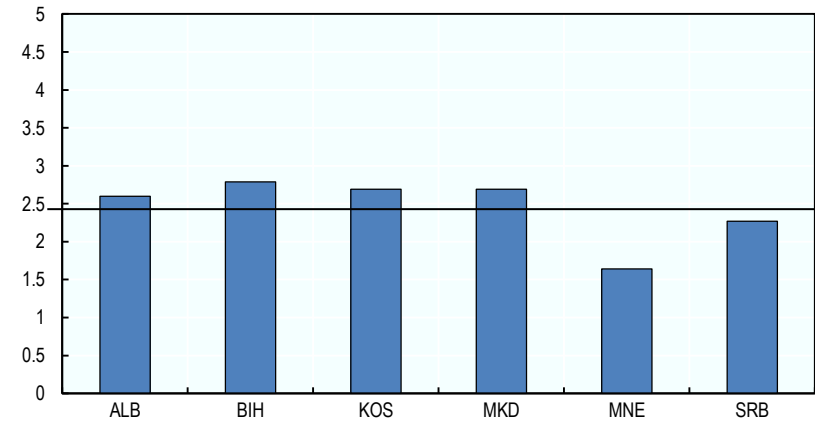
2. SBA Assessment 2016

Access to finance for SMEs – Results by sub-dimensions

Legal and regulatory framework

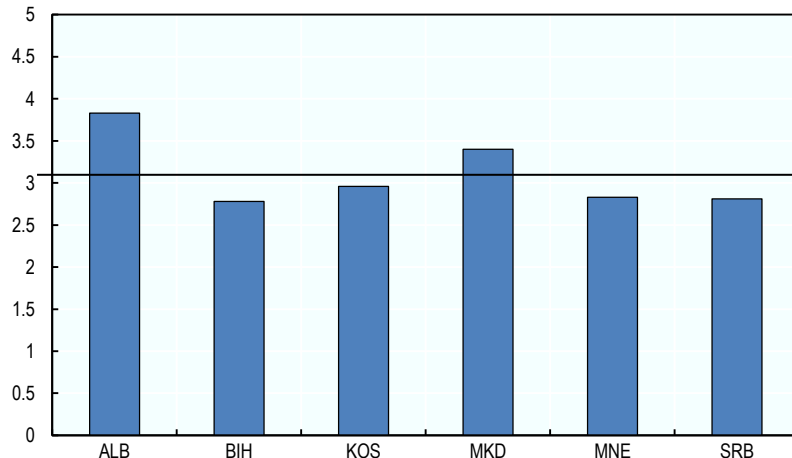


Bank financing



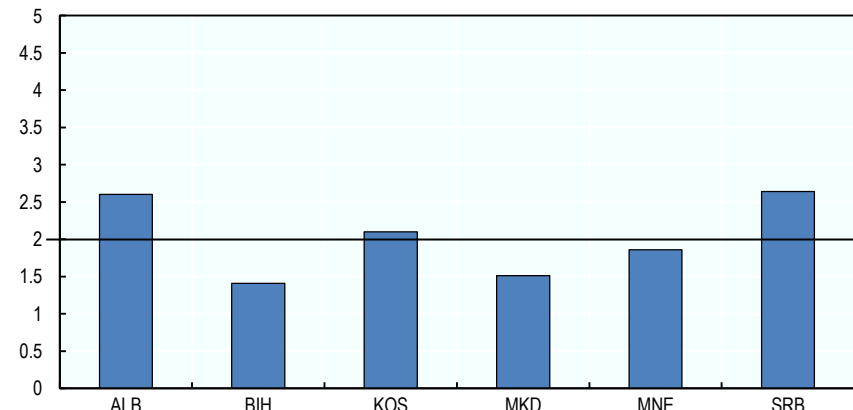
Domestic credit to the private sector as a share in GDP has decreased between 2009-2014. The banking sector in the WB is also struggling with higher shares of non-performing loans, ranging from 8% in Kosovo* to around 23% in Albania and Serbia (2014).

Non-Bank financing



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

Financial literacy

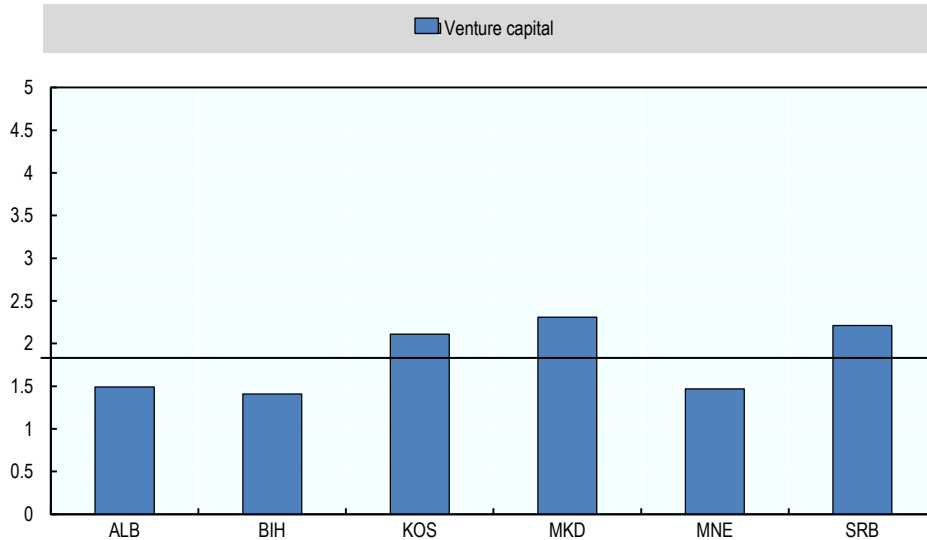


Financial literacy is a major improvement area

2. SBA Assessment 2016

Access to finance for SMEs – Focus on Venture Capital

SME PI Scores for venture capital in the Western Balkans



Availability of venture capital in the Western Balkans

	ALB	BIH	KOS	MKD	MNE	SRB
Venture Capital	N/A	N/A	P/A	P/A	N/A	P/A

Source: OECD Analysis

- 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

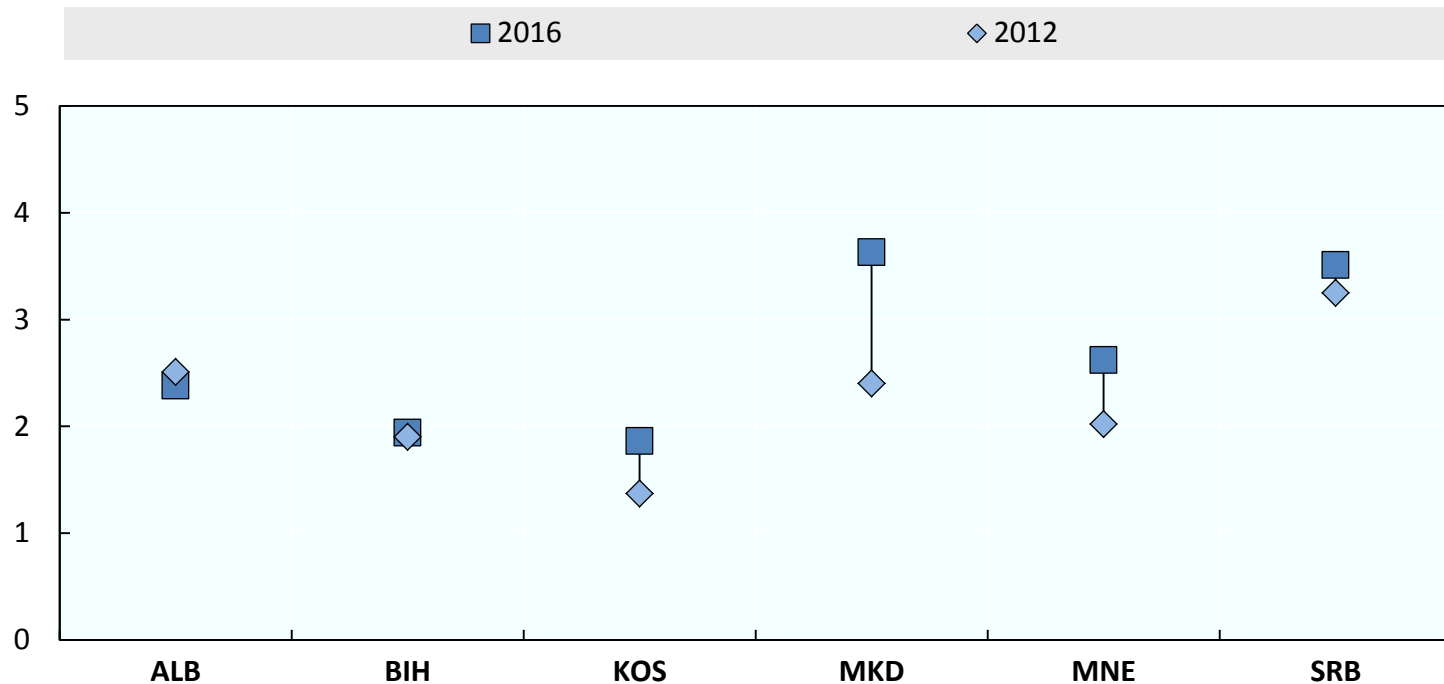
Level 5: Level 4 + significant record of concrete and effective policy implementation

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



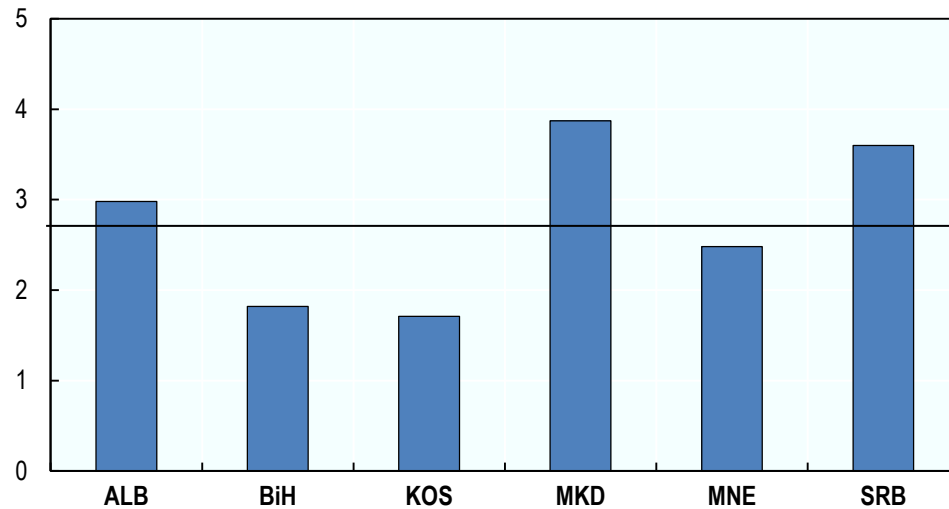
Key facts and recent evolution

- 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.

2. SBA Assessment 2016

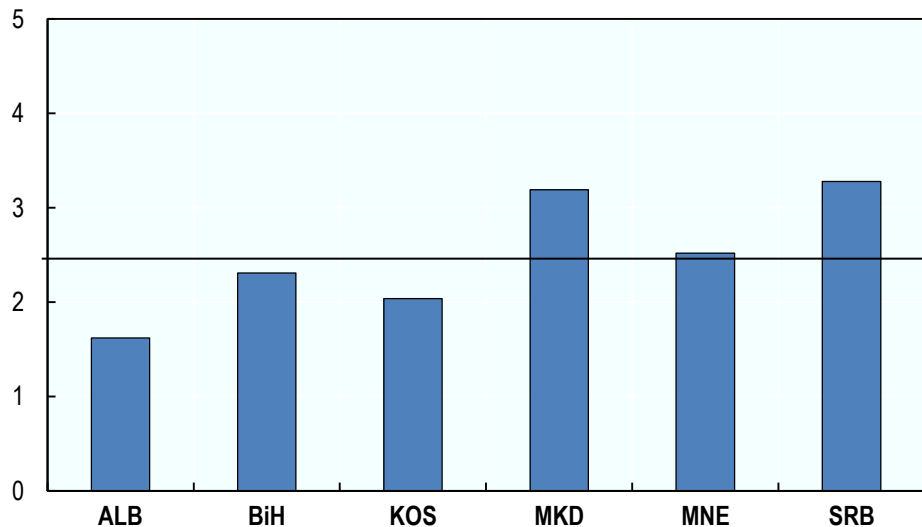
Innovation –Results by Sub-dimension

■ Policy Framework for Innovation



- 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.

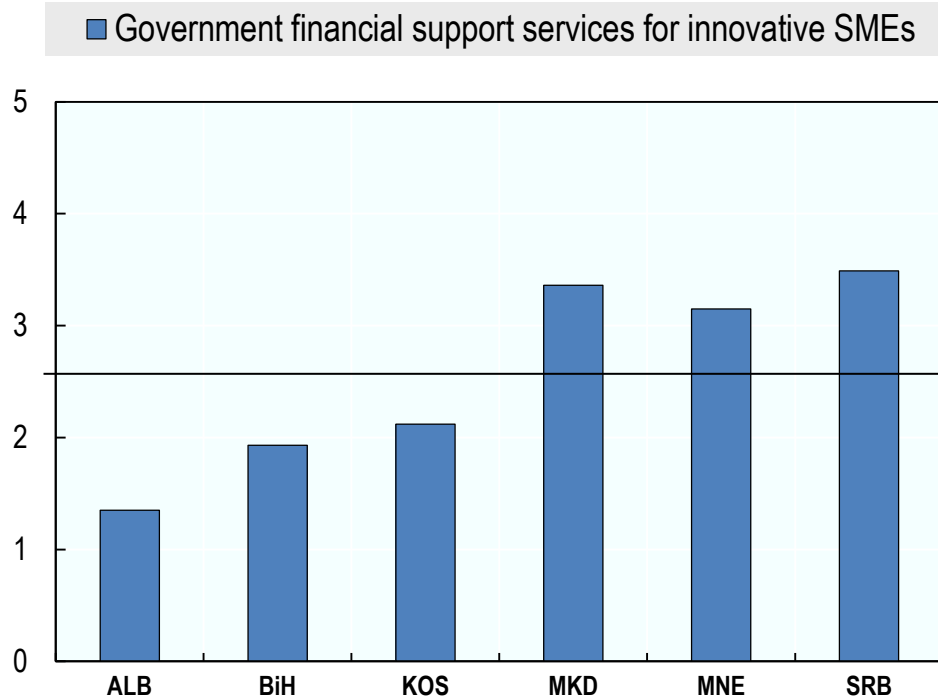
■ Government Institutional Support for innovative SMEs



- 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.

2. SBA Assessment 2016

Innovation –Results by Sub-dimension



- 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

Access to Finance

Lack of alternative financing instruments

- Even though various financial instruments are technically available, instruments like factoring could benefit from clearer legal frameworks.

Lack of policies for an accessible funding and limited availability of credit information

- 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

Weak formal monitoring & evaluation mechanisms for financial literacy programmes

- While financial literacy programmes exist in some form in all WB economies, formalised monitoring and evaluation frameworks can boost the performance of existing programmes

Innovation

Promote financial instruments covering the entire SME growth cycle

- 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)

Financially Unsustainable Infrastructure

- Few of the incubators, innovation centres and S&T parks can operate without substantial public/donor support. Development of a sustainable business model is recommended.

Weak co-operation between academia and private sector

- Governments should introduce new mechanisms and incentive programmes to promote technology transfer.

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)

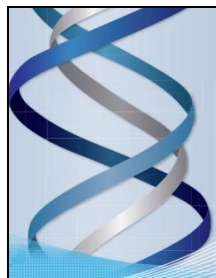
A policy framework is presented with the objective of promoting social innovation in Croatia.

- 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!

Clément BRENOT

Project Manager

OECD South East Europe Division

e-mail: clement.brenot@oecd.org

2. SBA Assessment 2016

Access to finance for SMEs – Assessment Framework

6.1 Legal and regulatory framework	<ul style="list-style-type: none">• Creditor rights• Register• Credit information bureau	<ul style="list-style-type: none">• Banking regulations• Stock market
6.2 Bank financing	<ul style="list-style-type: none">• Lending practices• Credit guarantee scheme	
6.3 Non-bank financing	<ul style="list-style-type: none">• Microfinance• Savings and Loans Associations	<ul style="list-style-type: none">• Leasing• Factoring
6.4 Venture capital	<ul style="list-style-type: none">• Legal framework• Implementation	<ul style="list-style-type: none">• Monitoring and evaluation
6.5 Financial literacy	<ul style="list-style-type: none">• Planning, design and implementation• Monitoring and evaluation	

2. SBA Assessment 2016

Innovation – Assessment Framework

8b.1 Policy framework for innovation

- Innovation strategy
- SME inclusion in innovation strategy
- Coordination body
- Intellectual Property legislation

8b.2 Government institutional support services for innovative SMEs

- SME and research institutions linkages
- Institutional support services (e.g. incubators, science and technology parks, innovation centres etc.)
- Financial support for innovation infrastructure
- Information support

8b.3 Government financial support for innovative SMEs

- Financial support recognised in innovation strategy
- Financial support schemes
- R&D tax incentives