

## Chapter 12. Internationalisation of SMEs (Dimension 10) in the Western Balkans and Turkey

*This chapter assesses the performance of the Western Balkans and Turkey in supporting the internationalisation of small and medium-sized enterprises (SMEs). It starts by providing an overview of the assessment framework and progress since the last assessment in 2016. It then analyses the three sub-dimensions of Dimension 10: 1) export promotion, which explores government support and initiatives to help SMEs export their goods and services; 2) integration of SMEs into global value chains, which asks whether governments have planned and implemented programmes to help SMEs integrate globally; and 3) promoting the use of e-commerce, which examines the economies' frameworks for facilitating SMEs' engagement with the digital economy. Each sub-dimension section makes specific recommendations for increasing the capacity and efficiency of systems to support SME internationalisation in the Western Balkans and Turkey*

## Key findings

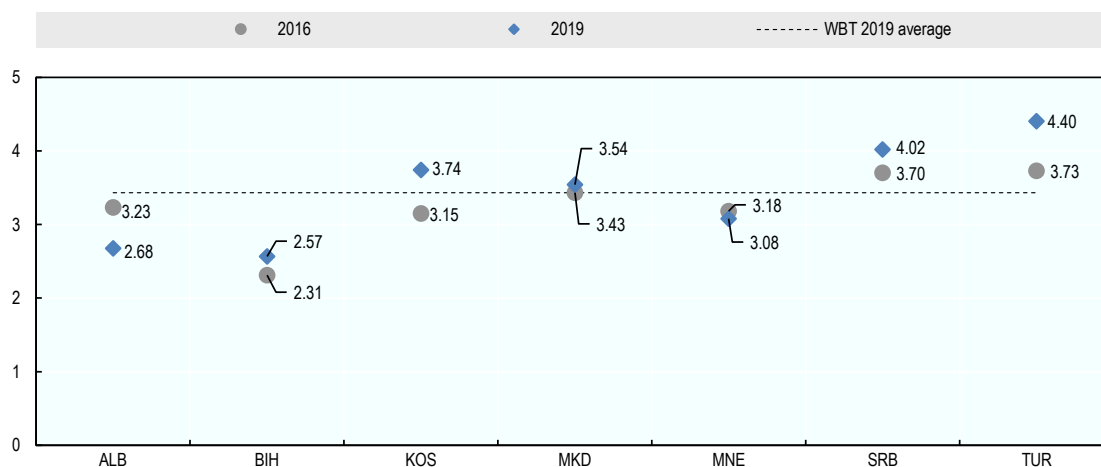
- **All the WBT economies have dedicated institutions to carry out export promotion programmes.** However, in just over half, the provision of export promotion programmes is hampered to some extent by resource constraints on these bodies. Moreover, there is room for increasing the uptake of export promotion programmes across the region, since budgets earmarked for them are not always fully used.
- **Almost all economies have monitoring mechanisms in place for their export promotion programmes and export promotion agencies.** The economies have also improved their collection of data by enterprise size, as nearly all of them now regularly collect data recording SME-specific imports and exports.
- **All the economies now address SME integration in global value chains in their relevant strategic documents and all have programmes planned.** Nonetheless, only five of the WBT economies have operational programmes with mobilised budgets.
- **In most WBT economies, independent evaluations are not carried out of targets achieved and the extent to which export promotion services are efficient or cost-effective in enhancing SMEs' internationalisation.** Albania is the only economy that has benefitted from an independent review of its export promotion activities, however.
- **During the assessment period, only Turkey implemented a programme to encourage SMEs' uptake of e-commerce.** Four of the WBT economies have an established institution responsible for e-commerce promotion. Four economies also have websites dedicated to providing information on the opportunities for and challenges of e-commerce.
- **Legal frameworks for e-payments and consumer protection in e-commerce are in place across all WBT economies.** However, not all of the economies' legal frameworks are fully aligned with the European Union's.

### *Comparison with the 2016 assessment scores*

Since the last assessment, Kosovo\* and Turkey have improved the most in their promotion of SME internationalisation (Figure 12.1). While Bosnia and Herzegovina has progressed, its score is still the lowest of all the assessed economies. Albania and Montenegro have made the least progress between 2016 and 2019.

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\* 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.

**Figure 12.1. Overall scores for Dimension 10 (2016 and 2019)**

*Note:* Scores for 2019 are not directly comparable to the 2016 scores due to a methodological change increasing the focus on implementation. Therefore, changes in the scores may reflect the change in methodology more than actual changes to policy. The reader should focus on the narrative parts of the report to compare performance over time. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

### ***Implementation of the SME Policy Index 2016 recommendations***

The previous assessment – the *2016 SME Policy Index* (OECD, 2016<sup>[1]</sup>) – made a number of recommendations to the WBT economies for internationalising SMEs (Table 12.1). Regulatory trade barriers remain a key impediment to trade facilitation. Progress has been strongest in increasing support for export promotion programmes. Improvement has been more incremental in developing programmes supporting SME integration into global value chains, while monitoring and evaluation remains underdeveloped.

**Table 12.1. Implementation of the SME Policy Index 2016 recommendations for Dimension 10**

Overall 2016 recommendations	SME Policy Index 2019	
	Main developments during the assessment period	Regional progress status
Reduce regulatory barriers to trade	The WBT economies have made some progress on this 2016 recommendation. Between 2014 and 2017, the costs of importing and exporting due to border compliance remained stagnant or even increased across most of the WBT economies. According to the OECD Trade Facilitation Indicators, most of the WBT economies are challenged in terms of internal and external border agency co-operation. Yet the areas of improvement heavily outweigh the areas of degradation, except for the Republic of North Macedonia. For a detailed summary of the performance of the WBT economies as measured by the OECD Trade Facilitation Indicators between 2015 and 2017, consult Trade facilitation performance.	Moderate
Develop and strengthen export promotion activities and strategies	During the assessment period, Montenegro and North Macedonia adopted new national SME strategies, and Kosovo has prepared a new Private Sector Development Strategy, all touching upon export promotion. Economies have increased the financial support mechanisms available	Moderate

	to SMEs for export promotion, and programmes supporting export promotion for SMEs have become operational. However, Montenegro relied almost exclusively on the Enterprise Europe Network to carry out its export promotion activities.	
Monitor and evaluate existing initiatives	Most economies have not yet moved on from annual reporting towards evaluating their existing initiatives in a way that accurately assesses whether they are effective and tailored to SMEs' needs. Since 2016, only Albania has benefitted from an independent evaluation of the effectiveness of its export promotion programmes (see Chapter 5 on support services for SMEs).	Limited
Provide trade finance tools for exporting SMEs	Trade financing tools have become more widely available in all economies. These include export credit guarantees, export credit insurance and export working capital to help meet the needs of exporting SMEs.	Advanced
Establish programmes to support the integration of SMEs into global value chains	Whereas no economies had tools in place to support SME integration into global value chains in 2016, all of them have now introduced programmes to address this, whether by generating support for industrial clusters, industrial zones, and promoting business linkages, or supplier upgrading schemes. Bosnia and Herzegovina and Montenegro continue to implement cluster support programmes, while Kosovo has established one cluster in the metal industry and renewable energy sector (KIMERK). Serbia and Turkey have developed the most robust programmes to assist SMEs in upgrading their positioning in global value chains by offering schemes for financial support to upgrade machinery.	Moderate

## Introduction

The successful internationalisation of SMEs can increase their productivity, accelerate their innovation and enhance their competitiveness. Given that most of the economies of the Western Balkans are relatively small, access to global markets can support SMEs' long-term viability. Their market reach can be broadened and strengthened through exposing them to international competition and greater economies of scale.

Compared to large firms, SMEs face a number of unique internal and external barriers to internationalisation. Many of these are related to the relatively higher fixed costs for smaller firms of several aspects of conducting business. Internal barriers include information, human resources, finance, product and prices, and distribution and logistics. Externally, SMEs are impeded by procedural barriers, government customer and foreign competitor barriers, and business environment barriers. Government support can help SMEs to overcome these economic and technical hurdles inherent to small enterprises and allow them to access foreign markets more easily (OECD, 2018<sup>[2]</sup>; Asian Development Bank, 2015<sup>[3]</sup>).

Government support to SMEs in the areas of export promotion, integration into global value chains and e-commerce can help SMEs to internationalise in a way that enhances their visibility, optimises their productivity and harmonises their activities with the growing digital economy.

Facilitating SMEs' access to and competitiveness in international markets requires removing barriers to trade, particularly those that impose fixed costs; increasing access to the information necessary for SMEs to compete and succeed on the international playing field; providing logistical support to establish contacts with external buyers and sellers; and assisting in developing products and services that meet international market demand. This also includes providing financial and technical support for exporting activities and procurements/acquisitions of technology in order to increase SMEs' productive capabilities and quality to upgrade their positioning in supply chains.

Furthermore, SME internationalisation policies should aim to promote targeted programmes that comprehensively assess the needs and potential of SMEs by identifying the specific approaches through which they can engage in exports, become more integrated into global value chains, and participate in e-commerce. This requires in-depth needs analyses that take into consideration the core competences of SMEs as well as the opportunities for linkages into global value chains, whether via larger domestic exporters or multinational enterprises (MNEs).

## Assessment framework

### *Structure*

The assessment framework for Dimension 10 consists of three sub-dimensions:

- **Sub-dimension 10.1: Export promotion** assesses governments' support to SMEs for export promotion, examines whether governments have operational export promotion programmes in place that target SMEs and considers the provision of services to help SMEs penetrate international markets.

- **Sub-dimension 10.2: Integration of SMEs into global value chains** evaluates governments' support for SMEs wanting to integrate into global value chains, as well as programmes to promote linkages with larger exporting domestic firms or MNEs.
- **Sub-dimension 10.3: Promoting the use of e-commerce** examines government promotion of the use of e-commerce by SMEs. It considers the prevalence of legal frameworks to secure payments and consumer protection on line, and further analyses the supports in place to facilitate SME uptake of e-commerce.

Figure 12.2 shows how these three sub-dimensions make up the dimension's assessment framework. Each sub-dimension assesses the performance in three thematic blocks: 1) planning and design; 2) implementation; and 3) monitoring and evaluation.

**Figure 12.2. Assessment framework for Dimension 10: Internationalisation of SMEs**

Internationalisation of SMEs								
<b>Outcome indicators</b> Exports as a share of GDP Share of exports by enterprise size class SMEs' share in exports								
<b>Sub-dimension 10.1:</b> Export promotion			<b>Sub-dimension 10.2:</b> Integration of SMEs into global value chains			<b>Sub-dimension 10.3:</b> Promoting the use of e-commerce		
<b>Thematic block 1:</b> Planning and design	<b>Thematic block 2:</b> Implementation	<b>Thematic block 3:</b> Monitoring and evaluation	<b>Thematic block 1:</b> Planning and design	<b>Thematic block 2:</b> Implementation	<b>Thematic block 3:</b> Monitoring and evaluation	<b>Thematic block 1:</b> Planning and design	<b>Thematic block 2:</b> Implementation	<b>Thematic block 3:</b> Monitoring and evaluation
<b>Quantitative indicators</b> Budget of export promotion agencies			<b>Outcome indicators</b> Global Competitiveness Index: Local supplier quality Global Competitiveness Index: State of cluster development			<b>Outcome indicators</b> Percentage of individuals purchasing on line (in the last 12 months) Percentage of SMEs selling on line (in the last 12 months)		

*Note:* The outcome indicators serve to demonstrate the extent to which the policies implemented by the government bring about the intended results, and they have not been taken into consideration in the scoring. By contrast, quantitative indicators, as a proxy for the implementation of the policies, affect the overall scores.

The assessment was carried out by collecting qualitative data with the help of questionnaires filled out by governments, as well as face-to-face interviews undertaken with the owners and managers of SMEs.<sup>1</sup> Alongside these qualitative inputs, quantitative data on certain indicators – provided by the economies' statistical offices, relevant ministries and SME agencies – formed an integral part of this assessment. For more information on the methodology see the Policy Framework and Assessment Process chapter and Annex A.

### ***Key methodological changes to the assessment framework***

Since the 2016 assessment, several changes have been introduced to the assessment framework (Table 12.2). The 2019 assessment now includes a new sub-dimension on the use of e-commerce to incorporate the technological tools that can rapidly accelerate SME efficiency and internationalisation in today's digital economy.

Furthermore, whereas the previous edition of the SME Policy Index considered trading performance as a sub-dimension, it is no longer scored as a sub-dimension in itself, but its content is included in Trade facilitation performance.

Consistent with the change to the weighting of scores across all the other dimensions in this assessment round (see the Policy Framework and Assessment Process chapter and Annex A), the weight allocated to the implementation thematic block has been increased by 5 percentage points. This alteration to the scoring methodology highlights the urgent need to move forward to put strategies into action.

**Table 12.2. Key changes in the composition of Dimension 10**

Sub-dimension	Key changes since the 2016 assessment
Sub-dimension 10.3: Promoting the use of e-commerce	This new sub-dimension on e-commerce has been added to the assessment.
Performance analysis	The previous sub-dimension on trading performance has been eliminated. The content matter is now analysed under the performance section.
All sub-dimensions	The weights of the thematic blocks in the overall scores have been altered. Greater focus has been placed on implementation (5% increase in the allocated weight).

*Note:* For more information on the methodology see the Policy Framework and Assessment Process chapter and Annex A.

### *Other sources of information*

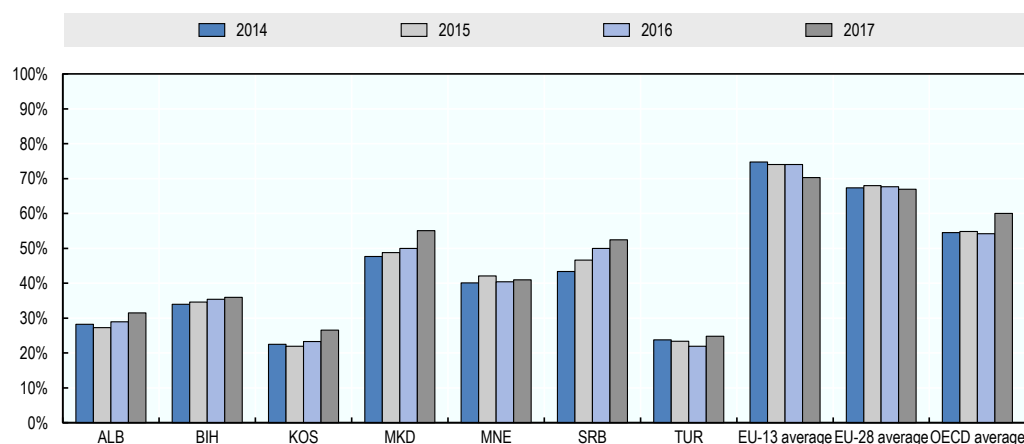
The section below on performance analysis also draws upon data from the World Economic Forum's *Global Competitiveness Report* (WEF, 2017<sup>[4]</sup>) and the World Bank's *Doing Business Report* (World Bank, 2017<sup>[5]</sup>), while key indicators from these reports have also been used to complement the analysis in the relevant sub-dimensions.

## Analysis

### *Performance in internationalisation of SMEs*

Outcome indicators play a key role in examining the effects of policies, and they provide crucial information for policy makers to judge the effectiveness of existing policies and the need for new ones. Put differently, they help policy makers track whether policies are achieving the desired outcome. The outcome indicators chosen for this dimension (see Figure 12.2) are designed to shed light on the WBT economies' export performance in general terms. This section draws on those outcome indicators.

It begins by comparing the WBT economies' shares of exports of goods and services in gross domestic product (GDP) with those of the European Union (EU) and OECD economies (Figure 12.3). Among the WBT economies, North Macedonia had the highest rate of exports as a share of GDP in 2017 (55%), while Turkey had the lowest rate (25%). While exports relative to GDP increased in all WBT economies, Serbia (9 percentage points) and North Macedonia (7.5 percentage points) witnessed the strongest growth between 2014 and 2017. However, exports as a percentage of GDP were higher in 2017, on average, in the EU-13, EU-28 and OECD than they were in the WBT economies.

**Figure 12.3. Exports as a percentage of GDP (2014-17)**

*Note:* OECD and EU averages are calculated as simple averages. Due to unavailability of data, the 2017 EU averages do not include Malta. Due to unavailability of data, the OECD average does not include Israel, Japan, New Zealand and the United States. EU-13 – Bulgaria, Croatia, Cyprus,\*\* the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic and Slovenia.

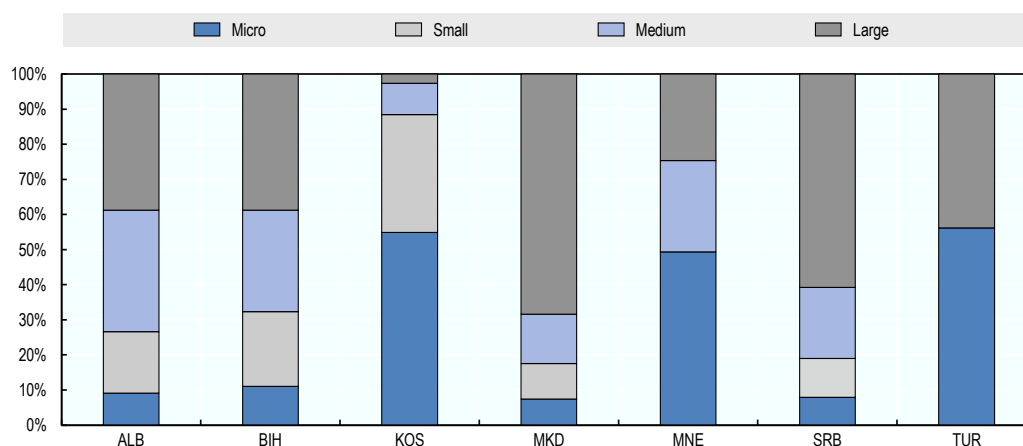
\*\* Footnote by Turkey: The information in this document with reference to “Cyprus” relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus. Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the “Cyprus” issue. Footnote by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

*Sources:* Statistical offices, ministries and SME agencies of the Western Balkan economies and Turkey.

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Large enterprises, i.e. those with more than 250 employees, are the size class with the greatest share of exports in all the WBT economies except Kosovo and Montenegro (Figure 12.4).



**Figure 12.4. Share of exports by enterprise size class (2017)**

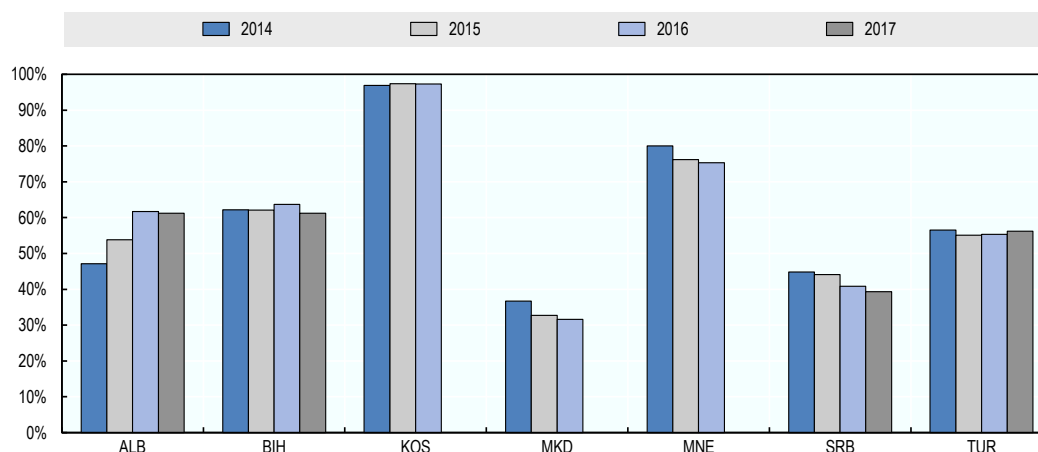
*Note:* For Bosnia and Herzegovina (BiH) data do not include unincorporated enterprises. Due to unavailability of state-level data, data for BiH have been calculated by aggregating the data of the Federation of Bosnia and Herzegovina and the Republika Srpska. Data for Kosovo, Montenegro and North Macedonia are for 2016. Data for Albania are based on the Albanian size class definitions. For Montenegro, disaggregated data for micro and small enterprises were not available. For Turkey, disaggregated data for micro, small and medium-sized enterprises were not available.

*Sources:* Statistical offices, ministries and SME agencies of the Western Balkan economies and Turkey.

StatLink  <http://dx.doi.org/10.1787/888933937717>

SMEs' share of exports remained relatively constant throughout the region during 2014-17 except in Albania, whose share increased from 47% to 61% (Figure 12.5). Among the WBT economies, SMEs' share of exports was highest in Kosovo (97% in 2016), and lowest in North Macedonia (32% in 2016).

Figure 12.5. SMEs' share of exports (2014-17)



*Note:* SMEs are defined as businesses with fewer than 250 employees. For Bosnia and Herzegovina (BiH) data do not include unincorporated enterprises. Due to unavailability of state-level data, data for Bosnia and Herzegovina have been calculated by averaging the data of the Federation of Bosnia and Herzegovina and the Republika Srpska. Due to unavailability of data from the Republika Srpska for 2014 and 2015, the data of Bosnia and Herzegovina depicted in the figure for those two years only reflect the data of the Federation of Bosnia and Herzegovina. 2017 data for Kosovo, Montenegro and North Macedonia are not available. Data for Albania are based on the Albanian size class definitions.

*Sources:* Statistical offices, ministries and SME agencies of the Western Balkan economies and Turkey.

StatLink  <http://dx.doi.org/10.1787/888933937736>

Although the share of exports by SMEs as a whole remained relatively constant throughout the region between 2014 and 2017, SMEs' exports have the potential to grow – both in absolute value and as a share of total exports – in light of the deepening regional integration. At the Trieste Summit of 12 July 2017, the leaders of the six Western Balkan economies endorsed the *Multi-annual Action Plan for a Regional Economic Area (REA) in the Western Balkans Six*, which puts forward a strategic joint agenda to further regional economic co-operation (MAP, 2017<sup>[6]</sup>). If fully implemented, this promising initiative for the region could significantly facilitate SMEs' capacity to internationalise.

### **Export promotion (Sub-dimension 10.1)**

SMEs are often at a disadvantage when exporting compared to large firms due to their limited productive capacities and smaller networks. Market failures arise when lack of information leads SMEs to underestimate the benefits of exporting, or to overestimate the barriers, resulting in lower participation in exports than would otherwise be the case (BIS / DFID, 2011<sup>[7]</sup>). The successful implementation of government export promotion strategies can help SMEs boost their productivity and become better integrated into global value chains (OECD, 2016<sup>[8]</sup>).

This section assesses governments' support services for SMEs with export potential. It analyses the design and planning of export promotion programmes in accordance with national SME strategies, and assesses the implementation of services in areas such as trade policy and commercial information, representation at major trade fairs, marketing, product development and training, provision of financial support for export activities, and the organisation of export promotion events for SMEs. Finally, it considers the extent to which these programmes and activities are monitored and evaluated.

Overall, all the seven economies perform relatively well in this sub-dimension (Table 12.3). Most of the progress made during this assessment period can be traced to the proliferation and implementation of programmes and services for export promotion. In the case of Bosnia and Herzegovina and Montenegro, the provision of export promotion programmes is hampered by resource-constrained agencies, and relatively weak monitoring and evaluation practices.

**Table 12.3. Scores for Sub-dimension 10.1: Export promotion**

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	5.00	4.33	5.00	5.00	5.00	4.67	5.00	<b>4.86</b>
Implementation	4.29	3.70	4.81	4.06	3.12	4.91	4.76	<b>4.24</b>
Monitoring and evaluation	3.71	2.19	3.57	2.86	1.57	3.71	3.43	<b>3.01</b>
<b>Weighted average</b>	<b>4.39</b>	<b>3.59</b>	<b>4.62</b>	<b>4.10</b>	<b>3.37</b>	<b>4.60</b>	<b>4.57</b>	<b>4.18</b>

*Note:* For more information on the methodology see the Policy Framework and Assessment Process chapter and Annex A.

#### *National SME strategies all include export promotion*

All the WBT economies have government export promotion programmes in place which support SMEs and have links to national SME strategies or an equivalent document. While most economies do not have SME-specific export promotion programmes by name, they support export promotion for SMEs through their activities and include SME export promotion objectives in their relevant strategies (Table 12.4).

**Table 12.4. Main national strategies covering export promotion**

Economy	Relevant national strategy
Albania	Business and Investment Development Strategy 2014-2020
Bosnia and Herzegovina	<i>Federation of Bosnia and Herzegovina</i> : Development of Small and Medium Enterprises in the Federation of Bosnia and Herzegovina 2009-2018 <i>Republika Srpska</i> : Strategy for the Development of Small and Medium Enterprises 2016-2020 Foreign Investment Encouragement Strategy 2016-2020
Kosovo	Private Sector Development Strategy 2018-2022 (still a draft at the time of writing)
Montenegro	Strategy for the Development of Micro, Small and Medium-Sized Enterprises 2018-2022
North Macedonia	National Small and Medium Enterprise Strategy 2018-2023
Serbia	SME Development Strategy 2015-2020
Turkey	SME Strategy 2015-2018 Export Strategy 2023 The Industrial Strategy of 2015-2018 The e-Export strategy

All the WBT economies consulted the private sector during the design and development of their export promotion programmes. Formal consultations in which the proceedings were recorded have been held in all the economies except Serbia, which held continuous informal consultations through its Chamber of Commerce in creating its pilot programme for export promotion. However, as both the private sector and government representatives noted, institutional co-ordination in the planning and design of programmes remains weak in Bosnia and Herzegovina.

Despite the existence of regular consultations, the interviews with SMEs conducted for this assessment indicate that they still do not feel that their interests are adequately taken into consideration in the planning and design of export promotion programmes, resulting in overly general programmes that are not sufficiently tailored to their needs. Therefore, the effectiveness of consultations held with the private sector across the WBT economies could be further improved by making sure more representative groups of SMEs are included.

*Limited staff and funds hinder comprehensive export promotion activities*

Export promotion agencies are important vehicles for boosting SMEs' capacity to export. Their design, funding and collaboration with the private sector can have a significant impact on their capacity to promote exports successfully (see Box 12.1).

**Box 12.1. Evidence for the impact of export promotion agencies on exports**

The seminal paper "Export promotion agencies: Do they work?" demonstrated that export promotion agencies (EPAs) have a statistically significant impact on exports and that their services can be important in overcoming foreign trade barriers and solving asymmetric information problems associated with exports (Lederman, Olarreaga and Payton, 2010<sup>[9]</sup>). A related group of researchers extended this research to shed light on the factors which lead to successful export promotion programmes. The resulting report, "Export promotion: What works?" (Sperlich, Trachsel and Olarreaga, 2017<sup>[10]</sup>) merges information from three rounds of surveys conducted by the World Bank and International Trade Centre on EPAs' budgets, sources of funding, governance, and activities over 2005-14. The surveys gathered responses from 94 EPAs and allowed for an analysis of each national EPA budget, sources of funding, governance, and activities.

**Main findings**

The main findings of this longitudinal study highlight the factors that make some EPAs successful in stimulating their economies' exports:

- A 1% increase in export promotion budgets generates an average increase in exports of between 0.046 and 0.076%.
- Initially, increases in the share of EPAs' funding coming from user fees tend to increase the impact of export promotion on exports, but when the share of funding from user fees is very high, further increases marginally decrease export returns.
- Spending a larger share of the budget on companies which do not yet export initially increases marginal export returns, but reduces them in the longer run.
- Focusing on established exporters rather than occasional exporters increases marginal export returns.
- Targeting small firms rather than large and medium-sized ones reduces marginal export returns.
- Having a larger share of the executive board from the private sector increases marginal export returns.
- Targeting a few sectors, firms or destinations rather than promoting all sectors and destinations increases marginal export returns.

### Conclusion

Taken together, the findings from these linked studies evaluate the effectiveness and identify the successful characteristics of EPAs. Governments would do well to take these findings into consideration in the strategic design and dedication of budgeting for their EPAs.

*Sources:* Lederman, Olarreaga and Payton (2010<sup>[9]</sup>), “Export promotion agencies: Do they work?”, *Journal of Development Economics*, <https://doi.org/10.1016/j.jdeveco.2009.09.003>; Sperlich, Trachsel and Olarreaga (2017<sup>[10]</sup>), “Export promotion: What works?”, [www.ferdi.fr/sites/www.ferdi.fr/files/publication/fichiers/p184\\_ferdi-olarreaga-sperlich-trachsel\\_0.pdf](http://www.ferdi.fr/sites/www.ferdi.fr/files/publication/fichiers/p184_ferdi-olarreaga-sperlich-trachsel_0.pdf).

There are dedicated institutions carrying out export promotion programmes in all the WBT economies. However, the design and implementation of programmes vary across the region, and in some cases are greatly hindered because the export promotion agencies either do not have the autonomy to decide how to allocate their budget and manage their human resources, or are insufficiently funded.

Of all the WBT economies, Serbia and Turkey’s export promotion institutions are the most appropriately staffed and funded. The Serbian Development Agency (RAS) has been responsible for export promotion in Serbia since 2016 (overseen by the Ministry of Economy). In 2017, 15 of its 70 employees were working on implementing its Export Promotion Programme and its Support Programme for Exporters, with a budget of RSD 105 million (Serbian dinar; EUR 885 000) for these two programmes. Additionally, over 2017-18 RAS implemented a total budget of EUR 96 000 from the European Enterprise Network (EEN; see Box 12.2) to organise business-to-business (B2B) meetings in Serbia and abroad, connect domestic SMEs with those abroad, and provide information about foreign markets.

Turkey has over 15 different export promotion programmes as a result of numerous communiqués and parallel national strategies. The primary institution responsible for exports in Turkey is the Directorate General of Exports (DG Exports) of the Ministry of Trade. The SME Development and Support Organisation (KOSGEB) implements SME-specific programmes and has recently introduced an Internationalisation Support Programme.<sup>2</sup> The Turkish Exporters Assembly and Turk Eximbank also provide financial and technical support for export promotion. DG Exports implements support mechanisms for trade policy information; marketing services, including foreign market research and reports on market access; and consultancy and training to SMEs on exports and internationalisation.<sup>3</sup> The budget of DG Exports totalled TRY 989.5 million (Turkish lira; EUR 235.6 million) in 2017. Furthermore, the Ministry of Trade will establish 25 new export support desks across 16 provinces with proven export potential, which will significantly broaden support coverage and target export mobilisation through e-exports and e-commerce (Ministry of Trade of Turkey, 2018<sup>[11]</sup>).<sup>4</sup>

However, the other WB economies lag behind in their operational capacity to carry out extensive export promotion activities with a broad outreach.

The Albanian Investment Development Agency (AIDA) has been implementing export promotion activities since 2010. AIDA has operational autonomy to carry out its activities, but has relatively limited funds and only five employees working on export promotion. It has a fully government-funded annual budget of EUR 95 000 for export promotion.

Kosovo's Investment and Enterprise Support Agency (KIESA) had three employees and an allocated budget of EUR 351 000 for its export promotion and support sector in 2018. In North Macedonia, the Agency for Foreign Investment and Export Promotion of the Republic of Macedonia (Invest Macedonia) implemented a budget of approximately EUR 10 000 in 2017 and had EUR 70 000 allocated for its activities in 2018. Changes in staff are frequent, and have delayed the implementation of its 2018 work plan.

In Bosnia and Herzegovina, the Export Promotion Chamber of the Foreign Trade Chamber supports the development of export promotion policies with the Ministry of Trade and Economic Relations at the state level. It also co-operates with other agencies, such as the Foreign Investment Promotion Agency, regional chambers of commerce, and entity-level ministries.<sup>5</sup> Although it has autonomy over its budget and human resources, it is limited in both staff and funds. In the Federation of Bosnia and Herzegovina (FBiH), the Federal Ministry for Development, Entrepreneurship and Crafts (FMRPO) provides support schemes for SMEs, some of which also include export promotion activities. The Foreign Trade Chamber also acts as EEN co-ordinator in the FBiH.

In the entity of the Republika Srpska (RS), export promotion is carried out by the Ministry of Economic Relations and Regional Co-operation and the Republic Agency for Development of SMEs (RARS), which acts as EEN co-ordinator and works to implement EEN activities to support export promotion.<sup>6</sup> Budget figures for the respective institutions in charge of export promotion in Bosnia and Herzegovina are not available.

In Montenegro, the Ministry of Economy, via the Directorate for SME Development, was responsible for carrying out export promotion programmes under the previous SME Development Strategy (2011-2015). However, the directorate did not organise export promotion events or provide financial support to exporting SMEs, and relied almost exclusively on the EEN to carry out export promotion activities. Following a larger restructuring process of the ministry, the Directorate for Investments, Development of Small and Medium Enterprises and Management of EU Funds was set up in 2018 to provide SMEs with a one-stop shop for business support services (BSSs). In 2018, it had 20 employees and a budget of about EUR 600 000.

The average budget figures earmarked for export promotion activities in the Western Balkan economies are significantly lower than for other economies in the region. For example, in 2016, Slovenia's export promotion agency SPIRIT Slovenia had an operational budget of EUR 2.1 million and spent EUR 2.7 million on internationalisation activities (SPIRIT Slovenia, 2017<sup>[12]</sup>).

The insufficient financial resources devoted to export promotion in the Western Balkans are further exacerbated by the fact that export promotion agencies, in most cases, do not have a clear focus on certain activities or sectors. This poorly targeted support spreads the already limited budgets too thinly, hampering the effectiveness of the economies' export promotion efforts.

#### **Box 12.2. SME support through the Enterprise Europe Network**

SMEs in the WBT economies can benefit from support services offered by the Enterprise Europe Network (EEN). Since its launch by the European Commission in 2008, EEN has helped SMEs innovate and grow on an international scale. It is co-financed under the European Union's Competitiveness of Enterprises and Small and Medium-sized



Enterprises (COSME) programme.

EEN operates in over 60 countries worldwide and co-ordinates more than 3 000 experts and 600 member organisations, making it the world's largest support network for SMEs with international ambitions.

The network manages Europe's largest online database of business opportunities, allowing SMEs to search for business or academic partners to manufacture, distribute, co-develop and supply products, ideas and services. SMEs can access the site directly to find a partner abroad for their business, and can also use the European Innovation Council (EIC) wizard to identify which innovation funding instrument is best suited to their needs.

Between 2018 and 2020 an EIC pilot will provide EUR 2.7 billion to breakthrough, market-creating innovations. The largest portion of this is dedicated to the SME Instrument, which has a total budget of more than EUR 1.6 billion. This support is aimed at people and companies with ideas or innovations which are radically different from existing products, services or technologies; are highly risky; and need additional investment to get to market.

The SME Instrument is for small businesses – including start-ups – with a radical innovation that could disrupt established value networks and markets. The companies should have the ambition and potential to scale up. The SME Instrument provides full-cycle business innovation support. It has three phases, including a coaching and mentoring service.

Sources: EC (2018<sup>[13]</sup>), *Enterprise Europe Network website*, <https://een.ec.europa.eu/> (accessed on 22 January 2019); EC (2018<sup>[14]</sup>), *EIC Pilot Funding*, <https://ec.europa.eu/research/eic/index.cfm?pg=funding> (accessed on 22 January 2019).

*Export promotion programmes are widely operational but their uptake by SMEs could be further increased*

Currently, all the economies provide some form of assistance to SMEs to foster their exports and access to international markets. This ranges from providing tailored information on trade policy and commercial intelligence, to financially supporting SMEs' attendance at trade fairs, organising customised training courses on marketing, and product development. Alongside these government efforts, SMEs can access support from EEN (Box 12.2).

SMEs repeatedly underlined in the private sector interviews that they require substantial support to conduct international market analysis in order to identify relevant export opportunities, and also noted their need for greater assistance to acquire product certifications in order to export. Some of the WBT economies offer these services more widely than others.

In Albania, AIDA's technical support covers the provision of market information, assistance in drafting marketing plans, and identifying SMEs' needs and training deficiencies. In 2017, 77 SMEs benefitted from financial support for export promotion through the Competitiveness Fund managed by AIDA. This included covering 70% of export costs related to product improvements (e.g. packaging, product conformity and certification), international trade fair participation and promotional materials.

In Serbia since March 2017, RAS has supported SMEs to foster their export competitiveness through its two pilot programmes described above: the Export Promotion

Programme and the Exporter Support Programme. The Export Promotion Programme has two components: 1) support for individual exhibits at international fairs abroad, covering up to 50% of companies' individual costs, with a total budget of RSD 40 million (EUR 329 500); and 2) the organisation of company visits abroad, with RSD 20 million (EUR 164 800) set aside to cover 50% of costs in each programme in the form of grants of up to RSD 1 million (EUR 8 300).<sup>7</sup> The Exporter Support Programme, launched in March 2017, also has two components: 1) Preparing for the First Export (EUR 100 000), which provides co-financing to the value of 60% in grants for organising thematic workshops on exporting for SMEs; and 2) Improving the Capacity of Exporters (EUR 335 000), which provides 50% in co-financing to SMEs for implementing international standards, certification and re-certification, export plan development, and tailored training for exporting and for designing new products or packaging.<sup>8</sup>

Turkey supported around 185 projects under the Supporting the Development of International Competitiveness programmes between 2011 and 2016, the umbrella organisations which benefitted each had around 15 companies.<sup>9</sup> Under the Ministry of Trade's call for projects to improve exports, 185 individual projects have been carried out. DG Exports also implements the Participation to Trade Fairs Organised Abroad, Market Research and Access to Market, International Branding, and the TURQUALITY projects.

North Macedonia targets its financial and technical support on SMEs that generate a certain amount of turnover and that have been identified as "fast-growing", having increased both their number of employees and turnover by at least 20% in one year. Moreover, the Ministry of Economy provides co-financing to SMEs at a rate of 75% up to the maximum amount of EUR 3 000 for market research, marketing strategy, training and promotional materials.

In Kosovo, KIESA's department for export promotion maintains a database for exporting companies and provides detailed sector reports for export-seeking SMEs on its website, with guidelines on exporting and information on creating a marketing plan (KIESA, 2018<sup>[15]</sup>). Over 300 SMEs received financial assistance to participate in conferences, trade fairs and consultancy services for exports in 2017, while 47 export-related contracts were signed in the same year. Several donor-funded programmes are also underway, such as the EUR 3 million Creating Employment through Export Promotion programme funded by GIZ and implemented by KIESA (GIZ, 2018<sup>[16]</sup>).

Export promotion for SMEs has been weakest in Bosnia and Herzegovina and Montenegro. As mentioned in the previous section, the Ministry of Economy's former SME Directorate in Montenegro did not organise export promotion events or provide financial support to exporting SMEs, and relied almost exclusively on EEN to carry out export promotion activities. Future export promotion activities will continue to be provided through EEN, co-ordinated by the Ministry of Economy. However, in 2019 the new Directorate for Investments, Development of Small and Medium Enterprises and Management of EU Funds plans to develop a new programme which will be dedicated to enhancing export promotion for SMEs.

Financial support for SMEs in export promotion remains inconsistent across Bosnia and Herzegovina. At the state level, the Foreign Trade Chamber supported grants to the sum of EUR 385 000 for the organisation of trade fairs within Bosnia and Herzegovina and EUR 187 000 for participation in international trade fairs in 2017. In the FBiH, the FMRPO has provided SMEs with trade policy information, commercial intelligence, and co-financing support, e.g. for product development support and training. Under its



Strengthening the Competitiveness of SMEs scheme, it also provides export promotion support. In total, it allocated BAM 2 million (Bosnia and Herzegovina convertible mark; about EUR 1 million) to this scheme in 2017, of which BAM 300 000 (about EUR 154 000) were allocated to export promotion support. In the Republika Srpska, RARS itself provides mostly technical support and organises SME promotion events, while funding opportunities for SMEs remain limited. Meanwhile, the Chamber of Commerce and Industry of the Republika Srpska also supports the annual participation of business entities in domestic and international trade fairs in co-operation with chambers of commerce in the region and abroad, and the representation offices of the RS and international organisations.<sup>10</sup>

However, it is evident that the uptake of export promotion programmes among SMEs could be improved, since the budgets allocated across the Western Balkans and Turkey are not always fully used by SMEs. For instance, in a recent survey conducted by Turkey, 62% of the surveyed SMEs reported that although they were aware of the various support programmes, they did not believe that they could actually receive financial support under them even if they applied (see Box 12.3). The most commonly cited reasons were the complex application procedures and their lack of political connections. Although such surveys have not been undertaken in the Western Balkans, SMEs in these economies are likely to suffer from similar barriers. Recognising the SMEs' poor perceptions of export support programmes, Turkey embarked on a new project in 2017 using behavioural economics to design mechanisms to increase uptake of its export promotion subsidies and revive interest among SMEs (Box 12.3).

#### **Box 12.3. Nudge Turkey: Designing user-friendly policies for exporting SMEs**

Nudge Turkey was established in 2017 with funding from the British Embassy in Turkey. A Behavioural Insights Team from the United Kingdom provided consultancy support and Ernst & Young Turkey managed the implementation.

##### **Challenges**

The major goal of this project was to increase public support use, particularly by SMEs. A number of different programmes exist in Turkey that support firms to export. However, the analysis of Nudge Turkey, which is an official department within the Ministry of Trade, showed that only 86% of registered exporters which were eligible for at least one type of public support had not received any support. The median export value of those which did not receive a public support was below USD 30 000 in 2017, and the median number of employees was 8 in 2016, which indicates that public support are used by large companies which are familiar with the processes and have the necessary resources to manage the application process. Meanwhile SMEs, which need financial support the most, have remained largely unreached.

##### **Scope**

Nudge Turkey began with face-to-face interviews with exporters based in Ankara who had never received a public support, in order to find out why these firms had not applied. The results indicated that 73% had heard of at least one of the public supports, 77% did not know how to apply and 43% had heard positive feedback about the support. Most importantly, 62% believed that even if they applied, they would not receive the support.

For this last group, the reasons included being unable to complete the application process

due to either complex procedures or insufficient resources, and concerns that the total subsidy budget may not be sufficient for all applications.

The project, in collaboration with the Behavioural Insights Team, designed an intervention to increase awareness of the available public support programmes and to encourage SMEs to apply. It aimed to address SMEs' cognitive biases when applying for the subsidies, indicated by their identified concerns and prejudices. A randomised contrail trial was carried out, and different e-mails containing behavioural messages were sent to 30 000 firms who did not apply to public support programme before. The preliminary results indicate that the messages, using behavioural economics principles, increased applications by more than 20% relative to the control group.

Nudge Turkey launched a new website ([kolaydestek.gov.tr](http://kolaydestek.gov.tr)) in March 2018 to provide information to SMEs. It explains the application process using infographics with a few steps, rather than referring to sophisticated legislation; provides direct downloads of application documents, and gives direct contact details of experts for each public support programme. Finally, there are nine different animations, summarising the incentives, as well as a video that features the Minister of Trade addressing firms' concerns as identified through the interviews. Since the website's launch, more than 140 000 users have visited it.

### **Project completion and future initiatives**

The team is currently seeking new intervention areas for better policies in Turkey by running randomised control trials. Nudge Turkey has published its first official guide in Turkish titled *Senin Kararın mı?* (Is it your Decision?) on behaviourally informed public policies.

*Source:* Based on information provided by the Ministry of Trade of Turkey.

### *Trade financing support mechanisms for exporting SMEs are widely available*

Trade financing, such as through export guarantees, is especially relevant to help SMEs bridge the gap between exporters' and importers' differing expectations about when payment should be made. Such differences are an acute impediment for SMEs in accessing international markets (WTO, 2016<sup>[17]</sup>). SMEs in all the WBT economies could benefit from trade financing mechanisms.

In North Macedonia, the Macedonian Bank for Development Promotion provides export credit and insurance, while all major banks and some other non-bank financial institutions provide trade finance loans, guarantees, and letters of credit.<sup>11</sup>

Serbia's Export Credit and Insurance Agency operates jointly with other financial and development institutions to offer export credit insurance, financing, factoring and guarantees.<sup>12</sup>

In Turkey, Turk Eximbank offers a credit line for export preparation for SMEs to enhance their export capacity.<sup>13</sup> The Credit Guarantee Fund also provides letters of credit and export credit to insurance for SMEs in manufacturing and exporting. Between 2014 and 2018, the World Bank also granted USD 250 million to the Innovative Access to Finance project, which offers access to longer-term Islamic finance and factoring for SMEs and export-oriented enterprises. The project is being intermediated by the Industrial

Development Bank of Turkey and participating banks and factoring companies (World Bank, 2014<sup>[18]</sup>).

Albania provides support for the export of goods and services through export credit guarantee funds, while trade financing products such as trade finance loans, guarantees, and letters of credit are available through all major banks and some non-bank financial institutions.

Kosovo's Credit Guarantee Fund, established in 2016, offers trade finance tools through local commercial banks mainly supported by donor funding. However, SMEs in Kosovo exhibit little awareness of or demand for trade finance products (EIB, 2016<sup>[19]</sup>).

In Montenegro, the Investment and Development Fund assures exports of goods and services against non-market risks and supports SMEs in obtaining credits and guarantees. Most banks offer trade finance loans, guarantees and letters of credit.

In Bosnia and Herzegovina, trade finance guarantees to SMEs are available through banks, and many banks also offer letters of credit (EIB, 2016<sup>[20]</sup>). In the RS, trade finance guarantees are available through the Guarantee Fund of the Republic of Srpska, which offers a repayment period of up to two years for working capital and up to one year for loans for pre-export financing. The guarantee is up to BAM 300 000 (approximately EUR 154 000) for working capital and has a grace period of up to 12 months for working capital to prepare exports (Guarantee Fund of the Republic of Srpska, 2015<sup>[21]</sup>).

The European Bank for Reconstruction and Development's (EBRD) Trade Facilitation Programme provides trade finance in the form of short-term loans to selected local banks in all economies across the region (EBRD, 2018<sup>[22]</sup>).

### *Comprehensive and performance-based monitoring is largely lacking*

All the economies except Montenegro have monitoring mechanisms in place for their export promotion programmes and export promotion agencies. The economies have also improved their collection of data differentiated by enterprise size, as nearly all of them now regularly collect data that track SME-specific imports and exports (see Figure 12.4).

Nevertheless, comprehensive and performance-based monitoring remains largely absent in the region. In most economies, monitoring does not include independent evaluations of targets achieved, nor does it assess the extent to which the services are efficient or cost-effective in increasing exports.

Albania is the only economy to benefit from an independent review of its export promotion activities. AIDA's Board of Directors and the Ministry of Economy and Finance regularly monitor AIDA's activities for effectiveness in achieving exports, and an independent evaluation of the funds used by AIDA was carried out by independent experts in 2017 (Memi and Shkodrani, 2017<sup>[23]</sup>). The report analysed quantitative data on the uptake of each funding scheme (number of applicants and number of beneficiaries) and evaluated the funds' administration based on two sources of qualitative information.<sup>14</sup> While it did not evaluate the quantitative impact on exports, the report provided a qualitative evaluation of the strengths and weaknesses of each fund and made appropriate recommendations for each weakness identified. It represents a positive first step towards more comprehensive evaluations of programmes.

Only the export promotion agencies in Kosovo, North Macedonia, Serbia and Turkey make annual reports on their activities publicly available. In some cases where SMEs receive direct financial support, the names of the beneficiary SMEs are not directly

available to the public, which impairs transparency. For example, in North Macedonia the beneficiaries of financial support are not made public, while in Turkey business associations such as the Chamber of Commerce group SMEs together by sector and apply on their behalf for financial support. Only the name of these umbrella organisations are made public, not the names of the SME beneficiaries themselves.

Unlike the other assessed economies, Kosovo's KIESA does publish the actual signed and stamped evaluation form of each applicant on its website, offering full transparency on the beneficiaries and assessment scores of all applicants. This initiative was introduced in 2018, and it is believed that it will help to increase the transparency and accountability of the government officials who conduct evaluations and decide on the beneficiaries of various support programmes. Likewise, by providing publicly available examples of successful applications, it can also allow other SMEs to identify the qualities that make applicants successful and adapt their own applications accordingly.

### *The way forward for export promotion*

- **Increase the human and financial capacity of export promotion agencies to provide more effective support to SMEs.** Government and private sector stakeholders in the Western Balkans repeatedly highlighted that the implementation of export promotion support suffers from the agencies' limited financial and human resources. Moving from grant-only programmes towards a greater number co-financing schemes, as well as collecting affordable user fees, would be the first steps towards boosting agencies' resources and underpinning their financial sustainability. Pouring more money into agencies' budgets is not enough to enhance their capacity, however. Staff need to be well versed in the challenges and needs of the enterprises in their economies in order to be able to develop tailored export promotion programmes for SMEs operating in different sectors. Giving the private sector and civil society organisations a larger share of the seats on agencies' executive boards could help to ensure that their programmes remain relevant.
- **Boost export promotion agencies' efforts to monitor their programmes comprehensively, and assess their impact transparently.** Disaggregated data need to be systematically and regularly collected to allow for quantitative evaluations. All economies should strengthen their monitoring and evaluation of their export promotion programmes in a way that critically assesses their output, results and impact on exports achieved, as this will allow them to further improve their programmes' designs and delivery. Systematic data collection will also allow for econometric evaluations of the cost effectiveness of export promotion agencies. In addition, regular independent evaluations are needed, led by companies hired through a competitive tender. Monitoring and evaluation are of paramount importance to increasing the effectiveness of public sector programmes and public budget allocation and spending. The *OECD Framework for the Evaluation of SME and Entrepreneurship Programmes and Policies* (2008<sup>[24]</sup>) can provide guidance for the WBT economies (see Box 5.3 in Chapter 5 on support services for SMEs).

### *Integration of SMEs into global value chains (Sub-dimension 10.2)*

Participation in global value chains (GVCs) allows SMEs to enhance their efficiency and core competences by specialising in specific segments of production and performing them

on a large scale, as opposed to trying to master and compete across the entire chain of productive activities (OECD, 2018<sup>[25]</sup>). SMEs can participate in global value chains directly by exporting intermediate goods and services for further processing, or indirectly by supplying intermediate goods and services to larger domestic firms which then export (OECD, 2018<sup>[25]</sup>). Indirect participation in global supply chains can be fostered through contractual arrangements with MNEs, such as supply/manufacturing agreements, licensing, research and development (R&D) agreements, technology transfer, and quality support, and by receiving inward foreign direct investment (FDI) (OECD / WTO / World Bank, 2014<sup>[26]</sup>). SMEs stand to gain much from deep linkages with MNEs including improving their managerial skills, ensuring increased compliance with international standards, accelerating innovation, and ultimately achieving higher-quality production. This has been confirmed by studies of FDI spillovers that have found evidence of MNEs providing local suppliers with help in setting up production lines, training in quality control, coaching in management strategy and financial planning, and introducing them to export markets (Javorcik Smarzynska and Spatareanu, 2005<sup>[27]</sup>).

SMEs face considerable challenges when integrating into global value chains. The logistics of attempting to integrate into GVCs place a disproportionate burden on SMEs: fixed costs, lack of economies of scale, shortage of working capital and lack of information or adequate training for compliance with quality standards all create barriers (ITC, 2015<sup>[28]</sup>). These challenges can be overcome through government assistance that is designed around the needs of SMEs and that addresses such barriers in a targeted way to ultimately help them be better informed and equipped to attain the quality standards necessary to become competitive suppliers.

This section assesses government support for the integration of SMEs into global value chains against three thematic blocks (Table 12.5). It considers whether governments have planned and designed programmes to support the integration of SMEs into global value chains, and whether the programmes are linked to relevant national SME strategy documents. It then examines to what extent implementation of government support helps to promote SME clusters and linkages with large exporting domestic firms, assist SMEs to import in order to attain better quality inputs, promote technology transfers from MNEs, and systematically informs SMEs about the programmes and policy initiatives on the benefits of participation in GVCs. Finally, it evaluates the monitoring mechanisms in place for these support programmes.

**Table 12.5. Scores for Sub-dimension 10.2: Integration of SMEs into global value chains**

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	1.40	2.07	4.00	4.60	3.80	4.60	4.60	<b>3.58</b>
Implementation	1.00	1.86	3.86	3.29	2.43	4.43	4.71	<b>3.08</b>
Monitoring and evaluation	1.00	1.00	1.00	1.00	3.67	2.33	2.33	<b>1.76</b>
<b>Weighted average</b>	<b>1.12</b>	<b>1.75</b>	<b>3.33</b>	<b>3.22</b>	<b>3.09</b>	<b>4.06</b>	<b>4.20</b>	<b>2.97</b>

*Note:* For more information on the methodology see the Policy Framework and Assessment Process chapter and Annex A.

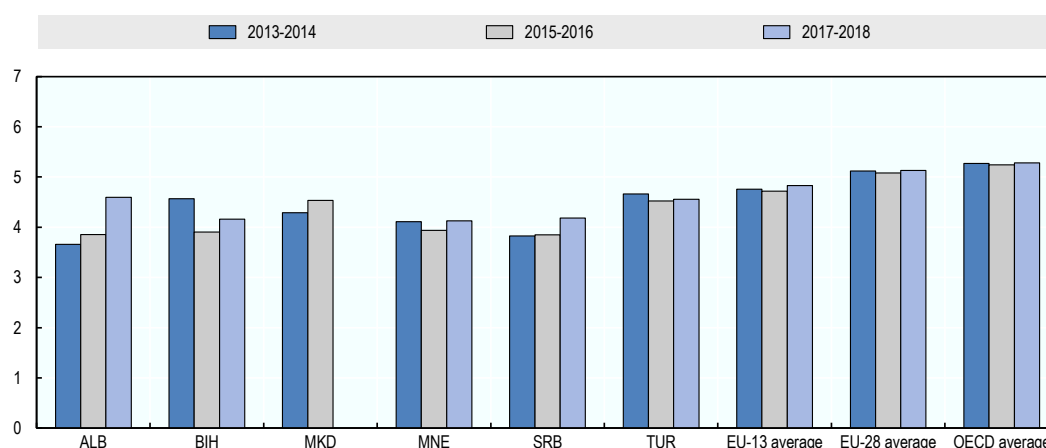
Overall, Serbia and Turkey lead the way in assisting SME integration into value chains, while the rest of the economies – particularly Albania and Bosnia and Herzegovina –

have further room to improve in their support for cluster development and enhancing supplier quality. However, compared to the previous assessment, Kosovo, North Macedonia, Serbia and Turkey have made much progress in the design and implementation of programmes.

*Supplier quality in the WBT economies is seen as lower than in EU or OECD economies*

Supplier quality is crucial to the successful integration of SMEs into GVCs (UNCTAD, 2010<sup>[29]</sup>). Bringing their product quality up to a good-enough standard to integrate into value chains was a common challenge noted among SMEs in the private sector interviews conducted during this assessment. This finding is also reflected in the World Economic Forum's *Global Competitiveness Index* (WEF, 2017<sup>[4]</sup>), which found that the quality of local suppliers is perceived to be lower in WBT economies than the EU and OECD averages (Figure 12.6).

**Figure 12.6. Local supplier quality (2013-18)**



*Note:* Survey question: In your country, how do you assess the quality of local suppliers? [1 = extremely poor quality; 7 = extremely high quality]. 2017-18 data for North Macedonia not available. Data for Kosovo not available. OECD and EU averages are calculated as simple averages. EU-13 – Bulgaria, Croatia, Cyprus,\*\* the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic and Slovenia.

\*\* Footnote by Turkey: The information in this document with reference to “Cyprus” relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus. Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the “Cyprus” issue. Footnote by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

*Source:* WEF (2018<sup>[30]</sup>), *The Global Competitiveness Index Dataset 2007-2017*, <http://reports.weforum.org/global-competitiveness-index-2017-2018/downloads/>.

StatLink  <http://dx.doi.org/10.1787/888933937755>

*Economies have started to take a more strategic approach to integrating SMEs into global value chains*

The WBT economies have made considerable progress in planning and designing programmes to promote SME integration into global value chains, by also improving

supplier quality. All economies now address SME integration in global value chains in their relevant strategic documents and all have planned programmes (in Bosnia and Herzegovina, programmes exist at the entity level). In Kosovo, North Macedonia, Serbia and Turkey, the programmes are designed to promote business linkages between SMEs and large domestic exporting firms. Most of these programmes also include specific provisions aiming at promoting technology transfers from MNEs.<sup>15</sup>

*The implementation of plans has not always followed suit*

Carrying these strategies forward, all WBT economies with the exception of Montenegro<sup>16</sup> have a dedicated public institution in place to support SME integration into global value chains, yet only Kosovo (with donor support), Montenegro, Serbia and Turkey have operational programmes with mobilised budgets.<sup>17</sup>

In the absence of a programme to support integration into global value chains, Albania's government provides support for improving production quality. Through the Italian-Albanian project for the development of SMEs, the government provides financial and non-financial tools to assist SMEs in realising investments aimed at increasing their quality of manufacturing and improving their industrial competitiveness. AIDA also works to provide services for SME integration into global value chains under the auspices of EEN.

North Macedonia has also been implementing activities with the aim of promoting business linkages between SMEs and large domestic exporting firms, and encouraging technology transfers from MNEs. Some initiatives have been carried out with the support of international donors. For example, the Macedonia Manufacturing Expo held at the end of 2016 aimed to integrate companies into global supply chains. The event was sponsored by the United States Agency for International Development's (USAID) Small Business Expansion Project, with 48 domestic suppliers and 16 foreign companies present as potential buyers. The Competitiveness and Export Readiness Programme in Kosovo will prepare SMEs to integrate into global value chains and improve national quality infrastructure (World Bank, 2017<sup>[31]</sup>).

Serbia and Turkey perform particularly well in programme implementation as their programmes are operational and relatively well funded. In Serbia, RAS commenced its Support Programme for the Development of SME Competitiveness in March 2017 with a total available budget of RSD 100 million (about EUR 824 000) (RAS, 2017<sup>[32]</sup>). It has three main components: capacity building, support to business networks and support for integration into supply chains. Under this last component, the existing programme has provided financial support to 20 enterprises to the value of RSD 28.9 million (EUR 239 000), mostly for purchasing equipment to help them to upgrade within supply chains, and for harmonising their operations with international standards. This arguably indirectly helps SMEs reach the standards needed to supply to exporters (often multinational companies).

In Turkey, the Ministry of Trade directly supports SMEs' integration into global value chains through two primary initiatives, the Directive on Supporting Certificates of Market Access and the Supporting the Development of International Competitiveness (UR-GE) programme, both managed by the Ministry of Trade and implemented by the Turkish Exporters' Assembly. The Directive on Supporting Certificates of Market Access was widened over the assessed period to cover companies' expenses for participating in global value chains (EC, 2017<sup>[33]</sup>). Its targets are in line with the SME Strategy and the Tenth Development Plan.<sup>18</sup> With a budget of TRY 1.44 billion (about EUR 343 million) over



2018-22, the Turkish Exporters Assembly which implements the project provides project-based financial support for SMEs to procure machinery, equipment, training, consultancy and software, customer visits, and certification-test analysis, to a maximum of 50% of costs and USD 1 million per beneficiary. As this programme was only implemented in 2017, data on its results are not yet available. The companies which have qualified as beneficiaries of the programme will be audited annually by the Ministry of Trade in order to evaluate their performance, though the results of this monitoring will not be made publicly available.

The UR-GE programme also provides strong support for SME integration into GVCs, exemplified by the success of its footwear cluster support project (Box 12.4). The strategic design and implementation of this programme, arranging training and advisory activities in line with needs analysis findings, led to a foreign trade surplus for the region's footwear sector. Meanwhile, KOSGEB indirectly contributes to these efforts through a wide range of supporting activities through the EEN.<sup>19</sup> Alongside these ongoing programmes, KOSGEB's recently designed Internationalisation Support Programme specifically aims to support SME integration in GVCs in such areas as software and hardware; testing, analysis and certification; and service procurement support. Beneficiaries can receive 75% of the cost up to a maximum value of TRY 300 000 (about EUR 71 500) each.<sup>20</sup>

All economies have mechanisms in place to inform SMEs about the programmes and policy initiatives for facilitating their integration into GVCs. Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, Serbia, and Turkey have all developed approaches to raise awareness of the potential of participation in GVCs through their websites or periodic events. Albania has created an online B2B platform to help SMEs identify and connect with potential partners, and share information on trade fairs and activities. Montenegro's support is consistently promoted through the Business Caravan project, which has gained widespread media coverage as part of the government initiative to ensure that SMEs are aware of the support services available to them.

### *Cluster development is increasingly being supported*

Clusters are a powerful instrument for connecting groups of specialised SMEs and related innovation actors in order to strengthen their competitiveness (EC, 2016<sup>[34]</sup>). The European Commission's *Smart Guide to Cluster Policy* highlights that "the full potential of clusters is unlocked when policies and SME support measures are in place that can structure the co-creation process and thus direct public and private investment towards smart specialisation. This requires not only linking up the main players in the regional ecosystem and involving a wide range of stakeholders, but also overcoming sectoral, regional and departmental silos." (EC, 2016<sup>[34]</sup>).

All WBT economies have included cluster support programmes in their relevant strategy documents.

Serbia's SME Development Strategy 2015-2020 includes actions to support the development of SME clusters. Clusters in Serbia primarily benefit from three programmes:

1. The Support Programme for the Development of SME Competitiveness, which provided support to three clusters for a total of approximately RSD 3.6 million (about EUR 30 000) in 2017. Eligible activities for co-financing under the programme include procurement of joint production equipment, infrastructural furnishing of an existing or



new joint workspace, renovation of an existing or new joint workspace, and the development of joint production processes.

2. The Support Programme for the Development of Business Institutional Infrastructure, which also operates through a co-financing scheme of 50% grants and 50% private funds to support the development of clusters and the stimulation of business associations, among other activities.<sup>21</sup> In 2016, the programme supported 14 clusters with a total of RSD 33 million (about EUR 269 000).

3. The Support Programme for the Promotion of Economic Development Projects. Launched in 2017, the programme targets the promotion of entrepreneurship and best practices with a focus on youth and women's entrepreneurship, the preparation of analysis and research in order to increase SMEs' competitiveness, developing new services and improving existing services for SMEs. In 2017, it supported nine clusters to the value of RSD 14.6 million (about EUR 120 300).

Overall, Montenegro has 37 established clusters registered with the Ministry of Economy, 7 of which are SME-specific. Montenegro seeks to advance its cluster development through programmes by the Ministry of Economy, the Investment and Development Fund and international organisations. Montenegro's Strategy for Development of Micro, Small and Medium-sized Enterprises 2018-2022 covers support for existing clusters and further cluster development, the formation of vertical clusters in the agriculture and tourism sectors, and linking clusters to scientific research institutions. The action plan for the strategy aims for 48 clusters to be registered in the Ministry of Economy's database by 2020. Likewise, the Industrial Policy 2016-2020 aims to integrate the economy into global value chains, with the goal of attaining a higher positioning within value chains and higher export values (Government of Montenegro, 2016<sup>[35]</sup>). It focuses on improving the modernisation, smart specialisation and connectivity of strategic sectors with an emphasis on improving market access. The Ministry of Economy has been implementing cluster support programmes in co-operation with international donors. For example, since 2014, the Ministry of Economy, the United Nations Development Programme (UNDP) and United Nations Industrial Development Organization (UNIDO) have facilitated cluster development through a joint project, co-funded by the EU (UNIDO, 2015<sup>[36]</sup>). One of nine Business Stimulating programmes, implemented in co-operation with the UNDP, it seeks to foster cluster development by providing co-financing support for investment in intangible and tangible assets and for operating costs. This programme supported 16 clusters during 2012-16, which received almost EUR 99 500 in support (Ministry of Economy of Montenegro, 2017<sup>[37]</sup>).

Kosovo's Private Sector Development Strategy 2018-2022 (still a draft at the time of writing) includes actions to support clusters by providing incentives to SMEs for their co-operation and assistance in facilitating meetings, supplying brochures on the steps to cluster formation, and covering administrative costs with the overall aim of achieving self-funded clusters. In the same vein, Kosovo's National Development Strategy 2016-2022 also aims to promote networks and cluster associations through three components, although there are no operational programmes to support these components. The Ministry of Trade and Industry has recently published an information document called the Cluster Roadmap, which lays out the path of cluster development from defining a strategy and achieving regular joint activities, to reaching a self-sustaining phase. Together with KIESA, the ministry has planned a support programme for clusters which includes providing incentives to SMEs for their co-operation, assistance in facilitating meetings, brochures on the steps needed to form clusters, and covering administrative costs, with

the overall aim of achieving self-funded clusters. However, the budget relies mainly on donor contributions and the programmes remain at an early stage of implementation – impeded by limited staff and funds. These difficulties notwithstanding, one cluster in the metal industry and renewable energy sector (KIMERK) has been established to date.

In Bosnia and Herzegovina, despite having planned programmes in the 2016-18 action plan of the strategy document Development of Small and Medium Enterprises in the Federation of Bosnia and Herzegovina 2009-2018, the government in the Federation of Bosnia and Herzegovina did not mobilise a budget for it over the assessed period. Cluster development support in the Republika Srpska was previously provided through three different programmes implemented by RARS: the Cluster Support and Development Programme 2013-2015; the Woodwork and Forestry Cluster within the Public-Private Dialogue and Partnership Programme, in co-operation with the UNDP; and the Banja Luka IT cluster. While all of these programmes have since been phased out, the RS has included measures to promote the internationalisation of SMEs via clustering support in its Development Strategy of SMEs 2016-2020. Moreover, RARS continues to promote cluster development by organising events, particularly international business meetings for companies and clusters in 2016 and 2017.<sup>22</sup>

Albania's Business and Investment Development Strategy 2014-20 planned to support (industrial) cluster development; however, tangible results are still lacking at this stage as no official government programme has been implemented during the assessed period.<sup>23</sup> No financial support for clusters has been provided. However, AIDA has held workshops on the theme of cluster development. It also provides services for foreign investors seeking partnerships with enterprises by actively encouraging SME participation in cluster matchmaking events.<sup>24</sup>

North Macedonia's National Strategy for Small and Medium Enterprises 2018-2023 includes the development of strategic industrial value chains and clusters. The accompanying action plan aims to identify key international value chains in which SMEs could successfully participate, and to develop support programmes and services to help these firms expand into these markets. These measures will be realised through an assessment report on SME participation in international markets (2018) and a cluster mapping report identifying industry clusters connected to international value chains (2019), for which the government has allocated a two-year budget of EUR 60 000. Currently there are 30 clusters in North Macedonia, spanning the information technology, automotive industry, textile, fashion design, wine, agricultural mechanisation, wood processing and food processing sectors. The Ministry of Economy provides support for clusters in export promotion and foreign fairs though co-financing 75% of costs, up to a limit of EUR 6 500 per cluster.

Turkey's cluster initiatives have been successfully supported through the UR-GE programme. A notable example is the footwear cluster support project (Box 12.4).

#### **Box 12.4. Turkey's UR-GE programme and the Izmir Footwear Cluster Support Project**

The UR-GE Programme (Supporting the Development of International Competitiveness) is an SME support programme based on clustering principles that aims to develop the export capabilities of the Turkish manufacturing sector. This initiative, which has been running since 2011, is managed by the Ministry of Economy, and its main objectives are to help SMEs to strengthen their international competitiveness and increase their exports.

The assistance is provided via the Turkish Exporters Assembly to the clusters' associations or institutions, and cascades down to the beneficiary SMEs. An additional goal of the programme is to cover the expenditure of co-operating institutions for projects approved by the Ministry of Economy.

The support is provided to the clusters' associations or institutions by the UR-GE programme in three main stages, carried out by private sector consultancy companies, trainers and sector experts:

1. A needs analysis of the beneficiary cluster. This exercise results in a report that outlines the baseline from which to plan the activities and a strategic route map of the project to be implemented.
2. Training and advisory activities, based on the findings and recommendations of the needs analysis, with a view to providing SMEs with export-related skills and the competitive strength to succeed internationally.
3. A range of targeted and tailored international business development and marketing activities.

The Izmir Footwear Cluster is a very active cluster that has benefitted considerably from the UR-GE programme. The needs analysis identified the following main objectives:

- Prepare and support the SME cluster members, i.e. SMEs operating in the shoe design and manufacturing sector, to develop effective international business.
- Enhance product quality and stimulate new product development to improve product design and quality, and to increase profit margins.

The cluster has successfully completed the first project stage (2012-15) and, thanks to its highly satisfactory results, is currently undergoing a second project stage. In particular, the first project saw exports from the regional cluster increase by 56%, from USD 22.2 million in 2012 to USD 34.6 million in 2016. This led to a foreign trade surplus for the footwear sector in the region, at a time when Turkey overall was facing a foreign trade deficit in the sector.

The Footwear Cluster Support project was built on consistent and in-depth training needs analysis, together with effective planning and design of the programme. In addition, the project offered clearly defined learning content tailored closely to the beneficiaries' needs, and a suitable blend of delivery methods.

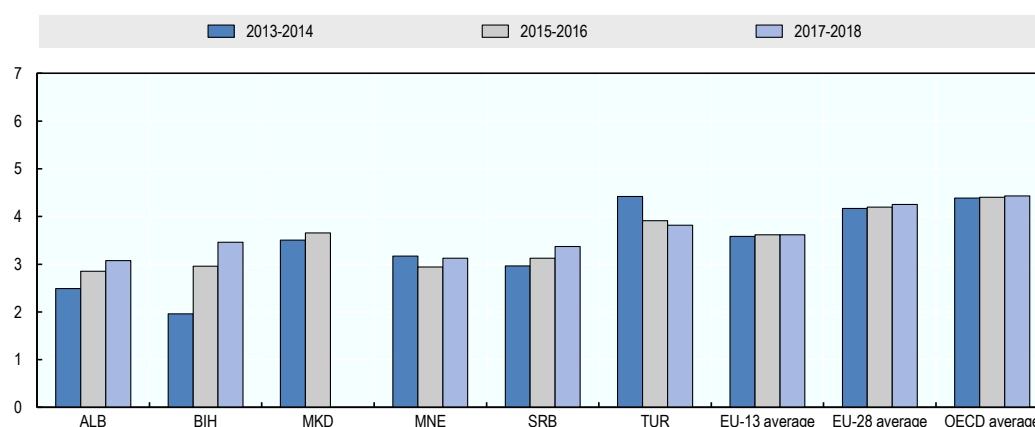
The results and impact of the Footwear Cluster Support project were thoroughly evaluated by an independent organisation and shared with policy makers at both national and regional levels.

Sources: TASD (2018<sup>[38]</sup>), *Footwear Industrialists Association of Turkey website*, [www.tasd.com.tr/en/index.php](http://www.tasd.com.tr/en/index.php); Ministry of Economy of Turkey (2019<sup>[39]</sup>), *UR-GE Turkey website*, <http://urgeturkey.com/en/> (accessed on 23 January 2019); Ministry of Economy of Turkey (2019<sup>[40]</sup>), *Izmir Shoe Cluster*, [www.kumelenme.gov.tr/kumeler/izmir-ayakkabicilik-kumesi/#bilgi](http://www.kumelenme.gov.tr/kumeler/izmir-ayakkabicilik-kumesi/#bilgi) (accessed on 23 January 2019)

Despite the lack of implementation of cluster support development programmes in some WBT economies, the perceptions of cluster development in the Western Balkans seem to have improved over the assessment period. According to the World Economic Forum's *Global Competitiveness Index*, cluster development is perceived as most advanced in

North Macedonia and Turkey, although improvements can be noted between 2014 and 2018 in Albania, Bosnia and Herzegovina, and Serbia (WEF, 2017<sup>[4]</sup>). However, all the Western Balkan economies still lag behind the EU and OECD averages (Figure 12.7).

**Figure 12.7. State of cluster development (2014-18)**



*Note: Survey question:* In your country, how widespread are well-developed and deep clusters (geographic concentrations of firms, suppliers, producers of related products and services, and specialised institutions in a particular field)? [1 = non-existent; 7 = widespread in many fields]. Data for Kosovo is not available. 2017-18 data for North Macedonia are not available. OECD and EU averages are calculated as simple averages. EU-13 – Bulgaria, Croatia, Cyprus,\*\* the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic and Slovenia.

\*\* Footnote by Turkey: The information in this document with reference to “Cyprus” relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus. Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the “Cyprus” issue. Footnote by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Source: WEF (2018<sup>[30]</sup>), *The Global Competitiveness Index Dataset 2007-2017*, <http://reports.weforum.org/global-competitiveness-index-2017-2018/downloads/>.

StatLink  <http://dx.doi.org/10.1787/888933937774>

The European Cluster Collaboration Platform could provide clusters in the WBT economies with significant opportunities to build broader regional connections by increasing their visibility at the European level and beyond. The platform helps facilitate cluster formation and interaction within the EU through Cluster Mapping, Cluster Matchmaking Events and supporting European Strategic Cluster Partnerships (EC, 2018<sup>[41]</sup>).

### *Monitoring and evaluation of programmes for GVC integration is sorely lacking*

While the WBT economies overall have made progress in laying out or preparing programmes to support SME integration into GVCs, there is still work to be done to strengthen their effectiveness. Only Montenegro, Serbia and Turkey reported establishing a monitoring mechanism for their SME GVC integration programmes – and, of these three, only Montenegro has made the monitoring report publicly available. No independent reviews of support programmes have been conducted in any of the WBT economies.

*The way forward for integration into global value chains*

- **Intensify efforts to raise awareness among SMEs of the opportunities associated with participating in GVCs.** The Western Balkan and Turkish governments should intensify their efforts to *proactively* act as knowledge brokers of the needs of upstream and downstream enterprises, and encourage MNEs to share their roadmaps for future product and process development with their SME partners. Moreover, the economies should provide access to accurate information on market opportunities for subcontracting and on potential foreign partners through market reports and databases, trade fairs, exhibitions abroad and electronic trading platforms or subcontracting exchanges. The OECD Tokyo statement on strengthening the role of SMEs in GVCs provides useful policy recommendations that WBT economies should follow when enhancing their awareness-raising and information-sharing activities (Box 12.5).

**Box 12.5. The OECD Tokyo Action Statement for Strengthening the Role of SMEs in Global Value Chains**

Following the OECD Global Conference on Enhancing the Role of SMEs in Global Value Chains (GVC), which identified the significant challenges that SMEs face in the international landscape, the OECD Tokyo Action Statement for Strengthening the Role of SMEs in Global Value Chains, adopted at the OECD Global Conference in Tokyo on 1 June 2007, provides the following guidance to governments:

**Raising awareness of the opportunities for participating in global value chains through:**

- Facilitating access to accurate information on market opportunities for subcontracting and on potential foreign partners through market reports and data bases, trade fairs, exhibitions abroad and electronic trading platforms or subcontracting exchanges.
- Encouraging SMEs to call in external consultants for the implementation of feasibility studies and market research in order to support FDIs.
- Encouraging SME investment by facilitating companies' efforts to expand their business globally through information services and other means.
- Facilitating information flows (including information sharing about needs between upstream and downstream partners) throughout the entire GVC and in particular encouraging MNEs to share their road-map in terms of future product and process development with their SME partners

**Increasing participation in global value chains through collective action and co-operation by:**

- Supporting the establishment and development of industry groupings (i.e. clusters) on regional, cross-regional, or cross-border levels.
- Facilitating SME consortia jointly to bid, produce and market, particularly in relation to government procurement programmes.
- Promoting clusters and networks to improve SME participation in GVCs through fostering and strengthening links at the local level among universities, research

institutions, laboratories and SMEs including for example, funding co-operative research programmes.

- Targeting support for clusters in selected technologies, particularly where there is substantial potential in knowledge-intensive and export-oriented market segments and for supporting R&D for continuous innovation.
- Promoting business linkages between MNEs and SMEs through identifying and matching potential partners while ensuring diversification of partners to avoid becoming dependent on one partner. Helping SMEs to develop their negotiating capacities and skills with MNEs through institutional support (awareness building) and training measures.
- Encouraging MNEs to adopt transparent selection criteria when consolidating their supplier networks, providing SMEs fair warning of such consolidation practices and allowing them reasonable time to adapt their offerings.
- Facilitating supplier development programmes, where SMEs are coached and mentored in key areas such as design and production engineering (this may include sending in technical teams to advise on upgrading).

The Action Statement also gives specific OECD member country examples of the recommendations listed. Governments are encouraged to consult the statement for further recommendations in the areas of increasing SMEs' value obtained from intellectual assets and intellectual property and facilitating the adoption of product quality and process standards.

Source: OECD (2007<sup>[42]</sup>), *Enhancing the Role of SMEs in Global Value Chains: OECD Tokyo Statement on Strengthening the Role of SMEs in Global Value Chains*, [www.oecd.org/cfe/smes/38774814.pdf](http://www.oecd.org/cfe/smes/38774814.pdf).

- **Implement programmes to enhance supplier quality of SMEs.** This assessment found that local supplier quality in the WBT economies remains a major impediment to SMEs wanting to integrate into GVCs. There are few programmes in the region that actively aim to improve SMEs' supplier quality so as to enhance their linkages to MNEs. Box 12.6 provides good practice examples of supplier development programmes that the WBT economies could emulate when designing such programmes.

#### **Box 12.6. Good practice examples of national supplier development programmes**

Supplier development programmes are designed to overcome the main barriers to developing buyer-vendor linkages between multinational enterprises and domestic firms (Smarzynska and Spatareanu, 2014<sup>[43]</sup>). Successful examples include the Czech Supplier Linkage Programme from the early 2000s, the Singaporean Local Industry Upgrading Program from the 1980s, the Supplier Development Programme implemented by CORFO in Chile, and the Tractor Programme in Mexico. Supplier development programmes typically combine the following:

- The development of relationships with local senior managers of multinational enterprises (MNEs) to encourage co-ordination of purchasing plans and pool information about future demand.
- The establishment of a database of qualified domestic suppliers with information



on products, customers and benchmarking of suppliers' performance, organised by industry/sector or commodity/product. This reduces the search costs for MNEs in sourcing potential domestic suppliers.

- A process for assessing the need for upgrading SMEs' capabilities in various aspects of company performance – management, production, sales and commercialisation, innovation, human resources and overall productivity. The development of a network of mentors/consultants to assist in upgrading, e.g. through regular visits to the company to help the company monitor its implementation.
- Co-financing or direct assistance for SME upgrading, including management training and other improvements in efficiency. Eligible costs typically include the salary of the supply chain champion and the fees of the external advisors or mentors.

Sources: Extracted from: OECD (2017<sup>[44]</sup>), *OECD Reviews of Innovation Policy: Costa Rica 2017*, <https://dx.doi.org/10.1787/9789264271654-en>; OECD (2016<sup>[45]</sup>), *OECD Reviews of Innovation Policy: Malaysia 2016*, <https://dx.doi.org/10.1787/9789264255340-en>; Smarzynska and Spatareanu (2014<sup>[43]</sup>), "Czech suppliers of multinational corporations: benefits and challenges", <http://documents.worldbank.org/curated/en/504861468026113344/Czech-suppliers-of-multinational-corporations-benefits-and-challenges>.

- **Design cluster development programmes carefully.** Empirical work on clusters advises policy makers to be cautious when interfering with local production structures, since they could spread themselves too thin (Duranton, 2011<sup>[46]</sup>). The European Commission's *Smart Guide to Cluster Policy* highlights key considerations for policy makers in designing modern cluster policies (Table 12.6).

**Table 12.6. Dos and don'ts of modern cluster policy**

Don't	Do
Support individual specialised firms	Support new activities, in particular those being undertaken by groups or networks of related industries
Create clusters from scratch (i.e. implementing "wishful thinking" of policy makers)	Facilitate the growth of clusters by building upon existing strengths (i.e. implementing evidence-based policy by building upon a comparative analysis of regional strengths and 'entrepreneurial discovery')
Fund large numbers of widely varied clusters	Fund strategic cluster initiatives that focus on promoting the strengths, linkages and emerging competences and which are in line with the aims of national/regional smart specialisation strategies
Follow growth trends without reflection	Capitalise upon regional competences to diversify into new activity areas and to develop emerging industries
Follow a narrow sectoral cluster approach	Follow a systemic cluster approach focusing on related industries by capturing cross-sectoral linkages
Develop and implement cluster policy in isolation from other policy areas	Adopt an inclusive and participatory cluster approach (i.e. involving businesses, investors, academics and policy-makers, and making links with related policy themes such as R&D, innovation, entrepreneurship, access to finance and SME internationalisation)
Support cluster initiatives that are only inward looking	Support cluster initiatives that have an international perspective on the positioning of the cluster in international value chains
Focus exclusively on strengthening regional partnerships	Build regional partnerships as a basis for joining European Strategic Cluster Partnerships

Source: Extracted from EC (2016<sup>[34]</sup>), *Smart Guide to Cluster Policy*, <http://dx.doi.org/10.2873/729624>.

### *Promoting the use of e-commerce (Sub-dimension 10.3)*

E-commerce is commonly defined as the sale or purchase of goods or services conducted over computer networks. As the digital economy evolves, e-commerce presents an opportunity for SMEs to catalyse their access to new international markets, increase their involvement in trade, reduce operating costs and enhance their competitiveness (OECD, 2018<sup>[25]</sup>). Simply through Internet access, SMEs can overcome information disadvantages to connect with buyers and sellers of their goods and services more easily. It allows them to become better integrated into global value chains as they can ship and receive smaller orders which may not always be possible through traditional commercial channels. E-commerce and e-business are positively linked to enterprise performance outcomes such as employment growth, and improved productivity and financial performance, and can internationalise SMEs by reaching beyond traditional and digital borders to access new markets (Grandon and Pearson, 2004<sup>[47]</sup>; Raymond and Bergeron, 2008<sup>[48]</sup>; OECD, 2016<sup>[8]</sup>).

Clear and consistent regulatory frameworks, particularly for consumer protection, are an essential element of building trust in the digital economy. Governments can help ensure that SMEs leverage this opportunity by offering a secure operational environment regulated by a sound legal framework, and by increasing SMEs' access to digital platforms. Given the limited market capacity of the assessed economies (with the exception of Turkey), e-commerce presents an opportunity to significantly increase enterprises' market bases beyond their domestic capacity and enlarge their reach.

This section assesses government promotion of the use of e-commerce by SMEs. More specifically, it considers the legal frameworks in place for e-payments and consumer protection and examines the development and implementation of programmes to promote e-commerce. It also takes note of the extent to which governments act to build trust in their digital economies, provide relevant information for SMEs on e-commerce and collect key performance indicators on e-commerce (Table 12.7).

**Table 12.7. Scores for Sub-dimension 10.3: Promoting the use of e-commerce**

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	3.29	2.71	3.29	3.29	3.29	3.29	5.00	3.45
Implementation	1.00	1.33	2.00	3.00	2.00	2.00	4.50	2.26
Monitoring and evaluation	1.00	1.00	1.00	1.00	1.00	1.00	3.50	1.36
<b>Weighted average</b>	<b>1.69</b>	<b>1.68</b>	<b>2.19</b>	<b>2.69</b>	<b>2.19</b>	<b>2.19</b>	<b>4.45</b>	<b>2.44</b>

*Note:* For more information on the methodology see the Policy Framework and Assessment Process chapter and Annex A.

Overall, e-commerce policies can still be improved considerably throughout the region. Of the seven assessed economies, Turkey has taken the most steps to promote SMEs' uptake of e-commerce and its scores significantly outpace those of the Western Balkan economies.

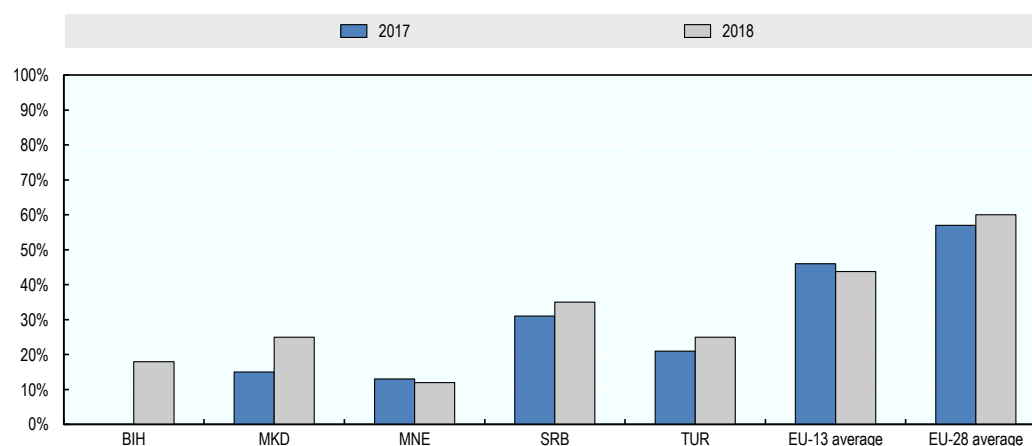


### *The use of e-commerce in WBT economies lags behind the EU*

Quantitative data indicate that individuals' use of e-commerce in Turkey and those Western Balkan economies for which data was available remains largely behind the EU averages (Figure 12.8). In 2018, 60% of individuals in the average EU-28 economy purchased on line. Within the WBT economies, the share of individuals who purchase on line was largest in Serbia (35%), Turkey (25%) and North Macedonia (25%).

**Figure 12.8. Personal use of e-commerce (2017-18)**

Percentage of individuals purchasing on line in the last 12 months



*Note:* Data for Albania and Kosovo not available. 2017 data for Bosnia and Herzegovina not available. EU-13 average has been calculated as a simple average. EU-13 – Bulgaria, Croatia, Cyprus,\*\* the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic and Slovenia.

\*\* Footnote by Turkey: The information in this document with reference to “Cyprus” relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus. Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the “Cyprus” issue. Footnote by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

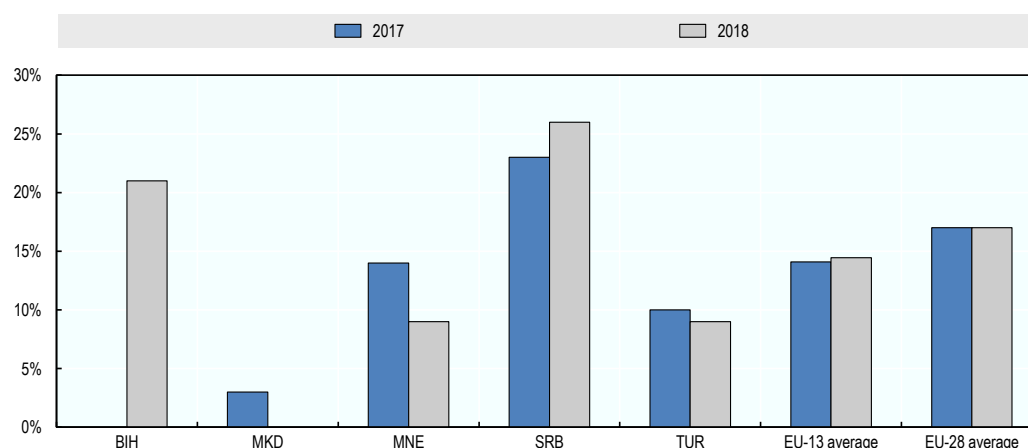
*Source:* Eurostat (2018<sup>[49]</sup>), *Eurostat (database)*, <https://ec.europa.eu/eurostat/data/database>.

**StatLink**  <http://dx.doi.org/10.1787/888933937793>

The percentage of SMEs selling on line was much higher in Serbia (26%) and Bosnia and Herzegovina (21%) than in the other WBT economies for which data were available, as well as the EU averages (Figure 12.9). The share was lowest in North Macedonia, at 3%. At the same time, the private sector interviews indicated that common barriers to engaging in e-commerce included insufficient knowledge by SME staff and the limited adoption of information and communications technology (ICT) by their enterprise. Firms also mentioned that they were more likely to buy than to sell on line.

**Figure 12.9. SME use of e-commerce for sales (2017-18)**

Percentage of SMEs (10-249 employees) selling on line in the last 12 months (excluding the financial sector)



*Note:* Data for Albania and Kosovo not available. 2017 data for Bosnia and Herzegovina not available. 2018 data for North Macedonia not available. Due to the unavailability of 2017 data for North Macedonia, 2016 data were used instead. EU-13 average has been calculated as a simple average. EU-13 – Bulgaria, Croatia, Cyprus,\*\* the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic and Slovenia.

\*\* Footnote by Turkey: The information in this document with reference to “Cyprus” relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus. Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the “Cyprus” issue. Footnote by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Source: Eurostat (2018<sup>[49]</sup>), Eurostat (database), <https://ec.europa.eu/eurostat/data/database>.

StatLink  <http://dx.doi.org/10.1787/888933937812>

The most often-cited reason for SMEs’ poor uptake of e-commerce is a lack of knowledge and skills in new technologies, with the use of outdated technology also frequently mentioned.

Clearly the WBT governments still have scope to increase awareness of the benefits of e-commerce. Only Bosnia and Herzegovina (in the Republika Srpska), North Macedonia, Serbia, and Turkey have dedicated websites offering information on the opportunities and challenges of e-commerce, as well as the relevant legislation, etc.

Turkey has centralised all such information on e-commerce on the Ministry of Trade’s Electronic Commerce Information Platform, which lists useful links, statistics, relevant e-commerce legislation, business and legal associations (providing legal, infrastructure and operational support), an accessible registry of nearly 13 000 entities and their e-commerce sites (any direct, intermediary, or contracted service providers engaging in electronic commerce in Turkey are required to register with this site), and a clear user guide for companies wanting to register. However, while Turkey monitors its e-commerce promotion programme, it does not collect key performance indicators on e-commerce.

Serbia's information website covers upcoming events and relevant legislation. However, it does not connect companies in the same way that Turkey's online platform does by having SMEs register and create profiles.

In North Macedonia, the Ministry of Information Society and Administration maintains a website that provides legal regulations, tips for engaging in e-commerce, and links to e-stores, but it does not have any initiatives to actively promote e-commerce among SMEs. The initiative for promoting the uptake of e-commerce has primarily been taken by the private sector, namely by the E-commerce Association. The Customs Administration under the Ministry of Finance has signed a memorandum of co-operation to become an honorary member of the E-commerce Association with the aim of sharing relevant information and jointly contributing to the development of relevant programmes, particularly on cross-border e-commerce. However, SMEs must pay to join the association before they can access information on data and research, networking events, education and training, and advocacy and lobbying support.

*Legal frameworks for e-commerce are in place, but it's early days for building digital trust*

Legal frameworks for e-payments and consumer protection in e-commerce are in place across all WBT economies. The presence of legal frameworks is a step in the right direction, as they form a secure bedrock on which to build the operational environment for e-commerce. However, the latest *OECD Competitiveness Outlook* assessment found that not all of the WB economies' legal frameworks were fully aligned with EU frameworks (i.e. e-Commerce Directive 2001/31/EC) (OECD, 2018<sub>[50]</sub>). Serbia had undertaken legislative reforms and proposed a new legislative framework on e-commerce in October 2017 which covers electronic documents, electronic documents, electronic signatures and stamps, and electronic submission of documents. Albania is currently in the process of revising its law on e-commerce that was adopted in 2008, with a draft that is now in the consultation phase. Its legislative framework on e-signatures complies with the EU framework and a consumer protection strategy is in place, although implementation is weak (OECD, 2018<sub>[50]</sub>).

Beyond these legal frameworks, the region has yet to realise the institutional and policy co-ordination needed to enable e-commerce. For instance, in Kosovo and Serbia, private sector actors report difficulties in retaining international e-commerce clients because local banks often do not support online services that accept credit card payments. Likewise, the other Western Balkan economies lack full access to innovative payment systems, especially for e-commerce. Consumers in North Macedonia can only use PayPal to send funds, while online payments by credit card are rare in Albania and Bosnia and Herzegovina.

In terms of building trust in the digital economy, the *Multi-annual Action Plan for a Regional Economic Area in the Western Balkan Six* includes actions to increase citizens' trust in online services (MAP, 2017<sub>[6]</sub>). Furthermore, in the context of the Sofia Declaration, which was endorsed by all Western Balkan leaders in May 2018, the European Commission will support capacity building in digital trust and security (EC, 2018<sub>[51]</sub>). However, these initiatives are yet to be implemented.

Turkey is moving to proactively address the challenge of building trust in the digital economy through enhanced regulations, and holds the Presidency of the International Consumer Protection and Enforcement Network for 2017-18.<sup>25</sup> Moreover, Turkey's Ministry of Trade has developed a Trust Stamp in Electronic Commerce, which entered

into force in 2017. Verified and audited e-commerce sites may display the mark if they meet criteria defined by the Communiqué on the Trust Stamp in E-Commerce, including data protection, awareness of e-commerce and payment systems regulations, clear information about company operators, and effective communication methods for customer demands and complaints. Recently the Ministry of Trade and the Turkish Union of Chambers and Commodity Exchanges signed a protocol allowing the latter to provide the Trust Stamp to SMEs.

In Serbia between 2014 and 2016, 66 SMEs were awarded the E-Trustmark, which was valid until November 2017 under the pilot E-Business Development programme funded by the EU. However, no concrete follow-up mechanism for this appears to be in place. The Center for Development of E-commerce and Protection of Consumers on the Internet will continue to accredit and deliver the E-Trustmark to entrepreneurs in Serbia (Delegation of the European Union to the Republic of Serbia, 2016<sup>[52]</sup>).

### *Implementation of e-commerce promotion programmes is patchy*

Kosovo, Montenegro, North Macedonia and Turkey all have an established institution responsible for promoting e-commerce. North Macedonia, Serbia, Turkey and the Republika Srpska in Bosnia and Herzegovina have a website to provide easily accessible information on e-commerce. Albania and the Federation of Bosnia and Herzegovina are lagging behind the majority, as they lack an institution responsible for e-commerce promotion and a website to provide easily accessible information on e-commerce.<sup>26</sup>

Over the assessment period, only Turkey implemented a programme to encourage SMEs' uptake of e-commerce.

Previous programmes to promote e-commerce have had limited success. For example, the latest *OECD Competitiveness Outlook* assessment found that Albania, North Macedonia and Serbia offered financial support programmes for e-commerce and e-business, but that they broadly failed. In Albania this was due to the relatively small amount of money offered per applicant; in North Macedonia the reason was poor planning of voucher schemes, which led to exploitation of resources by only a few SMEs; and in Serbia the fault lay with the difficult financial bank-guarantee process (OECD, 2018<sup>[50]</sup>).

In Albania, the Digital Strategy 2015-2020 of the Ministry of Innovation and Public Administration contains the goal of increasing to 50% the share of businesses using e-commerce but there are no active measures in place to achieve it.<sup>27</sup> Montenegro's action plan for its SME Strategy 2018-2022 and envisions to promote e-commerce among SMEs. However, no programmes were implemented during the assessment period.<sup>28</sup>

Serbia's Ministry of Trade, Tourism and Telecommunications and the Ministry of Economy together carried out the EUR 2.5 million EU-funded E-Business Development programme from 2014 to 2017 (Delegation of the European Union to the Republic of Serbia, 2016<sup>[52]</sup>). As part of this programme, over 700 SME representatives attended e-business training sessions. The issue of trust in the digital economy was highlighted at 35 capacity-building workshops on the digital economy, e-business, e-commerce and combatting cyber-crime (Delegation of the European Union to the Republic of Serbia, 2016<sup>[52]</sup>).

Between 2013 and 2014 North Macedonia had a programme that offered vouchers for SMEs looking to develop e-commerce websites – this government programme supported 31 e-stores. Since then, there have been no further programmes targeting the uptake of e-commerce.

Meanwhile, Turkey has had significant success in implementing e-commerce promotion. Under the Programme to Support Market Research and Market Entry, the government supports SMEs' membership on e-commerce sites and online portals via a co-financing mechanism.<sup>29</sup> In particular, DG Exports supports companies' membership of e-commerce sites and online portals by covering 80% of their membership costs for up to three years. This programme is outlined in Turkey's 10th Development Plan, Export Strategy 2023 and SME Strategy 2015-2018. This programme is facilitated through broader umbrella organisations (e.g. chambers of commerce, exporters' unions) representing at least 250 companies which apply to the Ministry of Economy on behalf of the companies to register them onto e-commerce sites and online portals. It has a budget of TRY 33.8 million (EUR 6.1 million) to promote e-exports between 2018 and 2022. The Turkish Exporters Assembly has signed an agreement with the e-commerce platforms Alibaba and Kompas in a move that is expected to create opportunities for new entrants and foster SME participation in global e-commerce markets (Ministry of Economy of Turkey, 2017<sup>[53]</sup>). Most recently, the Ministry of Economy has launched its e-Export strategy which aims to increase exports through e-commerce (Ministry of Economy of Turkey, 2018<sup>[54]</sup>).

There are no e-commerce promotion programmes in the other Western Balkan economies yet, although Kosovo's Ministry of Economic Development is in the process of launching the Kosovo Digital Economy Programme (EUR 20 million) in co-operation with the World Bank. It aims to increase the presence of SMEs on the Internet so that they are ready to engage in electronic trade and tap into international markets (World Bank, 2018<sup>[55]</sup>).

### *The way forward for promoting the use of e-commerce*

- **Develop and strengthen formal support mechanisms** to encourage SME uptake of e-commerce. This can be done by making it easier to access e-commerce sites and portals via co-financing mechanisms, as is currently being done in Turkey. All economies should develop a strategic approach to strengthening e-commerce uptake by businesses in general, and SMEs in particular. More should be done to change perspectives on e-commerce by offering more information to SMEs on the benefits to their business of harnessing e-commerce's potential. A simple centralised website with readily accessible and relevant information on e-commerce could help SMEs better navigate and engage in the digital landscape and understand the regulations and support that apply to them.
- **Establish mechanisms to periodically evaluate and update regulatory frameworks** to keep pace with the evolving digital marketplace and to maintain a safe operational environment. Within this, it is crucial to **strengthen the collection of statistics on key performance indicators** in order to adapt regulatory frameworks accordingly and to design adequate programmes aimed at promoting SMEs' uptake of e-commerce. The Recommendation of the OECD Council on Consumer Protection in E-commerce provides seven guiding principles the WBT economies should follow when implementing their consumer protection frameworks for e-commerce (see Box 12.7).

### **Box 12.7. The Recommendation of the OECD Council on Consumer Protection in E-commerce: Implementation Principles**

The OECD Council's 2016 Recommendation of the Council on Consumer Protection in E-commerce addresses new and emerging trends and challenges faced by consumers in today's dynamic e-commerce marketplace. Governments should, in co-operation with stakeholders:

1. Work towards improving the evidence base for e-commerce policy making through:
  - the collection and analysis of consumer complaints, surveys and other trend data
  - empirical research based on the insights gained from information and behavioural economics.
2. Review and, if necessary, adopt and adapt laws protecting consumers in e-commerce, having in mind the principle of technology neutrality.
3. Establish and maintain consumer protection enforcement authorities that have the authority and powers to investigate and take action to protect consumers against fraudulent, misleading or unfair commercial practices and the resources and technical expertise to exercise their powers effectively.
4. Work towards enabling their consumer protection enforcement authorities to take action against domestic businesses engaged in fraudulent and deceptive commercial practices against foreign consumers, and to take action against foreign businesses engaged in fraudulent and deceptive commercial practices against domestic consumers.
5. Encourage the continued development of effective co-regulatory and self-regulatory mechanisms that help to enhance trust in e-commerce, including through the promotion of effective dispute resolution mechanisms.
6. Encourage the continued development of technology as a tool to protect and empower consumers.
7. Facilitate the ability of consumers to access consumer education information and advice and to file complaints related to e-commerce.

Source: OECD (2016<sup>[56]</sup>), *OECD Recommendation of the Council on Consumer Protection in E-Commerce*, <http://dx.doi.org/10.1787/9789264255258-en>.

## **Conclusions**

The WBT economies have made strides by strengthening the availability of support services in export promotion and introducing programmes to help SMEs integrate into global value chains. They have also – to varying degrees – laid down the foundations for supporting e-commerce by setting out and harmonising legal frameworks.

However, weaknesses remain, particularly in the areas of underfunded and untargeted export promotion agencies and weak support programmes for value chain integration. E-commerce programmes also remain poorly supported, and could benefit from targeted support given the small market size of the Western Balkan domestic economies.

The successful internationalisation of SMEs is closely tied to the implementation of the recommendations put forward in this chapter, as well as in the other chapters in this report, along with those identified in the previous assessment. Achieving higher productive standards, leveraging networks and improving access to trade finance will all ultimately help SMEs increase their market share and productive capacities to become resilient competitors in the world economy.

## Notes

<sup>1</sup> In this SBA assessment cycle, in order to better understand how effective the SME policy implementation is and what its outcomes are, the assessment also included private sector insights gathered through a set of interviews with the owners and managers of SMEs and representatives from chambers of commerce in the Western Balkans and Turkey (see Annex C for more information). The questions for this dimension aimed to identify the main barriers to exporting and importing for SMEs, SMEs' assessment of export promotion programmes, and whether there are barriers to SMEs using e-commerce.

<sup>2</sup> Turkish EEN consortia provide technical and consulting support on the following areas of expertise: EU legislation and standards, access to international markets, international public contracts, finance and funding, EU funding and application support, and intellectual property rights.

<sup>3</sup> KOSGEB's Internationalisation Support Programme provides 70% of funding to SMEs for export promotion and integration into global value chains. Support activities eligible for funding include employment; software and hardware; publicity; foreign fair and travel; test, analysis and certification; and service procurement. KOSGEB also supports 50-60% – up TRY 10 000 (around EUR 1 800) – of international trips and promotional activities under the General Support Programme. It also provides support for export promotion under its programme on the creation of international incubators.

<sup>4</sup> In 2017, the 16 provinces generated USD 53.6 billion in exports, amounting to one-third of Turkey's exports.

<sup>5</sup> For a description of the complex administrative set-up in Bosnia and Herzegovina and how this was handled in the scoring process, please refer to Annex B.

<sup>6</sup> In addition to the agency as co-ordinator, members of the EEN of the Republika Srpska include the Chamber of Commerce of the Republika Srpska, the University of Banja Luka, the University of East Sarajevo and the Innovation Center Banja Luka.

<sup>7</sup> Under this programme, between March 2017 and the time of writing, 63 SMEs received support to the value of RSD 37 million (EUR 305 000) for international business fairs, while one SME received assistance for a company visit abroad (EUR 4 600).

<sup>8</sup> Two SMEs have received support for the first component, to the value of RSD 1.1 million (EUR 9 100); while 65 SMEs were supported through the second component, for a total of RSD 30.3 million (EUR 249 600). In terms of monitoring, RAS's programmes have yet to be evaluated.

<sup>9</sup> Umbrella organisations include the Exporters' Union, chambers of commerce and industry, technological parks, and industrial zones.

<sup>10</sup> The Republika Srpska also possesses a network of representation offices in Austria, Belgium, Germany, Greece, Russia, Serbia and the United States, which organise periodic training for domestic SMEs in export opportunities to the relevant country.

<sup>11</sup> The bank also supports clusters for export promotion and foreign fairs at a 75% co-financing rate up to EUR 6 500.

<sup>12</sup> The agency plans to further tailor its offer of finance instruments to SMEs under its work plan for 2018.



<sup>13</sup> Turk Eximbank provides finance on commercial terms and in accordance with the OECD Arrangement on Officially Supported Export Credits.

<sup>14</sup> Interviews were conducted with staff from AIDA and the Ministry of Finance and Economy, who are involved in the funds' management. The evaluation benefitted from interviews with applicants and beneficiaries, as well as a questionnaire, shared among 50 SMEs.

<sup>15</sup> In Kosovo, this is not directly pursued as an objective. Instead, Kosovo's Competitiveness and Export Readiness Programme, financed by the World Bank, includes measures to improve national quality infrastructure to meet international standards, which represents an essential first step towards preparing SMEs to meet the standards of MNEs.

<sup>16</sup> Montenegro does not have an official body dedicated to supporting SME integration into global value chains. Instead, the Ministry of Economy has been implemented several projects with the support of international donors, such as Improving the Competitiveness of the Economy in Montenegro, carried out with the UNDP. Other small steps have been taken towards bringing production into alignment with international standards through the Regional and Local Competitiveness programme, which assists SMEs in covering the costs of accreditation activities through co-financing schemes of up to EUR 5 000 per applicant.

<sup>17</sup> The Federation of Bosnia and Herzegovina did not mobilise its allocated budget for supporting projects to develop clusters and value chains under the 2016-2018 Action Plan for the Development of SMEs in FBiH programme, citing low quality and number of applications.

<sup>18</sup> Turkey is currently in the process of developing the 11th Development Plan (2019-2030) which will include further measures to support integration into global value chains. The plan is being developed by a specialist commission which works on logistics, e-commerce and integrating SMEs into GVCs.

<sup>19</sup> Through the Enterprise Europe Network, KOSGEB helps to provide SMEs with consulting, mentoring and business-to-business services.

<sup>20</sup> Additional types of support included under the programme are employment support, publicity support, and foreign fair and travel support.

<sup>21</sup> Total activities covered by the programme include the operationalisation of science and technology parks and incubators, development of support services for innovative SMEs, joint science-economy projects, development of clusters, stimulation of business associations, and creation of value chains.

<sup>22</sup> These meetings included two international business meetings with EEN in co-operation with the Development Agency of Serbia. In August, RARS organised a meeting within the 11<sup>th</sup> Fair of Economy and Tourism in Derventa to inform and examine the possibilities of establishing a tourism cluster with representatives of tourism organisations from several different cities.

<sup>23</sup> From May 2012 to October 2014, AIDA was a partner of the European Commission-financed Cluster POLISEE (SEE) project aimed at developing and increasing the capacity of clusters in South East Europe.

<sup>24</sup> Most recently, AIDA promoted awareness of possible cluster linkages at the Cluster Matchmaking Conference on 21-22 September 2018, held in Stuttgart, Germany; and the EU-Western Balkans Cluster Policy Learning and Matchmaking Event in Zagreb, 22 and 23 November 2018, held in Croatia.

<sup>25</sup> A worldwide network of more than 60 consumer protection authorities on which the EC, OECD, and UNCTAD hold observer status.

<sup>26</sup> The Republika Srpska has a web page on the legal framework for e-commerce, which led to a slightly higher score for Bosnia and Herzegovina. Bosnia and Herzegovina's Information Strategy 2017-2021 issued by the Ministry of Communications and Transport highlights digital literacy, internet access, and increased online services, all of which could strengthen the operational environment for e-commerce.

However, no financial tools aimed at accelerating ICT adoption and digital practices by SMEs have been developed.

<sup>27</sup> SMEs in Albania can apply for funds for e-commerce through the Competitiveness Fund; however, no funds have been disbursed for this purpose in recent years.

<sup>28</sup> The SME strategy 2018-2022 action plan anticipates the following measures for promoting e-commerce among SMEs, to be rolled out between 2019 and 2022: 1) conducting research on enterprises using e-commerce in their business operations; 2) creating a database of companies using e-commerce; 3) organising educational sessions on e-commerce; and 4) organising support for MSMEs in order to meet the requirements for e-Trustmark standards. Likewise, Montenegro's Information Society Development Strategy 2016-2020 lists strategic indicators for measuring e-commerce adoption. Despite this, programmes to increase SME e-commerce adoption remain altogether absent.

<sup>29</sup> Under the Directive on Supporting the Certificates of Market Access.

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## Annex 12.A. Trade facilitation performance

The OECD Trade Facilitation Indicators (TFIs) database specifies 11 aspects of trade facilitation: 1) information availability; 2) trade community involvement; 3) advance rulings; 4) appeal procedures; 5) fees and charges; 6) documents; 7) automation; 8) procedures; 9) internal border agency co-operation; 10) external border agency co-operation; and 11) governance and impartiality. The TFIs can help policy makers prioritise trade facilitation actions and mobilise technical assistance and capacity building in a targeted way (OECD, 2018<sup>[57]</sup>).

Of the six WBT economies for which data are available, Turkey has the highest average score (1.48 out of 2) on the TFIs and performs best on 7 of the 11 aspects: information availability, trade community involvement, appeal procedures, automation, procedures, internal border agency co-operation, and governance and impartiality. On external border agency co-operation, it performs on par with Montenegro, which scores highest on documents. Of the six WBT economies, North Macedonia scores highest on advance rulings.

Table 12.A.1 lists the TFI areas in which the WBT economies improved or deteriorated between 2015 and 2017. Overall, the areas of improvement heavily outweigh the areas where performance has worsened, except for North Macedonia.

**Annex Table 12.A.1. WBT performance on Trade Facilitation Indicators (2015-17)**

	Areas of improvement	Areas of deterioration
ALB	<ul style="list-style-type: none"> <li>- Information availability</li> <li>- Fees and charges</li> <li>- Appeal procedures</li> <li>- Procedures</li> <li>- Documents</li> <li>- Automation</li> <li>- Governance and impartiality</li> </ul>	<ul style="list-style-type: none"> <li>- Involvement of trade community</li> <li>- Advance rulings</li> </ul>
BIH	<ul style="list-style-type: none"> <li>- Automation</li> <li>- Information availability</li> <li>- Fees and charges</li> <li>- Documents</li> <li>- Automation</li> <li>- Procedures</li> <li>- Governance and impartiality</li> </ul>	<ul style="list-style-type: none"> <li>- Involvement of trade community</li> </ul>
MKD	<ul style="list-style-type: none"> <li>- Automation</li> <li>- Documents</li> </ul>	<ul style="list-style-type: none"> <li>- Governance and impartiality</li> <li>- Information availability</li> <li>- Involvement of trade community</li> <li>- Appeal procedures</li> <li>- Fees and charges</li> <li>- Procedures</li> </ul>
MNE	<ul style="list-style-type: none"> <li>- Information availability</li> <li>- Involvement of trade community</li> <li>- Appeal procedures</li> </ul>	

	- Documents - Automation - Procedures - Governance and impartiality	
SRB	- Appeal procedures - Documents - Governance and impartiality - Information availability	- Fees and charges
TUR	- Information availability - Involvement of trade community - Fees and charges - Documents - Automation - Procedures	- Advance rulings - Appeal procedures

Note: Only areas of improvement and degradation are noted in the table. Data for Kosovo not available.

Source: OECD (2018<sup>[57]</sup>), *OECD Trade Facilitation Indicators*, [www.oecd.org/trade/facilitation/indicators.htm](http://www.oecd.org/trade/facilitation/indicators.htm) (accessed on 29 November 2018).

Between 2014 and 2017, the costs of importing and exporting due to border compliance remained stagnant or even increased across most of the WBT economies (Table 12.A.2).

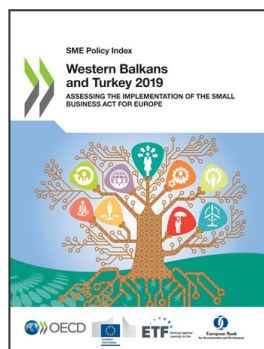
**Annex Table 12.A.2. Cost to import/export in terms of border compliance (2014 and 2017)**

USD

	Cost to import		Cost to export	
	2014	2017	2014	2017
ALB	52.00	77.00	33.00	55.00
BIH	109.00	109.00	106.00	106.00
KOS	128.00	128.00	153.00	105.00
MKD	150.00	150.00	103.00	103.00
MNE	306.00	306.00	158.00	158.00
SRB	52.00	52.00	47.00	47.00
TUR	267.00	267.00	376.00	376.00
EU average	29.21	29.21	85.11	85.21
OECD average	114.20	114.20	152.53	152.53

Source: World Bank (2018<sup>[58]</sup>), *World Bank Open Data (database)*, <https://data.worldbank.org/>.

The 2018 *OECD Competitiveness Outlook* assessment of the six Western Balkan economies found that they have taken steps to remove technical barriers to trade by aligning standardisation and accreditation systems with international good practice (OECD, 2018<sup>[50]</sup>). However, the assessment also found that non-tariff barriers related to sanitary and phytosanitary measures and regulatory barriers to trade in services are still restricting import and export volumes in the six economies.



**From:**

## **SME Policy Index: Western Balkans and Turkey 2019**

**Assessing the Implementation of the Small Business Act for Europe**

**Access the complete publication at:**

<https://doi.org/10.1787/g2g9fa9a-en>

### **Please cite this chapter as:**

OECD, *et al.* (2019), “Internationalisation of SMEs (Dimension 10) in the Western Balkans and Turkey”, in *SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the Small Business Act for Europe*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/1d1081fe-en>

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