Chapter 9. Enterprise skills (Dimension 8a) in the Western Balkans and Turkey

This chapter assesses policies in the Western Balkans and Turkey to promote the skills SMEs need, from starting up and throughout their growth phases. It starts by providing an overview of the assessment framework and progress since the last assessment in 2016. It then presents an analysis of Dimension 8a's three thematic blocks: 1) planning and design, which assesses policies in the areas of skills intelligence; 2) implementation, which focuses on training for start-ups, responding to the skills required of digital and green economies, and smart specialisation; and 3) monitoring and evaluation, which considers whether economies ensure their SME skills policies are working and keeping up with market needs. The chapter concludes with key recommendations to help the region's policy makers to tackle the challenges identified and provide their SMEs with the skilled human capital they need.

Key findings

- **The Western Balkan economies and Turkey (WBT) have made some progress in improving the governance of enterprise skills**. Most of the economies have taken steps to collect information on skills needs although institutional capacity needs to be strengthened for well co-ordinated data collection and its use to inform SME skills policy and programming.

- **The statistical basis needed to analyse companies' skills needs have improved over the assessment period.** In spite of these improvements, however, the monitoring results of SME support programmes are not always made available to enable decision makers to identify successful or less relevant support measures and programmes.

- **Most of the WBT economies recognise the importance of digital skills for SMEs and the link with internationalisation,** but this recognition has not been systematically translated into providing the conditions or the training required to steer SMEs towards the digital economy.

- **Training provision is not always tailored to the specific needs of start-ups at different stages of growth.** Provision needs to distinguish between those who need help with their business idea, the early-phase start-ups and those that need a push to scale up their business.

- **Online platforms are needed to provide an overview of the training on offer to SMEs.** The WBT economies do not use SME skills intelligence to map the training available and to provide a single searchable online platform to enable SMEs to find the training that meets their specific needs in timing, content and delivery method.

- **E-training for SMEs is not widely available across the region.** There is a need to scale up publicly funded e-training to make training more accessible to SME managers and their employees as it does not require them to take time away from work which could disrupt business and add to the actual cost of training.

- **Smart specialisation will have implications for SME skills which will need to be assessed and addressed.** The economies have recognised the importance of skills for innovation and will need to lead in defining an approach to smart specialisation in which the territorial concentration of SME skills, knowledge and competences are transformed into a competitive advantage.
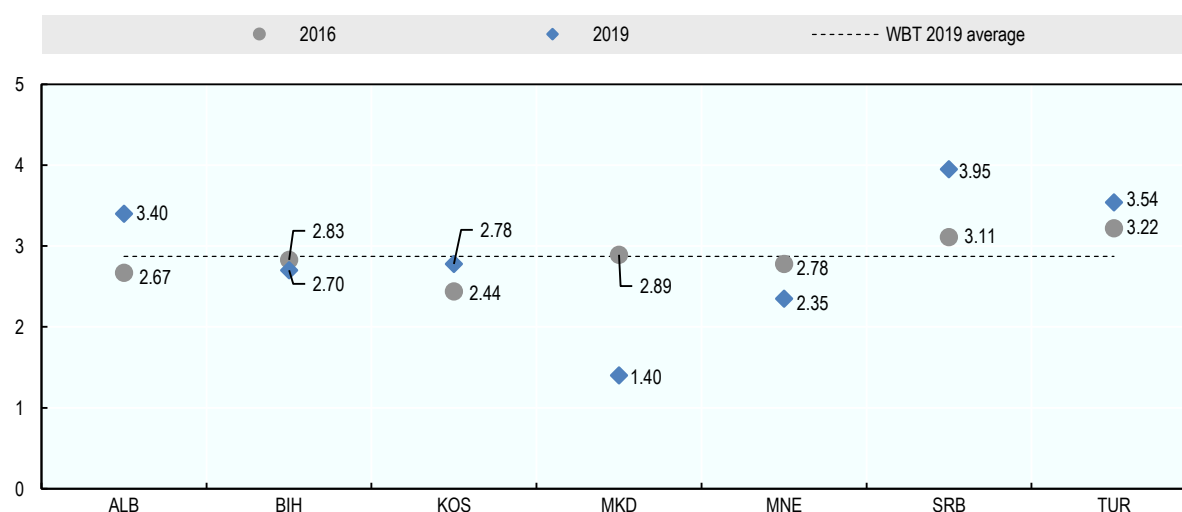
Comparison with the 2016 assessment scores

Overall the average score for the economies in the enterprise skills dimension demonstrates modest progress since 2016. Looking at the specific scores for each economy (Figure 9.1), Albania and Serbia have made a significant leap forward, with Bosnia and Herzegovina, Kosovo,[*] Montenegro and Turkey making more modest progress. The Republic of North Macedonia has a lower score than in 2016 due to a

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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.

change of government – the relevant institutional arrangements and mechanisms for supporting enterprise skills are still to be reactivated.

Figure 9.1. Overall scores for Dimension 8a (2016 and 2019)

Note: The comparison of scores between the 2016 and 2019 assessments should be interpreted with caution because of the change in assessment methodology and the introduction of new questions. 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

Table 9.1 summarises to what extent the WBT economies have implemented the recommendations of the 2016 SME Policy Index.

Table 9.1. Implementation of the SME Policy Index 2016 recommendations for Dimension 8a

Overall 2016 recommendations	SME Policy Index 2019	
	Main developments during the assessment period	**Regional progress status**
Identify a co-ordinating body for skills intelligence	- Little progress has been made in developing institutional co-ordination for monitoring data on SME skill needs. - Albania, Bosnia and Herzegovina, Montenegro and North Macedonia still have no formal institutional co-ordination mechanisms. - Only Turkey has established a new institution in the area of skills intelligence, specifically a department under the Department of Science, Technology and Industry Education of the Ministry of Industry and Technology.	Moderate
Monitor and evaluate training at both project and system level	- All the economies require government co-financed training for SMEs to be monitored at least at the level of spending, disbursement and number of beneficiaries. - Monitoring – and especially evaluation – has not seen a lot of progress except in one economy – Kosovo. Also, North Macedonia is in the process of establishing or strengthening co-ordination mechanisms between the public and private sectors and civil society, which will lay the foundation for strengthened monitoring and evaluation in the future.	Limited

(Co-)develop e-training services with training providers and academia	- E-training for SMEs is not widely available across the region. Only Serbia, Turkey and Kosovo provide publicly funded e-training. - Turkey continues to stand out for its e-training provision to SMEs through its SME Development and Support Organisation's (KOSGEB) online training platform, where 35 online training programmes in 6 categories are available free of charge to registered SMEs.	Limited

Introduction

Small and medium-sized enterprises (SMEs) make up the lion's share of businesses in the Western Balkans and Turkey (WBT). The ability of SMEs to add value, create employment and spearhead innovation depends on skilled human capital. Skills policies that target SMEs are important for economic growth, and investment in human capital is a key resource for competitiveness (EC, 2010[1]; EC, 2016[2]).

Enterprise skills are important for improving the performance of the business sector. Employers generally lack sufficient high-quality skills, particularly for growing enterprises and export-oriented companies (Gribben and Lasku, 2013[3]). For example, the most recent European Company survey (Eurofound, 2013[4]), in 2013, found that four in ten European Union (EU) employers, the vast majority of them SMEs, reported difficulties finding the right skills when recruiting. This is a result of the weak response of the education and training community to the interests and needs of SMEs.

Many changes are being driven by digital and other new technologies, and by new business models. The skills forecasting model of the European Centre for the Development of Vocational Training (Cedefop) predicts that in the future about 85% of all EU jobs will need at least a basic level of digital skills (Cedefop, 2019[5]). Technological evolution entails changes in occupations as old skills become obsolete or automated while new skills are needed. The WBT economies will need to modernise by investing in the workforce through high-quality training to ensure that they stay competitive in global markets. Having access to the right high-quality skills – at the right place and the right time – will be essential for SME competitiveness, whether starting out or scaling up. Workforce skills alone cannot reduce the skills mismatch and boost competitiveness, however. The managers of SMEs themselves, in particular the smaller companies and start-ups, could also be greatly helped by improving their skills.

Effective policy making for business development requires systematic intelligence about the SME workforce to allow governments and the private sector to establish the necessary policies, support structures and training measures. Poor skills intelligence on the other hand leads to mismatches between the supply and demand of skills (Gribben and Lasku, 2013[3]).

Addressing skills mismatches cannot rely solely on more and better systems and tools to forecast skills needs, however. Improving policy co-ordination and synergies, particularly among the government bodies responsible for education, training and the economy, will be important (Gribben and Lasku, 2013[3]). A variety of actors will need to collaborate to ensure that education and training provision matches the skills needs of SMEs.

Continued improvement of the skills of both managers and staff will be necessary to sustain jobs and to grow businesses. SMEs need to be able to access skilled staff as well as on-the-job-training so that they can update the skills of their existing employees, including managers, and make effective use of their full potential.

The Small Business Act for Europe (SBA) assessment analyses the progress economies have made and makes recommendations on areas of further improvement. This chapter examines the policy context supporting enterprise skills and reflects on the progress made since the previous assessment in 2016. SMEs, particularly micro and small companies, tend to carry out less internal training and rely more on the external market than larger employers, which can be problematic if the skills they need are not available or if the training to create those skills – and information about the training on offer – is not readily

available. The chapter concludes with key recommendations to move forward in these areas.
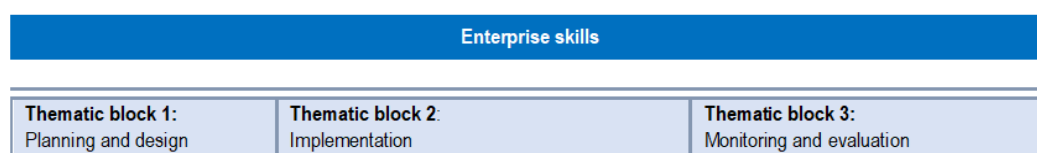
Assessment framework

Structure

The assessment framework for enterprise skills is divided into three thematic blocks (Figure 9.2): planning and design (30% of the total score), implementation (50% of the total score) and monitoring and evaluation (20% of the total score).

The first thematic block considers whether there is a skills intelligence framework within the overall national policy design and planning, and what methods are in place to analyse the skills needs of SMEs. Within the implementation thematic block, the assessment mainly covers the training on offer to SMEs. Finally, the third block of the assessment examines the monitoring and evaluation arrangements for SME training and policy frameworks.

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

Figure 9.2. Assessment framework for Dimension 8a: Enterprise skills

Enterprise skills		
Thematic block 1: Planning and design	**Thematic block 2:** Implementation	**Thematic block 3:** Monitoring and evaluation

Key methodological changes to the assessment framework

The assessment framework for Dimension 8a, enterprise skills, has changed substantially since the 2016 assessment with the adoption of a questionnaire. This has brought it into line with the wider SBA assessment methodology introduced in the 2016 assessment for the other dimensions. A group of experts from the seven economies contributed to the revision process and agreed which areas the assessment should focus on. The former five-step level indicators (SME skills intelligence, training for start-ups, training for enterprise growth, e-training and training for internationalisation) have been integrated into the questionnaire, while the quality assurance indicator has been dropped from this assessment.

The current assessment focuses more heavily on SME skills intelligence and how it is used for policy design and the development of new training programmes. The assessment of the training offer includes new categories, including start-up training as well as training for SMEs with growth potential and training on green and digital skills. In line with the EU accession requirements, the assessment also considers to what extent training for SMEs is part of the Economic Reform Programme (ERP).[1] The assessment also includes a new question on the adoption of the smart specialisation[2] approach, with the aim of increasing the importance of skills and human capital development in the innovation policy dialogue.

Analysis

The private sector is the main contributor to economic output in all the economies in the Western Balkans and Turkey. The fundamental problem holding back the region's economic development is low productivity. SMEs dominate the private sector and account for about two-thirds of value added on average. They also provide a large share of employment, ranging from just below 70% in Bosnia and Herzegovina and 73.5% in Turkey, to more than 80% in Albania (Sanfey and Milatovic, 2018[6]). SMEs are therefore essential for creating jobs and boosting productivity, growth and competitiveness. Education and training, especially when effectively tailored to the specific needs of entrepreneurs and their staff, will be key to honing the competitive edge of SMEs.

Although SMEs are generally less innovative than large enterprises, some are highly innovative with productivity levels above those of large companies (OECD/LEED, 2018[7]). Many new business ideas are emerging in the digital and green economies. When appropriately used, education and training can fuel SME innovation in these domains. Due to their small size, SMEs find it difficult to meet their education and training needs and invest significantly less in skills development than their larger counterparts. Therefore, they depend on the labour market to supply them with qualified labour. SMEs' inability to invest in skills, combined with labour market mismatches, erodes their innovation potential across sectors, all of which require different sets of skills and ways of education and training. Companies which develop and use their internal strategic resources effectively – such as managerial and workforce skills, information and communications technology (ICT), research and development – and collaborate with external partners in the innovation system, have better innovation performance (OECD/LEED, 2018[7]).

For the purposes of this assessment, enterprise skills comprise business skills (e.g. marketing and finance), entrepreneurship as a key competence (e.g. creativity, innovation and risk management) and vocational skills (i.e. professional skills for specific sectors). All three areas are necessary to deliver companies' business plans and for companies to operate effectively in increasingly open economies. A company's demand for skills will change as it moves from start-up to growth phases and will also constantly evolve in response to external factors such as technological change. More ambitious businesses operating in international markets require specific knowledge and skills to meet international trading standards for their respective sectors (Gribben and Lasku, 2013[3]).

Overall, Serbia performs best in this dimension, thanks to scores that are well above average in all three thematic blocks (Table 9.2). This reflects the substantial resources the Serbian government is investing in SME support, including training services dedicated to specific target groups of SMEs and supporting different phases of enterprise development. Albania also scores above average in all three thematic blocks, while North Macedonia scores lowest across the board – most of the initiatives that would increase its score are in the pipeline but not yet in place.

Table 9.2. Scores for Dimension 8a: Enterprise skills

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	3.50	3.50	4.17	1.50	3.17	4.50	3.33	3.38
Implementation	3.50	2.50	2.25	1.50	2.00	4.00	4.06	2.83
Monitoring and evaluation	3.00	2.00	2.00	1.00	2.00	3.00	3.00	2.29
Weighted average	**3.40**	**2.70**	**2.78**	**1.40**	**2.35**	**3.95**	**3.54**	**2.87**

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

Planning and design (Thematic block 1)

Better skills intelligence is being gathered, but does not always translate into policy design

Integrated skills intelligence is one of the three pillars of the New Skills Agenda for Europe, but has long been a challenge for the economies of the Western Balkans and Turkey (EC, 2016[2]). It is generally acknowledged that better and more timely information on current and future education and training needs can help make vocational education and training policies more responsive. However, the way skills are traditionally measured is often either too specific or too aggregated, or the data are not used to inform relevant policies. Another challenge is ensuring that a broad array of potential beneficiaries have access to and use skills intelligence, and that it meets the needs of diverse audiences. In many economies the effective transmission of skills intelligence is the weak link in their skills governance systems, diminishing the returns to investment in the state-of-the-art skills anticipation and forecasting projects being implemented. Common weaknesses in integrated skills intelligence systems include a lack of appropriate data sources for decision making and policy evaluation, information asymmetries (unequal access to information), fragmentation between different layers of government, and capacity constraints (both human and financial). However, difficulties in relaying information can also reflect the limited relevance of conventional skills-forecasting methods and instruments for policy design and implementation (OECD, 2016[8]).

Most of the WBT economies have taken steps towards a more systematic approach to analysing SME training needs and translating them into concrete training provision. Perhaps the biggest leap forward has been made by Turkey, which has established a new department under the Ministry of Industry and Technology (Directorate General for Research and Development Incentives) to identify and implement training provision. SME employees are eligible for financial support from KOSGEB to cover 50-70% of the cost of the training. With the support of KOSGEB, the ministry also chairs the Entrepreneurship Council which is responsible for the system-level co-ordination of government SME skills policies and their implementation. A dedicated Directorate General is responsible for digital transformation in industry, focusing on programmes to enhance SMEs' digital skills.

In Bosnia and Herzegovina and North Macedonia, the systems for collecting data on labour demand and forecasting future skills needs are still at an early stage of development, constraining policy making. In Bosnia and Herzegovina, the Republika Srpska Chamber of Commerce continuously tracks SME manpower developments[3].

Based on this analysis, the Republic Agency for SME Development has created 10 training programmes specifically for the metal sector, which are now being provided by the Faculty of Mechanical Engineering in the University of Banja Luka. North Macedonia has recently established its Skills Observatory as a department within the Ministry of Education and Science, as well as a project to establish a web platform with information on actual higher education careers, vocational education and training (VET) and adult education programmes, job placements for graduates, etc. However, the practical use of this platform is held back by a lack of data harmonisation, limited capacity to support the development of evidence-based policy making and a reluctance by institutions to share information.

In Albania the National Employment Service implements a wider employers' survey (not solely focused on SMEs) which is carried out biennially, if donor funding is available. In Montenegro multiple organisations – including the Chamber of Commerce, the Employers' Federation, and the Employment Agency – conduct SME training needs analyses for internal purposes, but no meta-analysis has been conducted and the results from the different analyses have not been pooled into a single summary. There is no cross-institutional collaboration to identify emerging skills mismatches or tackle the causes and effects of skills imbalances (ETF, forthcoming[9]). Similar situations were found in Albania, Bosnia and Herzegovina, and North Macedonia, where the results from existing skills intelligence are not systematically used to inform public policy and funding. In Albania and North Macedonia this is due to government restructuring and the challenge of re-establishing formal mechanisms for institutional collaboration.

So far only Serbia and Kosovo have created systems to anticipate skills needs so that the education system can meet the needs of SMEs in the labour market. Both economies also use skills intelligence to inform policy and programming and their respective Economic Reform Programmes.

Across the Western Balkans and Turkey there is an understanding that maximising SMEs' potential to drive growth and create jobs requires consistent, reliable and up-to-date intelligence on skills requirements and gaps. Volume considerations (i.e. the total number of staff required) from employers and industry are simply not enough. The challenge is to map all data sources, combine data, and manage multiple sources to develop the evidence base for smart specialisation.

Implementation (Thematic block 2)

Start-ups have access to more training, but it is not always tailored to their needs

Start-ups in the EU have a low survival rate: typically less than half of all enterprises started in 2010 were still active in 2015. Survival rates among the WBT economies compare well with the EU: the survival rate in North Macedonia is slightly higher than the EU average (52.6% in 2014), while those for Kosovo (63.4% in 2014) and Turkey (66.6% in 2015), place them near the top performers in the EU (Eurostat, 2018[10]). Supporting start-ups on their entrepreneurial journey is essential to increasing their long-term viability. Start-up training makes entrepreneurs better prepared and gives them more confidence to succeed and to grow their business. Growing businesses are more likely to create jobs (Van den Eynde, forthcoming[11]).

All the economies in the WBT have started to invest more in financial and non-financial support for start-ups. A number of economies have created specific funds to support them financially. For example, both the Start-Up Fund managed by the Albanian Investment

Development Agency (AIDA) and Kosovo's new Fund for Innovation and Technology Development recently organised open calls to fund a selected number of start-ups in the ICT and technology sector. However, most of the economies need to make more effort to make training provision (including mentoring and coaching) a precondition for receiving grants or loans. This is already the case in Montenegro, where the Employment Agency trains the unemployed in self-employment skills, and potential entrepreneurs in basic entrepreneurship skills. Entrepreneurs must participate in the training in order to qualify for credit support.

Government-financed training programmes for start-ups exist in almost all economies, except Kosovo and North Macedonia, where non-financial support is mainly donor driven. To improve the efficiency and effectiveness of public and private training provision, start-up training should be targeted more closely at the specific needs of entrepreneurs, and where they are on their entrepreneurial journey. Policy makers in all the economies should pay attention to the different categories of entrepreneurs when allocating resources: from the "wannabe" entrepreneurs who need help with their business idea, to the early-phase start-ups that need support to make their business sustainable, and the "up-starts" that need a push to scale up their business (Van den Eynde, forthcoming[11]).

While it will be important for economies to address all these categories in their training programmes for start-ups, policy makers might also decide to prioritise "scale-ups" – young but established companies that want to grow into thriving medium-sized enterprises – since they have the greatest impact on the growth of the economy. A next step would then be to start paying attention to the training offered to "restarts", those whose businesses have failed but who want to start again (for more information, see Chapter 2 on bankruptcy and second chance for SMEs). They need specific support linked to the social and psychological effects of business failure.

Most economies (with the exception of Montenegro and North Macedonia) have specific training programmes targeted at young entrepreneurs (under 30). In Serbia, the Youth Caravan project financed by the Serbian Development Agency gives young people legal advice and support to develop a business plan. In Turkey, youth start-ups can benefit from the Individual Young Entrepreneurs Support organised by the Scientific and Technological Research Council of Turkey (TÜBİTAK). Targeted training for women entrepreneurs is available in North Macedonia, Serbia and Turkey, while Kosovo has a quota for women in every call for start-up training. None of the economies so far offer specific training for older entrepreneurs (aged over 50).

The emerging digital and green economies are opportunities for SMEs

The digital economy refers to all the economic activities enabled by ICT through the use of the Internet, mobile technology, big data and the Internet of Things. Across the WBT economies, digitalisation – transforming business processes or activities by leveraging digital technologies – is acknowledged to be one of the main drivers of change, disrupting traditional industries and labour markets and acting as a source of new opportunities for SMEs. Digitalisation is driving the emergence of new business models which may enable firms to scale up very quickly, often with few employees, tangible assets or geographical market presence (OECD, 2017[12]). The adoption and effective use of ICT hardware and software are forms of business innovation in themselves, but are also a prerequisite for and further driver of other forms of business innovation (OECD/LEED, 2018[7]).

Turkey has established a new department within the Ministry of Industry and Technology that is responsible for digital transformation in industry. The Department of the 4th Industrial Revolution under the Directorate General for R&D Incentives works specifically on enhancing SMEs' digital skills. The ministry has prepared a digital transformation roadmap for Turkey's manufacturing industry which focuses on strengthening the education infrastructure and workforce training, and supporting the digital transformation of SMEs, among other things. Kosovo has made good progress in supporting SMEs in the digital economy. Its Economic Reform Programme reflects the importance of SMEs in the digital economy and the Ministry of Economic Development is looking to implement a project to broaden access to and use of ICT. Kosovo has made a wide range of training on digital skills available to SMEs, including online training, the costs of which are partly covered by the Ministry of Innovation and Entrepreneurship.

North Macedonia has not yet recognised the role of SMEs in the digital economy at policy level, but its new National Council for ICT, established in February 2018 and tasked with developing a National ICT Strategy, offers an opportunity to do so and to promote digital skills and use of ICT by SMEs as a critical factor for success in innovation, competitiveness and growth.

Serbia is the only economy which provides training to support SMEs operating within the EU Digital Single Market. Serbia's other support measures for SMEs in the digital economy included a call in 2017 for participation in Create Life, a support programme for innovative micro, small and medium-sized enterprises (MSMEs) and entrepreneurs. The Create Life programme's objective was to strengthen the innovation capacity of MSMEs in order to increase their competitiveness. It was implemented by the Development Agency of Serbia in partnership with regional development agencies and provided support for businesses to improve existing technological processes and products and develop new ones, and to purchase national and small patent rights and patent documentation.

The green economy refers to sustainable economic activities that aim to reduce environmental risks and generate sustainable job opportunities. "Growth potential" SMEs are likely to take up opportunities in new domains such as the green economy (OECD, 2013[13]) (for more information, see Chapter 11 on SMEs in a green economy). However, only two economies, Montenegro and Turkey, currently have national policies that recognise green skills. In Turkey, the United Nations Industrial Development Organization (UNIDO), in partnership with the Global Environment Facility, is promoting affordable and scalable solutions to move to cleaner, more resilient economies through the Global Cleantech Innovation Programme. Implemented in collaboration with the Ministry of Industry and Technology and co-ordinated by TÜBİTAK, the programme provides training to SMEs and start-ups on renewable energy, energy efficiency, energy production from waste, water efficiency and green buildings. A key component of the programme is the annual competition-based accelerator, which identifies the most promising innovators and entrepreneurs across the country (UNIDO/GEF, 2017[14]).

Smart specialisation strategies will highlight the need to improve workforce and SME skills

Smart specialisation is part of the EU's cohesion policy and aims to boost growth and jobs by enabling regions to identify and develop their areas of competitive advantage. It is a strategic way to create productive collaboration between actors with the aim of stimulating innovation-driven growth. It requires all actors to work together across all

levels. Skills contribute to smart specialisation more widely than just through knowledge production. Human capital, knowledge dissemination and transfer, and support for entrepreneurship are all key elements of smart specialisation.

Since 2014, smart specialisation strategies have been a condition for regions in EU Member States to qualify for funding from the European Regional Development Fund. To date, EU Member States and regions have developed over 120 smart specialisation strategies. All the WBT economies are working with the European Commission (EC) to implement smart specialisation, starting with familiarising themselves with the approach. Turkey is the most advanced in implementing smart specialisation, with Montenegro and Serbia not far behind.

Montenegro, Serbia and Turkey are the first economies to begin to implement smart specialisation in the region. Turkey is the only economy which has adopted a subnational (regional) approach to smart specialisation, with all the others taking a national approach. In Turkey the specialisation framework has been adapted into "results oriented programmes" which all regions must develop from 2019 onwards. In February 2017, Serbia opened Chapter 20 of its negotiation of the EU *acquis* (on enterprise and industrial policy). In April 2018, the EC recommended Serbia should develop a comprehensive industrial policy based on EU principles and using the findings of the smart specialisation analysis. Serbia has also started developing a new sector-based industrial strategy; it should step up this work by enhancing its administrative capacity and taking into account the findings of its smart specialisation analysis (EC, 2018[15]). The EC also recommended in April 2018 that Montenegro include smart specialisation under Chapter 25 of its negotiation (on science and research) and develop a smart specialisation strategy. Montenegro is currently preparing the strategy with the EC's support, and has established an inter-ministerial working group for this purpose, including business, academia and non-government organisations. At this stage, the main sector priorities are sustainable agriculture and energy, ICT, manufacturing, and health and wellbeing; tourism is a cross-cutting priority (EC, 2018[16]).

Albania, Bosnia and Herzegovina, Kosovo, and North Macedonia began implementing smart specialisation in 2018. In Albania, Kosovo and North Macedonia, smart specialisation also falls under Chapter 25. The EC recommended Kosovo should increase government spending on research and seek to stimulate investment from the private sector by using the findings of a smart specialisation strategy currently being developed. In North Macedonia, preparations have only just begun for a smart specialisation strategy and sector-specific scientific priorities. The recommendation is to develop a smart specialisation strategy to underpin national research and innovation strategies and policies. In Albania, the process of drafting a smart specialisation strategy has started under the lead of the Ministry of Education, Sports and Youth and the first analysis is expected to be completed by the end of 2018.

Although vocational education and training has an important role to play in innovation and smart specialisation,[4] most EU Member States currently focus on higher education and only a handful include VET and skills in their innovation clusters and strategies. In implementing smart specialisation, the WBT economies are also focused on higher education rather than education and training provision more broadly. This approach does not reflect the renewed focus on the importance of skills and human capital in smart specialisation, nor the push by the EC to link VET to innovation systems and to include skills intelligence and skills matching, in line with the New Skills Agenda. Smart specialisation needs to be accompanied by improved workforce and SME skills as labour

market requirements change, and the use of new technologies increases. Omitting skills from the smart specialisation analysis (assets, capabilities and bottlenecks) risks creating skills mismatches, reducing the competitiveness of SMEs and hindering economic growth.

As the WBT economies press ahead with implementing smart specialisation, this will create an opportunity to develop a shared vision across policy areas (such as economic, industrial and digital education policies). The challenge of skills will be brought to the forefront in Montenegro and Serbia first, as they implement the Entrepreneurial Discovery Phase of smart specialisation in the second half of 2018. This phase requires the strong engagement of companies and industry and is known to highlight skills, such as workers' expertise and the ability of workers to adapt to new working practices and advanced product design.

Monitoring and evaluation (Thematic block 3)

Monitoring and evaluation are too fragmented to inform policy design

Monitoring and evaluation of SME skills policies are separate but complementary practices to collect and process information about the how far policy measures have been implemented and whether they have achieved the expected results. Monitoring captures data on progress made against set targets and evaluation uses the monitoring data to understand whether the policies have had the desired effect. Both are critical in building a strong evidence base for understanding SME skills needs and for assessing the diverse range of interventions being implemented to address them. Monitoring and evaluation are critical to developing objective conclusions about policies' results and impact – and key to identifying the most valuable and efficient use of resources. Together, they provide the necessary data to guide strategic planning, design and implement projects and policies, and allocate and reallocate resources in better ways.

In all the WBT economies, both policy makers and the training community demonstrate growing awareness of the value of monitoring and evaluating SME skills policies. There is also a general recognition of the need to strengthen overall collaboration among stakeholders for more effective cross-institutional sharing of data and knowledge as a prerequisite for effective monitoring and evaluation. However, in most of the economies (Albania, Bosnia and Herzegovina, Kosovo, Montenegro, and North Macedonia) the data produced and collected are of limited value as monitoring continues to be confined to project or ministry level and not shared with stakeholders. In Albania the government monitors the Competitiveness Fund which requires beneficiary SMEs to demonstrate the impact of the project funded within two years of its completion. In 2017, an independent evaluation of all AIDA support funds was carried out which provided overall recommendations and specific recommendations for all funds. In North Macedonia, the Ministry of Economy plans to establish an integrated performance management system, in line with the recommendation of the State Audit Office for improving the quality and quantity of SME data, although any results have not yet been made public. In general, all of these economies struggle with using and interpreting the data they have for policy development, and lack system-level monitoring and particularly evaluation capacity.

Serbia and Turkey have the most developed monitoring of SME skills policy implementation in the region – Serbia through the Development Agency of Serbia and Accredited Regional Development Agencies, and Turkey through KOSGEB and TÜBİTAK. The Development Agency of Serbia conducts an evaluation of training needs

which is used to improve training delivery and introduce new training (e.g. e-business training). The Ministry of Economy, in co-operation with other institutions, prepares annual reports on SME support and reports on the implementation of the SME strategy. Despite this progress, monitoring and data collection in Serbia are divided across different public agencies, with no official co-ordination structure to oversee, monitor and evaluate all SME skills' development programmes and measures.

Turkey is the only economy in the region with a dedicated body for monitoring and evaluating SME skills. KOSGEB has responsibility for system-level monitoring and collects information to assess progress towards the achievement of the policy objectives, outcomes and impacts of the Entrepreneurship Strategy and Action Plan. Each year KOSGEB delivers a consolidated progress report to the Entrepreneurship Council. However, while the monitoring data are published in the Annual Activity Reports, access to evaluation results remains limited; they are available under the overall framework of the Entrepreneurship Strategy and Action Plan, and through a number of programme-based reports such as the European Bank for Reconstruction and Development's Finance and Advice for Women in Business Programme (EBRD, 2019[17]).

The way forward for enterprise skills

In moving forward, the economies of the Western Balkans and Turkey should consider the following recommendations:

- **Designate a body to strengthen SME skills intelligence.** The recommendation from the last SBA assessment to strengthen skills governance systems still stands. Regular and reliable data on SME skills are vital if policy makers are to align their economy's human capital base with its economic structure – and will be particularly critical in moving forward with smart specialisation. A designated body responsible for generating better and more timely information on SMEs' current and future training needs would close information gaps and help ensure policies respond to these needs. This body's role would be to fill the transmission gap and ensure all actors have access to appropriate information that meets their needs. It would also monitor the implementation and results of policy measures. For such a co-ordination body to function efficiently, it needs appropriate funding and human capacity. Its key partners would include the ministries of economy, education and labour, statistical offices, employment services, SME agencies, regional development organisations, chambers of commerce, innovation agencies and education and training providers.

- **Build SME skills into smart specialisation strategies**. As the economies move forward with smart specialisation, they will need to develop a vision for skills. The development of smart specialisation niches will start to affect demand for labour. It will become increasingly important for workers to have the right expertise and be able to adapt to new working practices and advanced product design. This will apply to businesses throughout the supply chains. The economies will need to adapt their education and training policies and investments accordingly. Addressing the skills needs of SMEs will mean increasing flexibility in education and training provision, raising questions about skills governance and the way economies collaborate across and between administrative levels. VET providers will need to be engaged in the dialogue if they are to translate changes in business sectors into education and training provision that meets SMEs' labour force and lifelong learning needs.

- **Refine and better target the training offer.** Economies like Turkey, where SME skills intelligence is already well developed, could make more effort to analyse the current supply of training by type of demand and consolidate the training offer by linking different suppliers and programmes. For example, in the area of SME internationalisation, there is an opportunity to make existing programmes more comprehensive (see Box 9.1), and the supply of programmes more effective and efficient, by improving co-ordination among providers and support opportunities (see Box 9.2).

- **Make training offer relevant for local growth and competitiveness.** Decentralising the implementation of training policies would make it easier to tailor them to local needs. Micro enterprises in particular are heavily dependent on their regional environment, where proximity plays a key role in innovation, particularly the spread of tacit knowledge. SMEs need policy support to enable them tap into outside resources, principally access to knowledge in the form of advice through innovation support services and tailored counselling, technology or qualified human capital, to face up to the new forms of competition that are developing in the global economy (EC, 2012[18]). VET providers could take on additional roles such as supporting start-ups and SMEs, providing innovation services, contributing to regional development by aligning regional and national priorities.

Box 9.1. Turkey's Ex Point Programme: helping SMEs internationalise through training

In 2009, the Ministry of Trade and the Turkish Exporters Assembly drew up the 2023 Turkish Exports Strategy. Its objective was to increase exports by 12% annually with the wider goal of ensuring Turkey becomes one of the world's 10 largest economies by 2023, accounting for 1.5% of global trade. The core features of the strategy include shifting production from low-tech sectors to high value-added areas and achieving new investments in high-tech sectors. This has significant implications for SMEs.

In order to reach its goals, the Ministry of Trade relies on evidence-based policy making, based on provider-driven training needs analyses which are collected, analysed and disseminated upwards through the chain of governance to inform policy makers about SME skills needs.

The Ex Point Programme by Zobu Consulting is a 6-12 month mentoring programme, supported by the Ministry of Trade, that directly contributes to the success of Turkey's export strategy by aiming to increase both the number of exporting SMEs and the volume of exports by SMEs. The training programme provides mentoring support to companies with an interest in extending into international markets in key sectors such as automotive, maritime, plastics, heating, ventilation and air-conditioning. It also helps existing exporters to improve their performance. To date, the training programme has engaged with 74 SMEs with a total of 90 staff; established 13 000 contacts with potential buyers, resulting in 400 international orders; and helped 14 SMEs start exporting and 25 SMEs improve their export activities.

The Ministry of Trade continuously engages with training providers, allowing policy makers to close the policy loop and learn where their investments have the desired

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impact, so they can focus public effort where it adds most value.

Source: ETF (2018[19]), *Turkey: Helping SMEs Internationalise Through Training*, www.etf.europa.eu/en/news-and-events/news/turkey-helping-smes-internationalise-through-training

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Box 9.2. Building the international capacity of growth-oriented SMEs

The Middle and 1st Line Management Development Programme (MAGNA) is a management training programme delivered by Optimum Results Ltd. Ireland. It supports SMEs with the interest and potential to access international markets. The programme is adapted to each company or group of companies based on an assessment of their business performance and management skills, and comprises a mix of pedagogic approaches including workshops, sector-specific expert seminars, work-based assignments and online mentoring. The training addresses areas including international business strategy and leadership, e-marketing and social media applications, international supply chain management, and creativity and innovation. A business export plan is a core output for all participating businesses, including capacity in product-pitching for international trade shows and exhibitions.

The training has also been integrated within wider SME development programmes supported by national business development agencies and international aid organisations.

The MAGNA programme has been delivered to over 100 businesses and 1 500 managers across 9 economies in Europe and the Middle East.

Sources: ETF (2018[20]), Good practice fiche MAGNA, https://sharing.etf.europa.eu/sites/dms/ops/el/Documents/Good%20Practice%20Fiche_MAGNA.pdf; Optimum Results (2018[21]), *Optimum Results website*, http://optimumresults.ie/.

- **Boost SMEs' innovation potential by building on the digital and green economies.** These two domains could fuel SME innovation by opening up opportunities as new products, processes and techniques emerge. However, they also create threats, as new skills needs and forms of employment pose new challenges to SMEs. In order to reap the potential benefits, governments should take a proactive approach by facilitating SME access to education and training (e.g. through web platforms) and by ensuring SME skills policies respond to changes in occupations and specialised education and training needs, as well as the need for more advanced vocational skills. Meeting such skills needs will require flexibility in education and training provision. Vocational education and training should be engaged to feed changes in sectors into education and training provision. VET providers could address the horizontal (regional) requirements of the regional innovation system and meet the vertical (national) smart specialisation priorities. VET could be used as a tool to put businesses in the driver's seat for skills development, creating closer co-operation with business through in-company staff training provision and using in-company teacher training to upgrade the skills of VET teachers.

Making better use of the opportunities offered by the digital and green economies could in turn open up opportunities for international trade – a key engine for growth, but one where SMEs are under-represented. Working in international markets opens up more revenue streams for SMEs and as a result provides more employment and tax revenue for the government. Government bodies should work with the training community, particularly in sectors with export potential, to improve the provision and quality of training in the digital and green economies, with a particular focus on accessing EU markets. This should include a review of digital skills capacity of SMEs to allow them to participate in the EU's digital single market.

The Austrian Economic Chamber's SME DIGITAL programme, a new digitalisation programme in co-operation with the Federal Ministry of Economic Affairs, offers an example of how SMEs can be supported in seizing the business opportunities arising from digital transformation. First, it offers the SMEs an online status check, to determine how digital their business is. This analysis tool allows companies to carry out a quick initial check to identify their digital starting place. The programme also includes financial support, consulting services, events, webinars, analysis tools and training programmes (UEAPME, 2018[22]).

- **Build the systems and capacity to monitor SME skills policies and policy interventions** within the priority areas identified in the smart specialisation strategies. Smart specialisation cannot happen without suitable and continuous monitoring and analytical efforts. The WBT economies' monitoring mechanisms should be able to capture the relevant changes foreseen for each smart specialisation priority through the appropriate choice of result indicators; they should also capture the policy outputs that are expected to make the planned changes happen (Gianelle and Kleibrink, 2015[23]).

Estonia's approach could offer insights into monitoring SME skills intelligence. The development of entrepreneurship skills is an increasingly important topic in Estonia. The economy has relatively recently developed an SME policy monitoring and evaluation system for its SME Strategy 2014-20, which includes entrepreneurship support schemes such as business counselling and entrepreneurship training, and a full quantitative evaluation every two years with the support of foreign experts under the responsibility of the Ministry of Economic Affairs and Communication. However, the Estonian government has made less significant progress in using skills intelligence in SME policy monitoring and evaluation to make rigorous assessments of policy effectiveness and to use the results for continuous policy improvement (OECD, 2018[24]).

Conclusions

Overall, despite the limited progress achieved by all of the WBT economies in developing enterprise skills, they have taken some positive steps to improve SME competitiveness and sustainability through their growth phases and technological change.

All of the WBT economies have improved their statistical foundations for analysing companies' skills and continued their efforts to streamline the sharing of information and data. Moreover, they have all recognised the importance of supporting SMEs' ability to trade with the EU Single Market. Implementation of smart specialisation has brought skills to the top of their strategic agendas.

Nevertheless, better monitoring of SME support programmes will be needed to enable decision makers to identify successful and less relevant support measures. Training should particularly focus on supporting SMEs operating within the EU Digital Single Market.

There are currently no examples to learn from in EU or OECD countries, as they have treated skills as an afterthought and are only now considering them in more depth. It is therefore up to the WBT economies to show the way forward and establish good practice.

Addressing the recommendations proposed in this chapter will support the relevant decision makers and institutions in the WBT economies in building SME skills into smart specialisation strategies, as well as boosting the SMEs' innovation potential.

Notes

[1] Since 2015, all EU candidate countries and potential candidates develop ERPs to prepare for their future participation in the EU's economic policy co-ordination procedures (EC, 2018[30]). The ERPs are a key element of the "fundamentals first" approach of the EU's enlargement strategy (EC, 2018[31]). ERPs play a key role in improving economic policy planning and steering reforms to sustain macroeconomic stability, boost competitiveness and improve conditions for inclusive growth and job creation (EC, 2018[30]).

[2] Smart specialisation originated in the EU as a concept for stimulating innovation-driven regional growth. Smart specialisation strategies are about enabling regions to turn their assets, strengths and competitive advantages into marketable goods and services and, ultimately, economic growth. Human capital, knowledge dissemination and transfer, and support to entrepreneurship are all key elements in the successful implementation of smart specialisation strategies.

[3] 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.

[4] The Copenhagen Process (2002) and the Riga Conclusions (2015) underscore the role of VET and skills in the European growth and jobs agenda. The Copenhagen Process focuses on innovation in skill formation and drives forward EU-level co-operation. These are further reiterated in the Riga Conclusions which call to strengthen co-operation in VET and boosting employability and competitiveness.
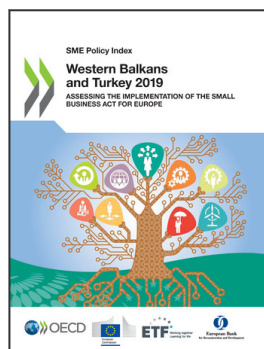
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