

SME Policy Index 2014

Monitoring the implementation of the small business act and the EDIF technical assistance component in the pre-accession region

19 April 2012

BACKGROUND

Small enterprises are the backbone of the EU pre-accession economies in the Western Balkans and Turkey. They make a major contribution to job creation and economic development and are behind the expansion of the services, construction and transport sectors that are driving economic growth in the region. Clusters of small enterprises moving into higher value added operations are emerging, spreading innovation throughout many parts of the region. SMEs represent around 99% of all enterprises in the region.

The SME Policy Index

The SME Policy Index is a benchmarking tool for EU pre-accession economies in the Western Balkans and Turkey to monitor and evaluate progress in implementing the policies defined in The Small Business Act for Europe (SBA). The SBA is a wide-ranging set of pro-enterprise measures designed to guide the design and implementation of policies. The OECD Investment Compact for South East Europe develops the Index in a joint effort with the European Commission (EC), the European Bank for Reconstruction and Development (EBRD) and the European Training Foundation (ETF).

Two issues of the SME Policy Index are available for 2007 and 2009 based on the European Charter for SMEs and the latest issue will be available in autumn 2012 based on a modified assessment grid structured around the ten principles of the Small Business Act for Europe (which replaced the SME Charter).

SME Policy Index Methodology and Process

Methodology

The SME Policy Index is based on the broader Investment Reform Index methodology and construction, and adapted to the Small Business Act (SBA) for Europe. This methodology consists of creating a detailed assessment grid, based on a key pan-European or pan-OECD policy document, in

this case the SBA. The ten principles of the SBA are broken down into over 100 policy indicators, each indicator structured around five levels of policy reform, with 1 the weakest and 5 the strongest. The policy development path for each indicator is typically structured as follows:

- Level 1: There is no law or institution in place to cover the area concerned;
- Level 2: There is a draft law or institution, and there are some signs of government activity to address the area concerned;
- Level 3: A solid legal and/or institutional framework is in place for this specific policy area;
- Level 4: Level 3 + some concrete indications of effective policy implementation of the law or institution;
- Level 5: Level 3 + significant record of concrete and effective policy implementation of the law or institution. This level comes closest to good practices identified as a result of the EU SBA process and the OECD Bologna Process.

Scores of indicators are aggregated and averaged and one single score per economy per SBA policy principle is obtained. These scores can easily be compared across the region, in order to identify strengths and priority areas for reform.

Process

The scores are collected through two parallel, but separate assessments: the assessment grid is filled out by the partner organisations - based on desk research, research by local consultants, and interviews with the private sector – *and* by the governments of the region, who conduct “self-assessments”, by filling out the assessment grid in consultation with various ministries and government agencies.

A series of stakeholder meetings are subsequently held in each beneficiary economy to discuss and compare the two parallel assessments. The meetings are typically attended by 40-70 SME policy stakeholders, including ministries and government agencies, international donors, civil society, the academic community, NGOs and private sector representatives. At these meetings discrepancies between the two parallel assessments are discussed, information gaps filled, and draft scores presented.

Based on the information gathered at the stakeholder meetings, the partner organisations decide on the final draft scores. These are discussed at a final regional meeting and finalised.

The findings and scores are subsequently published in a regional report, the *SME Policy Index*.

Distribution of responsibilities between partner organisations

The overall process is co-ordinated by the OECD, including organising key regional meetings, aggregating the various assessments, and co-ordinating the publication process. However, each partner organisation is responsible for the analysis of different policy principles of the SBA: the ETF co-ordinates the work on the human capital related principles, the EBRD the work on access to finance, the EC the work on trade standards and public procurement, and the OECD the remaining policy principles.

SME Policy Index 2014

The SME Policy Index 2014 aims to continue the SME policy monitoring through a second SBA assessment-cycle, thereby providing a measurement of progress in policy-implementation through time (2010 – 2014). It also aims to sustain the positive reform momentum and support the regional dialogue between SME policy makers in the region.

The SME Policy 2014 will also include a new work-strand: monitoring progress in policies to support innovative and high growth enterprises in order to provide guidance to the technical assistance component of the Western Balkans Enterprise Development and Innovation Facility (EDIF).

EDIF, set up by the European Investment Fund, the European Commission and the EBRD is a comprehensive set of measures to improve access to finance for high-growth and innovative SMEs in the Western Balkans. Besides providing funds and guarantees, EDIF will provide technical assistance to improve the operational environment for innovative and high-growth SMEs in the Western Balkan economies.

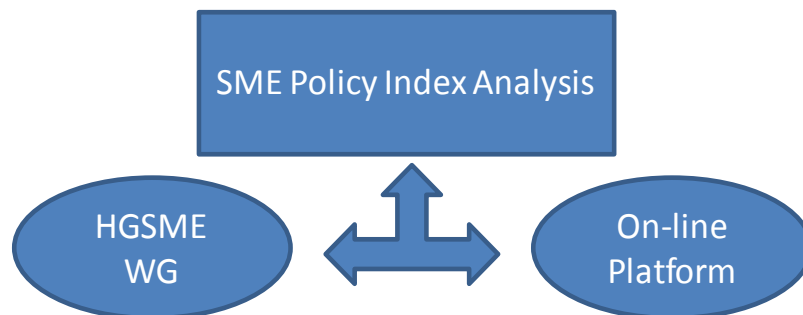
Linking the SME Policy Index to EDIF will ensure longer term tracking of reform progress for innovative and high-growth potential SMEs in the region, which are most relevant to EDIF. Regular monitoring cycles (also to be supported by the work on the Investment Reform Index carried out by the OECD separately) can ensure measurement at regular 2-3 year intervals. The results of the monitoring would be reported back to EDIF's Advisory Board.

In addition to monitoring progress in policies to support innovative and high growth enterprises, the SME Policy Index 2014 will include a number of new features. These include:

- An enhanced emphasis on monitoring the implementation of SME policy measures. This will include the revision of the current SME Policy Index, expanding levels 4 and 5 of the indicators, in order to gain a deeper understanding of the degree and quality of implementation of the policy measure in question; and/or the application of an additional OECD tool, which measures the extent to which beneficiary countries themselves monitor the implementation of their policy measures. This tool would be applied to a selected number of measures that are of particular relevance to innovative and high-growth SMEs.
- An additional element of donor mapping and detailed review of SME policy related publications by other international organisations (e.g. World Bank Doing Business Report,

EBRD Transition Report) to complement the SME Policy Index methodology and enhance the policy prioritisation potential of the tool.

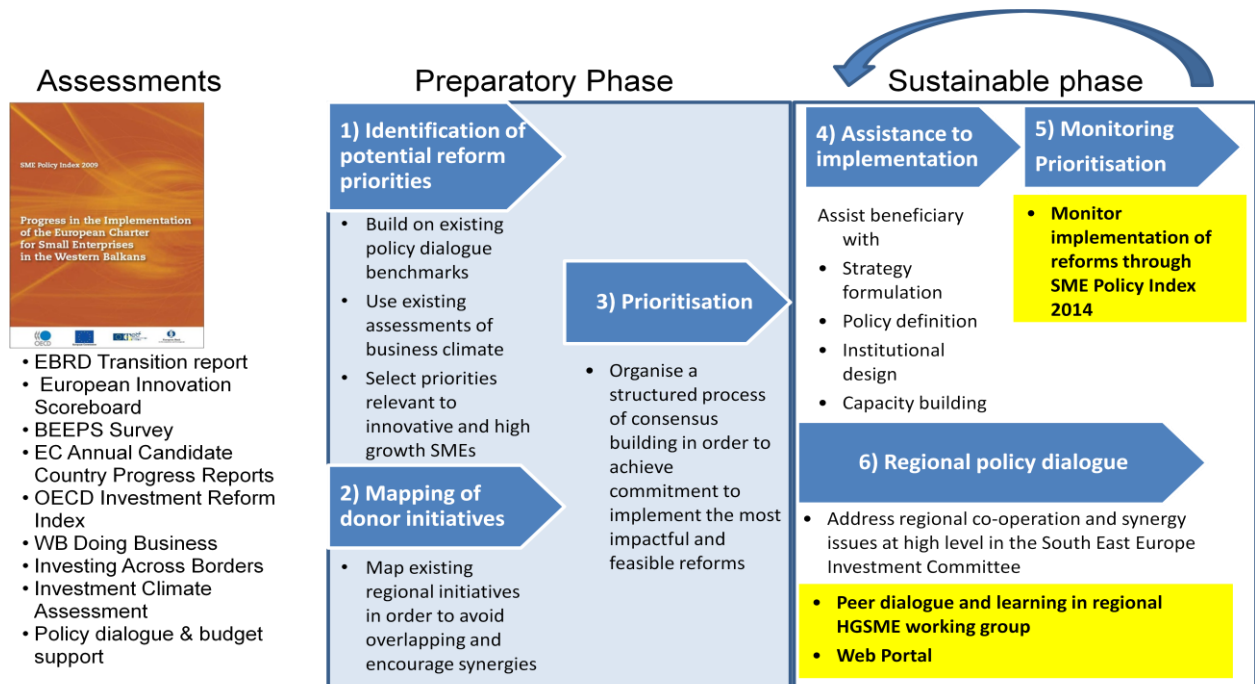
- A thematic chapter in the final SME Policy Index 2014 publication that examines good practices and policy issues in an area of particular relevance to high-growth and innovative SMEs, such as: networking, exporting, skills, or the labour market .
- An extensive regional company survey, identifying key barriers, as well as policy options for high-growth and innovative SMEs.
- A regional Working Group on HGSMEs will be established. This working group will not only consist of the National SBA Co-ordinators, but also the Ministries/Agencies in charge of implementing the EDIF TA priority projects. These meetings will provide opportunities for peer learning and good practice exchange in implementing reforms for HGSMEs.
- An interactive on-line platform, containing the SME Policy Index assessment, including scores and donor mapping, will be published. The platform will provide an additional forum for SME stakeholders to discuss amongst each other, comment on and update key elements of the analysis, such as the donor mapping. Documents from the working groups would also be available on the platform.



The additional meetings and the on-line platform will ensure that the momentum gained through the SME Policy Index assessment is upheld and spread throughout the region amongst SME policy stakeholders. In addition, it will enable peer learning amongst practitioners involved in implementing HGSME reforms. Whereas the analysis will form the basis for discussions in the on-line platform and the HGSMEs Working Group, both forums will feed into the analysis, by providing additional empirical evidence.

Synergies between SME Policy Index methodology and EDIF technical assistance component

We propose to position the SME Policy Index as the cornerstone monitoring and prioritization tool for EDIF. A synergetic approach is planned, whereby the results of the SME Policy Index identify the priority reforms for Western Balkan governments for HGSMEs, these are then implemented under the EDIF TA component, and a renewed SME Policy assessment measures the progress in the implementation of these priorities and sets priorities for the future. The following simplified diagram, portrays the synergetic approach, which also ensures sustainability in the medium-term.



- Before EDIF, several assessments measured reform achievements and remaining policy gaps in various aspects of business environment for SMEs. The SME Policy Indices 2007, 2009, and 2012 have demonstrated the effectiveness of this tool to improve the business climate overall, including for HGSMEs. Alongside with the SME Policy Index, other assessments from the EBRD, the EC, the OECD and the World Bank also shed light on the subject.
- In the preparatory phase during 2012, the Investment Compact is running a project which will deliver a short list of reforms prioritised and agreed upon by the Western Balkan governments. Those reforms will be chosen to have maximum impact on HGSMEs, and will result from a collaborative selection process which identifies potential reform priorities from existing assessments, maps current donor initiatives, and consults stakeholders in country round tables.
- In the sustainable phase of the EDIF Policy Framework, technical assistance is provided to support governments in the implementation of the agreed-upon reforms. The new enhanced SME Policy Index becomes now the main monitoring tool, and the HGSME working group and associated Web Portal ensure regional best practice sharing. In this way, the monitoring and implementation of the SBA and its principles will enhance the regulatory and operational environment for those SMEs targeted by the EDIF TA component.

Distribution of responsibilities between partner organisations

The distribution of responsibilities between the four partner organisations will not change under the SME Policy Index 2014. All four organisations will be involved in the enhancement of their respective indicators and design and analysis of the survey. Regarding the thematic chapter, the expertise of the partner organisations will be leveraged. For example, if skills will be chosen as a topic, ETF will have a strong involvement.

PROJECT OBJECTIVES AND DELIVERABLES

The objectives of the SME Policy Index 2014 can be summarised as follows:

Overall objectives:

- Providing an assessment of the progress made in the implementation of the ten policy principles covered by the SBA since the 2012 assessment.
- Measuring a baseline to monitor progress in policies to support innovative and high growth enterprises in order to provide guidance to the technical assistance component of EDIF.
- Promoting the exchange of experiences in policy elaboration and implementation among the pre-accession economies and the OECD countries – particularly for high-growth and innovative SMEs – through a regional high-growth and innovative SMEs Working Group;
- Providing a policy focus on selected areas covered by the SBA that are of particular relevance to high-growth and innovative SMEs through focus groups and/or company surveys;
- Facilitating policy dialogue and programme co-ordination involving policy-makers, private sector organisations, NGOs and donors (IFIs, multilateral and bilateral organisations), through regional meetings and an interactive on-line platform;
- Presenting results of the policy evaluation exercise in a Report on the Implementation of the SBA and the EDIF Technical Assistance Component.

Specific objectives:

- Developing an improved monitoring tool, based on the lessons learnt from the application of the SME Policy Index in 2010-2012 and based on the requirements of the EDIF technical assistance component;
- Implementing the SME Policy Index assessment through a government self-assessment and an independent assessment conducted by local experts and the partner organisations;
- Conducting a company survey to identify key barriers, as well as policy options for high-growth and innovative SMEs;
- Conducting a donor mapping and revising key SME policy related publications of other international organisations;
- Holding a stakeholder plenary meeting in every beneficiary economy to discuss the assessment and EDIF technical assistance component;
- Establishing a regional Working Group on high-growth and innovative SMEs to facilitate policy dialogue and peer learning;



INVESTMENT COMPACT FOR SOUTH EAST EUROPE

- Setting up an on-line platform for SME policy stakeholders to discuss key SME policy issues and update the analysis;
- Developing a regional report, which summarises the findings from the assessment and provides regional and country-specific recommendations;
- Disseminating and presenting the regional report to promote discussion and policy debate.

Wider Outcomes:

- Improving the business environment and enhancing functioning market economies through the implementation of the principles of the Small Business Act;
- Enhancing cooperation in the region through sharing experiences and mutual learning, based on the benchmarking exercise and the dissemination of good practices, and enhanced competitiveness, in particular for SMEs;
- Improve the implementation of the acquis communautaire of Chapter 20 (Enterprise and Industrial Policy).
- Creating a dynamic entrepreneurial environment, which enables conditions for successful starts-ups and development of competitive firms that create new jobs and strengthen economic and social cohesion.

SME POLICY INDEX 2014 – DRAFT TIMELINE

Phase I – Elaboration of a new set of indicators and monitoring tools, increasing the emphasis on measuring the implementation of SME policy measures and the focus on HGSMEs.

Phase II – Cross country policy evaluation based on the new set of indicators and monitoring tools, including an assessment of the implementation of the EDIF TA projects. Set-up of the Web portal

Phase III – Organisation of a company survey in all the beneficiary economies and integration of results of the company survey into the evaluation exercise.

Phase IV – Consultation with the governments and stakeholder in the region.

Phase V – Elaboration and publication of the regional report.

Phase VI – Dissemination and presentation of the regional report.

Month/Phase	1	2	3	4	5	6	7	8	9	10	11	12		
Phase I	■	■	■											
Phase II			■	■	■	■	■	■	■					
Phase III			■	■	■	■	■	■	■					
Phase IV			■	■	■	■	■	■						
Phase V						■	■	■	■	■	■	■		
Phase VI											■	■	■	■
Working groups				■			■			■			■	