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Newsletter

[FOCUS ARTICLE] Shaping the future of SMEs

Building a smart and sustainable innovation system in the Western Balkans

The Situation of SMEs in the Western Balkans

Small and Medium-sized Enterprises (SMEs) are the backbone of the economy in the Western Balkans. These businesses contribute to the economic performance and sustainable and inclusive development of societies. They are engines for growth, innovation and social integration. And perhaps most importantly, job creation.

The EU has long been helping SMEs overcome challenges they face, such as access to finance, and in creating a more favourable financing environment. In the wake of the ongoing COVID-19 pandemic this support is more important than ever. The region's SMEs were hit hard by these challenges, which negatively affected their liquidity, and now the recent increases in inflation and energy costs risk limiting SMEs' recovery.

Across the Western Balkans and the EU as a whole, up to 99% of all enterprises are small or medium sized. They employ between 60% and 80% of the active population, which is on average higher than in the EU.

Yet, despite huge potential, SMEs continue to face many obstacles. This limits their ability to become more competitive, particularly at an international level.

- One major challenge for small businesses is accessing the finance they need to develop and grow. Many banks are reluctant to lend to SMEs, perceiving many to be risky.
- Regulatory and administrative burdens are also a big issue. This creates barriers to starting and growing a business.
- Companies lack capacity to sustain business, grow, adapt and develop.
- As elsewhere, many small businesses across the Western Balkans took a severe hit from the COVID-19 pandemic.

Small businesses need continued support to recover from the economic downturn and help them to grow to the best of their potential.

The [OECD reports](#) that about half of enterprises in the Western Balkans had to suspend their business activity temporarily due to COVID-19. Nevertheless, the number of SMEs per 1000 inhabitants rose by 13% over the last couple of years while governments expanded their range of advisory services and trainings (including on digitalisation), in order to help SMEs weather the crisis. At the same time pandemic lockdowns accelerated firms' adoption of



digital technologies, including by SMEs, which increasingly integrated online sales channels. Environmental aspects have rarely been included in post-COVID recovery programmes, pointing to a lost opportunity to enhance SME greening. While SMEs are receiving more support to help grow exports and shift to higher value-added activities, a more systematic approach is needed.

EU response in support of SMEs in the Western Balkans

Creating a thriving environment for SMEs is at the forefront for EU investment and policy support in the region. The EU promotes reforms and dialogue to build a more business-friendly environment.

The EU is also behind a number of initiatives that aim to make it easier for SMEs to access finance in all phases of their lifecycle, notably through the [Western Balkans Investment Framework \(WBIF\)](#) and its support to the private sector - the [Western Balkans Enterprise Development and Innovation Facility \(WB EDIF\)](#).

The [Single Market Programme](#) (SMP) is the EU funding programme to help the single market reach its full potential and ensure Europe's recovery from the COVID-19 pandemic. With €4.2 billion over the period of 2021-2027, it provides an integrated package to support and strengthen the governance of the single market. The Single Market Programme is a modern, simple and flexible programme, which consolidates a large range of activities that were previously financed separately, into one coherent programme. This will reduce overlaps and improve coordination.

The single market has been at the heart of the EU for nearly 3 decades. It enables citizens to live, work and travel wherever they wish, and offers consumers protection and greater choice of high-quality products and services at lower prices. Through legal certainty, access to markets and financial services, investment opportunities and access to funding, the single market is also a launch pad for our companies. However, the pandemic showed that the single market is yet to materialise in a number of areas and can improve in others, and that a well-functioning single market is crucial for the resilience of our economy.

Despite some positive strides, there is still much to do to unlock the full potential of SMEs in the Western Balkans. The EU's [Economic and Investment Plan for the Western Balkans](#) (EIP) plans a substantial increase in grants for private sector support, with a focus on innovation and green growth. The new [Instrument for Pre-accession Assistance \(IPA III\)](#) will support the implementation of the EIP for the Western Balkans, aiming to boost the long-term economic recovery of the region, support a green and digital transition, and foster regional integration and convergence with the European Union. The EIP sets priorities for private sector and SME development in the years to come, with support to focus on:

- **Access to finance** - Unlocking adequate finance for SMEs to create and grow business. A combination of guarantees, loans and venture capital should reinforce an innovative and business-friendly ecosystem in the region.
- **Growth potential** - Supporting start-ups and SMEs in strategic sectors with growth potential - as identified by the countries for improving the business ecosystem.
- **Entrepreneurship support and education** - Supporting financial and digital upskilling, digitising of companies, incubators and business advisory support. Grant actions support specific groups who may find it difficult to reach their full potential, notably young people and small companies.

Furthermore, it needs to be ensured, that all enterprises compete under the same market conditions in addition to enhancing operational and institutional frameworks for SMEs, such



as strengthening the rule of law, fostering transparency of business operations, ensuring regulatory stability, combatting corruption and improving the overall quality of public governance. SME data collection should be expanded and regular evaluations ensured. Finally an expanded regional co-operation represents a unique opportunity for Western Balkan economies to scale up and boost growth by making the most of intensified economic integration. Through resource- and knowledge-sharing networks, together with an enhanced regional trade, they are more likely to increase their productivity and competitiveness. Strengthened economic integration will also result in greater resilience to external difficulties.

Regional and European dimension of SME policy and ongoing support

The EU has launched various instruments to help SMEs access finance, notably financial instruments (loans, guarantees and venture capital) and grants (collaborative actions and the SME instrument) in order to recover and build up the resilience after the Covid-19 crisis.

Within the framework of the new **EU funding programme for research and innovation, [Horizon Europe](#)**, SME funding has a special status. Almost 50 percent of the programme budget is earmarked for activities close to the market and for the participation of industry and SMEs. The funding instruments under the EIC cover the entire innovation chain - from basic research to manufacturing to market maturity of the product. The target group is highly innovative SMEs, including start-ups or scale-ups. In some cases, they can also receive funding as individual applicants.

After a two-year pilot phase, the [European Innovation Council \(EIC\)](#) now has its own work programme under Horizon Europe. The EIC is intended to ensure that Europe's research activities and innovations give rise to new companies that can quickly operate on a larger scale (scale-ups). It now brings together the previous specific funding instruments for high-risk, visionary and breakthrough ideas from basic research to commercialisation. This includes, for example, the "[EIC Accelerator](#)". It is aimed at SMEs with growth potential that pursue long-term innovative and risky ideas with European added value and already have market experience.

Outside Horizon Europe, The [Single Market Programme](#) focuses on strengthening the governance of the internal market, supporting the competitiveness of industry and in particular of micro, small and medium-sized enterprises (SMEs). The programme brings together [6 predecessor programmes](#), notably the grants and contracts part of COSME (the EU programme for the [Competitiveness of Enterprises and Small and Medium-sized Enterprises - COSME](#)), programmes on consumer protection, consumer and end-users in financial services, specific activities in the field of financial reporting and auditing standards, measures promoting human, animal and plant health and animal welfare and establishing the framework for financing European statistics.

Other **SME funding programmes** such as [EUREKA Eurostars](#), the [LIFE programme](#) or the "[Cascade funding](#)" offer numerous opportunities to participate in transnational cooperation projects.

The [National Contact Points \(NCPs\)](#) network is a valid asset in the region to receive support from. NCPs are people nominated by the national authorities in Member States and Associated Countries to provide assistance to potential Horizon Europe applicants in their economies, in partner and call search as well as consultation and training.

The European Commission has just launched two videos for stakeholders, giving a deeper insight into [how National Contact Points \(NCPs\) help Horizon Europe applicants](#) and [how](#)



[Horizon Europe benefits SME's](#). SME's in the Western Balkans are now eligible for EU funding under Horizon Europe. Have a look and get inspired!

Further information on the individual SME funding programmes:

The national and European programmes listed below are either aimed exclusively at SMEs or are structured in such a way that they are particularly suitable for SMEs.

- [European Innovation Council \(EIC\)](#)

Programme to promote long-term innovative and risky ideas with European added value.

- [EIC Pathfinder](#)

Aims to implement radically new technology concepts in the long term.

- [EIC Transition](#)

Aims to further develop promising results from EIC Pathfinder projects and the European Research Council (ERC)

- [EIC Accelerator](#)

Funding instrument for innovative SMEs an consists of two variants: "Accelerator Open" (bottom-up) and "Accelerator Challenges" (top-down).

- [EUREKA Eurostars](#)
- [DIGITAL Europe Programme](#)

Improves European competitiveness in the digital economy and promotes technological independence through investment and innovation.

- [Erasmus for Young Entrepreneurs](#)

Gives new or aspiring entrepreneurs the chance to learn from experienced entrepreneurs running small businesses in other Participating Countries.

- [IraSME](#)

Supports SMEs in their transnational innovation activities, helps them to acquire technological know-how, extend their networks and bridge the gap between R&I.

- [Connecting Europe Facility \(CEF2\) Digital](#)

Strengthens investments in digital infrastructures from 2021 to 2027, in particular for cross-border connectivity and in socio-economic areas such as schools and hospitals, but also to increase the EU's competitiveness.

Other Key contacts and partners

- [SME Performance Review | Internal Market, Industry, Entrepreneurship and SMEs](#)
- [European Investment Fund](#)
- [European Investment Bank](#)
- [European Bank for Reconstruction and Development](#)
- [Western Balkans 6 Chamber Investment Forum](#)

For more information on news and opportunities for SME's in the Western Balkans, visit the Western Balkans Info Hub portal within the [Supporting SME Innovation](#) section!