

Topic 3:

BUSINESS ENVIRONMENT AND INNOVATION POTENTIAL IN WB6: ROLE OF SMEs

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STATE OF PLAY

The Western Balkan (WB) region's intensive trade, business relationships, and commerce relationships constitute a pillar of the region's stability and security. In a recent interview, Slovenia Foreign Minister stated that his country's government views its 5 billion Euro trade relationship with the WB region as one of the implicit pillars of stability and that commerce plays an important role in the country's foreign policy apparatus. This sentiment is seldom echoed in the high-level policy discussions addressing the WB region.

At the same time, the region suffers from unprecedented unemployment, poverty and inequality rates seen almost nowhere else on the European continent since the end of World War II. Unemployment in the WB region is rampant and ranges from 18% to 35%, well above the EU average of 9%¹. Youth unemployment in some countries exceeds a striking 60%, nearly three times the EU average.

1 http://ec.europa.eu/eurostat/statistics-explained/index.php/Enlargement_countries_-_labour_market_statistics#Unemployment_rates

The investment, business, and innovation climate in the WB region is dismal. Most of the countries in the region, with the exception of former Yugoslav Republic of Macedonia and Serbia, do not enter the top 50 countries when ranked by ease of doing business, competitiveness and innovation². Foreign direct investments are low and follow the previously mentioned trends and rankings. GDP per capita spans from 27% to 41% of the EU average, while most of the region's countries' export portion of their respective GDP is below the EU average. To add to this, emigration levels from the region are alarmingly high. This brain-drain directly compromises future prospects for the region, yet this and other related issues are not readily addressed by the governments, nor are they present at the high-level policy discussions.

To turn the tide, the policy discussion on the WB region should address this untapped economic, business, innovation, entrepreneurship, and trade potential. There are many different sectors through which commerce, trade, and business issues could take a front seat in relevant policy discussions addressing the WB region. Here are three such areas of interest that could put a spotlight on developing the competitiveness of the economies of the Western Balkan region through associated action, cooperation and harmonization of activities that address the needs and requirements of entrepreneurship, commerce, trade and business in general.

1. *Culture and creative industries* represent an extensive economic asset and a valuable source of creativity and innovation. According to the European Parliament's report on EU Policy for Cultural and Creative Industries (June 2016), Cultural and Creative Industries (CCIs) have become high-capacity engines for economic growth, representing 11.2% of all private enterprises and 7.5% of all employed persons. Beyond their significant economic contribution, CCIs have built a bridge between arts, culture, business and technology. However, CCIs' potential and economic benefits remain poorly exploited, while the sector has struggled to attract investors and has suffered from legislative hindrances such as intellectual property rights and varying tax regimes.
2. *Social economy and social enterprises* represent a fundamentally new way of doing business and, as such, they have the potential to profoundly transform the socio-economic landscape of the region. Social enterprises are playing an increasingly prominent role in Europe due to their ability to address some of its major challenges. The WB region similarly faces a need to foster sustainable and socially inclusive economic growth and to create jobs. Social enterprises achieve this by combining these societal goals with the entrepreneurial spirit, helping their societies reach wider social, environmental or community objectives. Additionally, a well-developed social economy has the potential to attract significant-impact investments and patient capital to the region. Currently, there is neither a clear policy framework nor a systemic eco-system that supports development of social enterprises in the region. Building such support structures should definitely become a policy consideration of the WB countries.

2 <http://www.doingbusiness.org/-/media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB17-Chapters/DB17-Country-Tables.pdf>

3. *Entrepreneurship and innovation* are drivers of the development of small and medium enterprises (SME) in innovative, high value-added sectors, high-tech industries with low barriers of entry. A growing number of entrepreneurs use market-based solutions to solve critical problems in their environments. These entrepreneurs create jobs for local economies, make connections to regional and global markets, and increase access to critical goods and services for underserved communities. However, they face several barriers. A lack of business development services such as incubators, mentoring and training schemes, and investment readiness support has been identified as one of the biggest barriers to the development of entrepreneurship and to bringing innovations to market.
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TOPICS FOR DISCUSSION

- ✓ How can we put more focus on economic and trade relationships among the WB countries in high-level state meetings?

 - ✓ What structures and support mechanisms can spur development of entrepreneurial initiatives especially in cross-border cooperation in cultural and creative industries?

 - ✓ What changes can we make to our regulatory and tax framework to enable innovation and entrepreneurial action especially among unemployed youth? What reforms in the educational sector would potentially contribute to achieving higher levels of youth engagement in entrepreneurial initiatives and start-ups?

 - ✓ How can we improve access to finance for the region's most prosperous SMEs and social enterprises? What means are there to use to attract impact investors to the region?

 - ✓ How do we use our common cultural heritage and similarities to spur innovation and cross-border collaboration that could lead to substantial economic gains for all parties involved?
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POTENTIAL RECOMMENDATIONS

- ✓ Cooperate with OECD and EU bodies to develop inclusive innovation and entrepreneurship policies;

 - ✓ Improve the regulatory and tax framework for SMEs, social enterprises and other entrepreneurial initiatives;

 - ✓ Map existing ecosystems for key actors and work on creating inter-country links among the existing hubs and incubators;

 - ✓ Create innovation, social economy, SME, and creative industries regional clusters;
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- ✓ Develop and launch a Social Business Initiative (SBI) for the Western Balkans modelled after the EU's 2011 SBI;

- ✓ Improve the investment environment into the SME sector and attract impact investors for social businesses to enable innovators and enterprises to access needed capital;

- ✓ Enable development of financial intermediaries for the SME, social enterprises, innovators, and creative industries;

- ✓ Introduce the Social Investment Fund for the Western Balkans, impact bonds, guarantee facilities and other payment-by-results instruments;

- ✓ Stimulate cross-border activities and networking for innovators as well as social, creative and traditional entrepreneurs;

- ✓ Remove or lower market entry barriers for SMEs that pursue innovation, social enterprises, high-value sectors;

- ✓ Enable cooperation among traditional and social enterprises to aid development of a social economy sector;

- ✓ Enable public-private partnerships that facilitate the pursuit of innovation and stimulate development of creative industries including social enterprises as potential vehicles for such development;

- ✓ Develop a regional platform for the pursuit of commerce, excellence in innovation, funding and access to market initiatives.
