

Executive summary

Over the last four years, the five countries of the Eastern Partnership (EaP) – Armenia, Azerbaijan, Georgia, the Republic of Moldova and Ukraine – have experienced major socio-economic and political shocks, above all the COVID-19 pandemic and Russia’s war of aggression against Ukraine. The outbreak of the pandemic in early 2020 caused an unprecedented health crisis, with a spike in mortality estimated at close to 320 thousand excess deaths across the region. EaP governments issued stay-at-home orders, restricting mobility, social interactions and economic activities to contain the spread of the virus and rolled out important fiscal stimulus measures to mitigate the economic impact of the pandemic on households and businesses. Nevertheless, a large economic contraction occurred across the region, with EaP economies contracting between -3.8% and -7.2% of GDP in 2020.

As EaP economies rebounded, the war in Ukraine put the region at the epicentre of another shock in February 2022, which caused a significant slowdown in global growth and severely challenged the trajectory of economic recovery in the region. For Ukraine, the war represents a human tragedy on a scale not seen in Europe in decades, with tens of thousands dead and millions of refugees escaping or being internally displaced. Ukraine’s productive capacity and trade relations have been devastated, causing GDP to fall by around 29% in 2022. Direct spillovers from the war also affected Moldova heavily via a large influx of refugees, an energy crisis and soaring inflation. By contrast, economies in the South Caucasus have performed better than expected in 2022, due to high prices and global demand for hydrocarbons (Azerbaijan), and a significant influx of mostly skilled labour from Russia providing a short-term boost to domestic consumption and workforce development (Armenia, Georgia).

Against this challenging backdrop, supporting the development of small and medium-sized enterprises (SMEs) has become more important than ever to building more resilient and sustainable EaP economies. Crucial job creators, flexible innovators and the largest group of business entities, SMEs can serve as engines of economic transformation and a major channel through which the local socio-economic fabric adapts to global trends. In EaP countries, SMEs represent over 98% of enterprises, 60-80% of employment (except for Azerbaijan) and around half of total value added. However, most SMEs in the region are subsistence micro-entrepreneurs operating in low-value-added sectors and with limited propensity to export, so their potential to act as agents of growth and innovation remains largely untapped and calls for renewed efforts to create a better policy environment for new business creation, growth, innovation, and internationalisation.

This edition of the SME Policy Index shows how SME policy frameworks have evolved across the EaP region since the beginning of 2020. It provides an updated assessment of progress along twelve policy dimensions, as well as a description of country-specific challenges and recommendations for further reform. For the first time, the assessment includes an analysis of policies for the digital transformation of SMEs, which is vital to building a stronger and more resilient SME sector, especially since the COVID pandemic pushed many firms online for the first time to experience first-hand the value of digital technologies.

While country-specific challenges and suggested reforms are outlined in detail in the following chapters, this report identifies some key recommendations that are relevant across the EaP region:

- **Further enable and support the digital transformation of SMEs.** Business digitalisation requires governments to work both on broad, fundamental enabling factors for the development of the digital economy, as well as on providing specific support measures for SMEs. On the former, EaP countries should prioritise enhancing broadband connectivity to address remaining digital divides across individuals and firms, and step-up their efforts to build digitally literate societies by promoting the development of digital skills at all education levels and as part of lifelong learning. On the latter, EaP governments should design dedicated initiatives to support SME digitalisation, encompassing both the adoption of digital technologies and the development of a digital culture inside firms, while also raising awareness for the importance of digital security.
- **Continuously update the institutional setting for SME policies, taking into consideration each country's specificities.** Medium-term strategic frameworks for SME policy, developed in consultation with a multitude of stakeholders, offer governments an important compass to identify emerging challenges for SMEs and to design targeted solutions to address them. Regularly updated action plans with clearly identified costs and implementation responsibilities empower institutional actors and provide certainty about the resources available. Different models can emerge for SME agencies to manage the delivery of support services for SMEs: smaller countries with a relatively limited community of support service providers may choose to have a strong role in the direct management and delivery of support programmes, while larger countries with a vibrant community of non-governmental service providers could opt for a more decentralised approach, acting as a platform and leveraging the capabilities of other actors in the ecosystem.
- **Ensure that SMEs have access to key resources to start, develop and grow their businesses.** As access to finance remains a challenge for SMEs, EaP governments should work to ensure that smaller firms are not disproportionately penalised by their size-related factors. This entails, for instance, improving enforcement conditions for secured transactions to lower the overall risk and cost of lending and enforcement processes, or establishing support mechanisms for developing growth stage funding for start-ups, since the venture capital industry in the region is still in its infancy. Similarly, EaP countries should encourage the development of an entrepreneurial mindset throughout society, creating conditions in which individuals are more likely to start a business based on an identified opportunity than because of a lack of alternative employment options. Embedding entrepreneurship in school curricula and deepening the co-operation between schools and SMEs could help, as would complementary efforts to help SMEs enhance the skills of their managers and employees in response to changing labour market needs. Finally, EaP governments could promote SME access to and participation in public procurement by improving e-procurement options and building the skillset of procurement officers in contracting authorities.
- **Develop regulations in an SME-friendly and competitive manner, responding to emerging trends.** Legislative simplification should remain a priority and regulatory policy should be mindful of the potential impact of new regulations on SMEs. To this end, EaP countries should prioritise the implementation of regulatory impact assessment procedures with the adoption of "SME tests" specifically conceived to evaluate the likely consequences of new policies on smaller firms. This is key to design effective regulatory environments, ranging from taxation to environmental regulations. Similarly, the emergence of a new set of digital financial services calls for a regulatory and supervisory approach based on multi-stakeholder consultations, as well as dedicated skills and resources (e.g., sandboxes, innovation offices) to address the related challenges.
- **Sustain SME competitiveness through the entire life cycle of the business.** Governments in EaP countries have done much to simplify the operational environment for SMEs, in particular when it comes to opening a business and offering e-government services. Entrepreneurial risk-taking could be further encouraged by creating more efficient and predictable insolvency and second chance frameworks allowing honest entrepreneurs who have gone bankrupt a fresh start. Productivity levels, however, remain generally low and demand a constant improvement of the human and technological capital employed by firms. For SMEs, often constrained by lack of

knowledge, time, and resources, EaP governments should further refine their support programmes aimed at increasing their access to training opportunities, managerial advice, as well as dedicated financial tools to invest in new equipment, experiment with new technologies, and sustain the extra costs to enter new markets. This is particularly relevant to ensuring that SMEs are not left behind in the transition to more digitalised and greener economies.

- **Consolidate monitoring and evaluation frameworks for more robust evidence-based policy making.** While governments in EaP countries have embraced regular monitoring practices of their broad SME policy documents and initiatives, rigorous evaluations of their impact on actual SMEs' economic performance remain very rare. As a first step, embedding clear and measurable key performance indicators in the policy cycle through publicly available policy documents would allow for a transparent reporting of governments' activities against their own targets. Furthermore, detailed analyses using more granular, firm-level data comparing beneficiaries' performance against valid control groups would allow to gauge the impact of the support provided on the performance of participating companies. The information thus generated would also be key to estimating the economic additionality of the specific support programmes and could feed back as an important input for their future adjustments. Finally, nationwide outcome-oriented statistical indicators, regularly produced by the statistical offices, would also offer a broader view of how public policies are impacting different thematic dimensions of the performance of the business sector (e.g., innovation, environmental, internationalisation).



From:
SME Policy Index: Eastern Partner Countries 2024
Building Resilience in Challenging Times

Access the complete publication at:
<https://doi.org/10.1787/3197420e-en>

Please cite this chapter as:

OECD/European Bank for Reconstruction and Development (2024), "Executive summary", in *SME Policy Index: Eastern Partner Countries 2024: Building Resilience in Challenging Times*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/a311da19-en>

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area. Extracts from publications may be subject to additional disclaimers, which are set out in the complete version of the publication, available at the link provided.

The use of this work, whether digital or print, is governed by the Terms and Conditions to be found at <http://www.oecd.org/termsandconditions>.