

# Executive summary

SMEs play a crucial role in Armenia's economic landscape, comprising nearly 99.9% of all enterprises, collectively contributing to 69.5% of total employment, and generating up to 66.2% of the value added to the economy. Yet, despite their prevalence, a significant portion is concentrated in low value-added activities, with over half operating within the wholesale and retail trade sector.

Amidst recent economic disruptions – notably the impact of the COVID-19 pandemic and the unresolved conflict with Azerbaijan – Armenia has demonstrated remarkable resilience, experiencing steady growth since 2020. This development, fuelled by an influx of migrants, businesses, and capital following Russia's full-scale invasion of Ukraine, positioned Armenia as the fastest-growing country in Eastern Europe and Central Asia in 2022, achieving a 12.6% GDP expansion. The country's information and communications technology (ICT) sector grew by 20% and generated 4.5% of Armenia's GDP in 2022 – largely boosted by the relocation of Russian IT specialist and enterprises.

Digitalisation – or the integration of digital technologies, data, and interconnections into business processes – holds tremendous potential for Armenian SMEs to enhance their operational efficiency, innovate in product and service delivery, expand their market reach, and, in turn, increase productivity. However, small businesses encounter numerous barriers to the adoption of digital tools, underscoring the need for targeted policy interventions. In this context, Armenia has placed significant emphasis on digital transformation, adopting various policy documents targeting digitalisation as well as on small and medium entrepreneurship. In 2021, the government approved the Digitalisation Strategy of Armenia for the period 2021-2025 (DSA), aimed at establishing a solid foundation for the digital transformation through a collaborative, multi-stakeholder approach. Nevertheless, despite the active engagement of various institutions, challenges in co-ordinating business development and digitalisation efforts persists, as recent shifts in institutional arrangements have negatively affected the delivery of SME support services.

SMEs exhibit a low level of digitalisation compared to larger enterprises across different sectors. Survey data from the World Bank shows that while a high percentage of SMEs in Armenia incorporate computers into their operations and have access to the internet, adoption rates vary across sectors and enterprise sizes. Smaller enterprises prioritise the integration of basic technologies in areas such as supply chain management and customer relations, while larger SMEs focus on digitalising functions like accounting and human resource management. A gap also persists in the adoption of advanced solutions, such as specialised software and cybersecurity measures.

Several obstacles hinder the digital transformation of SMEs in Armenia. These range from limitations in digital infrastructure, such as unreliable internet connectivity, notably in rural areas, incomplete regulatory frameworks, and low level of digital skills among the workforce and the general population. Additionally, the absence of sector-specific support makes it challenging for SMEs to design and implement digital strategies tailored to their needs. Insufficient awareness about available digital solutions and their benefits, coupled with financial constraints, hinder SMEs' ability to invest in digitalisation. Moreover, the inadequate level of digital skills among the workforce further complicates the integration of modern technologies into SME operations, and the absence of strong incentives and limited access to affordable advisory services deter digital transformation efforts. Obstacles such as complex e-signature processes and cybersecurity

concerns also hinder e-commerce development across sectors. Finally, resistance to change and a preference for traditional methods pose significant cultural barriers to digitalisation, particularly among the elderly workforce, creating a negative impact on the integration of digital tools into SME workflows.

Proactive policy measures and collaboration between government, private sector, and non-governmental stakeholders are needed to facilitate digital transformation and unlock SMEs' potential. Building on Armenia's existing policy efforts, this report provides key recommendations based around three main components:

- **Improving the framework conditions for SME digitalisation.** The establishment of the Digitalisation Strategy of Armenia (DSA) signals a commitment to enabling strategic digitalisation efforts. Strengthening the DSA's monitoring framework by ensuring comprehensive data collection and seamless co-ordination among stakeholders is crucial to improve the evaluation process and facilitate successful implementation. Furthermore, incorporating dedicated Key Performance Indicators (KPIs) and targets into Armenia's new Entrepreneurship Development Strategy would help establish a systematic framework for monitoring and evaluating the implementation of proposed measures for SME digitalisation and digital skills enhancement. Concurrently, strengthening the regulatory framework for digitalisation is key. To this point, ensuring the full implementation of relevant measures outlined in the Action Plan for the SME Development Strategy 2020-2024 will foster e-commerce growth among SMEs. Further alignment of regulatory standards on e-signatures with international standards and cybersecurity legislation with EU directives would contribute to laying a foundation for interoperability with global digital systems. The Government of Armenia could also establish a national certification scheme for digital security to bolster SMEs' cybersecurity readiness. Improving digital skills assessment and anticipation tools would be a good starting point to support digital skills development. Introducing new training programmes, raising awareness on the benefits of digital skills, and establishing a framework to track the effectiveness of available programmes while ensuring the engagement of relevant stakeholders and fostering co-ordination between public and private initiatives are all essential to bolster digital skills development.
- **Building a structured system for SME digitalisation support.** A pivotal step in strengthening SME support involves the establishment of an implementing agency to act as a digital one-stop-shop, providing a comprehensive range of SME development services. Such an agency could play a critical role in translating strategic priorities into actionable measures, acting as a central co-ordinating body and information centre for SME support, including for their digital transformation. Developing sector-specific programmes for SME digital transformation to address the unique needs of each sector would be an important second step. Finally, providing financial support for advisory services and technological upgrades through various instruments, including grants and vouchers, loan guarantees, interest subsidies, and cost reimbursement mechanisms, while also raising awareness about existing sources of financing, would be important to expand financial assistance and support SMEs in navigating the funding landscape.
- **Fostering synergies in the existing ecosystem.** To facilitate the digital transformation of SMEs, the Government of Armenia could consider embracing the creation of Digital Innovation Hub (DIH)-like initiatives. These hubs would serve as focal points for driving digital transformation, engaging various stakeholders and resources already available across the ecosystem. Armenia has a wide range of initiatives dedicated to advancing technological entrepreneurship, such as technology centres, accelerators, and incubators. Leveraging their expertise and infrastructure to act as digital educators would help enhance Armenia's digitalisation landscape. Facilitating SMEs' access to expertise from consulting firms and advisors will bridge awareness gaps, ensuring comprehensive support for SMEs embarking on their digital journey. Finally, encouraging local high-tech companies to serve as digital suppliers for the domestic market could facilitate access to digital technologies and solutions.

Table 2. Summary of recommendations: way forward

Objective	Recommendation	Way forward
Improve framework conditions for SME digitalisation	Adopt a strategic approach to digitalisation	Ensure effective implementation and monitoring of the DSA
		Mainstream support to SME digitalisation in the new Entrepreneurship Development Strategy
		Improve data collection on digital transformation
	Strengthen the regulatory framework for digitalisation	Ensure the full implementation of the measures included in the Action Plan for the SME Development Strategy 2020-2024
		Improve the regulatory framework on e-signatures
		Strengthen the policy framework for cybersecurity
	Support the development of digital skills	Improve digital skills assessment and anticipation tools
		Further promote digital skills development among businesses
		Ensure involvement of relevant stakeholders and co-ordination between public and private initiatives aimed at improving digital skills
Build a structured system for SME digitalisation support	Establish an implementing agency with a strong mandate to act as a digital one-stop-shop	First implementer of digital transformation policies set by the national government
		Single point of reference for businesses seeking public support to digitalise
		Key provider of information
		Co-ordinator of the resources available in the digital ecosystem
	Develop specific programmes to support SME digital transformation	Adopt a sectoral approach to facilitate advancement in digital maturity
		Develop enterprise digital maturity self-assessments
	Provide financial support for the digital transformation of SMEs	Grants and vouchers
		Loan guarantees and interest subsidies
		Cost reimbursement mechanisms for digital consulting services and trainings
		Awareness raising about existing sources of financing
Foster synergies in the ecosystem to facilitate digital transformation in SMEs	Consider embracing the creation of DIH-like initiatives	Adopting a decentralised approach, capitalising on the already vibrant digital ecosystem
	Leveraging technology centres, accelerators and incubators as digital educators	Engaging with initiatives such as Tumo Centers, ImpactAim accelerator, and Armath laboratories to design and implement tailored training programmes and developing and disseminating educational resources
	Using consulting firms and individual advisors as digital guides	Facilitating SMEs' access to the expertise offered by existing consulting firms and advisors
	Leveraging local high-tech companies as digital suppliers	Encouraging the development and implementation of tailor-made digital solutions specifically designed to meet the needs of local SMEs



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