

Foreword

We are pleased to present this fourth edition of the *SME Policy Index: Eastern Partner countries 2024*.

This Policy Index offers the latest findings on SME development and related policies in five partner countries (Armenia, Azerbaijan, Georgia, Republic of Moldova, Ukraine), and it also presents regional trends and country-specific analysis and recommendations.

This year's report arrives in a particular context, given the economic consequences of the COVID-19 pandemic and Russia's war of aggression against Ukraine, as well as the EU Membership applications in 2022 by Ukraine, the Republic of Moldova and Georgia. Small and medium-sized enterprises (SMEs) make a critical contribution to the economies and societies in the European Union and Eastern Partnership (EaP) countries. Across the Member countries of the OECD, SMEs account for more than 99% of firms, over 60% of employment and most of the value-added in the business sector. While SMEs significantly shape job market dynamics and influence economic growth, they are also a key source of innovation. Indeed, a thriving SME sector is critical for a competitive, diversified and resilient economy – one that can quickly adapt to major global trends such as demographic shifts, digitalisation, and the green transition.

Due to their more limited resources and their vulnerability to crisis, SMEs require clearly defined policy support in order to ensure their resilience to any future shocks and to unlock their full productive potential. This is particularly true for the EaP countries, given their greater exposure to the effects of Russia's invasion of Ukraine, coming on the back of the economic and social consequences of the COVID-19 pandemic. SMEs across the EaP countries represent over 98% of all firms and 60-80% of employment, yet they generate around half of the total value added of the business sector.

The SME Policy Index, which was first created in 2012, is applied to the EaP countries every four years. The Index is structured around the ten principles of the EU's Small Business Act for Europe (SBA) and incorporates the priorities laid out in the EU's SME Strategy for a Sustainable and Digital Europe and the OECD Recommendation on SME and Entrepreneurship Policy. As such, it is an important tool encouraging domestic economic reforms in countries wishing to integrate further with the European Union in the context of the EU enlargement policy. The methodology applied helps in assessing and monitoring progress, as well as identifying reform priorities for more effective, efficient and coherent SME policies by benchmarking against EU and OECD standards. A new pillar was added to the methodology in 2024, which analyses policies in support of the digital transformation.

Altogether, the *SME Policy Index: Eastern Partner countries 2024* concludes that the EaP governments have continued to demonstrate their commitment to supporting SMEs through the introduction of various reforms conducive to stable and strong business environments. Partner countries have built on the recommendations presented in the 2020 edition to improve their policy settings, albeit at different speeds and in the context of very specific challenges over the last four years. All five governments have taken important steps to provide more and better e-government services, while entrepreneurial learning is becoming increasingly common in school curricula. Opportunities to strengthen SME skills have also greatly improved. Some countries have developed dedicated programmes for the digital and green transition of the SME sector.

While significant improvements are evident, more remains to be done.

First, regulatory frameworks should be updated regularly, including through new approaches to industrial policy and through the adoption of emerging digital, environmental, social and governance standards. Conclusions from the new methodological pillar on the digital economy for SMEs point to a substantial need for support as, for example, only 57% of small firms in the EaP region have a company website versus 84% of large firms. Meanwhile, just 32% use social media, compared with 70% of larger firms. Environmental, social and governance considerations are increasingly seen as important, but they rarely feature on any occasion of information sharing.

Second, to allow more ambitious technological adoption and boost innovation, policies must go further in enabling access to finance for SMEs, helping diversify sources of finance, reducing dependence on debt, capitalising on emerging digital trends that could broaden financial access – and working to boost financial skills in SMEs. In the EaP region, the estimated financing gap for SMEs is substantial, as a 200% increase in lending would be needed to meet the needs of SMEs fully.

Third, monitoring and evaluation practices remain limited in EaP countries, and better data collection frameworks will be needed to capture the impact of policies on firms.

Finally, more targeted measures supporting the ability of SMEs to trade and integrate into global value chains could greatly benefit EaP countries, given their relatively small domestic market sizes.

We commend the governments of Armenia, Azerbaijan, Georgia, the Republic of Moldova and Ukraine for their determination to improve the policy environment for SMEs, and we look forward to continuing our joint effort in designing and implementing better policies that foster a successful transition to more productive, sustainable and inclusive business environments in Eastern Partnership countries. This will boost investments and economic development and benefit the people of the region.

The close involvement of EaP governments throughout greatly improved the report, which is the result of a collaborative effort by the Organisation for Economic Co-operation and Development (OECD) and the European Bank for Reconstruction and Development (EBRD), with the support of the European Commission (EC), the European Training Foundation (ETF), and the United Nations Economic Commission for Europe (UNECE). The views of a wide range of stakeholders, including SMEs themselves, were sought and are reflected throughout the publication

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