

# 1 Policy framework, structure of the report and assessment process

## Policy frameworks underpinning the SME Policy Index

The SME Policy Index is a benchmarking tool for assessing and monitoring progress in the design and implementation of policies for small and medium-sized enterprises (SMEs). The index was developed in 2006 by the OECD in partnership with the European Commission, the European Bank for Reconstruction and Development (EBRD) and the European Training Foundation (ETF). Since then, it has been implemented across a growing geographical area that now covers almost 40 economies in 5 regions: the Eastern Partnership (EaP), the Western Balkans and Turkey, the Middle East and North Africa, the Association of Southeast Asian Nations (ASEAN), and Latin America and the Caribbean.

For the Eastern Partner countries,<sup>1</sup> this edition of the SME Policy Index draws on the guiding principles identified by the OECD's *Recommendation on SME and Entrepreneurship Policy*, notably with regards to its principle 5 on the Digital transformation of SMEs (OECD, 2022<sup>[1]</sup>). It also embraces the priorities laid out in the EU's SME Strategy for a Sustainable and Digital Europe and is structured around the ten principles of the EU's Small Business Act for Europe (SBA), which provides a policy framework to improve SME competitiveness and promote entrepreneurship (Box 1.1).

While there are a number of other assessments of the business environment in EaP countries, the SME Policy Index adds value through its holistic approach to SME development policies, providing policy makers with a single window through which to observe progress in their specific areas of interest. Over the years, the SME Policy Index has established itself as a change management tool used by participating national governments to identify priorities and obtain references for policy reform and development.

The SME Policy Index is implemented within the EU4Business initiative. EU4Business is an umbrella initiative that covers all EU support for SMEs in the Eastern Partnership region. It breaks down barriers SMEs face in their progress – such as limited access to finance, burdensome legislation and difficulties entering new markets – using finance, support and training to help them realise their full potential. EU4Business support is delivered together with other organisations such as the EBRD and the European Investment Bank (EIB).

### Box 1.1. The Small Business Act and the SME Strategy: key policy tools for EU Member States

#### The Small Business Act for Europe (SBA)

Adopted in June 2008, the SBA reflects the EC's recognition of the central role of SMEs in the EU economy. It aims to improve the approach to entrepreneurship in Europe, simplify the regulatory and policy environment for SMEs, permanently anchor the "Think Small First" principle in policy making, and remove the remaining barriers to SME development. Built around ten principles and several concrete policy actions to implement them, the SBA invites both the EC and the EU Member States to tackle the obstacles that hamper SMEs' potential to grow and create jobs.

#### The SME Strategy for a sustainable and digital Europe

Presented in March 2020, the "SME Strategy for a sustainable and digital Europe" aims to contribute to the objectives of the European Green Deal, the Digital Decade, and other EU actions launched in the context of the twin digital and green transition, namely achieving a climate-neutral, resource-efficient, and agile digital economy by mobilising the potential of SMEs. To do so, the strategy puts forward actions based on the following three pillars: i) Capacity-building and support for the transition to sustainability and digitalisation; ii) Reducing regulatory burden and improving market access; and iii) Improving access to financing.

The strategy builds on the very strong foundations of the EU's existing SME policy framework and support programmes, notably the 2008 Small Business Act, the 2016 Start-up and Scale-up Initiative, the programme for the Competitiveness for Enterprises and SMEs (COSME), and SME support actions funded under the Horizon 2020 programme and the European Structural Investment Funds.

#### The SME performance review

The SME Performance Review is one of the main tools used by the European Commission to monitor and assess countries' progress in implementing the SBA. The review brings in comprehensive information on the performance of SMEs in EU Member States and other countries participating in the EU's dedicated programme for SMEs – COSME. It consists of two parts: an annual report on European SMEs, and SME country fact sheets. The SME fact sheets present an assessment of the progress in the implementation of the EU SME Strategy and the SBA at national level. They focus on key performance indicators and national policy developments related to SME policy.

Source: (European Commission, 2008<sup>[2]</sup>); (European Commission, 2020<sup>[3]</sup>); (European Commission, 2023<sup>[4]</sup>).

Building on the strengths of the Index and in order to address some of its weaknesses (Table 1.1) and increase its impact, this 2024 edition goes beyond the analysis of areas covered by the SBA to capture emerging economic and policy trends and priorities (i.e. digitalisation), strengthen the link between policies and economic outcomes, and finally safeguard comparability with previous SBA assessments (see Annex A, "Methodology for the Small Business Act assessment", for more information on the 2024 methodology update). Thus, the 2024 SME Policy Index includes:

- a new pillar assessing selected framework conditions for the digital transformation
- extended and amended sub-dimensions to collect relevant information
- increased focus on countries' ability to collect statistical information on outcome-oriented indicators.

Table 1.1. SME Policy Index strengths and weaknesses

Strengths	Weaknesses
Focuses on a specific region where shared history, culture and geography allow for more relevant benchmarking between countries.	Within-country differences (e.g. differences in the level of SME activity in capitals and regions) may not be adequately captured in the analysis.
Takes a participatory approach to evaluation and measurement that brings together government stakeholders, the private sector and partner organisations.	As the same set of indicators and weights is applied to all countries of the region, certain country-specific characteristics might not be given full consideration in the scoring.
Independent and rigorous assessment enables it to benchmark the performance of EaP countries against EU and OECD standards.	The weighting system for the sub-dimension scoring is based on expert opinion and therefore involves subjectivity.
Comprehensively evaluates the SME policy environment around the ten key principles of the Small Business Act for Europe.	Ensuring effective measurement of implementation and outcomes of government policy remains a challenge despite continuous work on methodology to address this issue.*
Uses country context and broader factors affecting SMEs and policy developments to complement the analysis reflected in the scores.	Remaining gaps in national statistics on SMEs in the EaP region and some divergence in definitions of SMEs undermine the comparability of data across countries.
Provides guidance on how to improve policy frameworks through good-practice examples and country-level policy recommendations.	

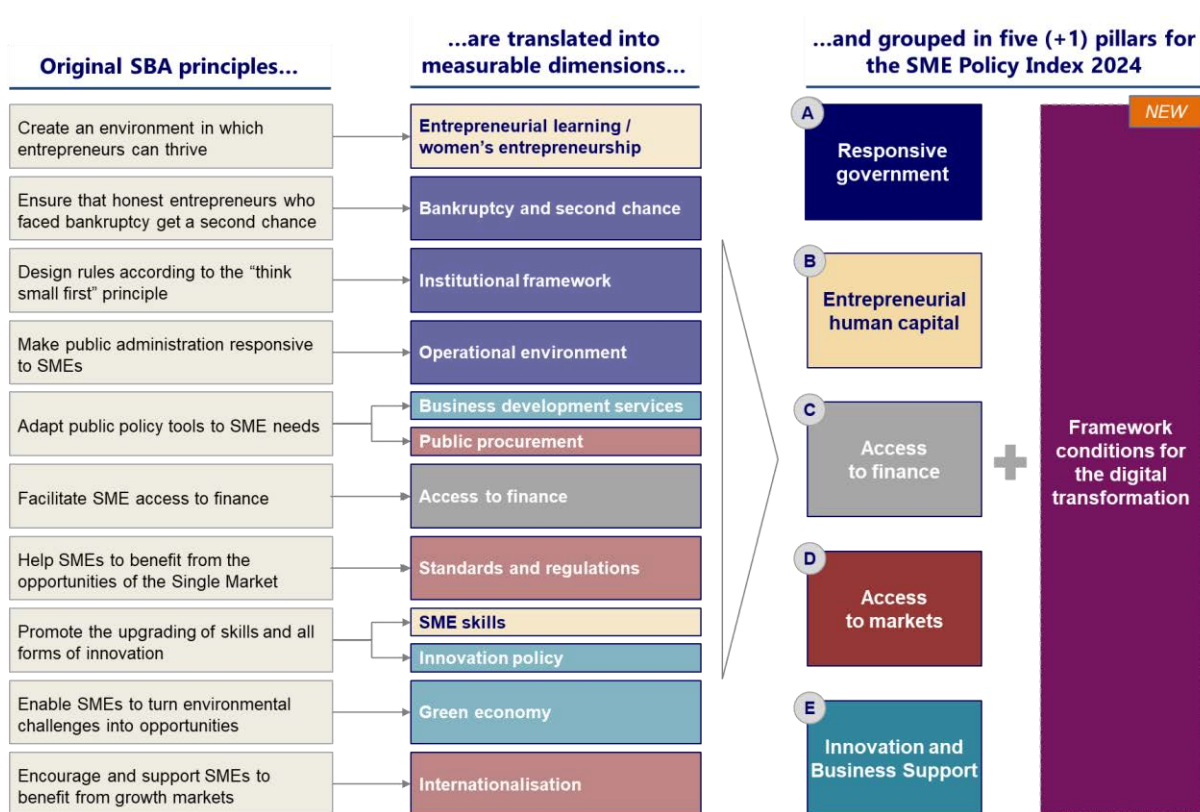
\* See Annex A for more information on the 2024 methodology update.

## The 2024 assessment framework and structure of the report

The SME Policy Index links the 10 SBA principles to 12 measurable dimensions, which are further broken down into sub-dimensions and thematic blocks, each of which captures a number of indicators (Figure 1.1). The results of the SBA assessment are structured around five thematic pillars, as well as an additional pillar on selected framework conditions for the digital transformation specifically introduced for this round of assessment. Each pillar deals with core questions worthy of governments' attention when designing policies conducive to SME development:

- **Responsive government:** Is the overall operational environment conducive to business creation and risk-taking? Is the framework for SME policy responding to the needs of small and medium entrepreneurs?
- **Entrepreneurial human capital:** Are the formation of entrepreneurship key competence and the development of SME skills part of the public policy setting? Are they approached in a gender-sensitive way, supporting women's entrepreneurship?
- **Access to finance:** How available is external financing for start-ups and SMEs? Have specific policy instruments been introduced to make it easier and cheaper for small businesses to obtain funds to start and grow their businesses?
- **Access to markets:** Are SMEs able to sell their products and services to clients in domestic and foreign markets? Can public policies make it easier for small businesses to enter new markets?
- **Innovation and business support:** Can SMEs obtain advice and technology to remain competitive and increase their productivity? Is the government fostering a more innovative SME sector?

Figure 1.1. Structure of the SME Policy Index 2024



These 12 policy dimensions are further broken down into 37 sub-dimensions capturing the pivotal policy elements in each area (Table 1.2).

Table 1.2. Detailed SBA assessment framework and its link to the Small Business Act principles

Small Business Act principle	SME Policy Index dimension	Related sub-dimensions
1. Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded	1. Entrepreneurial learning and women's entrepreneurship	Entrepreneurial learning
		Women's entrepreneurship
2. Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance	2. Bankruptcy and second chance for SMEs	Preventive measures
		Survival and bankruptcy procedures
		Promoting second chance
3. Design rules according to the "think small first" principle	3. Institutional and regulatory framework for SME policy	Institutional framework
		Legislative simplification and regulatory impact analysis (RIA)
		Public-private consultations
		Institutional settings for SME digitalisation
4. Make public administrations responsive to the needs of SMEs	4. Operational environment for SMEs	E-government services
		Business licensing
		Company registration
		Tax compliance procedures for SMEs
5. Adapt public policy tools to SMEs' needs: facilitate SMEs' participation in public procurement and better use State aid possibilities for SMEs	5a. Business development services	Support services provided by the government
		Government initiatives to stimulate private business support services
		Business support services for the digital transformation of SMEs
	5b. Public procurement	Public procurement

Small Business Act principle	SME Policy Index dimension	Related sub-dimensions
6. Facilitate SMEs' access to finance and develop a legal and business environment supportive of timely payments in commercial transactions	6. Access to finance for SMEs	Legal and regulatory framework
		Source of external finance – bank financing
		Source of external finance – non-banking financing
		Venture capital ecosystem
		Financial literacy
7. Help SMEs to benefit more from the opportunities offered by the EU's single market	7. Standards and technical regulations	Digital financial services
		Overall co-ordination and general measures
		Harmonisation with the EU acquis
		SMEs access to standardisation
8. Promote the upgrading of skills in SMEs and all forms of innovation	8a. SME skills	Digitalisation of standards and technical regulations
	8b. Innovation policy	SME skills
		Policy framework for SME innovation
9. Enable SMEs to turn environmental challenges into opportunities	9. SMEs in a green economy	Government institutional support services for innovative SMEs
		Government financial support for innovative SMEs
10. Encourage and support SMEs to benefit from growth of markets	10. Internationalisation of SMEs	Framework for green and environmental policies targeting SMEs
		Incentives and instruments
		Export promotion
		Integration of SMEs into global value chains
		OECD Trade Facilitation Indicators
		SME use of e-commerce

Source: (European Commission, 2008<sup>[2]</sup>).

To capture the growing importance of the digital economy, as well as all policy efforts made by EaP governments to support the digital transformation of SMEs, this report complements the SBA assessment with an analysis of selected framework conditions for the digital transformation (see the “Digital Economy for SMEs” chapter)<sup>2</sup>. The pillar on selected framework conditions for the digital transformation delves into i) the existence of a National Digital Strategy and its provisions for SMEs; ii) incentives and policies for increasing broadband connectivity; and iii) the promotion of digital skills across the population.

**Table 1.3. Assessment framework for the pillar on selected framework conditions for the digital transformation**

Components	Elements of analysis
National Digital Strategy	Existence of national digital strategies or equivalent documents SME consideration within the policy document Co-ordination mechanisms between stakeholders
Broadband connectivity	Investment in high-speed broadband infrastructures Incentives for households, businesses and broadband providers 5G provisions Data collection and assessment of digital divides
Digital skills	Policy documents for digital skills development Involvement and co-ordination of relevant stakeholders Inclusion of digital competence in school curricula Lifelong learning initiatives Data availability and monitoring

This report is divided into two parts. Part I provides a comprehensive presentation of the assessment results categorised by thematic areas, with each chapter being dedicated to one thematic pillar. Part II presents individual country chapters, delving deeper into the assessment outcomes for each EaP country.

While this report is organised around the 12 SBA assessment dimensions, it is important to recognise that these dimensions are not stand-alone elements, as they interact with and complement one another in many ways. For instance, the *Access to finance* dimension is inherently interconnected to many of the other dimensions, as it serves as the fundamental prerequisite for SME development. Easy access to finance equips SMEs with the necessary resources to invest in *Entrepreneurial learning* and *SME skills*, as well as *Innovation* and access to *Business development services*. These inputs can enable enterprises to increase productivity and introduce innovation-oriented practices, which are crucial to their competitiveness and expansion into new markets through *Public procurement* and *Internationalisation of their businesses*. Nevertheless, access to new markets can be achieved only if businesses are given the opportunity to grow and thrive, which depends on a solid and effective *Institutional and regulatory framework* contributing to a well-functioning *Operational environment*.

The tight interconnection among all the pillars and dimensions underscores the necessity for policy makers to adopt a holistic perspective. Focusing on achieving results in a single dimension or area is therefore insufficient. Reform efforts in one area should be underpinned by progress and a solid foundation in all other dimensions, mutually working toward the success of SME support initiatives.

## The 2024 SBA assessment process

The SME Policy Index is based on the results of two parallel assessments. The five governments of the EaP countries conducted a self-assessment by completing a questionnaire and providing relevant evidence. In addition, the OECD and its partner organisations conducted an independent assessment that included inputs from a team of local experts, who collected data and information and conducted interviews with key stakeholders and private sector representatives<sup>3</sup>.

The final scores are the result of the consolidation of these two assessments, enhanced by further research by the OECD and EBRD, as well as consultations with government and private sector representatives during country missions.

The 2024 SBA assessment was carried out between January 2022 and November 2023 in three phases:

- **Review of methodology and framework** (January 2022 – June 2022). The methodology and assessment framework were updated in consultation with all partner organisations, notably the European Commission, EBRD and ETF. SBA co-ordinators designated by EaP governments and relevant stakeholders in EaP countries were also consulted during three online stakeholders' meetings held between May and June 2022.
- **Data collection, verification and evaluation** (July 2022 – June 2023). During the data collection period, EaP countries carried out a self-evaluation of their policy frameworks via the assessment questionnaire. Kick-off country missions were held throughout September to November 2022 to provide an overview of the assessment process and timeline and offer a platform for an initial discussion of the main policy improvements since the previous assessment. Upon the receipt of countries' self-assessments, the OECD and EBRD conducted an independent assessment via extensive desk research and follow-up with relevant stakeholders in order to fill information gaps and resolve inconsistencies in findings. The assessment also benefitted from inputs by a team of local experts. In-country reconciliation meetings were held from March to May 2023 to discuss and verify the SBA assessment findings by presenting them to key SME policy stakeholders, including representatives of ministries and government agencies, international donors, civil society, academia, NGOs and business associations. On these occasions, focus group meetings with private sector representatives were conducted to gather further information.
- **Drafting, review and publication** (May 2023 – November 2023). The OECD and EBRD drafted country chapters that were sent to countries in June 2023, in advance of a regional SBA

stakeholders' meeting held in Paris on 19 June 2023, to share and discuss initial findings of the SBA assessment by thematic pillar and present countries' preliminary scores. Following discussions and comments provided during the regional SBA stakeholders' meeting and in bilateral consultations over the following months, both country profiles and thematic chapters were updated. The draft report – *SME Policy Index: Eastern Partner Countries 2024* – was then reviewed extensively by OECD staff and partner organisations, before being officially launched at OECD Eurasia Week in December 2023. The publication will also be launched in the five EaP countries with dedicated dissemination events in the first half of 2024.

## References

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## Notes

<sup>1</sup> Following Belarus's involvement in Russia's war of aggression against Ukraine, co-operation with Belarus has been suspended. Therefore, the 2024 assessment does not cover Belarus and any mention of the Eastern Partner countries throughout the report refers exclusively to Armenia, Azerbaijan, Georgia, the Republic of Moldova, and Ukraine.

<sup>2</sup> For more information on the relevance of digitalisation for SMEs in EaP countries and on the rationale for broadening the assessment by covering this topic, please refer to the chapters on "Economic context" "Digital Economy for SMEs" and to Annex A, "Methodology for the Small Business Act assessment".

<sup>3</sup> A cut-off date of 30 June 2023 was established for the assessment. Only policy developments and reforms implemented by that date were taken into account for the calculation of the SME Policy Index scores. Reforms and policy developments that have taken place after that date (by September 2023) are reflected in the text.



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