SME Policy Index

Eastern Partner Countries 2020

ASSESSING THE IMPLEMENTATION OF THE SMALL BUSINESS ACT FOR EUROPE



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SME Policy Index: Eastern Partner Countries 2020

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Preface

Small and medium enterprises (SMEs) are a source of jobs and growth. They also have a role to play in the diversification of output, export and employment, and are a vital source of entrepreneurial human capital. This is particularly important at a time when the countries of Eastern Europe and the South Caucasus strive to make their economies more inclusive and more resilient to shocks. SME development has therefore been central to co-operation within the framework of the Eastern Partnership (EaP), a joint initiative of the European Union and six neighbours – Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova and Ukraine.

Today, SMEs generate about half of total business-sector value added in the EaP region, and they account for slightly more than half of total business-sector employment. Their innovation potential and ability to adapt to fast-changing market conditions makes them an increasingly important source of entrepreneurial dynamism.

Since 2012, the SME Policy Index for Eastern Partner countries has been an important source of support for policymakers in the region and for their external partners seeking to design and deliver better SME-support policies. Structured around the ten principles of the Small Business Act (SBA) for Europe, the Index is a unique benchmarking tool designed by the OECD, the EBRD, the European Training Foundation and the European Commission to assess countries' institutions and SME policies against EU and international best practices.

The report '*SME Policy Index: Eastern Partner Countries 2020'* marks the third SBA assessment for the EaP region on the basis of the Index. It provides a comprehensive overview of SME policies in the region organised around the SBA principles, and it monitors the progress made since 2016. Across the region, governments have worked to promote better strategies for SME development and to build institutions that can help translate those strategies into action and deliver tangible results. Many recommendations provided in the 2016 assessment have been implemented; particularly those focusing on regulatory policies, institutional frameworks and measures supporting entrepreneurial skills and mindset of women and men.

However, important challenges remain. While the situation varies from country to country, a few broad trends stand out. First, a more demand-driven, collaborative approach to designing support programmes could help ensure a better fit between public action and SME needs. Second, stronger monitoring and evaluation systems, underpinned by well-designed key performance indicators, would enable governments to capture the impact of policies on firms, as well as use public resources more efficiently and adapt and adjust SME policies on the basis of better evidence. Finally, level playing field conditions are critical to the success of any effort to promote entrepreneurship and small firm growth. EaP countries still have much to do to fight corruption and to ensure business integrity, competitive neutrality and equal access to inputs and markets for all firms, regardless of size or ownership. The current report thus includes an assessment of three dimensions of the business environment that transcend the traditional concerns of SME policy: competition, contract enforcement and business integrity. This provides a basis for

identifying structural reform priorities that will create a better business environment for firms of all sizes.

We commend the efforts of the Eastern Partner countries to foster private sector development through better SME policies, as well as better implementation of those policies, and look forward to continuing our work with them to deliver better opportunities for firms and citizens across the region.






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Foreword

About a decade ago, in May 2009, Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova and Ukraine, together with the European Union launched a strategic and ambitious partnership – the EU Eastern Partnership (EaP). In an effort to build a more prosperous and resilient region, this endeavour is based on shared values, mutual interests and commitments, bringing EaP countries closer to the European Union through economic integration and by developing stronger ties among the partner countries themselves, to deliver tangible results for their citizens.

Economic and private sector development play an essential role in achieving this objective. Looking back at the past decade, significant efforts have been made to develop stronger, more diversified and dynamic economies across the region. Small and medium-sized enterprises (SMEs) have been instrumental in driving this agenda forward. In fact, thanks to their capacity to innovate and adapt to fast-changing market conditions, SMEs can facilitate the shift towards a modern, more diversified and demand-driven economy, acting as an engine for higher-quality employment generation and sustainable growth. However, their potential in the EaP region remains untapped. Although representing up to 99% of all firms, they currently generate around half of total business-sector value added and account for only half of total business sector employment.

The SME Policy Index: Eastern Partner Countries 2020 – Assessing the Implementation of the Small Business Act for Europe is a unique benchmarking tool for assessing and monitoring progress in the design and implementation of SME polices against EU and international good practice. It is structured around the ten principles of the Small Business Act for Europe (SBA), which provides a wide range of pro-enterprise measures to guide the design and implementation of SME policies. This report marks the third edition in this series, following assessments in 2012 and 2016. It provides a comprehensive overview of the state of play in the implementation of the ten SBA principles, and monitors progress made since 2016. It also identifies remaining challenges affecting SMEs in the EaP countries and provides recommendations to address them based on EU and international good practice examples. The 2020 edition also features a novelty: an assessment of three new dimensions – competition, contract enforcement and business integrity – that goes beyond core SME policy to look at key structural reform priorities that are critical to establishing a level playing field for enterprises of all sizes.

The 2020 assessment reveals significant progress, with many of the 2016 recommendations having been implemented. An essential precondition for SMEs to grow and prosper is the existence of an adequate regulatory policy and institutional framework, an area in which all six EaP countries have demonstrated sustained commitment to reform. Across the region, governments have made considerable progress in designing strategies for SME development and building strong institutions that can help deliver tangible results and translate policies into action. They have acknowledged the crucial role of a responsive government and effective institutions in promoting SME development, encouraging investment, and reducing informality and corruption – laying the foundation for a healthy business environment in which enterprises of all sizes and ownership types can thrive.

Nevertheless, more remains to be done to further build SME capacities, so that they become more productive, more competitive and innovative, and better integrated into global markets. Policies need to better match SME needs, which will require a demand-driven approach to designing support programmes through a collaborative approach. Monitoring and evaluation systems must be considerably strengthened and backed up by key performance indicators, to capture the impact of policies on businesses, favouring the optimal use of public resources and advancing evidence-based policy making. Lastly, all the above-mentioned efforts would be in vain if level-playing-field conditions are not in place to ensure competitive neutrality and equal access to inputs and markets for all firms, regardless of their size and ownership type.

This report is the result of a collaborative effort by the Organisation for Economic Co-operation and Development (OECD), the European Bank for Reconstruction and Development (EBRD) and the European Training Foundation (ETF), with the support of the European Commission and the governments involved. The views of a wide range of stakeholders, including SMEs themselves, were sought and are reflected throughout the publication.

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Abbreviations and acronyms

AA	Association Agreement (EU)
ABCA	Annual Business Climate Assessment
ACAA	Agreement on Conformity Assessment and Acceptance of Industrial Products
ACN	Anti-Corruption Network for Eastern Europe and Central Asia
ADR	alternative dispute resolution
AGEPI	State Agency on Intellectual Property of the Republic of Moldova
AMCU	Antimonopoly Committee of Ukraine
AMD	Armenian dram (currency)
ARDA	Agricultural and Rural Development Agency of Georgia
ARMA	Agency for Recovery and Management of Assets of Ukraine
ArmStat	State Statistical Committee of Armenia
ASK	National Confederation of Entrepreneurs (Employers) Organizations of the Republic of Azerbaijan
ATM	automated teller machine
AzAK	Azerbaijan Accreditation Centre
AZPROMO	Azerbaijan Export and Investment Promotion Agency
B2B	business to business
BBTC	Baku Business Training Centre
BDS	business development services
BEEPS	Business Environment and Enterprise Performance Survey
Belstat	National Statistical Committee of the Republic of Belarus
BEROC	Belarusian Economic Research and Outreach Center
BFFSE	Belarusian Fund for Financial Support of Entrepreneurs
BLA	bilateral agreement
BO	business ombudsman
BSCA	Belarusian State Centre for Accreditation
BSI	Business Support Infrastructure

BSO	Business support organisation
BYR	Belarusian ruble (currency)
CA	conformity assessment
CAERC	Centre of Analysis of Economic Reforms and Communication of Azerbaijan
CAS	Centres for Administrative Services of Ukraine
CC	Competition Council of Moldova
CCAA	Business Consultancy and Business Support Centre of Moldova
CCI	Chambers of Commerce and Industry
CEDA	Center for Entrepreneurial Education and Business Support
CEN	European Committee for Standardization
CENELEC	European Committee for Electrotechnical Standardization
CEPA	Comprehensive and Enhanced Partnership Agreement
CETA	Centralised Exchange Trading in Azerbaijan
CGS	credit guarantee scheme
COSME	Competitiveness of Enterprises and Small and Medium-Sized Enterprises
CPI	corruption perception index
CU	credit union
CUTIS	Canada-Ukraine Trade & Investment Support Project
DCFTA	Deep and Comprehensive Free Trade Area
DfID	Department for International Development of the UK
DG GROW	Director-General for Internal Market, Industry, Entrepreneurship and SMEs
DG NEAR	Director-General for Neighbourhood and Enlargement Negotiations
DigComp	European Digital Competence Framework
EA	European co-operation for Accreditation
EAC	Eurasian Conformity
EAEU	Eurasian Economic Union
EaP	Eastern Partner
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EEAS	European External Action Service
EEN	Enterprise Europe Network
EIA	environmental impact assessment

EIB	European Investment Bank
EIC	European Innovation Council
EIF	Enterprise Incubator Foundation, Georgia
EIU	Economist Intelligence Unit
EMS	environmental management system
EntreComp	European Entrepreneurship Competence Framework
EPO	Export Promotion Office of Ukraine
EQF	European Qualifications Framework
ETF	European Training Foundation
ETSI	European Telecommunications Standards Institute
EU	European Union
EUR	euro (currency)
EuroMed	Euro-Mediterranean Partnership
FDI	foreign direct investment
FX	foreign exchange
GAF	German-Armenian Fund
GAP	Green Action Plan
GCA	Competition Agency of Georgia
GCI	Global Competitiveness Index (WEF)
GDP	Gross domestic product
GEL	Georgian lari (currency)
GENIE	Georgia National Innovation Ecosystem Project
Geostat	National Statistics Office of Georgia
GEOSTM	Georgia's National Agency for Standards and Metrology
GITA	Georgia's Innovation and Technology Agency
GIZ	Gesellschaft für Internationale Zusammenarbeit
GNI	Gross national income
GOST	State Union Standard
GVC	global value chain
HHI	Hirschman Herfindahl Index
HTP	High Technology Park in Belarus
IAF	International Accreditation Forum

ICT	information and communications technology
IDP	internally displaced persons
IEC	International Electrotechnical Commission
IFC	International Finance Corporation
IFI	International Finance Institution
IFRS	International Financial Reporting Standards
ILAC	International Laboratory Accreditation Co-operation
ILO	International Labour Organisation
IMF	International Monetary Fund
IP	Intellectual property
IPR	Intellectual property rights
ISIC	International Standard Industrial Classification
ISO	International Organisation for Standardisation
IT	Information technology
ITC	International Trade Center
KfW	Kreditanstalt für Wiederaufbau
KPI	key performance indicator
LED	local economic development
LLL	life-long learning
M&E	monitoring and evaluation
MAF	Ministry of Agriculture and Food of Ukraine
MART	Ministry of Antimonopoly Regulation and Trade of Belarus
MDETA	Ministry for Development of Economy, Trade and Agriculture of Ukraine
MFI	microfinance institution
MIEPO	Moldova Investment and Export Promotion Organisation
MLA	multilateral agreement
MDL	Moldovan leu (currency)
MNE	multinational enterprises
MoESD	Ministry of Economy and Sustainable Development of Georgia
MOLDAC	National Accreditation Centre of the Republic of Moldova
MoU	Memorandum of Understanding
MRA	Multilateral Recognition Agreement

MSME	micro, small and medium enterprises
NABU	National Anti-corruption Bureau of Ukraine
NAC	National Anti-corruption Centre of Moldova
NACP	National Agency on Corruption Prevention of Ukraine
NAPR	National Agency of Public Registry of Georgia
NARD	National Agency for Research and Development of Moldova
NAUU	National Accreditation Agency of Ukraine
NBG	National Bank of Georgia
NBU	National Bank of Ukraine
NEAP	National Environmental Action Programme of Georgia
NGO	Non-governmental organisation
NIS	Newly Independent States
NPL	non-performing loan
NQI	national quality infrastructure
NSB	national standardisation bodies
ODIMM	Organisation for SME Sector Development of Moldova
OECD	Organisation for Economic Cooperation and Development
OSCE	Organisation for Security and Co-operation in Europe
PES	Public Employment Services
PPC	public-private consultation
PPD	public private dialogue
PPJRAI	Public-Private Joint Regulation Advancement Initiative
PPL	Public Procurement Law
PPP	purchasing power parity
QI	quality infrastructure
R&D	research and development
RIA	regulatory impact analysis
SAPO	Specialised Anticorruption Prosecutor Office of Ukraine
SARAS	Service for Accounting, Reporting and Auditing Supervision of Georgia
SBA	Small Business Act for Europe
SBDA	Small Business Development Agency of Azerbaijan
SCPEC	State Commission for Protection of the Economic Competition of Armenia

SDG	Sustainable Development Goals
SES	State Employment Service of Ukraine
SIGMA	Support for Improvement in Governance and Management
SMBDA	Small and Medium Business Development Agency of the Republic of Azerbaijan
SME	small and medium-sized enterprises
SME DNC	SME Development National Center of Armenia
SMEDA	Support for SME Development in Armenia
SMEDO	SME Development Office of Ukraine
SMEPI	Small and Medium Enterprise Policy Index
SOE	state-owned enterprise
SPA	State Procurement Agency of Georgia
SRS	State Regulatory Service of Ukraine
SSAPCRP	State Service for Antimonopoly Policy and Consumer Rights Protection of
STAREP	Strengthening Auditing and Reporting in the Countries of the Eastern Partnership
TBT	Technical Barriers to Trade
TC	technical committees
TFIs	Trade Facilitation Indicators
TNA	training needs analysis
TR	technical regulation
TTO	technology transfer office
TÜRKAK	Turkish Accreditation Agency
UAE	United Arab Emirates
UAH	Ukrainian hryvnia (currency)
UkrNDNC	Ukrainian scientific-research and training center of issues of standardization, certification and quality
Ukrstat	State Statistics Service of Ukraine
UN	United Nations
UNCITRAL	United Nations Commission on International Trade Law
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNIC	Ukraine Network for Compliance and Integrity

UNIDO	United Nations Industrial Development Organization
UNODC	United Nations Office on Drugs and Crime
USAID	United States Agency for International Development
USD	United States dollar (currency)
VAT	value-added tax
VC	venture capital
VET	vocational education and training
WB	World Bank
WB DB	World Bank's *Doing Business*
WB GENIE	World Bank Georgia National Innovation Ecosystem Project
WBT	Western Balkans and Turkey
WEF	World Economic Forum
WTO	World Trade Organisation
y-o-y	year-on-year

Executive summary

The Eastern Partnership (EaP) is composed of six countries (Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova and Ukraine) which collectively cover over one million km^2 and are home to 74.4 million people. The region is located in the vicinity of large markets including the European Union, Russia and Turkey and benefits from a vast area of agricultural land and considerable energy and natural resources. Although the pace of structural reform varies from one country to another, the region as a whole is on a trajectory of economic transformation, shifting progressively away from a growth model based on large enterprises specialised in intermediary outputs and commodity transformation, towards a more diversified and open economic structure.

Over the last five years, the macroeconomic situation has been volatile. The region as a whole contracted in 2014-15 before starting to recover in 2016 and gradually gaining further momentum in 2017-18, supported by more favourable external economic conditions and successful macroeconomic stabilisation efforts. Going forward, sustained and resilient growth will depend on a supportive regional economic environment and on the ability of EaP countries to address remaining structural weaknesses that were revealed during the 2014-15 economic contraction, such as limited diversification and lack of competitiveness in key sectors like manufacturing, agriculture, and wholesale and retail trade.

Against this backdrop, supporting the development of small and medium-sized enterprises (SMEs) has become a clear priority for all six EaP governments. Thanks to their capacity to innovate and adapt to fast-changing market conditions, SMEs can facilitate the shift towards a more diversified and demand-driven economy, acting as engines of higher-quality job creation and sustainable growth. However, their potential in the EaP region remains untapped. Although representing up to 99% of all firms, they account for 57% of private sector employment and 47% of value-added. The vast majority of SMEs are subsistence micro-entrepreneurs operating in low-value-added sectors and with limited propensity for export.

Since the last edition of the SME Policy Index in 2016, EaP countries have made significant progress in building a more SME-friendly business environment. All six countries have been proactive in setting up a strong institutional basis for SME policy making through the design of SME strategies and the set-up of operational agencies to deliver tangible support programmes. Business-related legislation has been further simplified and regulatory barriers reduced, e.g. by streamlining registration procedures, extending the scope of e-government services and strengthening the legal framework for insolvency. Moreover, EaP governments have increasingly developed targeted support mechanisms to enhance SMEs' access to finance, skills and innovation through financial (grants, tax incentives) or non-financial instruments (expansion of business/innovation support infrastructure and business development services).

However, SMEs across the region still struggle with numerous challenges that hamper their growth and productivity. More attention should be given to establishing level-playing-field conditions for companies of all sizes and regardless of their ownership structure as a precondition for market-driven private sector growth. In addition, more tailored support

programmes are needed to increase productivity and enable SMEs to be competitive in export markets. Finally, governments need to strengthen their monitoring and evaluation systems to allow for informed SME policy making and to ensure optimal use of public resources.

Based on the assessment's findings, the report makes the following principal recommendations:

- **Establish a level playing field for all firms**. First, EaP governments need to strengthen their efforts to create a more competition-friendly business environment in which new and more efficient firms can challenge incumbents, allowing for productivity growth, stimulating innovation and enabling companies to become internationally competitive. Empowering competition agencies to stop and prevent unfair business practices – in the areas of cartels and merger control, for example – will be an important step in this direction. Second, further improving the transparency, independence and efficiency of commercial justice systems would be key to improving contract enforcement procedures, enabling SMEs to access affordable, timely and transparent dispute resolution mechanisms. And third, EaP governments should pay greater attention to promoting compliance with business integrity norms and regulations to reduce market distortions generated by unethical business practices.
- **Enhance SME competitiveness and productivity.** Further support is needed for efforts to help SMEs improve their productivity, boost their competitiveness and in turn reach new markets. To this end, it is necessary to build on the promising recent institutional changes by strengthening the capacity of SME agencies in terms of resources, staff, and scope of action to enable the delivery of targeted SME support programmes developed in close co-operation with the business community. An important instrument would be regular market research and analysis of demand for and supply of skills, which should be strengthened across the region to better identify SME needs and design support programmes accordingly. In general, EaP governments ought to carefully assess their resources and capabilities in order to deliver tailored support in a more efficient and co-ordinated manner, setting clear objectives and attributing responsibilities in an inclusive way, as well as building on the complementarities between the various areas assessed in this report.
- **Strategically invest in entrepreneurial human capital**. Without a comprehensive strategic vision of the importance of modern, internationally competitive competences and skills of citizens none of the other policy objectives will be possible to achieve – including improving the productivity, competitiveness and capacity of institutions. It is important to focus formal education and non-formal learning programmes on key competence development, ensure adequate support for and investment in teachers, and provide practical entrepreneurship experience for all students as part of education-business cooperation. To achieve quality and relevance of skills supply, education and training should be sensitive to gender- and individual target group needs, based on high-quality skills intelligence and underpinned by a comprehensive, cross-sectoral vision on human capital development goals in the country.
- **Strengthen monitoring and evaluation to allow for informed SME policy making.** Monitoring and evaluation of SME support programmes are being carried out mostly on an ad hoc basis across the region; regular evaluation of their efficiency and effectiveness, including setting and analysing result-oriented key

performance indicators, has yet to become embedded into the policy cycle. Given the increasing amount of government support for SMEs, governments need to ensure they are making optimal use of public resources. Therefore, an impact assessment should become a necessary precondition for scaling up government support measures. As new laws and regulations are being introduced and existing laws revised, an assessment of their impact would be helpful in order not to fall back into a highly-regulated economy. Moreover, it would be necessary to monitor and evaluate the impact of simplified tax regimes on business demography and SME performance, and to ensure that tax exemptions do not discourage SME growth or encourage the diversion of activity into the informal sector. Finally, it is necessary to improve the monitoring and evaluation of the current business support infrastructure and services provided, including measuring the effectiveness and impact on SME performance.

Policy framework, structure of the report and assessment process

The Small Business Act for Europe as underlying policy framework

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) against European Union (EU) and international good practice. It is structured around the ten principles of the EU's Small Business Act for Europe (SBA),[1] which provides a wide range of pro-enterprise measures to guide the design and implementation of SME policies.

While there are a number of other indices that assess the business environment in the countries of the EU's Eastern Partnership (EaP),[2] 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 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 applied regularly in an expanding geographical footprint, that now covers almost 40 economies in 5 regions: the EaP countries, the Western Balkans and Turkey, the Middle East and North Africa, the Association of Southeast Asian Nations (ASEAN), and Latin America and the Caribbean.

Building on the strengths of the Index and in order to address some of its weaknesses (Table 1) and increase its impact, this 2020 edition goes beyond the analysis of areas covered by the SBA to capture other relevant policy priorities hindering SME development (i.e. competition, contract enforcement and alternative dispute resolution, and business integrity), while broadening the scope of issues covered within the core policy areas. Thus, the 2020 SME Policy Index includes:

- a new pillar assessing level-playing-field conditions (including competition, contract enforcement and business);
- eight new sub-dimensions[3] covering policy aspects that were not included in the previous cycle;
- extended and amended sub-dimensions to collect more in-depth information;
- an increased focus on the economy's performance and implementation of SME policies, as well as a sectoral focus box for each country;
- in-depth private sector feedback collected during focus groups to gauge the outcome of policies; and
- greater involvement of national statistical offices in the data collection process and more-extensive collection of relevant statistical data.

Table 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	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
Takes a participatory approach to evaluation and measurement that brings together government stakeholders, the private sector (focus groups, including specific sector associations) and partner organisations (OECD, European Commission, ETF and EBRD)	Intra-country differences (e.g. differences in the level of SME activity in capitals and regions) may not be adequately captured in the analysis
Comprehensively evaluates the SME policy environment around the ten key principles of the Small Business Act for Europe, as well as along three main elements of level-playing-field conditions	Changes in the assessment framework may lead to limited comparability of performance over time; the weighting system used is based on expert opinion which could be challenged
Provides guidance on how to improve policy frameworks through good practice examples and policy recommendations presented as country-level reform roadmaps	Ensuring effective measurement of implementation and outcomes of government policy remains a challenge despite continuous work on methodology to address this issue
Incorporates relevant data by other organisations (e.g. World Bank's *Doing Business* report, World Economic Forum's Global Competitiveness report, Transparency International's Corruption Perception Index)	Remaining gaps in national statistics on SMEs in the EaP region and some divergences in definitions of SMEs undermine the comparability of data across countries
Uses country context and broader factors affecting SMEs and policy developments to complement the analysis reflected in the scores	Occasional discrepancies in the schedule for data production and release by partner organisations and the timeline for the SME Policy Index publication limit the scope of meaningful data (i.e. availability of most recent EBRD BEEPS survey)

The 2020 SBA assessment framework and structure of the report

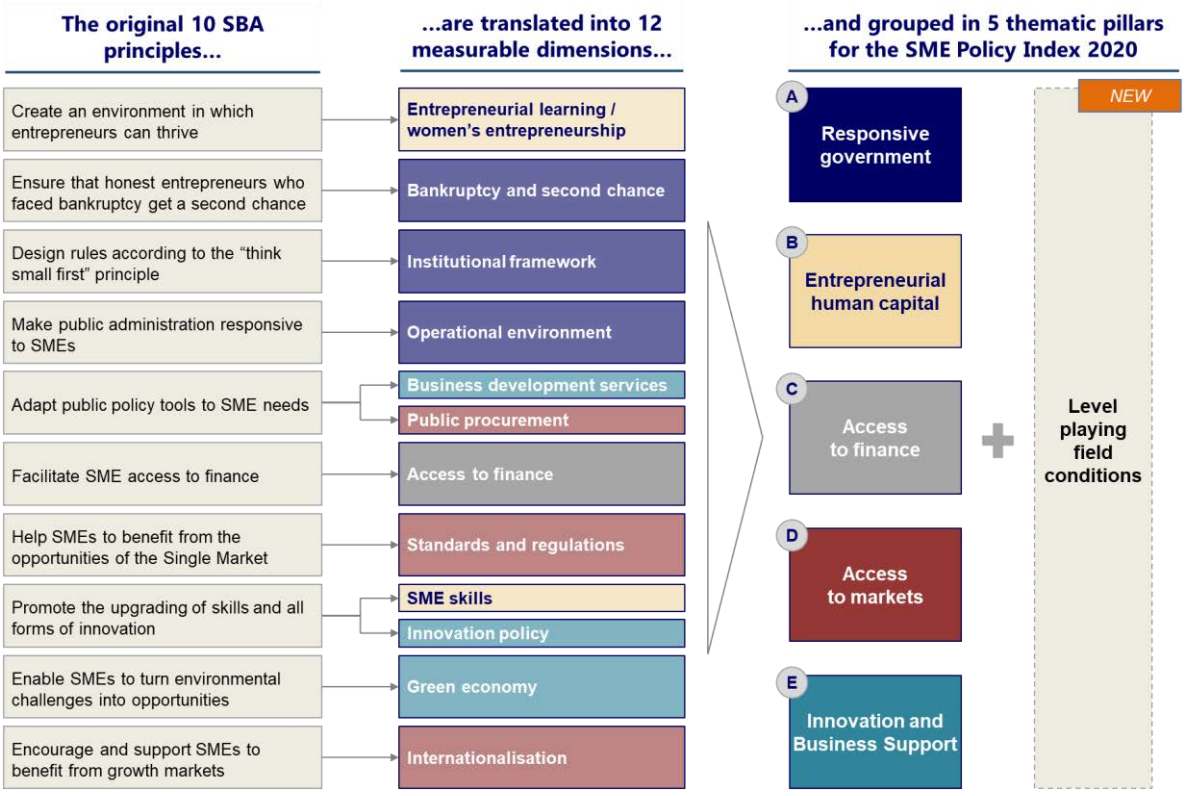
The SME Policy Index links the 10 SBA principles to 12 measurable dimensions, which are further broken down into sub-dimensions and thematic blocks, each of which captures a number of indicators (Figure 1). A new structure has been introduced to the presentation of the Index to help the reader navigate the world of SME policy by following the *entrepreneurial journey* from a public policy viewpoint.

While maintaining overall continuity and comparability of content with previous editions of the Index, this report features several changes (see below and Box 2) and structures the results of the SBA assessment around five thematic pillars and a level-playing-field pillar. 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? It is 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 entrepreneurs 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 entrepreneurs 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. Structure of the SME Policy Index 2020



These 12 policy dimensions are further broken down into 34 sub-dimensions that capture the critical policy elements in each area (Table 2).

Table 2. The detailed SBA assessment framework and its links to the Small Business Act principles

SBA 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

SBA principle	SME Policy Index dimension	Related sub-dimensions
3. Design rules according to the "think small first" principle	3. Institutional and regulatory framework for SME policy	*Institutional framework*
		Legislative and regulatory simplification and RIA application
		Public-private consultations (PPCs)
4. Make public administration responsive to SMEs	4. Operational environment for SMEs	*E-government services*
		Business licences and permits
		Company registration
		Tax compliance procedures for SMEs
5. Adapt public policy tools to SME needs	5a. Support services for SMEs and start-ups	*SME support services provided by the government*
		Government initiatives stimulating private business development services
	5b. Public procurement	*Public procurement*
6. Facilitate SME access to finance and develop a legal framework and business environment supportive of timely payments in commercial transactions	6. Access to finance for SMEs	*Legal and regulatory framework*
		Bank financing
		Non-bank financing
		Venture capital
		Financial literacy
7. Help SMEs to benefit more from the opportunities offered by the Single Market	7. Standards and technical regulations	*Overall co-ordination and general measures to adopt EU product standards and regulations*
		Approximation[4] with the EU Acquis
		SMEs Access to Standardisation
8. Promote the upgrading of skills and all forms of innovation	8a. SMEs skills	*SMEs skills*
	8b. Innovation	*Policy framework for innovation*
		Government support services for innovative SMEs
		Government financial support for innovative SMEs
		Non-technological innovation and diffusion of innovation
9. Enable SMEs to turn environmental challenges into opportunities	9. SMEs in a green economy	*Environmental Policies*
		Incentives and instruments for greening SMEs operations
10. Encourage and support SMEs to benefit from growth markets	10. Internationalisation of SMEs	*Export promotion*
		Integration of SMEs into global value chains
		OECD Trade Facilitation Indicators
		SME use of e-commerce

Source: European Commission (2008), *Think Small First – A Small Business Act for Europe.*

In addition to the five pillars, this report complements for the first time the SBA assessment with an analysis of selected dimensions of the business environment that are critical to the creation of a *level playing field* for all enterprises, regardless of size and ownership status.

This "Level playing field" pillar, which is not being scored to maintain the consistency and comparability of the SBA assessment, includes three dimensions that analyse 1) the extent to which the competition authority is fulfilling its mandate to ensure fair competition for all companies; 2) the efficiency of the existing contract enforcement system and alternative dispute resolution (ADR) mechanisms; and 3) the degree to which business integrity policies are in place and promoted by the government in order to prevent corruption in the private sector (Table 3).

Table 3. Assessment framework for the Level Playing Field pillar

Dimension	Sub-dimension	Elements of analysis
Competition	Scope of action	Competences, powers to investigate and to sanction/remedy, private enforcement
	Anti-competitive behaviour	Mergers, horizontal and vertical agreements, exclusionary conduct
	Probity of investigation	Independence, accountability, procedural fairness
	Advocacy	Advocacy
Contract enforcement and alternative dispute resolution	Enforcing contracts by judicial system	Case management system, small claims courts/ simplified procedures for small claims, court automation
	Mechanisms for protection of property rights	Protection against malpractice of public authorities, settlement of disputes on intellectual property rights
	Alternative dispute resolution (ADR)	ADR mechanisms, promotion of ADR for commercial dispute settlement
Business integrity	Legal and institutional framework	Anti-corruption policy, laws on prevention of and combatting corruption
	Mechanisms for prevention and enforcement of corruption	Disclosure of beneficial owners of companies, criminal liability of legal persons for corruption, reporting corruption and whistle-blower protection
	Promoting business integrity	Financial and non-financial incentives, awareness-raising activities

This report contains dedicated thematic chapters, and corresponding sections within each country chapter, for each of the above-mentioned dimensions.

Although this report is structured along the 12 SBA assessment dimensions (which are analysed in different thematic pillars and respective dimensions in the six country profiles), they should not be seen as stand-alone elements, since they interact with and complement each other in many ways. For instance, the *Access to finance* dimension is intrinsically linked to many of the other dimensions because it is the fundamental prerequisite for the development of SMEs. Easy access to finance can provide SMEs with the resources necessary to invest in *Entrepreneurial learning* and *SME skills* as well as in *Innovation* and *Business development services*. Those inputs can enable enterprises to increase productivity and introduce innovation-oriented practices – which, in turn, are crucial to their competitiveness and entry into new (domestic) markets through *Public procurement* and *Internationalisation* of their businesses. However, access to new markets can only be achieved if businesses are given the opportunity to grow and thrive, which depends on favourable level-playing-field conditions and a solid and effective *Institutional and regulatory framework* contributing to a well-functioning *Operational environment*.

The tight interconnection among all the pillars and dimensions results in the necessity for policy makers to look at the broader picture. Focusing on achieving results in a single dimension or area is therefore insufficient; reform efforts in one area ought to be backed by progress and a solid foundation in all the other dimensions, symbiotically achieving success in supporting SMEs.

Supplementary data

In addition, the 2020 SBA assessment aims to better gauge policy implementation and outcomes by involving the private sector directly in the assessment process. To this end, the OECD conducted two private sector focus groups in each of the six EaP countries to discuss the main constraints on doing business for SMEs in terms of the six pillars of the assessment, while receiving feedback on recent policy developments.

Moreover, this assessment round has introduced a sector-specific section in the country chapters, identifying major developments and SME policy constraints in a given sector with high export potential. The choice of country-specific sectors was based on the findings of the International Trade Centre (ITC), which is currently implementing the EU4Business initiative "Eastern Partnership: Ready to Trade" – a project that helps SMEs from EaP countries integrate into global value chains and access new markets, with a focus on the EU (See Box 1).

Box 1. The Eastern Partnership: Ready to Trade: an EU4Business initiative

The "Eastern Partnership: Ready to Trade" initiative is financed by the European Union under *the EU4Business initiative* and implemented by the International Trade Centre in co-operation with CBI.*The project budget is EUR 6 million and covers the period 2017-20. The initiative assists exporting and export-ready SMEs from six Eastern Partner countries in producing value-added goods in accordance with international and EU market requirements, and linking them to international markets, with focus on the EU.

The project targets different sectors in different countries. It supports the agribusiness sector in Armenia and Azerbaijan (processed and dried fruit and vegetables, and herbal teas), as well as in Georgia (juices, processed hazelnuts, dried fruits and tea) and Ukraine (berries), and finally the apparel sector in Belarus and Moldova.

In particular, SMEs benefit from:

- Increased awareness of international and EU market access requirements;
- Advisory services, coaching and training in improved productivity, packaging marketing, branding, quality management and food safety, e-commerce, logistics, etc., to foster competitiveness;
- Business linkages with EU buyers through trade fairs, study tours and business-to-business networks; and
- Improved services provided by business support organisations.

So far, the following results have been obtained:

- Roadmaps have been developed for selected value chains in each country;
- The capacities of SMEs have been strengthened to increase the value-added production and improve competitiveness;
- The capacities of sectoral Business Support Organisations (BSOs) have been enhanced to provide SMEs with quality and relevant services along the value chains; and

- Business linkages have been created for SMEs to expand their sales in international markets and value chains, in particular the EU.

* The Centre for the Promotion of Imports from developing countries, established in 1971, contributes to sustainable and inclusive economic development in developing countries through the expansion of exports from these countries to Europe. See https://www.cbi.eu/about.
Source: EU4Business website, http://www.eu4business.eu/programme/eastern-partnership-ready-trade-eu4business-initiative.

As for the sectors, agribusiness was chosen by ITC as a focus for Armenia, Azerbaijan, Georgia and Ukraine, while the apparel sector was analysed in Belarus. For Moldova, in order to exploit internal knowledge related to an ongoing OECD project, a different sector from the initial ITC one was chosen, and agriculture and food-processing sectors were analysed instead. The sectoral analysis draws heavily on desk research and analysis, as well as on sectoral focus group (one focus group per country) findings. It does not aim to provide a comprehensive picture of SME challenges in selected sectors, but rather to present key challenges and highlight priority areas for further policy improvements. The sectoral analysis concludes the SBA assessment section of each country chapter and is represented in a concise manner as a box on SME perspectives.

Box 2 summarizes the new changes to the 2020 assessment framework.

Box 2. What is new in the 2020 assessment framework?

The partner organisations agreed, following consultations with the SBA co-ordinators in the six EaP countries in 2018, to introduce certain improvements to the 2020 SME Policy Index. The objective of these changes was threefold:

a *To broaden the scope of the assessment* and allow for an evaluation of the overall business environment conditions taking into consideration relevant policy priorities – competition, contract enforcement and business integrity – which contribute to *the creation of a level playing field for all enterprises*, regardless of size and ownership type. This additional part of the report has not been scored to maintain the consistency and comparability of the SBA assessment.

b To enrich the qualitative assessment through a *broader analysis of quantitative indicators*. The inclusion of statistics, including the data collected for the OECD SME financing scoreboard and data from national statistical offices, provides additional context for the policy assessment and allows for better comparison and benchmarking with EU and OECD countries.

c To introduce a *sectoral focus* has been introduced in the country chapters, by identifying sector-specific policy constraints faced by SMEs in each country. This has been achieved through a more consistent involvement of the private sector in the assessment process – in the form of private sector (sectoral) focus groups, regular consultations, and the participation of the private sector in SBA public-private working group meetings throughout the assessment process.

The modifications introduced in 2018 have preserved the fundamental features of the SME Policy Index and the core elements of the original methodology – including the multi-dimensional approach based on the 10 SBA principles, the intra-regional benchmarking

focus, the participative assessment method, and the five-level scoring framework – so as to ensure comparability over time.

Pillar scores have been introduced when relevant without making changes to the scoring system of dimensions and sub-dimensions; score changes solely due to the introduction of new sub-dimensions are reflected in the country chapters and figures, when relevant.

The 2020 SBA assessment process

The SME Policy Index is based on the results of two parallel assessments. First, a self-assessment, which consisted of completing a questionnaire and providing relevant evidence (including statistical data), was conducted by each of the six governments. 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.[5]

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

Timing of the 2020 assessment

The 2020 SBA assessment was carried out between January 2018 and June 2020 in three phases:

Review of methodology and framework (January 2018 – September 2018): The methodology and assessment framework were updated in consultation with all partner organisations (European Commission, EBRD and ETF) and SBA co-ordinators. The assessment framework for the *Level playing field* pillar was developed and slight changes to the core SBA dimensions were introduced (see Box 2 and Annex A.). Introductory country missions were held throughout May-June 2018 to present the updated methodology, process and timeline of the assessment to key stakeholders expected to contribute to the assessment (governmental and private sector representatives, as well as international organisations and NGOs). The country missions were followed by the first Regional SBA Co-ordinators meeting in July 2018 in Brussels, which gathered representatives from all partner organisations and the six EaP governments to discuss and approve the updated assessment framework.

- **Data collection, evaluation and verification (**October 2018 – June 2019): The EaP countries carried out a self-evaluation of their policy frameworks (via the assessment questionnaire and the statistical data sheet) and completed materials were sent to the OECD team. Upon the receipt of countries' self-assessments, the OECD and partners 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; and for the Entrepreneurial Human Capital pillar, focus groups were held to build on the self-evaluations. In-country reconciliation meetings were held throughout April-June 2019 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. In addition, sector-specific focus groups with businesses were conducted during this period to gather

information for the sectoral analysis. In July 2019, the second Regional SBA Co-ordinators meeting took place in Paris, where the final results were presented, discussed, and endorsed.

- **Drafting, review, and publication** (February 2019 – June 2020): OECD and partner organisations drafted country chapters that were sent to countries at the end of June in preparation of a Regional SBA co-ordinators meeting held on 2-3 July 2019. Following discussions and comments provided during the meeting, the country chapters were updated and sent to SBA co-ordinators for comments and feedback in early August, while the thematic pillars underwent internal reviews and adjustments. The report – *SME Policy Index: Eastern Partner Countries 2020* – then underwent several internal reviews before being officially launched at OECD Eurasia Week in March 2020, in Tbilisi, Georgia. The publication will also be launched in the six EaP countries during dedicated dissemination events between March and June 2020.

The Eastern Partnership and the Small Business Act for Europe

The 2020 SBA assessment was carried out in the context of the Eastern Partnership, the political framework of co-operation between the EU, its Member States and the six Eastern Partner countries. The policy framework used for the assessment is the SBA, the key policy tool for implementing SME policy in EU Member States.

The Eastern Partnership

Political framework

The Eastern Partnership (EaP) was launched in 2009 at a summit held in Prague. It is a political initiative joining the EU, its Member States and the Eastern European partners (Armenia, Azerbaijan, Belarus, Georgia, Republic of Moldova and Ukraine) in an effort to promote political, economic and social reforms, bringing the EaP countries closer to the EU. The EaP supports and encourages reforms in the EaP countries for the benefit of their citizens. It is based on a shared commitment to international law and fundamental values – including democracy, the rule of law and respect for human rights and fundamental freedoms – as well as the market economy, sustainable development and good governance. The partnership is founded on mutual interests and commitments as well as shared ownership and mutual accountability. The Eastern Partnership creates the conditions for accelerating political association and deepening economic integration between the EU and the Eastern European partner countries. The Eastern Partnership is part of the EU Neighbourhood Policy.

The Association Agreements concluded in 2014, including those for Deep and Comprehensive Free Trade Areas (DCFTAs), have brought the relations between the EU and Georgia, the Republic of Moldova and Ukraine, respectively, to a new level. These agreements constitute a plan of reforms that have already brought the partner countries closer to the EU by aligning their legislation and standards with the EU acquis. The EaP will continue to be inclusive by providing a more differentiated and tailored approach to relations with Armenia, Azerbaijan and Belarus, in line with their sovereign choices. On 24 November 2017 the EU and Armenia signed a Comprehensive and Enhanced Partnership Agreement (CEPA), which entered into provisional application on 1 June 2018 and aims at enhancing political relations and comprehensive economic co-operation. At the same time, the EU is also discussing a closer relationship with Azerbaijan that which

reflects respective interests and values, and is deepening its critical engagement with Belarus.

The 2015 Riga Summit (European Commission, 2015[1]) concluded that co-operation within the Eastern Partnership should in future focus on: 1) strengthening institutions and good governance, 2) enhancing mobility and contacts between people, 3) developing market opportunities, and 4) ensuring energy security and improving energy and transport interconnections.

Moreover, EU Member States and EaP countries share a view that the EaP should focus on delivering tangible results to citizens. In response, the European Commission and the European External Action Service (EEAS) identified a set of 20 deliverables for 2020, first published in December 2016. The "20 Deliverables for 2020" document aims to identify concrete, tangible results for citizens as delivered by the EaP in the four priority areas agreed in Riga, on the basis of already existing commitments on both EU's and Partner Countries' side (European Commission, 2017[2]).

Multilateral track: Platform 2

The Eastern Partnership involves two complementary work streams: the bilateral and multilateral tracks. The numerous challenges which EaP countries share are jointly addressed through the multilateral track through co-operation, networking and the exchange of best practice. Multilateral co-operation work is guided by four thematic platforms, supported by various expert panels, flagship initiatives and projects. These platforms cover the following themes:

- strengthening institutions and good governance (Platform 1)
- economic development and market opportunities (Platform 2)
- connectivity, energy efficiency, environment and climate change (Platform 3)
- mobility and people-to-people contacts (Platform 4).

The Director-General for Neighbourhood and Enlargement Negotiations (DG NEAR), EEAS and the DG for Internal Market, Industry, Entrepreneurship and SMEs (DG GROW) of the European Commission co-ordinate and co-chair Platform 2. This platform covers a wide range of sectorial policies. Policies and planned activities include enterprise and SME policies; trade and trade-related regulatory co-operation linked to the DCFTAs; and co-operation over agriculture and rural development, statistics, harmonisation of digital markets, taxation and public finances, labour market and social policies, and macroeconomic and financial stability.

A dedicated Panel on structural reforms, financial sector architecture, agriculture and SMEs aims to develop a favourable business environment for SMEs in EaP countries – which are currently constrained by an inadequate regulatory and policy framework, a lack of advisory services, limited access to finance and a lack of interregional and international networking mechanisms. The Panel is directed towards government officials as well as business and SME associations. Support is offered under the umbrella of EU4Business in four priority areas:

- *Improving Access to Finance*: The first priority area focuses on ensuring that SMEs in the Eastern Partner countries have adequate access to financing. It not only relates to the provision of loans per se, but also to the circumstances under which loans are provided – such as the interest rate applied, the currency in which the loan

is issued, the collateral required, and the risk incurred by the SME borrower. In order to change such circumstances, the implementers of access-to-finance projects have set up a series of activities focusing not only on the demand side (i.e. SMEs), but also on the supply side (i.e. participating financial institutions, or PFIs). The EU4Business portfolio currently includes 17 programmes and projects under the priority area "Improving access to finance". The SME Finance Facility project is one of the most relevant in this area and it combines loans from the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), and the KfW (Kreditanstalt für Wiederaufbau, German government's development bank) with EU grant resources, to support SME lending in the Eastern Partnership region.

- *Strengthening Regulatory and Policy Framework:* SMEs are often faced with unnecessary barriers such as red tape. This leads to frustrated entrepreneurs, who, in the worst cases, may even give up. To address these barriers, the EU4Business Initiative seeks to improve the transparency and cost-efficiency of administrative regulations through the improvement of SME policies and adoption of legislation which is in line with the Small Business Act. Projects and programmes under this second priority area are focused mainly on supporting governments and BSOs in developing coherent policy reform plans, SME strategies and legislative proposals. The World Bank's "Strengthening Auditing and Reporting in the Countries of the Eastern Partnership" (STAREP) programme aims to help participating countries both to improve their frameworks for corporate financial reporting and to raise the capacity of local institutions to implement these frameworks effectively.
- *Improving Knowledge Base and Business Skills:* The third area of priority focuses on ensuring that the initiative's beneficiaries possess the knowledge and skills necessary for their SMEs to thrive. Projects and programmes in this area focus on increasing SME investment readiness and making SMEs more attractive to investors by improving their knowledge and business skills. The support provided covers a wide variety of topics, such as improving management effectiveness and market performance, improving financial management and reporting, understanding quality management and existing certifications. Most of the EU4Business projects in this area are targeted at specific countries or specific areas (e.g. rural areas). One of the principal programmes is the EBRD "Advice for Small Businesses" initiative, which aims to promote good management in the SME sector by providing technical assistance to individual enterprises, helping them to grow their businesses.
- *Improving Access to Markets*: The last priority area of the EU4Business Initiative focuses on enabling SMEs to go beyond their geographical location by providing them with expansion opportunities, not only at the national/regional level but also internationally. The provision of training to SMEs in how to comply with DCFTA provisions, product standards and certifications in the European Union market, dealing with trade barriers, etc., all ultimately leads to greater internationalisation and investment opportunities, as it makes businesses ready and able to receive foreign direct investment (FDI). The ITC's "Ready to Trade" initiative, which is one of the most relevant EU4Business projects in this area, seeks to help SMEs from Eastern Partner countries integrate into global value chains and access new markets, with a focus on the European Union (EU). (See Box 3 in Chapter 5).

For more information, please see the EU4Business website (www.eu4business.eu).

The SBA assessment is a key tool for improving the business environment for SMEs and businesses in EaP countries, as well as strengthening institutions and good governance. These three aspects are priorities for the future work of the EaP, as outlined in the Declaration of the Eastern Partnership Summit in Riga (European Commission, 2015[1]). The SBA assessment is one of the Panel's key projects. The Panel also follows up on the implementation of the SBA assessment recommendations and policy roadmap and measures progress.

The SBA assessment project is implemented within the EU4Business Initiative. EU4Business is an umbrella initiative that covers all EU support for small and medium-sized enterprises (SMEs) in the region of the Eastern Partnership which brings together the EU, its member states and six partner countries: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. It breaks down barriers SMEs face in their progress, such as limited access to finance, burdensome legislation and difficulties entering new markets, with 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 EIB.

Small Business Act for Europe: A key policy tool for EU Member States

SMEs are the backbone of Europe's economy. They represent 99% of all businesses in the EU. Between 2010 and 2014, they created around 85% of new jobs and provided two-thirds of all private sector employment. The European Commission (EC) considers support for SMEs and entrepreneurship as key for ensuring economic growth, innovation, job creation, and social integration in the EU.

The SBA, which was adopted in June 2008, 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 (European Commission, 2008[3]). Built around ten principles and several concrete policy actions to implement them, the SBA invites both the EC and EU Member States to tackle the obstacles that hamper SMEs' potential to grow and create jobs. The main priorities of the SBA are: 1) promoting entrepreneurship; 2) reducing the regulatory burden; 3) increasing access to finance; and 4) increasing access to markets and internationalisation.

The SBA Review, launched in February 2011, was a major landmark in tracking the implementation of the Small Business Act. It aimed to integrate the SBA with the Europe 2020 strategy (European Commission, 2010[4]). This review presented an overview of progress made in the first two years of the SBA, set out new actions to respond to challenges resulting from the economic crisis, and proposed ways to improve the uptake and implementation of the SBA through a clear role for stakeholders – with business organisations on the front line.

Within the EU, the SME Performance Review is one of the main tools used by the EC to monitor and assess countries' progress annually 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 (programme for the Competitiveness of Enterprises and SMEs; Box 3). It consists of two parts – an annual report on European SMEs, and SBA country fact sheets. The SBA fact sheets assess national progress in implementing the Small Business Act, while the fact sheets focus on indicators and national policy developments equivalent to the SBA's 10 policy dimensions.

Box 3. COSME

The SME Performance Review, as well as other actions supporting the implementation of the SBA in EU Member States, are undertaken through the EU's programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME). The programme started in 2014 and will run until 2020, with DG GROW responsible for its implementation. COSME's objectives are as follows:

- improving the framework conditions for the competitiveness and sustainability of EU enterprises, including in the tourism sector
- promoting entrepreneurship, including among specific target groups
- improving access to finance for SMEs in the form of equity and debt
- improving access to markets inside the EU and globally.

COSME is also open to non-EU Member States. Like most other EU programmes, it allows EaP countries to participate provided that a Protocol or a Framework Agreement on the general principles for the participation of the respective country in EU programmes is in place. Participation in EU programmes is meant to facilitate the political association and economic integration of partner countries.

References

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European Commission (2010), *Communication from the Commission: Europe 2020 - A strategy for smart, sustainable and inclusive growth*, https://eur-lex.europa.eu/legal-content/en/ALL/?uri=CELEX%3A52010DC2020. [4]

European Commission (2008), *Think Small First - A Small Business Act for Europe*, Publications Office of the European Union, Luxembourg, https://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act_en. [3]

Notes

[1] See https://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act_en.

[2] Armenia, Azerbaijan, Belarus, Georgia, Republic of Moldova and Ukraine.

[3] The eight new sub-dimensions are: 1) business licensing, 2) tax compliance procedures for SMEs, 3) bankruptcy prevention measures, 4) overall co-ordination and general measures, 5) SME access to standardisation; 6) Trade Facilitation Indicators; 7) use of e-commerce; and 8) policy framework for non-technological innovation. Please refer to Annex A for further details on methodology.

[4] The approximation of law is a unique obligation of membership in the European Union. It means that countries aspiring to join the European Union must align their national laws, rules and procedures in order to give effect to the entire body of EU law contained in the *acquis communautaire*. See https://ec.europa.eu/environment/archives/guide/part1.htm.

[5] A cut-off date of 30 June 2019 was established for the assessment. Only policy developments and reforms implemented by that date were taken into account for the calculation of the Index. Reforms and policy developments that have taken place after that date (by September 2019) are reflected in the text.

Overview: 2020 SME Policy Index scores and key findings

The SME Policy Index was jointly developed by the Organisation for Economic Co-operation and Development (OECD), the European Commission, the European Training Foundation (ETF) and the European Bank for Reconstruction and Development (EBRD) as a benchmarking tool for emerging economies to monitor and evaluate progress in SME development policies. Structured around the ten principles of the Small Business Act for Europe (SBA), the Index provides for a wide range of pro-enterprise measures to guide the design and implementation of SME policies based on good practices promoted by the EU and the OECD.

It has been applied to several regions which fall under the European Neighbourhood Policy and Enlargement Negotiations: the Western Balkans and Turkey (in 2006, 2009, 2012, 2016 which included Turkey for the first time, and 2019); the Eastern Partner countries (in 2012 and 2016); and the Middle East and North Africa (in 2008, 2013 and 2017). The SME Policy Index methodology is also used as an efficient tool for monitoring SME policy developments in Southeast Asia (2014 and 2018) and in Latin America and the Caribbean (2018).

This 2020 report provides an update on the current status of SME development policy in all six Eastern Partner countries. By benchmarking countries against the ten SBA principles, it highlights key developments and reforms since the 2016 assessment as well as ongoing challenges. For the first time it also analyses selected areas of business environment critical to the creation of a level playing field for all firms, i.e. competition, contract enforcement and alternative dispute resolution, as well as business integrity. Finally, it outlines a roadmap for policy reform in the short, medium and long terms.

This section provides an overview of the key findings of the 2020 SBA assessment across the five thematic pillars and the level-playing-field pillar, as well as key findings for each country. Full details of the assessment framework and process can be found in the previous chapter, “Policy framework, structure of the report and assessment process”. Complete scores per dimension, sub-dimension and thematic block can be found in Table 26. The scoring methodology can be found in Annex A. A detailed analysis and cross-country comparison of each pillar and dimension is presented in Part I of this report. Part II contains full country profiles.

Overview of 2020 key findings for Eastern Partner countries

This section provides an overview of key findings of the 2020 SBA assessment across the dimensions of the five thematic pillars and the level-playing field pillar, as well as key findings for each country. A detailed analysis and cross-country comparison of each pillar and dimension is presented in Part I of this report. Part II contains full country profiles.

Key findings by pillar

Level playing field in EaP countries

Dynamic business entry, growth and development not only require friendly administrative, tax, investment, and trade regimes, but also rely on more fundamental and horizontal aspects of the business environment that ensure a level playing field for all firms. SMEs find themselves particularly disadvantaged vis-à-vis large and/or state-owned firms when operating in flawed institutional environments and are disproportionately affected by inequalities of conditions for competition. This pillar covers three key aspects contributing to a level playing field in an economy: competition, contract enforcement and alternative dispute resolution, and business integrity.

Competition

Fair competition is critical to both economic growth and poverty reduction. Competition creates an environment in which economic actors are incentivised to be more efficient, invest, innovate, and attract customers by offering better goods and services at lower prices. While competition law and policy do not specifically target SMEs, a broad and effective competition law enforcement is essential to ensuring a level playing field that will in turn benefit them. This dimension focuses on the aspects of a competition law regime that provide for a neutral and effective legal framework, and that ensure that the enforcement body is competent, objective and independent in its application.

Although most of the basic building blocks necessary to create functional competition regimes are present in all six EaP countries, actual implementation remains the strongest challenge. Legal frameworks for competition are generally well developed in all six EaP countries, covering most basic provisions of functional competition policy regimes. All six economies prohibit anti-competitive agreements and abuses of dominant behaviours, and all have merger control provisions in place. In all six economies, competition law applies equally to all enterprises irrespective of size and form of ownership; that is, neither state-controlled nor foreign enterprises are exempted from its scope. However, with the exception of Moldova and Ukraine, which show significant cartel prosecution and/or merger control activities, implementation of the competition law is insufficient. This may be due to either a lack of necessary tools, a reluctance to use the available powers, inadequate funding and staffing of the competition agencies, or political factors. Apart from Belarus and Azerbaijan, where competition authorities operate under local ministries, the competition authorities in EaP jurisdictions are formally independent institutions. The competition authorities in all EaP jurisdictions conduct competition assessment of laws and regulations and all six economies consider barriers to entry for SMEs when doing so. As for other advocacy activities, such as training public procurement officials in the prevention and detection of bid rigging in public procurement procedures, training is organised in half of the evaluated countries, namely in Azerbaijan, Georgia and Moldova.

Most EaP countries need to boost their competition enforcement efforts, in particular in the areas of cartels and merger control:

- In order to improve merger control, the competition authorities need to ensure that all mergers that meet the legal thresholds are duly notified;
- All competition agencies need to have the required and standard investigation and sanctioning tools as an enabling condition for strong enforcement;

- Effective and impartial enforcement requires highly qualified enforcers who act in an institutional environment that assures independence from public or private stakeholder interventions.

Contract enforcement and alternative dispute resolution

Efficient enforcement of contracts and the ability to resolve disputes in a timely and cost-effective manner are fundamental elements of a sound business environment. The efficiency of the judiciary is particularly important for SMEs, which bear disproportionately high costs when resolving disputes, due to their size and limited resources. This dimension assesses the effectiveness of the contract enforcement and dispute settlement mechanisms in the six EaP countries with regard to three elements: enforcement of contracts by the judicial system; mechanisms for protecting property rights of businesses, including intellectual property rights (IPR); and the use of alternative dispute resolution (ADR) mechanisms in commercial cases.

According to the World Bank *Doing Business 2020* report (World Bank, 2019[1]), five EaP countries have advanced in implementing justice sector reforms and have improved their performance on the "enforcing contracts" indicator, except for Belarus. However, evidence shows that the EaP region still struggles to ensure effective and independent judicial systems, which is an important impediment to quality and timely contract enforcement. Thus, the time required to enforce a contract is very long in Armenia and Moldova, cost requirements are still very high in Moldova and Ukraine, and the quality of the judicial process leaves much room for improvement, particularly in Azerbaijan, Belarus, Moldova and Ukraine. In order to facilitate SME access to justice, all countries have introduced simplified procedures for small claims and court automation is under way. In terms of protecting business property rights in litigation against public authorities, EaP countries struggle to enforce court decisions against state institutions and state-owned or controlled companies. To protect legitimate business rights against unlawful decisions by public authorities, Ukraine and Georgia have established a Business Ombudsman mechanism, while Armenia and Azerbaijan have plans to establish one. Although IPR protection has been strengthened over the last decade in all EaP countries, its effective implementation is challenged by weak enforcement mechanisms, and often by the lack of qualified judges to treat IP disputes. When it comes to alternative mechanisms for resolving commercial disputes, mediation has been introduced in all EaP countries (except for Ukraine) as the most affordable ADR mechanism for SMEs. However, ADR has not gained ground in commercial dispute settlements, and SMEs continue to lack awareness of ADR benefits. Government efforts to promote ADR have been limited to legal incentives, with a few actions taken to raise SME awareness on ADR.

Going forward, the governments could consider the following:

- Accelerate court automation to ensure efficient and quality contract enforcement;
- Provide for stronger enforcement mechanisms of court decisions, in particular when it comes to execution of decisions against public authorities and state-owned enterprises (SOEs);
- Step up efforts to raise SME awareness of the practice and benefits of ADR.

Business integrity

Business integrity is an important part of government actions to prevent and combat corruption in both private and public sectors, and to increase the levels of compliance with

state policies and regulations in the private sector. This dimension analyses recent policy developments in the field of business integrity in the EaP countries, focusing on the overall institutional and legal framework for business integrity policy; mechanisms for prevention and enforcement of corruption in the private sector; and activities carried out by the governments to promote business integrity measures.

Since 2016, the EaP governments have advanced in the enforcement of anti-corruption policies, resulting in some improvements in the overall business environment. However, progress in combatting corruption remains modest across the region, according to international classifications (e.g. Transparency International) and business surveys.

Business integrity is becoming an increasingly important part of anti-corruption frameworks in EaP countries, but it still lacks a risk-based approach. Despite the EaP countries' steps to promote business integrity through a number of laws on corruption prevention and prosecution, effective enforcement of these laws remains a challenge due to the weak institutional anti-corruption infrastructure and lack of progress in reforming the judiciary. In terms of preventing corruption and enforcing anti-corruption legislation, all the EaP countries except for Azerbaijan have introduced mandatory beneficial ownership disclosure, but the mechanism lacks the tools necessary to effectively verify the validity of provided information. Criminal liability of legal persons for corruption has been introduced to most EaP countries' legislation (this is in progress in Belarus and Armenia), but its enforcement often lacks effective co-ordination and implementation mechanisms. In addition, while EaP countries have put in place various means of reporting corruption and have integrated the protection of whistle-blower rights into their respective legislations, these efforts still do not provide reliable protection and enforcement due to persisting loopholes in the legislation, lack of independence of the judicial system, and weak institutional frameworks for corruption prevention across the EaP region. Moreover, EaP governments' initiatives to promote business integrity practices are scarce and rely extensively on donor or private sector support. Comprehensive awareness-raising programmes on business integrity and meaningful financial and other incentives to encourage SME adoption of integrity practices are lacking in all EaP countries.

Going forward, policy makers should focus on:

- Making studies of business integrity risks an inherent element of anti-corruption policy;
- Ensuring enforcement of the criminal liability of legal persons for corruption;
- Actively promoting business integrity through awareness-raising activities for SMEs and by introducing financial and other incentives.

Pillar A – Responsive government

An effective institutional and regulatory environment providing clear and universal rules is essential to promote risk-taking, encourage investment, and reduce both informality and corruption, and thus to support SMEs. Pillar A assesses governments' responsiveness to SME needs, focusing on the institutional and regulatory framework for SME policy making, the operational environment, and bankruptcy and second-chance procedures.

Institutional and regulatory framework

Effective institutional and regulatory frameworks are crucial for the success of all other SME support initiatives. This dimension measures progress towards developing a

functional institutional and regulatory framework for SME policy making, including elements such as the definition of what an SME is; the institutions in charge of elaborating, implementing, monitoring and evaluating SME policy at the national government level; and the mechanisms for policy dialogue and coordination.

Although all EaP countries have made significant progress in this area since the completion of the last assessment in 2016, the progress has been stronger in countries which in 2016 were lagging behind, such as Belarus and Ukraine (see Table 4). All EaP countries improved their SME definition, which is now based on multiple criteria and includes stratification into micro-, small and medium-sized enterprises. The EaP countries have made significant efforts to organise SME policy interventions around multi-year SME development strategies, albeit with significant across-country variation in structure. Nearly all EaP countries have now established SME development agencies. The availability of SME data has also improved, especially in Armenia, Georgia and Ukraine. Regarding regulatory impact assessments (RIAs), Moldova is currently the only EaP country where the RIA is systematically applied. All EaP countries showed incremental progress towards a more systematic and institutionalised public-private consultation process, with Armenia, Georgia and Moldova leading the way.

Going forward, policy makers should focus on:

- Clearly defining the relations between implementation agencies and the supervisory ministries;
- Systematically assessing the impact of new legal and regulatory acts on SMEs;
- Further improving public-private consultations.

Table 4. Progress in the institutional and regulatory framework dimension

Institutional and regulatory framework	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine	EaP average
2020 scores	3.76	3.53	3.51	4.20	3.92	3.50	3.74
2016 scores	3.38	2.47	2.41	3.48	3.51	2.45	2.95

Operational Environment

Clear and straightforward regulations, low administrative costs, and simple procedures for starting and operating a business are all fundamental aspects of ensuring that economic gains from starting and growing businesses are not expropriated. The *operational environment* dimension assesses the extent to which public administrations have simplified regulations and reduced costs and procedures to reduce the administrative burden on SMEs.

Georgia performs well across all the sub-dimensions. Azerbaijan and Belarus have further improved their company registration procedures and made additional progress concerning the issuance of business licences and permits (details on the scores can be found in Table 5). For instance, as a result of a State Programme to develop ICT and the establishment of the E-Gov Development Centre, Azerbaijan launched a new single-entry portal for all e-government services in 2018. Moldova and Ukraine have made progress in the licenses and permits area. Disregarding the methodological changes, Armenia is the only country whose score has fallen; this is mainly because the implementation of regulatory reforms was put on hold during the 2018-19 political transition.

Since 2016, several countries have amended their tax codes to introduce new tax incentives and improve tax regimes for SMEs. Both Azerbaijan and Armenia have introduced some form of tax exemption for small innovative start-ups and SMEs operating within approved clusters, and for individual entrepreneurs and small businesses, respectively. Most EaP countries have also introduced a set of thresholds below which enterprises are exempted from keeping a VAT account and have made efforts to speed-up tax refund payments.

EaP countries should maintain this momentum by focusing on the following:

- Upgrading IT skills and IT requirements in order to allow small enterprises and individual entrepreneurs to benefit from the introduction of e-government services;
- Assigning registration agencies the task of managing enterprise data collection and management systems;
- Assessing the impact of simplified tax regimes to ensure that tax exemptions do not discourage SME growth or encourage the diversion of activity into the informal sector.

Table 5. Progress in the operational environment dimension

Operational environment	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine	EaP average
2020 scores	3.55	4.20	4.12	4.36	3.76	3.55	3.92
2016 scores	4.05	4.23	4.09	4.33	3.56	3.81	4.01
2020 scores*	3.87	4.32	4.11	4.52	3.76	3.89	4.08

*2016 methodology.

Bankruptcy and second chance

Given their limited resources compared to larger firms, SMEs (as both debtors and creditors) especially benefit from cost-effective, streamlined bankruptcy systems. This dimension assesses the extent to which EaP countries are facilitating market exit and re-entry by adopting effective and efficient insolvency frameworks.

Insolvency frameworks remain one of the weakest areas of the EaP region's business environment and countries have experienced only modest progress in this area, as can be seen in Table 6. Even though Belarus, Georgia, Moldova and Ukraine have developed a range of tools to detect and prevent insolvency at the early stages of financial distress, or to promote a culture of sound business management and business rescue, those tools often lack visibility and accessibility. The development of early-warning systems is at a nascent stage in all EaP countries except Belarus, where a comprehensive system based on tax declarations has been implemented. The system provides for the monitoring of tax declarations, and firms showing signs of financial distress are invited to explain the reasons for their distress; unsatisfactory explanations may be followed by further investigations from the authorities. Azerbaijan and Georgia have amended their insolvency legislations and Ukraine has introduced a new Bankruptcy Code. The insolvency framework is also expected to improve in Armenia, Belarus and Moldova, where reforms are planned for 2020. Proactive policies and initiatives promoting second chances for "honest re-starters" are at very early stages in EaP countries and entrepreneurs seeking a fresh start still face some form of discrimination (e.g. in Ukraine and Belarus). Only in Moldova are awareness campaigns, training courses, and restructuring services provided in the context of the DanubeChance2.0 project to support honest re-starters.

Policy makers should focus on the following priorities:

- Intervening at an early stage by increasing support to financially distressed entrepreneurs and by implementing early-warning systems for a systematic detection of insolvency;
- Streamlining judicial proceedings by introducing simplified or pre-packaged in-court proceedings specifically targeting SMEs, or by providing alternatives to in-court procedures;
- Adopting co-ordinated and proactive second-chance strategies, including features such as facilitated access to finance after bankruptcy, guidelines or training for re-starters, and awareness-raising campaigns.

Table 6. Progress in the bankruptcy and second chance dimension

Bankruptcy and second chance	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine	EaP average
2020 scores	2.40	2.97	3.34	3.03	2.79	2.56	2.85
2016 scores	3.16	2.87	2.57	2.94	2.68	2.05	2.71
2020 scores*	2.73	3.23	3.21	3.20	2.69	2.38	2.91

*2016 methodology.

Pillar B – Entrepreneurial human capital

Pillar B focuses on entrepreneurial human capital as both a key factor in all SBA dimensions and a policy area that is attracting increasing attention from EU and EaP governments aiming at economic modernisation, competitiveness, job creation and wellbeing. Investment into skills, knowledge and know-how is a fundamental determinant of healthy, innovative economy and a prerequisite of future employment opportunities for the citizens.

This chapter investigates the state of policy and practice in three areas critical for human capital development:

- *entrepreneurial learning* – development of entrepreneurship key competence as a combination of knowledge, skills and attitudes people should possess for successful career and personal development;
- *women's entrepreneurship* – the creation of a policy environment in which women can engage on equal terms with men in entrepreneurship, creation of new jobs and generation of new value for the national economies and internationally; and
- *skills for SMEs* – the development of specific, occupational skills for successful entrepreneurship.

Entrepreneurial learning and women's entrepreneurship

Principle 1 of the SBA is built around two central themes: entrepreneurial learning and women's entrepreneurship, which both target the entrepreneurial potential of an individual and entrepreneurial culture at the level of community and society. While entrepreneurial learning supports the development of entrepreneurship key competence and mindset of all citizens from a lifelong learning perspective, women's entrepreneurship highlights the gender dimension of the entrepreneurship competence development reflected in the SME gender gap across Europe and a lack of women among business owners and job creators.

Thus, entrepreneurial learning is an imperative for sustainable economic growth and better employment, contributing to the transformation of societal perceptions and comprehensive, inclusive government policies aiming at the development of innovative, entrepreneurial human capital.

Development of key competences requires an education system-level shift and strategic investment in learner-centred approach, competence-based curricula, teacher development and new cooperation modalities between business and education to provide practical entrepreneurship experience for all youngsters. Women's entrepreneurship policies in the SBA agenda are based on cross-stakeholder partnership, reflecting the complex nature of the gender gap in entrepreneurship and aiming at a comprehensive vision in the society on the importance of full-scale women's engagement in entrepreneurship for national economies. Both policy areas require evidence-based approach and effective monitoring and evaluation measures. The availability of high-quality data in disaggregated format is crucial.

In *entrepreneurial learning,* most countries have made good progress and are now able to deploy a range of policy instruments to support the entrepreneurial drive in education and built interfaces with wider economic policies. Emphasis in the assessment was given to entrepreneurship key competence where good efforts are being made by most countries, with Ukraine, Georgia and Moldova being top performers. Cross-ministerial partnership arrangements are in place in several countries, and cooperation between policymakers and support agencies must be reinforced. Armenia, Georgia, Moldova and Ukraine have adapted their curricula frameworks to include the entrepreneurship key competence applying the EU's EntreComp provisions, and Ukraine has made the EU key competences part of its legislation and a driver of national education reform. The key challenge across the Eastern Partnership is how to prepare educators for teaching competence-based curricula. While a variety of in-service teacher training programmes to support entrepreneurial learning have been introduced in most of the Eastern Partner countries, pre-service teacher training should be addressed across the region. Practical entrepreneurship experience, which is key to the new entrepreneurial pedagogic paradigm and part of the EU's education and enterprise policy recommendations, is better addressed in VET and needs more attention in general education. The Junior Achievement network plays an important role in these aspects. The assessment underlined the still-weak engagement of the higher education community with entrepreneurship and a lack of attention to entrepreneurship key competence development. Overall, monitoring and evaluation of policies remains weak in entrepreneurial learning.

Women's entrepreneurship has been moving up the policy priority list in all EaP countries. However, the policy response has been more assumption-based and international policy agenda-driven, lacking both a high-quality, gender sensitive data for policy design and effective coordination between the government bodies responsible for economic development, entrepreneurship, employment, gender and education policies. In the current assessment, Georgia and Moldova are leading the way, showing maturity of support policy frameworks and actions. In most EaP countries, women's entrepreneurship is now supported by non-formal policy partnerships, while Moldova, Azerbaijan, and Georgia have also established structured partnerships at the national level. Armenia, Belarus, Georgia and Moldova started to introduce cross-linkages between policy documents at the national level to close the SME gender gap. All EaP countries now show a good spread of women's entrepreneurship support measures. Significant progress has been identified in the provision of training and support to women entrepreneurs and plenty of excellent practices

have been found. Communication actions for raising awareness are among women's entrepreneurship support measures in Armenia, Azerbaijan, Georgia and Moldova. There have been impressive developments in all countries on good practice sharing on women's entrepreneurship support. Evidence based approach remains a challenge both in policy design and in monitoring and evaluation.

Going forward, policy makers should focus on:

- Achieving structured policy coordination and system-level cooperation of stakeholders to implement entrepreneurial learning and women's entrepreneurship;
- Setting up well-functioning systems of evaluation of policy impact and effectiveness of support measures in entrepreneurial learning and women's entrepreneurship, with a focus on the quality data in disaggregated format for policy improvement;
- In education, ensuring reference to the EntreComp and other EU competence frameworks in designing curricula and teacher training, as well as provision of practical entrepreneurship experience in upper secondary, VET and higher education;
- In women's entrepreneurship, engage multiple stakeholders in common vision building and define both gender-specific and gender-neutral entrepreneurship support measures that reflect the country context and needs.

Table 7. Progress in the entrepreneurial learning and women's entrepreneurship dimensions

Entrepreneurial learning and women's entrepreneurship	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine	EaP average
2020 scores	2.84	3.41	2.79	4.24	4.25	3.98	3.58
2016 average	2.63	2.59	2.39	2.7	2.57	2.25	2.52

SME skills

Principle 8 of the SBA includes the area of enterprise skills which are important for businesses to make effective use of the SMEs' full potential and enhance their own competitiveness, as well as boost the national economic growth. This dimension assesses government's support to SMEs in the development of enterprise skills, such as business skills, entrepreneurship as a key competence and vocational skills.

During the current assessment period Georgia, Moldova and Ukraine progressed, while an institutional change has disrupted previously attained progress in Azerbaijan. SME skills intelligence, as a basis for effective design and provision of relevant and high quality SME training and support measures, remains a challenge in most EaP countries. At the same time, in Georgia, the first nationwide Establishment Skills Survey was conducted in 2017 and a dedicated labour market information web- portal was also put in place. Azerbaijan and Ukraine have begun developing quantitative forecasts with a longer time horizon. In other Eastern Partner countries, skills intelligence remains *ad hoc* and the available data is often not pooled together and analysed; this situation is reflected in the scores of the dimension, presented in Table 8. Rapid technological changes are causing skills gaps, which are being addressed by Ukraine, Moldova, Georgia and Belarus by implementing

smart specialisation. In all EaP countries, a wide range of training for SMEs is available, targeting different groups of enterprises. For instance, in Azerbaijan, Georgia and Moldova, special attention is given to small and medium-sized family-owned businesses. Moreover, in Armenia, Georgia, Moldova and Belarus training is available for SMEs to increase their digital skills and address the technical skills' mismatch. In Armenia, Azerbaijan, Georgia and Moldova, monitoring of government-financed SME training is regularly conducted, albeit often focused mainly on quantitative factors, as compared to the quality of the training offer. There is noticeable progress in policy monitoring, which has become a regular feature of the government's SME policy implementation across the EaP region. Evaluation of the impact of policies and support measures remains a challenge, despite the good examples of evaluation instruments deployed in Armenia, Azerbaijan, Georgia and Moldova.

Going forward, policy makers should focus on:

- Improving SME skills intelligence to increase the quality, diversity and relevance of the training offer and support measures;
- Designing SME support measures with better targeting in mind, fine-tuning the supply of training to the different phases of the life-cycle of an enterprise, as well as in view of the specific groups and types of SMEs.
- Making use of new learning opportunities offered to SMEs through smart specialisation, with a view to improving access to high-quality training in such areas as internationalisation and global value chains.

Table 8. Progress in the SME skills dimension

SME skills	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine	EaP average
2020 scores	3.26	2.62	3.06	4.14	3.92	3.19	3.36
2016 scores	2.67	2.94	2.28	3.00	2.50	2.56	2.66

Pillar C – Access to finance

Access to finance is critical to companies' survival and growth. Due to their smaller size, SMEs often face barriers in accessing external financing. Pillar C assesses government's efforts to facilitate SMEs' access to financial resources.

Access to finance

In order to facilitate lending to SMEs, it is important to develop a well-designed legal and regulatory framework that reduces perceived lending risks, ensures sound banking practices and addresses information asymmetry. Some progress in developing such a robust legal framework has been achieved: Armenia, Azerbaijan and Belarus have launched modern and unified registers to facilitate the use of movable assets as collateral, and banking regulations in most countries are being aligned with Basel III requirements. However, the lending environment continues to be tight in most countries – especially in Azerbaijan, Moldova and Ukraine, where economies are still suffering from the effects of recent banking crises. Almost all EaP countries have made efforts to establish credit guarantee funds to support SME lending. In contrast, only some progress has been made in fostering the development of non-bank financial instruments, such as leasing and factoring. Many countries (Belarus and Moldova) have undertaken or are undertaking (Azerbaijan and Georgia) reforms to their legal frameworks to support the development of both types

of alternative financial instruments; however, uptake for both types of instruments remains significantly below potential. Little progress has been evident in any of the EaP countries in developing dedicated legal frameworks to facilitate venture capital (VC) investments, and VC financing is unlikely to play a major role in the region in the short term.

Lastly, EaP countries continue to underperform in the context of financial literacy promotion. However, there are some encouraging initiatives taking place. Armenia, Azerbaijan and Georgia now have in place national strategies for financial education, while Ukraine has incorporated financial literacy into its SME strategy for 2020. Georgia in particular has made good progress; in 2018 it launched a financial education programme targeting SMEs. The country is also gradually introducing mandatory compliance with International Financial Reporting Standards (IFRS) for SMEs, which is expected to lead to more-accurate financial management and reporting among the business community in the medium term.

Governments should intensify their efforts and consider the following:

- Increasing the coverage of the credit information system so that it collects payment information from a wider range of actors;
- Supporting the development of leasing and factoring by completing and reviewing the ongoing reforms of the legal framework;
- Co-ordinating financial literacy efforts to improve the level of efficiency of such initiatives.

Table 9. Progress in the access to finance dimension

Access to finance	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine	EaP average
2020 scores	3.81	3.12	3.57	4.02	3.61	3.31	3.57
2016 scores	3.53	2.70	3.08	3.76	3.40	3.22	3.28
2020 scores*	3.83	3.08	3.49	4.07	3.64	3.23	3.56

*2016 methodology.

Pillar D – Access to markets

SMEs tend to face particularly high barriers and risks in entering new markets – both domestic and foreign – due to lack of information about export opportunities, internationally incompatible quality standards, and discriminatory rules, as well as complex application procedures for public tenders. Pillar D investigates reforms governments implement to facilitate SME access to markets.

Public procurement

Public procurement represents an important share of public expenditure and is an important market opportunity for SMEs. Unfortunately, the unreasonably large size of public contracts, disproportionate qualification and financial requirements and ineffective electronic procurement portals systematically discriminate against SMEs with limited turnover. This dimension assesses EaP countries' efforts to make public procurement more open to entrepreneurial SMEs.

The regulatory environment is improving in most EaP countries (as is apparent from the scores presented in Table 10) – especially for Georgia, Moldova and Ukraine, which are

adapting their legislation to conform with the directives of the European Union. However, gaps remain in the provisions intended to facilitate SME participation in public procurement. None of the EaP countries has yet fully introduced all the standard practices recommended in this area – such as systematic division into lots, the proportionality of award and qualification criteria, simplified rules for demonstrating conformity with formal requirements, possibilities for joint bidding and subcontracting, and timely payments by contracting authorities. While e-procurement systems have developed considerably since 2016, they remain limited in terms of the award criteria that can be applied and related tendering procedures, and their expected advantages for facilitating and supporting SME participation in public procurement have not yet materialised. Weak institutional capacity is also part of the problem. Contracting authorities capable of competently handling public procurement are crucial to SME participation. The institutional environment would benefit from the use of joint procurement by several contracting authorities, of external experts (even just by pooling some small authorities for engaging a competent procurement officer), and of one or several centralised purchasing bodies.

Going forward policy makers should:

- Improve e-procurement systems by adding criteria other than price and by ensuring that qualification requirements are proportionate and properly applied;
- Make better use of the potential of centralised purchasing and the use of framework agreements to support wider SME participation;
- Invest in training for procurement officers and contracting authorities to increase their ability to plan and carry out procurement and manage contracts.

Table 10. Progress in the public procurement dimension

Public procurement	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine	EaP average
2020 scores	3.61	2.87	3.15	4.26	3.86	3.17	3.49
2016 scores	3.42	2.42	3.21	4.04	2.89	2.73	3.12

Standards and technical regulations

Appropriate technical regulations and standards can offer substantial trade benefits. When they are inadequate or excessively burdensome, however, they can represent severe barriers. This dimension evaluates countries' progress in eliminating technical barriers to trade for industrial products and aligning with international and EU norms.

All the EaP countries have adopted measures to ensure their technical regulations and standardisation laws converge towards EU principles, with AA/DCFTA countries – i.e. those with Association Agreements (AA) and Deep and Comprehensive Free Trade Areas (DCFTA) – leading the process (see Table 11 for scoring details). Moreover, since 2016, all EaP countries have applied for associate membership in the European co-operation for Accreditation (EA) and Belarus, Georgia, Moldova and Ukraine have signed bilateral recognition agreements with the EA. While Azerbaijan's legislation on conformity assessment (CA) is not yet totally in line with the EU, Georgia, Moldova and Ukraine have aligned their legislation with the EU acquis, and Armenia and Belarus follow the Eurasian Economic Union's approach to CA. However, only about half of the EaP countries have specific measures in place to facilitate SME access to CA. Government bodies responsible for metrology exist in all EaP countries, but only in Belarus, Georgia, Moldova and Ukraine

do they enjoy international recognition. While other EaP countries have market surveillance based on *ex ante* control, Georgia, Moldova and Ukraine have passed legislation to transition towards a system based on *ex post* control. Finally, to compensate for the lack of awareness of the benefits coming from SME's participation in standardisation activities, all EaP countries have introduced awareness-raising measures, albeit with overall limited degrees of outreach.

In addition to following the previous policy recommendations from the 2016 SBA assessment, policy makers should:

- Redefine institutional missions to focus on "industrial service provision" rather than "control";
- Foster the use of standards and conformity assessment services by expanding financial and non-financial incentives for SMEs.

Table 11. Progress in the standards and regulations dimension

Standards and regulations	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine	EaP average
2020 scores	2.66	3.10	3.04	4.56	3.68	3.55	3.43
2016 scores	3.33	3.32	3.22	4.22	4.12	4.34	3.76
2020 scores*	2.69	3.25	2.96	4.09	3.39	3.81	3.36

*2016 methodology.

Internationalisation

Access to foreign markets is crucial to SMEs' long-term viability. However, they tend to be under-represented in international trade due to many barriers, such as information asymmetries, financial barriers, and lack of skills and know-how. This dimension assesses governments support for export-oriented SMEs.

Since 2016, all EaP countries have started implementing (or, in the case of Armenia, preparing) new strategies for SME internationalisation, as shown in the scores presented in Table 12. Nearly all EaP countries have established a dedicated export promotion agency, though it is often under-funded and under-staffed. The Moldovan Investment Agency and Business Armenia were recently downsized. In Azerbaijan, AZPROMO focuses only on organising promotional events and trade missions and supporting the participation of local companies in trade fairs. Ukraine has established a new Export Promotion Office. Other public institutions also provide SMEs with support services to improve their internationalisation, and the EU and other donors financially support SMEs' access to foreign markets. Since 2016, only limited progress has been made in implementing policies to foster SME integration into global value chains (GVCs). Azerbaijan created a platform to connect local companies producing under the brand *Made in Azerbaijan* with foreign buyers, and the Georgian online portal www.tradewithgeorgia.com also provides information on export-oriented Georgian companies. Cluster development is one of the priorities, especially for Azerbaijan, Moldova and Georgia.

Notwithstanding the implementation of all these measures, the 2017 OECD Trade Facilitation Indicators underline a significant performance gap between the EaP region and OECD countries. Georgia is the best performer in the region, followed by Azerbaijan.

Basic legal frameworks for e-payments and consumer protection in e-commerce are in place in all EaP countries, but continuous efforts are needed to align with EU frameworks.

Lack of IT skills is being addressed by Azerbaijan and Georgia through the launch of, respectively, the "Baku E-Commerce Academy" and targeted Enterprise Georgia and GITA (Georgia's Innovation and Technology Agency) programmes to increase SME readiness to use e-commerce as a sales channel.

Much remains to be done in this dimension. Policy makers should consider:

- Expanding the range of provided export support services by including training and targeted programmes for SMEs;
- Continuing to reduce regulatory and administrative barriers to trade;
- Introducing or expanding the provision of trade finance tools for exporting SMEs, such as export credit guarantees, export credit insurance and export working capital.

Table 12. Progress in the internationalisation dimension

Internationalisation	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine	EaP average
2020 scores	2.86	3.08	2.68	3.76	2.74	2.64	2.96
2016 scores	3.37	2.50	2.59	3.60	3.07	1.63	2.79
2020 scores*	3.35	3.20	3.25	3.99	3.13	3.02	3.32

*2016 methodology.

Pillar E – Innovation and Business Support

SMEs are on average less productive than large companies. Pillar E investigates reforms that governments are implementing to help SMEs overcome challenges to productivity and to foster innovation.

Business development services

Business development services (BDS) allow SMEs to compete more effectively, operate more efficiently and become more profitable. This dimension considers the availability, accessibility and effective implementation of targeted support services for SMEs provided by the government, and the role of governments in encouraging and stimulating private BDS provision.

All EaP countries have made incremental progress in this dimension since 2016, and this clearly appears in the scores presented in Table 13. Although all governments have now included BDS provision into relevant strategic frameworks, the top performers are Georgia, Armenia and Moldova, where dedicated SME agencies provide a wide palette of services to entrepreneurs. In Belarus, the Ministry of Economy is currently developing a concept note for the establishment of an SME agency which should improve BDS provision, while Azerbaijan's newly established Small and Medium Business Development Agency is undergoing a major restructuring of the highly fragmented business support infrastructure. In Ukraine, the establishment of SME Development Office co-ordinating the provision of BDS has led to the most significant improvement among the EaP countries since the 2016 assessment. However, the newly established agency still lacks a basic information portal to provide learning and awareness-raising opportunities to remotely located SMEs. Private BDS markets need further development incentives in the region. Only a few countries list private consultancy companies on governmental / SME agency websites or online portals (Armenia and Moldova), outsource some of the training and consultancy services

(Moldova, Ukraine, Armenia and Georgia), and make use of co-financing mechanisms or voucher schemes, which would allow SMEs to choose their preferred private service providers and cover part of their expenses for BDS (Georgia, Moldova; Ukraine for agribusiness sector only).

Governments should focus on:

- Establishing co-ordination mechanisms among all the different bodies involved in BDS provision;
- Developing single information portals containing information on all the services provided by both public and private BDS;
- Establishing quality assurance mechanisms for private providers to support private BDS market development.

Table 13. Progress in the business development services dimension

Business development services	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine	EaP average
2020 scores	4.00	3.27	3.11	4.39	3.47	2.90	3.53
2016 scores	3.93	2.98	2.99	3.69	3.35	1.84	3.13

Innovation policy

SMEs can play a central role in the generation and diffusion of innovations. However, due to their limited size and capacity, they often face difficulties in developing and sustaining innovative activities over a long time period. This dimension provides a framework for evaluating government support aimed at fostering SME innovation.

Overall, since the 2016 assessment, all EaP countries have evolved their policy frameworks for innovation, with dedicated national strategies either adopted (Belarus and Moldova), awaiting government approval (Georgia, Azerbaijan), or still being developed (Armenia, Ukraine), and a strengthened role for state bodies in charge of policy co-ordination (see Table 14 for the scores). However, the focus on SMEs is still limited and monitoring tools remain underutilised. Government support services are expanding at different speeds, with Georgia and Belarus leading the way in setting up innovation infrastructure (techno-parks, innovation centres) but with initiatives to foster research-business collaborations at very early stages. Financial support instruments for innovative businesses are available in the form of grants and fiscal incentives; however, these are mostly donor-driven (Georgia) or lacking risk-sharing mechanisms with beneficiaries (Azerbaijan). Lastly, while non-technological innovation has begun to be recognised in the policy and legal frameworks, active measures to promote it remain isolated.

EaP governments may therefore want to:

- Promote formal and informal channels for science-industry interactions, such as collaborative research, intellectual property transactions, academic spin-offs, and facility/laboratories sharing between industry and public research;
- Better design financial instruments to support innovative activities among SMEs, aiming at crowding-in private investments;
- Promote demand-side policies to spur innovation diffusion.

Table 14. Progress in the innovation policy dimension

Innovation policy	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine	EaP average
2020 scores	2.96	2.83	3.21	3.27	2.99	2.28	2.92
2016 scores	2.91	2.47	2.91	2.70	2.54	1.86	2.57
2020 scores*	2.90	2.82	3.51	3.25	3.04	2.35	2.98

*2016 methodology.

Green economy

In all EaP countries, SMEs represent the vast majority of all enterprises, which makes them responsible for a considerable portion of industrial emissions. Moreover, implementing policies to support green SMEs can enhance their competitiveness by lowering operational costs, improving market access, supporting participation in green supply chains, and incentivising the deployment of new technology. This dimension assesses government support for SMEs in adopting greener practices through regulatory, financial, and informational tools.

Since the 2016 assessment, all EaP countries have introduced policies that support the greening of SMEs, albeit with varying degrees of detail in terms of both planned activities (as in Georgia) and concrete targets (as in Belarus and Azerbaijan) (see the scores presented in Table 15). Moldova is the standout exception in this regard: its Green Economy Promotion Programme for 2018-20 sets a target of 30% of SMEs implementing green economy principles by 2020, including resource efficiency and cleaner production techniques. Most countries in the region (Belarus, Georgia, Moldova and Ukraine) reported consultations with stakeholders in the development of green policies. Environmental legislation is also being updated to recognise the capacity and risk differences inherent in small firms compared to larger ones. A series of encouraging initiatives on risk-based environmental impact assessments have been adopted in Armenia and Belarus. Most countries are now experimenting with different forms of support or building on existing programs. Even though there are pilot projects on green procurement for SMEs and there is growing interest in supporting environmental management systems, those projects are not subject to monitoring or impact evaluation. Belarus, Moldova, and Ukraine are in the process of establishing green requirements for public procurement, while Armenia and Georgia are showing a growing interest in supporting environmental management systems. However, the scale and reach of these projects remain in question, as there is little to no monitoring and evaluation of their impact. Longevity is also an issue, as donor funds remain a key source of support for SME greening.

Policy makers should therefore consider the following priorities:

- Strengthening green SME policies by linking them to concrete action plans with measurable targets and timeframes, consulting stakeholders in the development stage, and entrusting one government body with the co-ordination of the overall government approach;
- Raising awareness among SMEs of the benefits of adopting green practices;
- Supporting the development of environmental management systems and greening public procurement.

Table 15. Progress in the green economy dimension

Green economy	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine	EaP average
2020 scores	2.40	2.31	3.41	3.05	2.92	2.54	2.77
2016 scores	2.39	1.54	2.10	2.48	2.19	1.22	1.99

Key findings for each country

Armenia, following stagnation in 2016 caused by a slowdown in the economic activity of its major trading partners, has experienced a strong recovery. In 2018, the economy grew by 5.2%, mainly driven by industry and agriculture. SMEs represented more than 99% of all enterprises in the business economy,[1]accounted for 68% of total business employment and generated 60% of value added. Efforts to improve the policy environment for SMEs led to the adoption of a first SME strategy (2016-18), followed by a medium-term SME strategy for 2020-25.

Table 16. Overview of Armenia's key reforms since 2016 and recommendations

Key reforms	Key recommendations
• Adopted a comprehensive medium-term SME strategy • Integrated entrepreneurship key competence into curricula and teacher training across all levels of education • Strengthened creditor rights – also through a reform of the insolvency legislation • Strengthened public procurement legislation and promoted SME participation • Introduced specific measures to promote the BDS market	• Introduce insolvency prevention measures (information tools and early-warning system) • Complete reforms to the insolvency framework to strengthen creditor rights and promote corporate recovery • Promote expansion of conformity assessment services and ensure competition between domestic CA bodies • Work towards the reception of full international recognition of the national accreditation body • Develop a clear implementation plan to support SME greening, including measurable targets and expected impact

Azerbaijan experienced a GDP contraction in 2016-17, spurred by the economic slowdown of major trading partners and a drop in oil prices. A banking crisis followed, triggered by a sharp increase in inflation. The need for diversification prompted the government to implement a reform agenda to modernise the economy and shift to a more resilient economic model. In 2016, the government elaborated 12 "*Strategic roadmaps for the national economy and main economic sectors*", detailing short- and medium-term goals for sectors such as oil and gas, agriculture, tourism, financial services and SMEs. In 2018, SMEs generated only 13% of value added and accounted for 43% of employment, hinting at the vast potential for SME development.

Table 17. Overview of Azerbaijan's key reforms since 2016 and recommendations

Key reforms	Key recommendations
Adopted SME Roadmap 2016-20 Introduced policy partnership in women's entrepreneurship Established public-sector Entrepreneurship Development Fund and Credit Guarantee Fund to ease access to finance Launched National Financial Literacy Strategy under the patronage of the Central Bank Established Export Promotion Centre, and expanded information support and e-services for exporting SMEs Established National Innovation Agency and three technology parks	Upgrade and expand the "Roadmap for the Promotion of the Production of Consumer Goods by SMEs in Azerbaijan" Introduce the entrepreneurship key competence across all education levels as part of a lifelong learning strategy Enhance financial inclusion by supporting the development of non-bank financial services and deepening credit information Ensure a co-ordinated approach to the provision of export support services and build capacity in the SME Development Agency and its regional branches to support SME internationalisation Target specific green-economy policies, including renewable energy uptake as well as financial and regulatory incentives, towards the capacities and needs of SMEs

Belarus' economy is largely state-controlled and oriented towards full employment. In fact, full and partial SOEs retain half of total employment and gross value added in the economy. The little space for manoeuvre remaining for SMEs and the inefficiencies of the SOE sector have had critical consequences for the dynamism of its economy, limiting the growth potential of the country by causing a suboptimal allocation of capital, labour and resources. In recent years the government has gradually acknowledged the relevance of a healthy private sector and has taken steps to improve the policy environment for private enterprises, especially SMEs. In 2018, SMEs' contribution to value added and to employment represented 29% and 47%, respectively.

Table 18. Overview of Belarus' key reforms since 2016 and recommendations

Key reforms	Key recommendations
Adopted an SME strategy, including provisions for the establishment of an SME agency Integrated entrepreneurship key competences in primary and secondary education as a behavioural model and a life strategy Submitted a concept note to the Government for the establishment of an export promotion agency (under the new SME agency) Expanded the innovation infrastructure	Complete the decision process on the establishment of a dedicated agency for SME development Strengthen legal protections for secured creditors, allow seizing of collateral, pay out secured creditors earlier and make creditor consent observation mandatory Improve the institutional framework for export support and promotion by establishing an export promotion agency Add regulatory provisions to facilitate SME participation, such as proportionality of requirements, division into lots, and timely payments Develop a pilot programme to support a targeted group of SMEs, relying on a simple co-financing mechanism for first-time users of BDS to choose their preferred BDS provider

Georgia's economy has been steadily growing in the past years, reaching 4.7-4.8% in real GDP growth in 2017-18 – spurred by developments in trade, construction, and transport, combined with sound evidence-based policy making. Since the implementation of the 2016-20 SME Development Strategy, Georgia has made impressive strides in entrepreneurial learning and in the operational environment for SMEs, and now enjoys a seventh place ranking in the latest World Bank *Doing Business* report (2020) (World Bank, 2019[1]). In 2017, 99.7% of all firms in Georgia were SMEs, accounting for 64% of total employment and 61% of value added in 2018.

Table 19. Overview of Georgia's key reforms since 2016 and recommendations

Key reforms	Key recommendations
Adopted SME Development Strategy 2020 and respective action plans Established a Sub-Council for Women's Entrepreneurship Promotion Started a pilot project to link domestic SMEs with multinational enterprises (MNEs) in the hospitality sector Provided BDS based on good practice – with services outsourced to private providers or co-financing scheme	Elaborate a new SME Development Strategy beyond 2020 through a process of inter-governmental and public-private consultations Support the diversification of financing instruments to enable small businesses to access funding Increase the scope of export readiness and SME–FDI linkages programmes and ensure their proper evaluation Introduce financial support programmes for exporting SMEs Develop a single information portal containing information on all institutions and agencies offering BDS Mainstream policies that support SMEs in adopting greener practices

Moldova's economy suffered greatly when a banking scandal erupted in 2015, triggering high inflation and a market crisis. However, it recovered relatively quickly and the economic grew by 4% in 2018. The recovery was driven mostly by the favourable economic conditions of Moldova's major trading partners and increasing disposable income supported by tax cuts, wage increases, and remittances. SMEs are a critical part of

the Moldovan economy: in 2018, SMEs represented 98.7% of all enterprises and employed 59.8% of the labour force.

Table 20. Overview of Moldova's key reforms since 2016 and recommendations

Key reforms	Key recommendations
Introduced the RIA framework in all relevant institutions Established the Centre for Entrepreneurial Education & Business Support and expanded the provision of services supporting the development of entrepreneurship key competences Increased stability in the financial sector following the IMF review Adopted Investment Attraction and Export Promotion Strategy (2016-20) Established the National Agency for Research and Development	Expand the sources of information of the credit bureaus beyond banks to include utilities and other service providers Implement a proper early-warning system and insolvency prevention training for entrepreneurs Increase the capacity of the Moldovan Investment Agency to deliver export promotion services Introduce support programmes to enhance the export readiness of SMEs, the creation of SME-FDI linkages, and the capacity of ODIMM Provide SMEs with clear information and direct support to ensure that they can benefit from the planned implementation of green public procurement policies

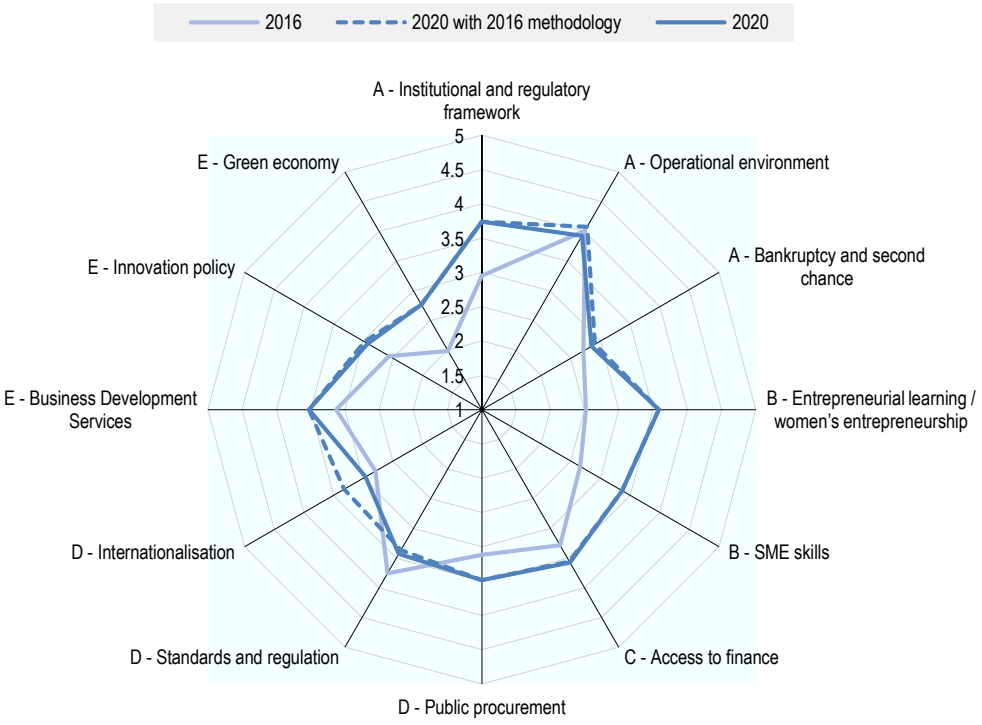
Ukraine's economy is currently growing at a 3.3% rate, recovering from a contraction of 15.7% in 2015. In 2018, in the business sector, SMEs represented 99.9% all enterprises, generated 49% of value added, and employed 63% of the labour force. Since 2014, the government has embarked on an ambitious reform agenda envisaging structural reforms in all sectors of the economy in order to meet its obligations under the EU-Ukraine Association Agreement and DCFTA. In particular, it has taken important steps to improve the environment for small and medium-sized enterprises – steps that led, in 2017, to the approval of Ukraine's first SME Development Strategy for the period until 2020.

Table 21. Overview of Ukraine's key reforms since 2016 and recommendations

Key reforms	Key recommendations
Adopted a new SME strategy in 2018 and established an SME Development Office to support its implementation Developed the New Ukrainian School concept based on 10 key competences, including "sense of entrepreneurship" Consolidated the banking sector, leading to more stability and improved access to finance for SMEs Gradual approximation/alignment with EU standards and EU technical regulations Included measures for SME greening and green technologies in the SME strategy 2020	Implement an early-warning system for detecting insolvency Adopt a comprehensive and proactive second chance strategy for bankrupt entrepreneurs Consolidate the current monitoring and evaluation actions and create a monitoring and evaluation framework for the key competence developments happening within the New Ukrainian School reform, the vocational education and training (VET) modernisation reform, and Higher Education reforms Bring to fruition the large number of initiatives to stimulate lending to SMEs that are currently at drafting stage Ensure funding for, and sufficient internal capacity of, the Export Promotion Office to provide export support services and expand its services at the regional level Provide information and direct support to SMEs on the benefits of the planned green public procurement policies

Overview of regional performance

Figure 2. Progress towards SME-supportive policies in EaP countries 2016 and 2020



Note: Overall dimension scores are calculated based on five levels of policy reform, with 1 being the weakest and 5 being the strongest.
Methodological changes have been introduced to the 2020 assessment and should be taken into account when observing trends in SME Policy Index scores. For a detailed account of methodological and scoring changes, please see the chapter "Policy framework, structure of the report and assessment process" and Annex A. For a detailed account of 2020 scores according to 2016 methodology, please refer to the relevant country chapters or the overview of key findings by country (below).

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Since the first SBA assessment in 2012, the EaP region has registered a remarkable improvement across almost all SBA dimensions, particularly those related to the *responsive government* and *entrepreneurial human capital* pillars. Especially noteworthy are the recent improvements in the *institutional and regulatory framework* dimension: all EaP countries have acknowledged the crucial role of a responsive government and effective institutions in promoting SME development, encouraging investment, and reducing informality and corruption – laying the foundation for a healthy business environment in which enterprises of all sizes and ownership types can thrive.

Table 22 provides an overview of the region's progress for each SBA dimension since the assessments conducted in 2016 and 2012.

Table 22. Summary of regional progress in SME policy development

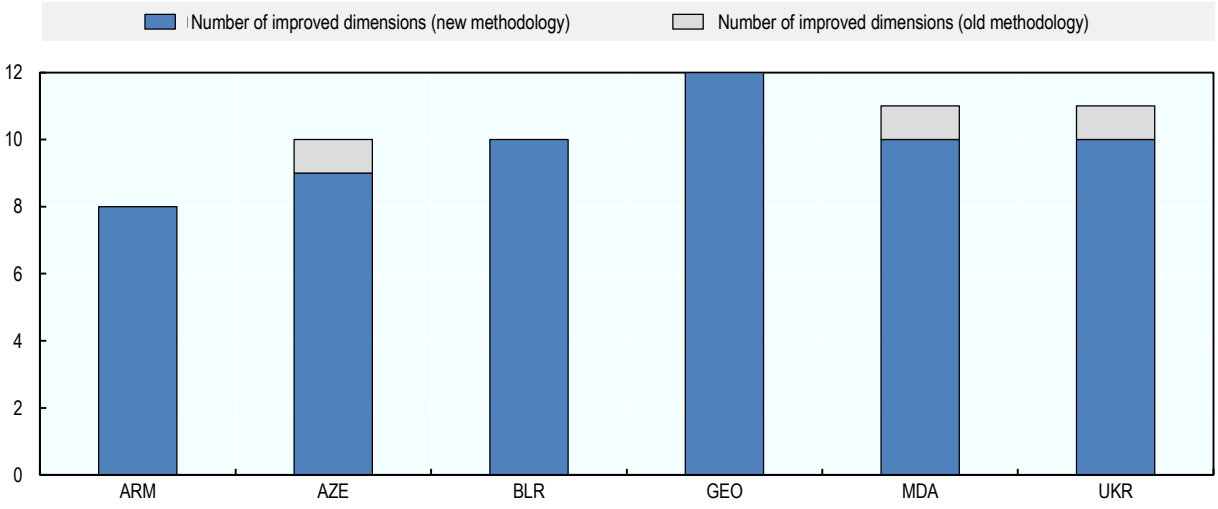
Pillar	Dimension	2020 EaP Average	2016 EaP Average	2012 EaP Average	Change 2016-20	Change 2012-20
A	Institutional and regulatory framework	3.74	2.95	2.61	+0.79	+1.13
	Operational environment	3.92*	4.01	3.68	-0.09	+0.24
	Bankruptcy and second chance	2.85*	2.71	2.53	+0.14	+0.32
B	Entrepreneurial learning / Women's entrepreneurship	3.58	2.52	2.23	+1.06	+1.35
	SME skills	3.36	2.66	2.15	+0.71	+1.21
C	Access to finance	3.57*	3.28	2.83	+0.29	+0.74
D	Public procurement	3.49	3.12	2.62	+0.37	+0.87
	Standards and regulations	3.43*	3.76	2.96	-0.33	+0.47
	Internationalisation	2.96*	2.79	2.30	+0.17	+0.66
E	Business Development services	3.53	3.13	2.71	+0.40	+0.82
	Innovation policy	2.92*	2.57	2.05	+0.36	+0.87
	Green economy	2.77	1.99	1.47	+0.78	+1.30

Note: Darker blue colouring denotes a higher rate of change during 2016-20.
* Methodological changes have been introduced to the 2020 assessment and should be taken into account when observing trends in SME Policy Index scores. For a detailed account of methodological and scoring changes, please see the chapter "Policy framework, structure of the report and assessment process" and Annex A. For a detailed account of 2020 scores according to 2016 methodology, please refer to the relevant country chapters or the overview of key findings by country (below).

Among the EaP countries, improvements have proceeded at different speeds and in different areas. Overall, progress in Pillar B, *Entrepreneurial human capital,* is the highest on average, hinting at the general recognition of the importance of investment in skills, knowledge, and know-how to promote sustainable and inclusive economic growth. Also, as noted earlier, a big improvement has been achieved in the *Institutional and regulatory framework* dimension, which proves the fact that the EaP countries recognise the crucial role played by effective institutional frameworks in the success of all other SME support initiatives. On the other hand, dimensions relating to Pillar D, *Access to markets,* experienced the weakest progress, suggesting that EaP governments need to catalyse efforts in those dimensions to facilitate SME entry into new markets.

Figure 3 displays the number of dimensions per country where the scores have improved since the 2016 assessment, while Table 23 shows the percentage change in dimension scores compared to 2016.

Figure 3. Improvements by number of dimensions by EaP country



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Table 23. Percentage change in each dimension between 2016 and 2020

Pillar	Dimension		Percentage change					
		2020-16 (*)	ARM	AZE	BLR	GEO	MDA	UKR
A	Institutional and regulatory framework		11%	43%	46%	21%	12%	43%
	Operational environment		-12%	-1%	1%	1%	6%	-7%
		(*)	-4%	2%	1%	4%	6%	2%
	Bankruptcy and second chance		-24%	4%	30%	3%	4%	25%
		(*)	-14%	13%	25%	9%	1%	16%
B	Entrepreneurial learning / women's entrepreneurship		8%	32%	17%	57%	65%	77%
	SME skills		22%	-11%	34%	38%	57%	24%
C	Access to finance		8%	16%	16%	7%	6%	3%
		(*)	8%	14%	13%	8%	7%	0%
D	Public procurement		6%	19%	-2%	5%	34%	16%
	Standards and regulations		-20%	-7%	-6%	8%	-11%	-18%
		(*)	-19%	-2%	-8%	-3%	-18%	-12%
	Internationalisation		-15%	23%	3%	4%	-11%	62%
		(*)	-1%	28%	25%	11%	2%	85%
E	Business Development Services		2%	10%	4%	19%	3%	58%
	Innovation policy		2%	14%	10%	21%	18%	22%
		(*)	0%	14%	20%	20%	20%	27%
	Green economy		0%	50%	62%	23%	33%	108%
	Average increase		-1%	16%	18%	17%	18%	34%
		(*)	2%	18%	20%	18%	18%	37%

(*) In these rows, the 2020 indicators have been calculated using 2016 methodology.
Note: Darker blue colouring denotes a higher rate of change.

As it did in 2016, Georgia stands out as the top performer in this year's assessment. The country's efforts to implement the last assessment's recommendations are particularly

visible when it comes to improving *entrepreneurial learning and women's entrepreneurship* (with an average increase of 57% since 2016) and *SME skills* (+38%) [2]

Equally important, Ukraine achieved the position of top reformer in this assessment round: reforming efforts since the previous assessment led to the biggest increase in overall performance among the EaP countries compared to 2016, starting from a low base, improving its score on average by 34%. Ukraine made the biggest strides among the EaP countries in the dimensions of *green economy* (+108%) and *entrepreneurial learning/women's entrepreneurship* (+77%), followed by *internationalisation* (+62%) and *business development services* (+58%).

The increases in dimensional scores achieved by Belarus and Moldova are also noteworthy: Belarus made its largest advancement in the dimension of *green economy*, achieving the position of best performer in the EaP region and increasing its score by 62%, and also considerably improved its *institutional and regulatory framework* score by 46%; whereas Moldova is the best performer in *entrepreneurial learning/women's entrepreneurship*. Azerbaijan is the best improver for *access to finance* with a score increase of 16% (on par with Belarus), and is among the best improvers for *green economy*. Armenia, despite showing an overall weaker improvement with respect to the previous assessment, still figures among the top achievers for the *access to finance* and the *business development services* dimensions.

Table 24 indicates for each country the areas of best performance and the areas with the biggest margin for improvement.

Table 24. Summary of each country's progress and main areas for improvement

Country	Stronger performance	Score	Main areas for improvement	Score
Armenia	Pillar E - Business Development Services	4.00	Pillar D - Standards and regulations	2.66*
	Pillar C - Access to finance	3.81	Pillar A - Bankruptcy and second chance	2.40*
	Pillar A - Institutional and regulatory framework	3.76	Pillar E - Green economy	2.40
Azerbaijan	Pillar A - Operational environment	4.20*	Pillar E - Innovation policy	2.83
	Pillar A - Institutional and regulatory framework	3.53	Pillar B - SME Skills	2.62
	Pillar B - Entrepreneurial learning/ Women's entrepreneurship	3.41	Pillar E - Green economy	2.31
Belarus	Pillar A - Operational environment	4.12*	Pillar D - Standards and regulations	3.04
	Pillar C - Access to finance	3.57	Pillar B - Entrepreneurial learning/ Women's entrepreneurship	2.79
	Pillar A - Institutional and regulatory framework	3.51	Pillar D - Internationalisation	2.68*
Georgia	Pillar D - Standards and regulations	4.56	Pillar E - Innovation policy	3.27
	Pillar E - Business Development Services	4.39	Pillar E - Green economy	3.05
	Pillar A - Operational environment	4.36*	Pillar A - Bankruptcy and second chance	3.03*
Moldova	Pillar B - Entrepreneurial learning / Women's entrepreneurship	4.25	Pillar E - Green economy	2.92
	Pillar A - Institutional and regulatory framework	3.92	Pillar A - Bankruptcy and second chance	2.79
	Pillar B - SME skills	3.92	Pillar D - Internationalisation	2.74*
Ukraine	Pillar B - Entrepreneurial learning / Women's entrepreneurship	3.98	Pillar A - Bankruptcy and second chance	2.56
	Pillar A - Operational environment	3.55*	Pillar E - Green economy	2.54
	Pillar D - Standards and regulations	3.55*	Pillar E - Innovation policy	2.28*

Note: (*) Methodological changes have been introduced to the 2020 assessment and should be taken into account when observing trends in SME Policy Index scores. For a detailed account of methodological and scoring changes, please see the chapter "Policy framework, structure of the report and assessment process" and Annex A. For a detailed account of 2020 scores according to 2016 methodology, please refer to the relevant country chapters or the overview of key findings by country (below).

2020 SME Policy Index scores for Eastern Partner countries

The main objective of the SME Policy Index is to provide governments with a framework for assessing policies targeting SME development. The index identifies strengths and weaknesses in policy design, implementation, monitoring and evaluation; allows for comparison across countries; and measures convergence towards good SME policy practices promoted by the EU and the OECD. It aims to support governments in setting targets for SME policy development and strategic priorities to further improve their business environments. It also engages governments in policy dialogue, including with the private sector, and facilitates the exchange of experiences within the region and with the partner organisations. Table 26 displays the SME Policy Index scores in the EaP countries according to the 2020 Small Business Act assessment. The cut-off date for the assessment process being 30 June 2019, the scores reflect the situation of SME policy in the six EaP countries and reforms introduced by that date. Box 4 summarizes the scoring methodology.

Box 4. Scoring SME policy development

The SME Policy Index assesses both quantitative and qualitative policy indicators. The quantitative indicators include data from the SBA statistical data sheet —using the respective national statistical offices, the World Bank's *Doing Business* reports, the World Economic Forum's *Global Competitiveness* reports and Transparency International's Corruption Perception Index. The qualitative indicators assess the policy development path in a certain area, such as the establishment of a regulatory impact assessment or a credit guarantee scheme. The analysis was also enriched by evidence gathered through private sector focus groups organised in the framework of this third assessment round.

Scores between 1 and 5 are used to assess the level of policy reform for each sub-dimension and dimension, with 1 being the weakest level and 5 being the strongest. For qualitative indicators, the scores typically correspond to the levels of policy development shown in Table 25.

Table 25. Policy development scale

Level 1	Level 2	Level 3	Level 4	Level 5
There is no law, institution, tool or (information) service in place for the area concerned.	There is a draft law, institution, tool or (information) service and there are some signs of government activity to address the area concerned.	A solid legal and/or institutional framework is in place for this specific policy area, tool or (information) service.	Level 3 complemented by some concrete indications of effective policy implementation of the law, institution or tool.	Level 4 complemented by significant evidence of concrete and effective policy implementation of the law, institution, tool or service. This level comes closest to good practice identified for the OECD countries.

A detailed description of the policy framework and process underpinning the assessment is provided in the chapter "Policy framework, structure of the report and assessment process". The scoring methodology is provided in Annex A.

Table 26. 2020 SME Policy Index scores in the EaP countries

	Scores							
	ARM	AZE	BLR	GEO	MDA	UKR	EaP average	Weight
Pillar A – Responsive government								
Institutional and regulatory framework for SME policy making	**3.76**	**3.53**	**3.51**	**4.20**	**3.92**	**3.50**	**3.74**	
Institutional framework	**3.76**	**4.00**	**3.52**	**4.53**	**4.05**	**3.32**	**3.86**	**40%**
Planning and design	3.20	4.37	3.50	4.30	4.13	3.66	3.86	35%
Implementation	3.93	3.93	3.40	4.60	3.93	2.73	3.76	45%
Monitoring and evaluation	4.33	3.50	3.83	4.75	4.19	4.08	4.11	20%
Legislative simplification and regulatory impact analysis	**3.49**	**3.37**	**3.25**	**3.92**	**3.94**	**3.71**	**3.61**	**30%**
Planning and design	4.20	3.80	3.27	4.47	4.38	4.20	4.05	35%
Implementation	3.16	2.81	3.85	3.91	3.76	3.70	3.53	45%
Monitoring and evaluation	3.00	3.89	1.89	3.00	3.56	2.87	3.03	20%
Public-private consultations	**4.05**	**3.08**	**3.75**	**4.04**	**3.72**	**3.53**	**3.69**	**30%**
Frequency and transparency	4.14	2.62	3.70	3.56	4.37	3.33	3.62	40%
Private sector involvement	4.15	3.24	3.85	4.70	3.42	3.67	3.84	40%
Monitoring and evaluation	3.67	3.67	3.67	3.67	3.00	3.67	3.56	20%
Operational environment	**3.55**	**4.20**	**4.12**	**4.36**	**3.76**	**3.55**	**3.92**	
Digital government for SMEs	**3.14**	**4.14**	**3.84**	**4.17**	**3.43**	**3.52**	**3.71**	**40%**
Strategy, planning and design	1.96	4.22	4.44	4.33	3.67	2.89	3.59	35%
Implementation	4.07	4.48	3.63	4.78	3.67	4.46	4.18	45%
Monitoring and evaluation	3.08	3.25	3.25	2.50	2.50	2.50	2.85	20%
Business licensing	**2.94**	**3.21**	**3.68**	**4.82**	**4.52**	**3.88**	**3.84**	**10%**
Licence procedures	3.22	2.78	4.33	4.56	4.56	4.70	4.02	40%
Monitoring and streamlining of licence systems	2.75	3.50	3.25	5.00	4.50	3.33	3.72	60%
Company registration	**4.58**	**4.58**	**4.49**	**4.85**	**3.97**	**3.81**	**4.38**	**30%**
Design and implementation	4.67	4.67	4.83	5.00	4.33	4.00	4.58	35%
Performance	4.33	4.33	4.00	4.67	3.83	4.33	4.25	45%
Monitoring and evaluation	5.00	5.00	5.00	5.00	3.66	2.32	4.33	20%
Tax compliance procedures for SMEs	**3.14**	**4.26**	**4.34**	**3.80**	**3.70**	**3.06**	**3.72**	**20%**
SME Tax compliance & simplification procedures	2.78	4.78	4.56	3.67	3.22	2.78	3.63	40%
Monitoring and evaluation	2.78	3.40	4.56	3.22	3.67	2.33	3.33	30%
Doing Business: Paying Taxes	3.98	4.41	3.83	4.56	4.38	4.17	4.22	30%
Bankruptcy and second chances	**2.40**	**2.97**	**3.34**	**3.03**	**2.79**	**2.56**	**2.85**	
Preventive measures	**1.29**	**2.43**	**3.76**	**2.71**	**2.90**	**2.71**	**2.63**	**30%**
Survival and bankruptcy procedures	**3.84**	**3.87**	**3.85**	**3.67**	**3.01**	**3.15**	**3.56**	**45%**
Implementation	4.20	3.78	3.62	3.47	3.34	3.97	3.73	40%
Performance	3.60	3.93	4.00	3.80	2.80	2.60	3.46	60%
Promoting second chance	**1.17**	**2.00**	**1.92**	**2.25**	**2.25**	**1.33**	**1.82**	25%
Pillar B – Entrepreneurial human capital								
Entrepreneurial learning / women's entrepreneurship	**2.84**	**3.41**	**2.79**	**4.24**	**4.25**	**3.98**	**3.58**	
Entrepreneurial learning	**2.53**	**3.02**	**2.46**	**3.86**	**3.97**	**4.09**	**3.32**	**60%**
Planning and design	2.77	2.31	2.23	4.54	4.69	4.31	3.47	30%
Implementation	2.60	3.05	2.97	3.00	3.93	3.80	3.23	50%
Monitoring and evaluation	2.00	4.00	1.50	5.00	3.00	4.50	3.33	20%
Women's Entrepreneurship	**3.31**	**3.99**	**3.28**	**4.80**	**4.65**	**3.81**	**3.97**	**40%**
Planning and design	3.80	3.40	3.27	4.33	4.73	3.27	3.80	30%
Implementation	3.40	5.00	4.20	5.00	5.00	4.20	4.47	50%

	Scores							
	ARM	AZE	BLR	GEO	MDA	UKR	EaP average	Weight
Monitoring and evaluation	2.33	2.33	1.00	5.00	3.67	3.67	3.00	20%
SME skills	**3.26**	**2.62**	**3.06**	**4.14**	**3.92**	**3.19**	**3.36**	
Planning and design	2.45	1.00	2.09	3.91	3.55	3.55	2.76	30%
Implementation	3.44	3.44	3.67	4.33	4.11	3.44	3.74	50%
Monitoring and evaluation	4.00	3.00	3.00	4.00	4.00	2.00	3.33	20%
Pillar C – Access to finance								
Access to finance	**3.81**	**3.12**	**3.57**	**4.02**	**3.61**	**3.31**	**3.57**	
Legal and regulatory framework	**4.18**	**3.63**	**3.74**	**4.42**	**4.10**	**3.85**	**3.99**	**60%**
Creditor rights	4.22	4.56	2.78	3.89	5.00	4.22	4.11	24%
Register	4.05	4.12	4.12	4.83	4.47	4.28	4.31	24%
Credit information bureau	4.73	4.22	4.32	5.00	3.88	4.28	4.40	24%
Banking regulations	4.50	1.50	4.50	5.00	4.00	2.50	3.67	14%
Stock market	3.04	2.33	3.00	3.08	2.43	3.07	2.83	14%
Sources of external finance – Bank financing	**2.89**	**2.21**	**3.05**	**3.42**	**2.79**	**1.79**	**2.69**	**20%**
Statistics	2.82	2.12	3.53	4.04	2.70	2.32	2.92	60%
Credit guarantee schemes	3.00	2.33	2.33	2.48	2.92	1.00	2.35	40%
Sources of external finance – Non-banking financing	**3.66**	**2.45**	**4.38**	**3.01**	**3.79**	**4.02**	**3.55**	**10%**
Microfinance institutions	4.00	2.67	4.33	5.00	5.00	4.33	4.22	33%
Leasing	1.00	1.00	1.00	1.00	1.00	1.00	1.00	33%
Factoring	3.44	3.00	5.00	3.00	3.67	4.33	3.74	33%
Venture capital ecosystem	**3.37**	**1.81**	**2.27**	**2.92**	**1.53**	**1.66**	**2.26**	**5%**
Legal framework	3.00	1.45	2.78	2.78	1.22	1.45	2.11	35%
Design and implementation of government activities	4.11	2.45	2.45	3.89	2.00	2.11	2.83	45%
Monitoring and evaluation	2.33	1.00	1.00	1.00	1.00	1.00	1.22	20%
Financial literacy	3.82	3.29	3.25	4.66	2.67	3.06	3.46	**5%**
Planning, design and implementation	3.86	3.86	3.48	4.90	3.09	3.57	3.79	80%
Monitoring and evaluation	3.67	1.00	2.33	3.67	1.00	1.00	2.11	20%
Pillar D – Access to markets								
Public procurement	**3.61**	**2.87**	**3.15**	**4.26**	**3.86**	**3.17**	**3.49**	
Policy and regulatory framework	3.17	2.94	2.81	3.44	4.23	3.23	3.30	35%
Implementation	3.71	3.13	3.84	4.64	4.33	3.27	3.82	45%
Monitoring and evaluation	4.17	2.17	2.17	4.83	2.17	2.83	3.06	20%
Standards and regulations	**2.66**	**3.10**	**3.04**	**4.56**	**3.68**	**3.55**	**3.43**	
Overall coordination and general measures	**3.50**	**3.70**	**3.50**	**5.00**	**3.50**	**3.50**	**3.78**	**15%**
Approximation with the EU acquis	**2.81**	**3.53**	**3.18**	**4.44**	**3.76**	**4.35**	**3.68**	**50%**
Technical regulations	3.33	4.13	3.89	4.67	4.00	4.55	4.10	17%
Standardisation	2.81	3.37	2.70	4.00	3.63	4.52	3.51	17%
Accreditation	3.44	3.24	3.28	4.83	4.00	4.89	3.95	17%
Conformity Assessment	2.17	3.25	2.86	4.94	2.97	3.97	3.36	17%
Metrology	2.43	3.38	3.76	4.14	4.29	5.00	3.83	17%
Market surveillance	2.67	3.80	2.56	4.00	3.67	3.11	3.30	17%
SMEs access to standardisation	**2.08**	**2.23**	**2.65**	**4.54**	**3.63**	**2.43**	**2.92**	**35%**
Awareness raising and information	3.08	2.58	3.92	4.50	4.58	3.75	3.74	30%
SMEs participation in developing standards	2.50	3.50	2.50	4.50	3.50	3.00	3.25	30%
Financial support to SMEs	1.00	1.00	1.80	4.60	3.00	1.00	2.07	40%
Internationalisation	**2.86**	**3.08**	**2.68**	**3.76**	**2.74**	**2.64**	**2.96**	

	Scores							
	ARM	AZE	BLR	GEO	MDA	UKR	EaP average	Weight
Export promotion	3.77	3.60	3.73	4.27	3.44	3.39	3.70	**50%**
Planning and design	4.17	3.67	3.33	4.33	3.83	4.00	3.89	35%
Implementation	3.35	4.15	4.15	4.57	3.55	2.98	3.79	45%
Monitoring and evaluation	4.00	2.25	3.50	3.50	2.50	3.25	3.17	20%
Integration into GVCs	**1.68**	**1.59**	**1.29**	**2.85**	**1.92**	**1.56**	**1.81**	**20%**
Planning and design	2.17	2.00	1.58	3.00	2.33	2.33	2.24	35%
Implementation	1.60	1.53	1.20	3.26	2.00	1.20	1.80	45%
Monitoring and evaluation	1.00	1.00	1.00	1.67	1.00	1.00	1.11	20%
Trade Facilitation Indicators	**3.00**	**3.24**	**2.14**	**4.10**	**2.99**	**2.99**	**3.08**	**10%**
Use of E-commerce	**1.70**	**3.17**	**1.70**	**3.20**	**1.70**	**1.70**	**2.19**	**20%**
Planning and design	3.00	3.50	3.00	3.25	3.00	3.00	3.13	35%
Implementation	1.00	3.65	1.00	3.25	1.00	1.00	1.82	45%
Monitoring and evaluation	1.00	1.50	1.00	3.00	1.00	1.00	1.42	20%
Pillar E – Innovation and Business Support								
Business development services	**4.00**	**3.27**	**3.11**	**4.39**	**3.47**	**2.90**	**3.53**	
Support services provided by the government	**4.12**	**3.67**	**3.27**	**4.64**	**3.86**	**2.76**	**3.72**	**50%**
Planning and design	3.83	3.92	2.83	4.83	3.17	3.17	3.63	35%
Implementation	4.78	3.60	3.61	4.89	4.72	3.17	4.13	45%
Monitoring and evaluation	3.13	3.38	3.25	3.75	3.13	1.13	2.96	20%
Government support for private BDS	**3.89**	**2.87**	**2.96**	**4.15**	**3.08**	**3.05**	**3.33**	**50%**
Planning and design	4.00	2.75	3.75	3.50	2.50	4.00	3.42	35%
Implementation	4.43	3.34	3.00	4.71	4.00	3.00	3.75	45%
Monitoring and evaluation	2.50	2.00	1.50	4.00	2.00	1.50	2.25	20%
Innovation policy	**2.96**	**2.83**	**3.21**	**3.27**	**2.99**	**2.28**	**2.92**	
Policy framework for innovation	**2.99**	**2.88**	**3.92**	**3.10**	**3.29**	**2.50**	**3.11**	**40%**
Planning and design	3.25	3.06	4.27	3.55	3.79	3.46	3.57	35%
Implementation	3.66	3.57	4.05	3.23	3.47	1.76	3.29	45%
Monitoring and evaluation	1.00	1.00	3.00	2.00	2.00	2.50	1.92	20%
Government support services	**2.53**	**2.50**	**2.95**	**3.58**	**2.52**	**2.63**	**2.78**	**20%**
Planning and design	3.43	2.47	2.80	4.33	2.80	2.63	3.08	35%
Implementation	2.50	2.60	3.64	2.95	2.18	2.16	2.67	45%
Monitoring and evaluation	1.00	2.33	1.67	3.67	2.77	3.67	2.52	20%
Government financial support	**3.03**	**2.96**	**2.83**	**3.39**	**2.83**	**1.63**	**2.78**	**20%**
Planning and design	3.25	3.07	3.47	3.60	3.80	2.47	3.28	35%
Implementation	2.86	2.86	2.26	3.40	2.60	1.26	2.54	45%
Monitoring and evaluation	3.00	3.00	3.00	3.00	1.66	1.00	2.44	20%
Policy framework for non-technical innovation	**3.29**	**2.92**	**2.42**	**3.18**	**3.04**	**2.12**	**2.83**	**20%**
Non-technological innovation	4.17	3.33	1.67	4.20	3.42	2.67	3.24	50%
Diffusion of innovation	2.42	2.50	3.17	2.15	2.67	1.57	2.41	50%
Green economy	**2.40**	**2.31**	**3.41**	**3.05**	**2.92**	**2.54**	**2.77**	
Environmental policies	**2.56**	**3.04**	**3.27**	**3.85**	**2.53**	**3.52**	**3.13**	**40%**
Planning and design	3.13	2.95	4.40	4.90	3.30	3.90	3.76	35%
Implementation	2.60	3.80	3.40	3.40	2.60	3.00	3.13	45%
Monitoring and evaluation	1.50	1.50	1.00	3.00	1.00	4.00	2.00	20%
Incentives and instruments	**2.28**	**1.81**	**3.50**	**2.51**	**3.18**	**1.89**	**2.53**	**60%**
Planning and design	3.34	2.04	4.63	2.38	3.79	1.63	2.97	35%
Implementation	1.59	2.00	2.41	2.70	2.33	2.48	2.25	45%
Monitoring and evaluation	2.00	1.00	4.00	2.33	4.00	1.00	2.39	20%

Note: Dimension scores are presented based on the five levels of policy reform (see Table 25). For more information about the scoring methodology, please refer to Annex A.
Methodological changes have been introduced to the 2020 assessment and should be taken into account when observing trends in SME Policy Index scores. For a detailed account of 2020 scores according to 2016 methodology, please refer to the relevant country chapters or the overview of key findings by country (above).

StatLink http://dx.doi.org/10.1787/888934086318

References

World Bank (2019), *Doing Business Report 2020*, World Bank Group, Washington, DC, http://www.doingbusiness.org/en/doingbusiness. [1]

Notes

[1] The business economy is a grouping of the following economic activities:

- industry (NACE Rev. 2, sections B to E);
- construction (section F);
- services (sections G to N, excluding activities of holding companies – K64.2).

It does not include agriculture, forestry and fishing (section A) and public sector and non-market activities (sections O to U). See https://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Business_economy.

[2] For this assessment, the methodology for the three human capital sub-dimensions – entrepreneurial learning, women's entrepreneurship and enterprise skills – has been harmonised with the remaining dimensions. Thus, comparison of the scores on the human capital dimensions between the 2016 and 2020 assessments need to be made with caution.

Economic context

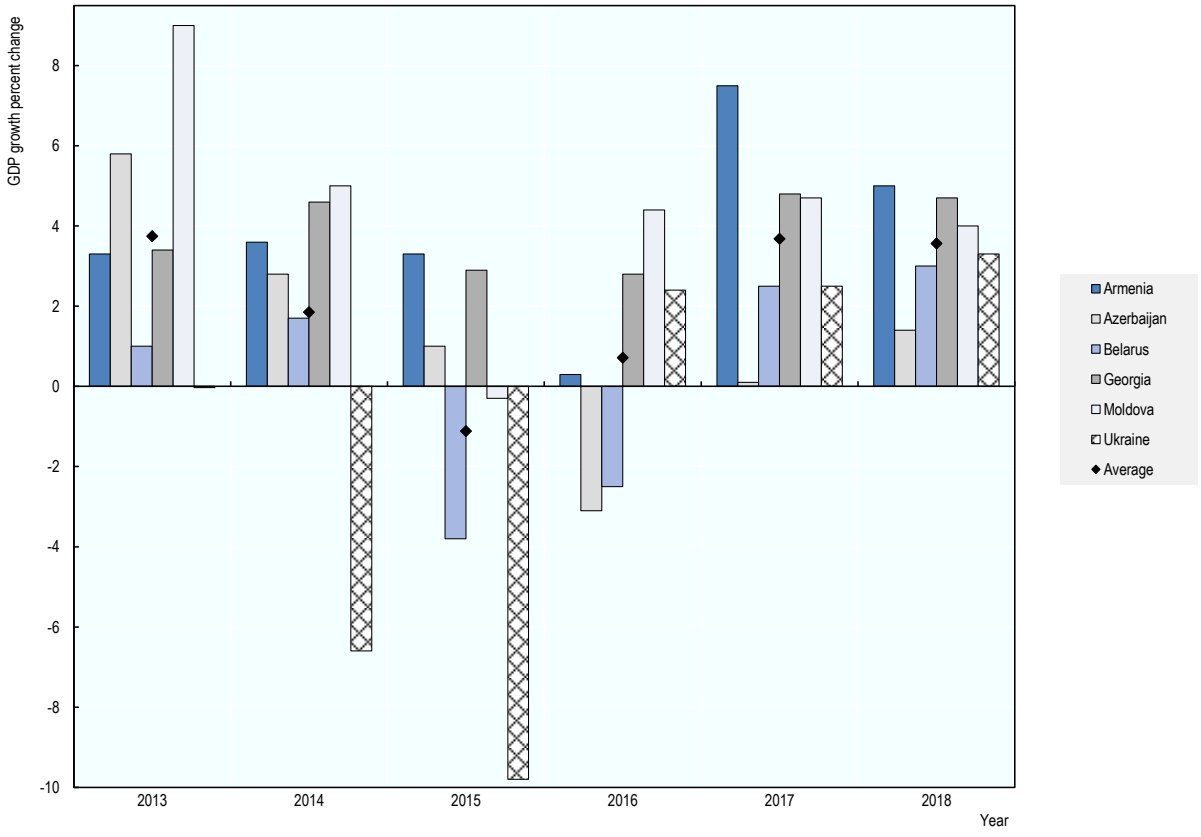
The countries of the Eastern Partnership (EaP) region were hit by a series of political and economic shocks in 2014-15, including the end of the commodity super-cycle, slower growth in China and Western Europe, and the conflict in Ukraine that followed Russia's seizure of Crimea and its intervention in Eastern Ukraine. Western sanctions and counter-sanctions also hit the EaP countries to varying degrees. Azerbaijan, Belarus, the Republic of Moldova and Ukraine all underwent recessions, while Armenia and Georgia experienced slowdowns. The region as a whole contracted in 2014-15 before starting to recover in 2016 (Figure 4). Although the pace and strength of the recovery varied from one country to another, it gradually gained momentum in 2017-18, supported by more favourable economic conditions and successful macroeconomic stabilisation efforts by some EaP governments. As of mid-2019, EaP countries are continuing to record vibrant economic growth rates, despite some signs of moderation.

The EaP countries remain heavily dependent on Russia, albeit to varying degrees, owing to its importance in regional trade flows. However, EaP trade is steadily diversifying *away* from Russia; Azerbaijan, Georgia, Moldova and Ukraine, in particular, are redirecting their exports towards the EU. This trend was likely amplified by entering the Deep and Comprehensive Free Trade Area (DCFTA) with Moldova and Georgia in July 2016, and with Ukraine in September 2017.

Sustained and more resilient growth will be contingent on a continued supportive regional economic backdrop and efforts to address the structural weaknesses revealed by the economic downturn of 2014-15 – which exposed, in particular, the limited diversification of the EaP economies and their lack of competitiveness in most sectors.

Small and medium-sized enterprises (SMEs) play a significant role in the economies of the six EaP countries, but their potential remains largely untapped. Even though all EaP countries have recognised the importance of improving the business environment for SMEs and are striving to simplify business-related legislation and to provide SMEs with targeted support, they must still do more to improve general level-playing-field conditions – competition, contract enforcement and business integrity. These fundamental pillars of open and fair economies are preconditions for developing a vibrant private sector, ultimately enhancing economic competitiveness and trigger inclusive and sustainable economic growth.

Figure 4. Real GDP growth, 2013-18



Source: OECD calculations based on data from the World Bank's (2019[1]) *World Development Indicators* Database.

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A heterogeneous region with a diverse economic structure

The EaP countries' location makes the region an important transit corridor. Georgia and Ukraine have access to international sea routes through the Black Sea, while Azerbaijan has a coast on the Caspian Sea. Belarus, Moldova and Ukraine all border the EU. However, as Table 1 shows, the EaP countries vary significantly in terms of population, resource endowments and economic structures (see Table 27 later in this section for economic snapshots of the EaP countries).

Table 27. Key data for the Eastern Partner countries, 2018

	Total area (km²)	Population (million inhabitants)	GNI* per capita (Atlas method**, current US$)	Arable land (% of land area)	Rural population (% of total population)
Armenia	29 740	2.95	4230	16	37
Azerbaijan	86 600	9.94	4050	24	44
Belarus	207 600	9.49	5670	28	21
Georgia	69 700	3.73	4130	5	41
Moldova	33 850	3.55	2990	56	57
Ukraine	603 550	44.62	2660	57	31

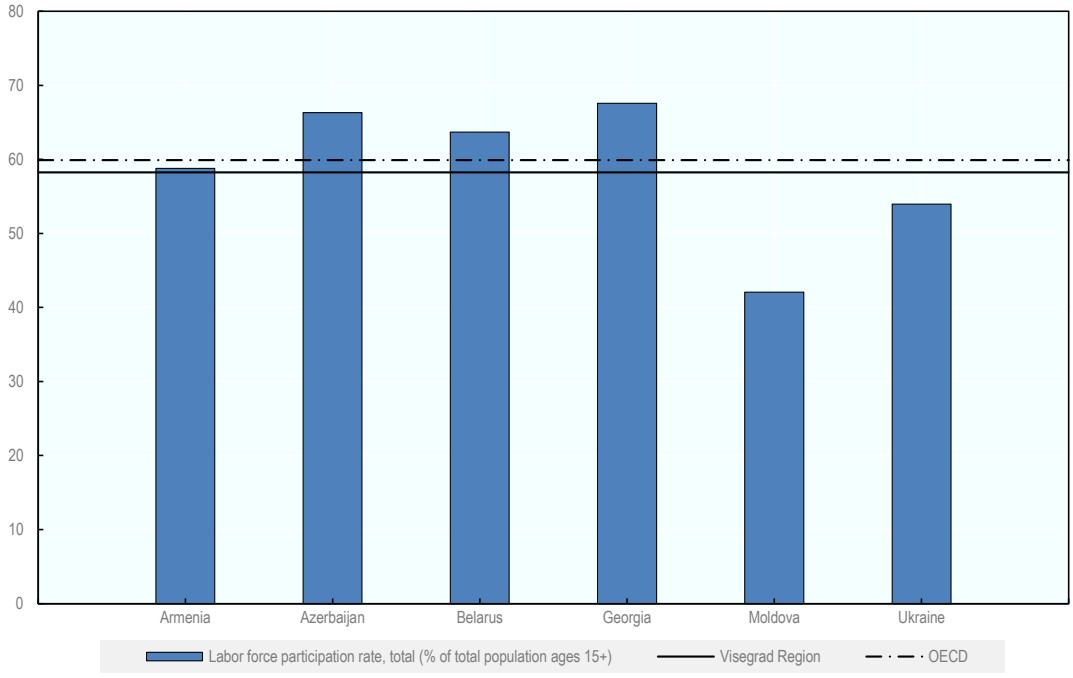
* GNI: gross national income.
** The *Atlas* method consists in applying a conversion factor that averages the exchange rate for a given year and the two preceding years, adjusted for differences in rates of inflation between the country and international inflation (from 2001, the euro area, Japan, the United Kingdom and the United States).
Source: World Bank's (2019[1]) *World Development Indicators* Database.

All EaP countries except Azerbaijan have limited natural resource endowments. Total natural resources rents[1] as a percentage of GDP range from 5.8% in Armenia to 0.3% in Moldova (World Bank, 2019[1]). In Azerbaijan, by contrast, hydrocarbon rents represent 21% of GDP (World Bank, 2019[1]) and the vast majority of exports. Ukraine is the 15th-largest exporter of iron and steel in the world, accounting for 2.4% of world's exports in 2018 (ITC, 2019[2]).

Despite falling as a share of GDP and employment, agricultural production remains substantial in all six countries – particularly in Armenia and Moldova where it accounted for 14.9% and 12.1% of gross value added in 2017. Ukraine is a large exporter of cereals, accounting for 6.6% of world total exports in 2018, while Belarus is the world's fifth-largest fertiliser exporter, generating 5.4% of world exports in 2018 (ITC, 2019[2]).

The region has a highly literate population; literacy is close to 99% in all countries and secondary school enrolment is over 85% in all countries except Moldova. However, considerable discrepancies remain in terms of unemployment rates – which range from 3.4% in Moldova to 17.7% in Armenia (World Bank, 2019[1]). In 2018, labour force participation rates averaged 58.6% across the EaP countries, slightly below the OECD average of 59.9%, but gender disparities persist (Figure 5, Figure 6). Moldova shows the lowest female labour force participation (38.9%) while Georgia displays the biggest gap (male labour force participation reached 78.7% in 2018 while female participation stood at 57.8%). Moreover, the limited evidence available suggests that the informal sector is relatively large in most EaP countries, especially in agriculture and services.

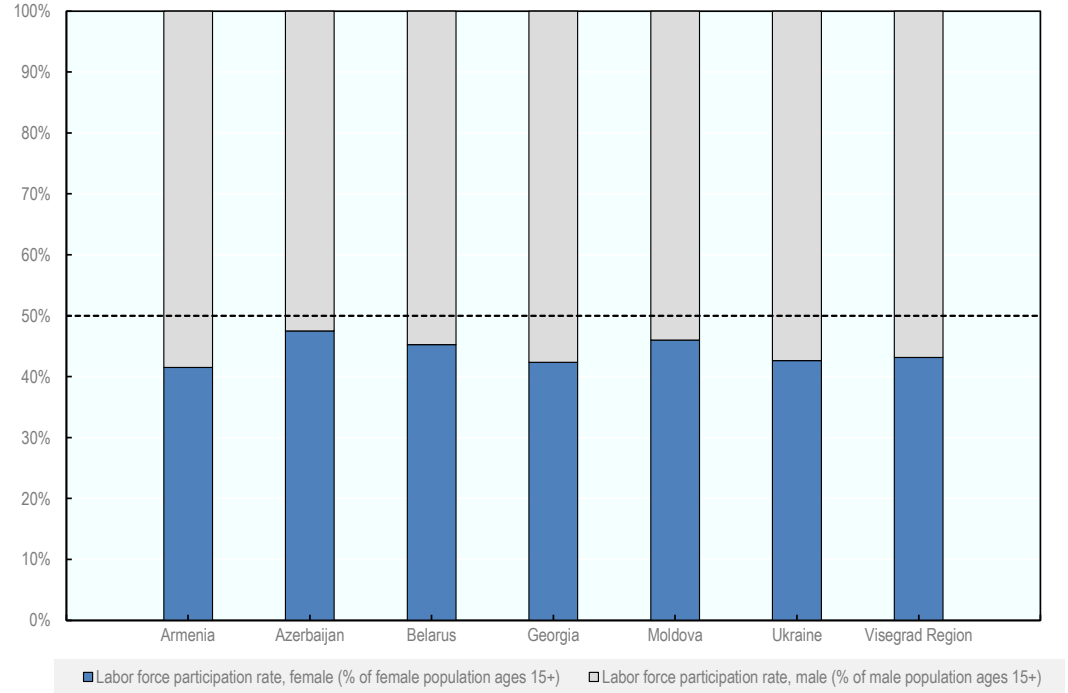
Figure 5. Labour force participation rate, total (% of total population ages 15+; modelled ILO estimate), 2018



Source: OECD calculations based on data from the World Bank's (2019[1]) *World Development Indicators* Database.

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Figure 6. Gender disparities in labour force participation (modelled ILO estimate), 2018



Source: OECD calculations based on data from the World Bank's (2019[1]) *World Development Indicators* Database.

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Box 5. Economic snapshots of EaP countries

Armenia, a landlocked and mountainous country, is the smallest of the six EaP countries. Its economy is driven mainly by the industrial and agricultural sectors, which in 2017 accounted for 25.3% and 14.9% of GDP, respectively, with ores and metal accounting for nearly 40% of exports in 2017. The country is highly reliant on Russia both in terms of trade (roughly a quarter of total exports in 2018) and in terms of remittances (64% of total received in 2017 (World Bank, 2019c[3]). The country became a member of the Eurasian Economic Union (EAEU) in January 2015. Following near-stagnation in 2016, Armenia saw real GDP growth accelerate to 7.5% in 2017 before moderating in 2018.

Azerbaijan's economy is dominated by the oil and gas industry, which accounted for around 38% of GDP and 90% of exports in 2018. This makes the country vulnerable to fluctuations in oil prices. Recovery from the oil-price drop in the middle of the decade has been slow, as the economy recorded just 1.4% real growth in 2018, supported by the upward trend in oil prices, though non-oil GDP expanded somewhat faster. The ongoing expansion of gas production (through the construction of the Southern Gas Corridor between Azerbaijan and Europe for 2020-21 completion) as well as efforts to develop non-oil sectors should support export capacity and growth. Key trade partners are the EU (54% of total exports in 2018), Russia and Turkey. Russia accounts for a comparatively small share of total exports but is the most important destination for *non-hydrocarbon* exports.

Belarus's economy is dominated by large state-owned enterprises, which generated nearly one third of value added in 2016 (IMF, 2019a[4]). The Belarusian economy is driven mainly by manufacturing, which accounts for 41% of GDP, followed by agriculture, wholesale and retail trade, each accounting for nearly 10% of GDP in 2017 (Belstat, 2019[5]). As a member of the EAEU, Belarus is largely dependent on trade with Russia, which accounted for 38% of total exports in 2018. The country also benefits from access to Russian energy at subsidised prices and preferential access to the Russian market. A recession in 2015-16 gave way to modest recovery, with growth of 2.5% in 2017 and 3% in 2018.

Georgia's economy is based on a relatively small industrial sector and on agricultural processing, which accounted respectively for 22.6% and 6.8% of GDP in 2017. The country imports most of its natural gas and oil products. Georgia is located at the centre of an important regional transit corridor, and transport services accounted for 24.6% of commercial service exports in 2017. New transport infrastructures –with the Anaklia Deep Sea Port scheduled for 2021 completion and the recent signature of trade agreements with the EU and China – are expected to transform the country into a logistics hub. In 2018, the EU became the first export destination of Georgian products, accounting for 22%, while exports to Russia represented 13% of total exports (United Nations, 2019[6]).

Moldova relies heavily on exports of basic agricultural products such as vegetables. These make up 27% of the total export basket, making the country particularly vulnerable to variations in food prices in key exports markets, such as the EU, to which nearly 70% of exports were directed in 2018. The Moldovan economy is highly dependent on remittances (20.16% of GDP in 2017), particularly from Russia (32% of total remittances in 2017; (World Bank, 2019c[3]).

Despite the unresolved conflict in the east of the country, **Ukraine** remains the largest EaP economy, generating over 45% of the region's GDP. Industry and agriculture continue to drive the Ukrainian economy and represented 24% and 10.2% of GDP respectively, in

2017. GDP contracted by 16% in 2014-15 and the subsequent recovery has been modest, though gaining in strength. Growth in 2018 reached 3.3%, with aggregate GDP in real terms still almost 15% below the peak recorded in 2008. The country possesses 30% of the world's richest black soil, giving its agricultural industry a huge potential. Key trade partners are the EU and Russia, which respectively received 43% and 8% of Ukrainian exports in 2018.

Sources: Unless otherwise specified in the text, figures are from (World Bank, 2019[1]) and (ITC, 2019[2])

Table 28. Key macroeconomic indicators for Eastern partner countries, 2018

Indicators	Unit of measurement	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine
GDP growth*	Percentage, y-o-y	5.2	1.4	3.0	4.7	4.0	3.3
Inflation**	Percentage, average	2.5	2.3	4.9	2.6	3.1	10.9
Government balance[1]**	Percentage of GDP	-1.8	5.6	2.4	-0.9	-1.1	-2.2
Current account balance*	Percentage of GDP	-9.4	12.9	-0.4	-7.7	-10.5	-3.3
Exports of goods and services*	Percentage of GDP	37.5	54.3	70.2	55.1	30.4	45.2
Imports of goods and services*	Percentage of GDP	52.9	37.7	69.1	66.7	56.3	53.8
FDI net inflows*	Percentage of GDP	2.0.	3.0	2.5	7.3	2.1	1.9
General government gross debt**	Percentage of GDP	51.3	18.8	47.8	44.9	29.7	60.2
Domestic credit to private sector*	Percentage of GDP	55.6	20.8	27.8	68.0	23.5	34.1

[1]General government net lending/borrowing.
[2]Modeled ILO estimates.

Source: *World Bank (2019[1]), *World Development indicators;* **IMF (2019b[7]), *World Economic Outlook*, both accessed on December 2019

Regional recovery but uncertain prospects

After the region's average annual growth plunged to -1.1% in 2015, the trend reversed (all six countries reported positive real GDP growth) but reached a plateau in 2017/2018 – with the region's aggregate growth rising to 2.3% in 2017 and 3.1% in 2018. A more favourable external environment and less volatile macroeconomic conditions helped the countries to recover through remittances, trade and investment channels, albeit to varying degrees. Rising real wages and remittance inflows supported by Russia's return to growth have bolstered domestic demand, which continues to be the main contributor to growth. Stable macroeconomic conditions – thanks to deft monetary policies and reductions in public debt – helped to reduce inflationary pressures and maintain relatively stable exchange rates (EBRD, 2018[8]).

However, the factors that led to the shocks of 2014-15 are still present and leave the region vulnerable – particularly to slower growth in trading partners, commodity price fluctuations and uncertain geopolitical conditions.

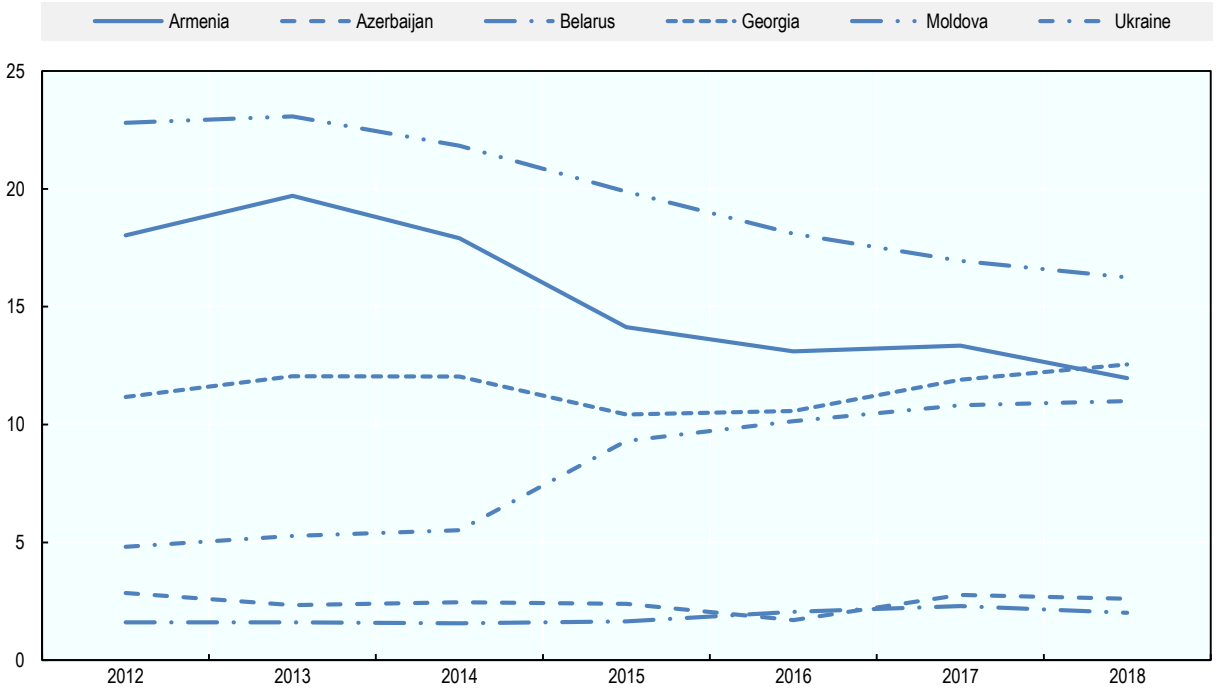
Persistent cyclical and structural weaknesses

Trends in remittances inflow are an important determinant of domestic demand

The recent recovery was driven largely by domestic demand, supported in many countries by the recovery of remittance income from labour migrants. In 2017, total personal remittance flows to the region grew by 26.1%, rising by a further 13.7% in 2018. Moldova

and Armenia remain the most dependent on remittances (respectively 17% and 13% of GDP in 2017) (World Bank, 2019[1]). In the EaP region, remittances from Russia represent nearly half of the remittances received (except in Moldova, where remittances from Russia account for 33% of total remittances) (World Bank, 2019c[3]). Remittances therefore act as a major transmitter of external shocks, leaving the EaP countries highly dependent on the economic development of Russia.

Figure 7. Personal remittances, received (% of GDP)



Source: OECD calculations based on data from the World Bank's (2019[1]) *World Development Indicators* Database.

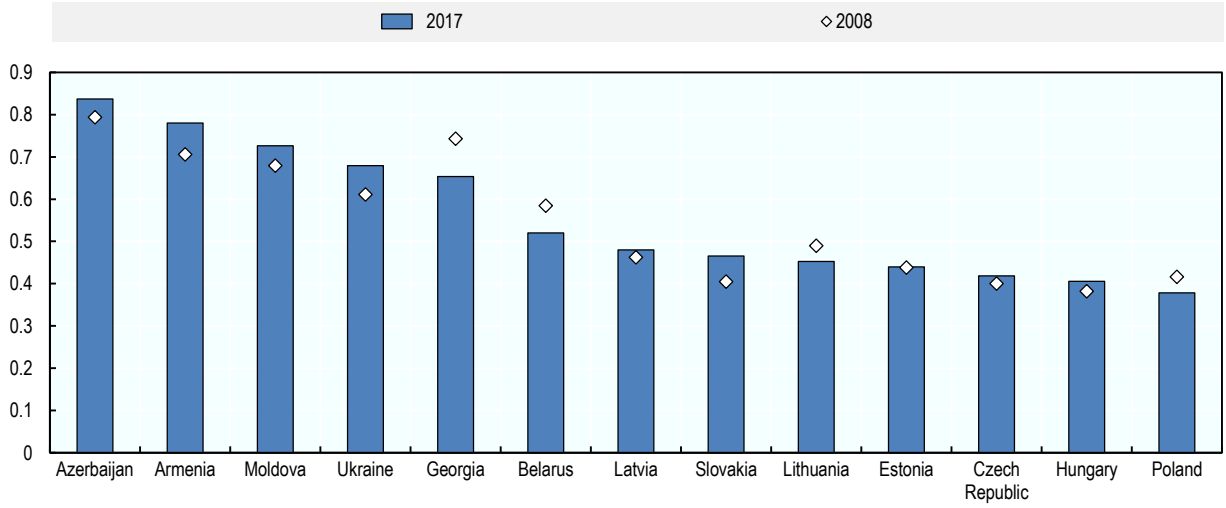
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Despite some export diversification, competitiveness remains low and market concentration high

In addition, relatively low levels of competitiveness and limited diversification expose the region to fluctuating commodity prices and volatile demand from its main trading partners. All EaP economies are concentrated in terms of both products exported and trading partners. In 2017, all EaP countries had export baskets less diversified than comparable economies in the EU (Figure 8). Moreover, the majority of the EaP countries displayed a Hirschman Herfindahl Index (HHI) of product concentration higher than comparable economies in the EU. (Figure 9). Belarus's situation is of particular concern, with the highest market concentration in the region in 2017 – increasing since 2008, along with that of Armenia and Georgia.

Figure 8. Product diversification in Eastern partner countries

Product diversification index, 2008 vs 2017

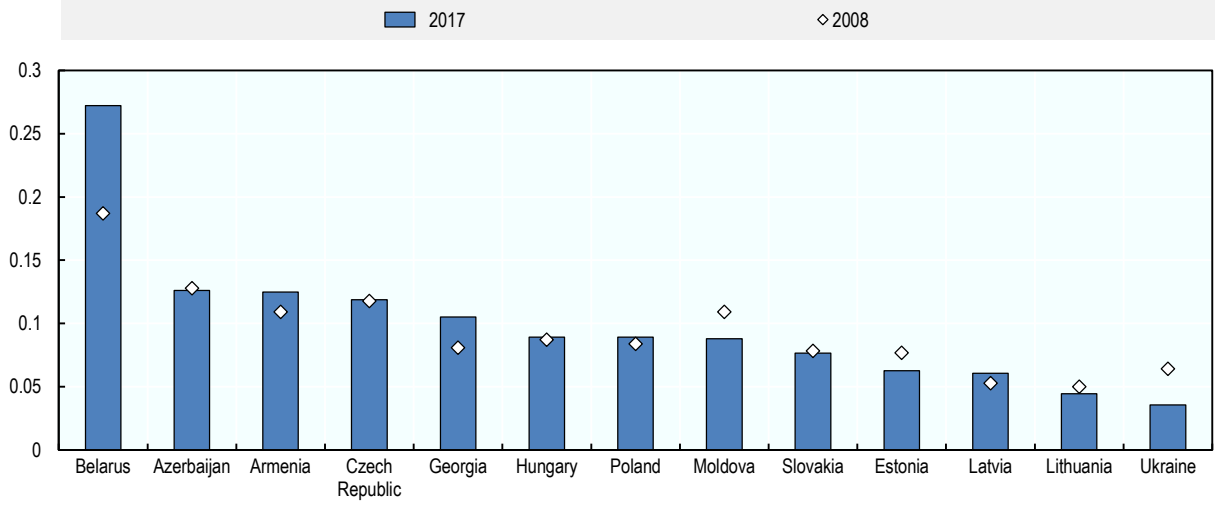


* The product diversification index is computed by measuring the absolute deviation of the trade structure of a country from world structure. It takes values between 0 and 1; a value closer to 1 indicates greater divergence from the world pattern.
Source: OECD calculations based on data from the United Nation's (2019[9]) UNCTAD database.

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Figure 9. Product concentration in the Eastern partner countries

Hirschman Herfindahl* product concentration index, 2008-2017

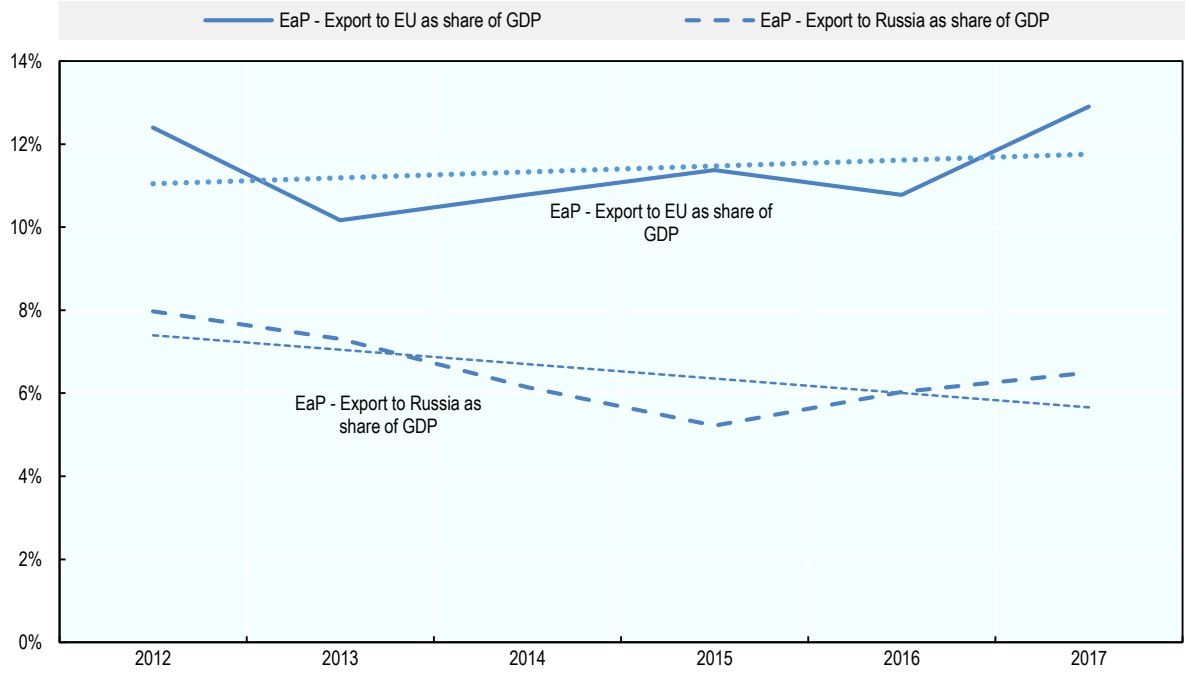


* The Hirschman Herfindahl (HH) index is a measure of dispersion of trade value across an exporter's partners. A country with trade (export or import) that is concentrated in a very few markets will have an index value close to 1. Similarly, a country with a perfectly diversified trade portfolio will have an index close to zero (World Bank definition).
Source: OECD calculations based on data from the World Integrated Trade Solution (WITS) software.

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However, there is some evidence of long-term trade diversification across the EaP region, as countries redirect their exports towards the EU. In 2017, exports from the EaP countries to the EU increased by 40% compared to the previous year. In 2018, the EU was the destination of 69% of Moldova's exports, followed by Azerbaijan (54%), Ukraine (43%), and Belarus (30%) (ITC, 2019[2]). In a context of trade blockages in the east of Ukraine, many enterprises have been able to secure access to the EU market. As such, total Ukrainian trade with the EU reached 40% of total exports in 2017, up from 24% in 2009. Georgia's trade with the EU has also increased, but to a lesser extent (from 21% of total exports in 2009 to 22% in 2018).

Figure 10. Export to Russia and to EU, as share of GDP



Source: OECD calculations based on data from the United Nation's (2019[6]) Comtrade Database.

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The Deep and Comprehensive Free Trade Areas (DCFTAs), which came into full force in July 2016 in Moldova and Georgia and in September 2017 in Ukraine, could reinforce the diversification of EaP economies. Under the agreements with the EU, the legislation and standards of these countries must move closer to the EU *acquis*. Further approximation of laws, standards and product safety regulations should remove the remaining barriers between these countries and the EU in the future.

EaP countries are also gaining improved access to other large markets. Georgia signed a free trade agreement with China in 2018, and discussions with India are ongoing. These and other such agreements would reorganise trade flows across the region, leading to further trade diversification and improving countries' economic attractiveness to international investors. This would also affect the SME sector, as diversification of exports and improvement of production capacity are crucial to optimise SMEs international business strategies and increase their productivity to face a globally competitive environment.

The weak economic environment and the uncertain geopolitical outlook undermine investor confidence

Inflows of foreign direct investment (FDI) to EaP countries are recovering at a slower pace due to a challenging economic environment and the uncertain geopolitical outlook. They have yet to return to pre-crisis levels – especially in Ukraine, where FDI inflows in 2018 were only 23% of their 2008 values. Georgia is the only country where net FDI inflows have almost recovered to previous levels; they reached 7.3% of GDP in 2018 in the wake of the implementation of the DCFTA and energy-related projects, which boosted investors' confidence. In recent years the sources of FDI inflows have diversified, with an increased share of inflows coming from the EU at the expense of Russia, in each of the EaP countries except Belarus (Figure 11). As such, the stock of FDI from the EU represented 51% and 30% of Georgia and Azerbaijan's GDP, respectively, in 2017, up from 28% and 4% in 2009 (IMF, 2019c[10]).

However, the EaP countries face persistent structural weaknesses, including long-term demographic challenges and institutional problems such as opaque governance, weak judicial systems, and a lack of competitive neutrality due to the dominance of state ownership in key sectors of the economy. Political and geopolitical tensions, especially in the east of Ukraine, have undermined investor confidence. Economic and political instability in the region therefore remains a significant obstacle to increasing both domestic investment and FDI. Meanwhile, attracting investment remains crucial for the region – as a source not only of financing, but also of knowledge and as a potential catalyst for SME development.

Figure 11. Foreign direct investment from EU and Russia, as share of GDP, 2009-17



Source: OECD calculations based on data from the IMF's (2019c[10]) Coordinated Direct Investment Survey.

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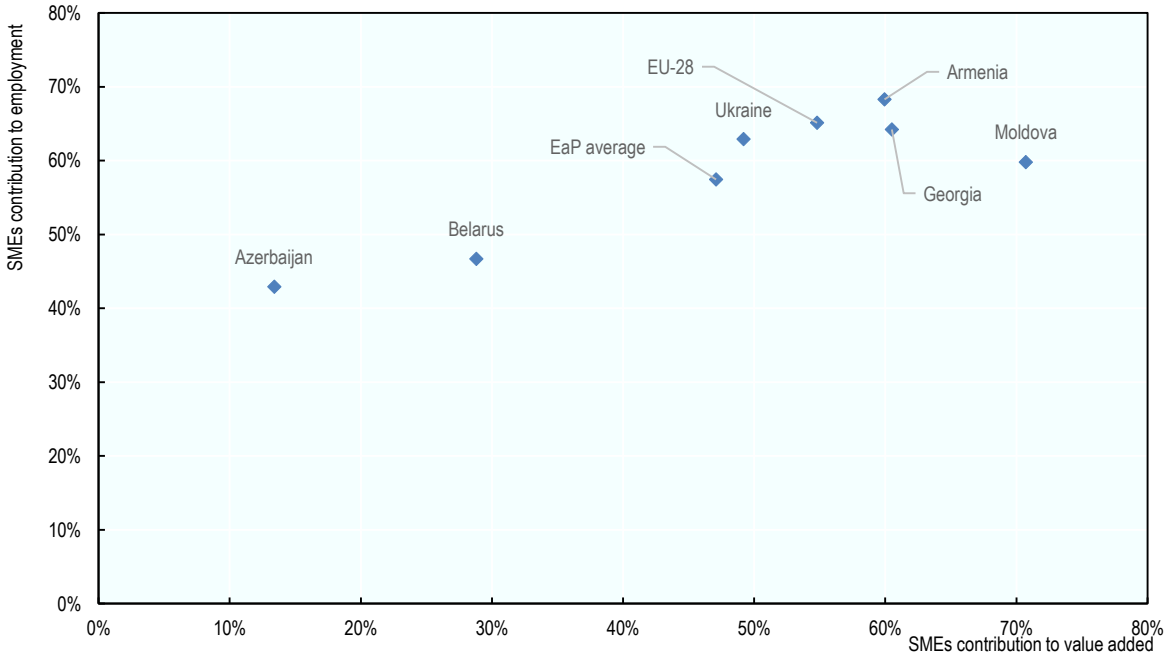
SMEs have not yet tapped their full potential for competitiveness and economic growth

SMEs are key components of a diversified and competitive economy. Small and medium-sized entrepreneurs are risk-takers and tend to be owners of innovative assets, with a large potential to grow; but they are also flexible enough to respond efficiently to changes in global demand. Allowing SMEs to start, grow and better integrate into global value chains (GVCs) – and thus to benefit from productivity gains from organisational and technological improvements – would result in greater diversification, and higher-quality job creation in EaP countries (OECD, 2019[11]).

SMEs represent the large majority of EaP countries' business population (about 99% in Armenia, Belarus, Georgia, Moldova and Ukraine in 2017). The large majority of SMEs in the EaP countries are microenterprises, which represented more than 90% of the total enterprise population across the region in 2017-18. The share of medium-sized enterprises in the total business population continues to decline relative to smaller enterprises across the region. In most EaP countries, SMEs' contributions to growth and job creation are comparable to those found in the European Union (Figure 12).

Figure 12. SMEs contribution to the economy in EaP countries is on par with EU levels

SMEs contribution to value-added and employment as share of total enterprises, 2018 or latest available



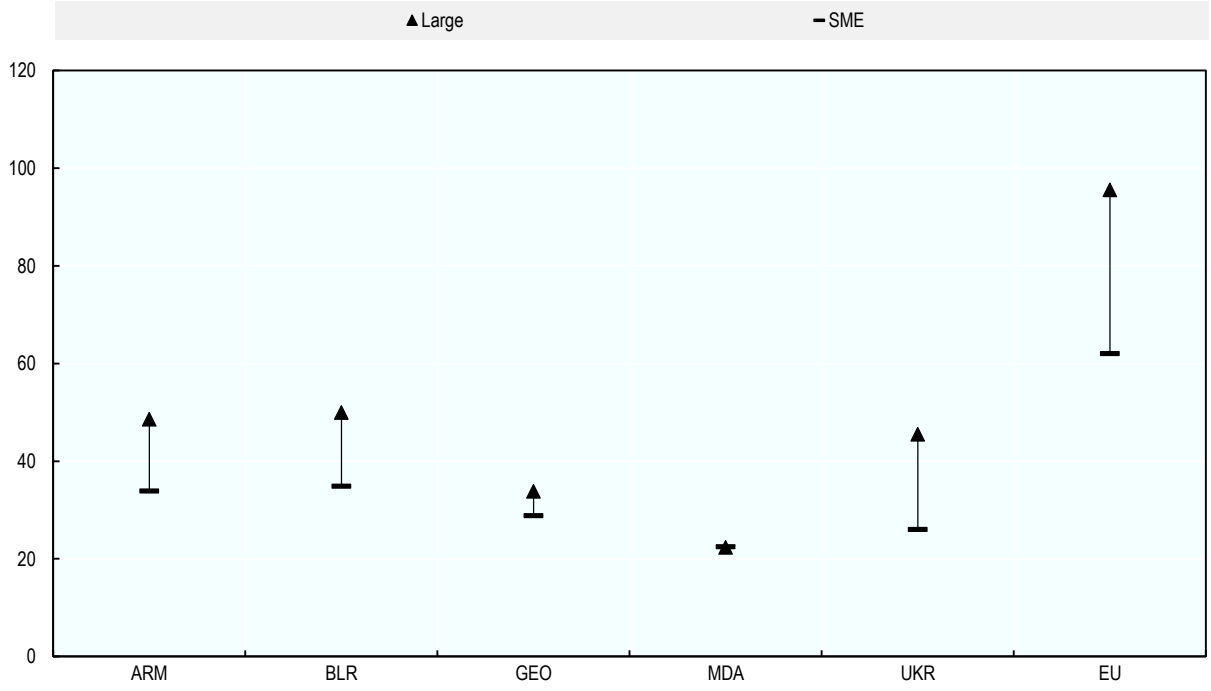
Notes: 2018 data for Armenia, Azerbaijan, Georgia, and Ukraine; 2017 data for Belarus, Moldova, and EU-28. Moldova value-added figures are estimated. EU-28, Ukraine and Armenia figures correspond to SMEs in the non-financial business sector. Belarus figures for microenterprises include individual entrepreneurs. Data on employment refer to number of employees for all the countries except for Ukraine, where data refer to number of employed persons.
Source: OECD calculations, based on data from national statistical offices and from Eurostat (2020[12]).

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However, SMEs in the EaP region show low levels of labour productivity, especially relative to EU levels (Figure 13). This reflects primarily the SMEs' concentration in low-value-added sectors of the economy – the wholesale and retail trade sector, generally followed by the manufacturing sector – but also their low integration into global value chains.

Figure 13. Remaining gap in SME labour productivity in EaP countries vs. EU

Value added per employee, thousands of USD, current PPPs (2018 or latest available year)



Notes: Data do not include Azerbaijan because of statistical inconsistency. 2017 data for Belarus, EU, and Moldova. Data for EU, Armenia and Ukraine refer to the business economy (ISIC rev.4 sections B-N excluding K financial intermediation). Due to data unavailability, labour productivity is measured as value added per employee instead of value added per person employed, except for Ukraine where the number of persons employed is considered.
Source: OECD calculations based on data from national statistical offices and from Eurostat (2020[12]).

StatLink http://dx.doi.org/10.1787/888934086508

Table 29. SME sector statistics, 2018 or latest available

	ARM		AZE		BLR		GEO		MDA		UKR	
	Number	Share	Number	Share	Number	Share	Number	Share	Number	Share	Number	Share
Number of enterprises												
Micro	64,344	93.69%	-	-	338,749	95.6%	-	-	48,032	85.1%	1,520,293	95.5%
Small	3,686	5.4%	-	-	11,528	3.3%	122,858	98.3%	6,374	11.3%	59,642	3.7%
Medium	624	0.9%	-	-	2,237	0.6%	1,756	1.4%	1,299	2.3%	9,918	0.6%
Large	126	0.2%	-	-	1,742	0.5%	368	0.3%	757	1.3%	2,417	0.2%
SMEs	***68,654***	***99.8%***	***-***	***-***	***352,514***	***99.5%***	***124,614***	***99.7%***	***55,705***	***98.7%***	***1,589,853***	***99.8%***
Employment												
Micro	82.585	26.5%	35,014	5.3%	543,189	19.8%	-	-	99,311	18.8%	2,534	34.6%
Small	69,328	22.2%	76,052	11.5%	393,810	14.4%	276,969	40.8%	117,030	22.2%	1,076	14.7%
Medium	61,050	19.6%	172,366	26.1%	341,012	12.5%	159,299	23.4%	99,311	18.8%	989	13.5%
Large	99,042	31.7%	377,249	57.1%	1,460,701	53.3%	243,185	35.8%	212,281	40.2%	2,716	37.1%
SMEs	***212,963***	***66.3%***	***283,432***	***42.9%***	***1,278,011***	***46.7%***	***436,268***	***64.2%***	***315,652***	***59.8%***	***7,315***	***62.9%***
Value added (in local currency, million)												
Micro	-	-	4,468	6.1%	10,825	10.4%	-	-	12,023	19.6%	382,202	17.3%
Small	954,899	40.4%	1,236	1.7%	10,721	10.3%	7,159	34.5%	15,074	24.6%	310,227	14.0%
Medium	462,881	19.6%	4,133	5.6%	8,431	8.1%	5,375	25.9%	16,304	26.6%	395,930	17.9%
Large	946,557	40.0%	63,571	86.6%	n/a	n/a	8,193	39.5%	17,963	29.3%	1,123,834	50.8%
SMEs	***1,417,780***	***60.0%***	***9,837***	***13.4%***	***29,977***	***28.8%***	***12,534***	***60.5%***	***43,401***	***70.7%***	***1,088,360***	***49.2%***

Notes:
ARM: Micro enterprises are included in the small enterprises category for data on value added;
BLR: Individual entrepreneurs are included in the micro enterprises category;
GEO: Data on the number of enterprises refer to 2017, data for employment and value added refer to 2018;
MDA: Data for the number of enterprises and employment refer to 2018, data on value added refer to 2017;
Data on employment refer to number of employees for all the countries except for Ukraine, where data refer to number of employed persons.
Source: National statistical offices.

Stronger level-playing field is needed to unleash the potential of SMEs

The operational environment for SMEs has improved significantly…

Developing sound business conditions that allow SMEs to thrive is critical to promoting diversification in EaP countries. This requires creating business-friendly regulations, a robust strategic framework, effective and well-co-ordinated support institutions, and effective public-private dialogue.

All EaP countries have recognised the importance of reducing regulatory barriers and improving the business environment for SMEs. Georgia remains one of the world's top ten performers in the World Bank's *Doing Business* report (ranking 7th in 2020) (World Bank, 2019b[13]). While the other EaP countries are lower-ranked, they have shown substantial improvement since 2016 and several are among the fastest-improving countries in the ranking. Azerbaijan has raced upwards from 80th in 2014 to 25th in 2019. Belarus, Armenia and Moldova ranked 37th, 41st and 47th, respectively, in 2019; however, they still score poorly in the areas of paying taxes, getting credit and dealing with construction permits. Ukraine, despite significant improvements since 2014 (from 96th to 71st) still shows poor performance in the areas of getting electricity, protecting minority investors and resolving insolvency.

EaP countries have made continuous efforts to simplify business-related legislation, notably through guillotine-like programmes, the use of e-government services and the

streamlining of barriers to trade or financial regulation and legal framework. Moreover, governments increasingly implemented targeted support mechanisms to enhance SMEs' access to finance, skills and innovation through instruments both financial (grants and tax incentives) and non-financial (training, business development services.

… but there is a need to make EaP economies more competition-friendly and to work on level-playing-field fundamentals

Despite formal improvements in the regulatory framework and institutions, the *de facto* practices of private actors and public authorities constitute strong barriers to SME growth. The momentum of key reforms and public support for business integrity, contract enforcement and competition should be strengthened in EaP countries.

First, the implementation of frameworks to prevent, detect and address corporate misconduct remains underdeveloped in EaP economies. Companies engaging in corrupt behaviours (e.g. bribery, favouritism in concluding contracts, money laundering) – whether by error, neglect or profit-driven risk-taking – undermine public and private efforts to do business according to the rules and erode trust in markets and institutions (OECD, 2015[14]).

Second, the cumbersome procedures required to enforce contracts, the lack of competent courts, and the long and costly resolutions of contractual disputes continue to hamper commercial practices. Effective institutional contract enforcement and the availability of alternative dispute settlement processes would enhance predictability in business operations and reduce uncertainty by assuring investors that their contractual rights will be upheld promptly and at reasonable cost (OECD, 2011[15]).

A third and prominent issue for SMEs is the competitive distortion that might result from the predominance of state ownership in the real economy. While the rationale for state ownership comprises a wide range of economic, social, political and strategic purposes, specific attention should be given to ensuring a level playing field and fair competition with privately owned businesses, as the anti-competitive conduct and dominant market power of state-owned enterprises (SOEs) can block market entry and expansion and facilitate cartels (OECD, 2018[16]). State-owned enterprises typically account for substantial parts of the economy and employment in EaP countries – for instance, enterprises fully owned by (or partially owned but controlled by) the State accounted for around one third of value added and total employment in 2016 in Belarus (IMF, 2019a[4]), while in Moldova they constitute 32% of GDP[2] (World Bank, 2017[17]) and 13% of employment (Ioniţă, 2016[18]). Although SOEs tend to participate in national strategic activities and operate in the infrastructure sector, they may also operate in sectors where SMEs can compete efficiently, such as agriculture or industry.

To help EaP countries reflect on these fundamental building blocks of the business environment, this SBA assessment introduces an analysis of three new policy dimensions: competition, contract enforcement and business integrity. This addition should enrich the understanding of overall economic policy making in the countries, complement the focused assessment of SME-specific aspects with an analysis of the broader determinants of business performance, and provide an indication of suitable reform areas for building healthy, productive and competitive economies in the EaP region.

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Notes

[1] The economic rent of a natural resource equals the value of capital services flows rendered by the natural resources, or their share in the gross operating surplus; its value is given by the value of extraction. Resource rent may be divided between depletion and return to natural capital. https://stats.oecd.org/glossary/detail.asp?ID=2332.

2 This assets-to-GDP ratio is calculated on the basis of Ministry of Finance reports and GDP data for 2015.

Part I. Small Business Act assessment: Findings by pillar

Chapter 1. Level playing field in the Eastern Partner countries

This pillar analyses the horizontal aspects of the business environment that ensure competitive neutrality and equal access to inputs and markets for all firms, regardless of their size and ownership type. In the framework of this report, the "level playing field" covers the areas of competition, contract enforcement and alternative dispute resolution, and business integrity. While these factors affect all firms SMEs are often disproportionately affected, and they often lack the resources that allow large and/or state-owned firms to operate in severely flawed institutional environments.

In terms of competition, the basic building blocks for functional competition regimes are present in all EaP countries, but actual implementation remains a challenge. Moreover, competition authorities often lack sufficient resources to fulfil assigned responsibilities, and more effort is needed to ensure enforcement in the areas of cartels and merger control. While all EaP countries have ongoing reforms in the justice sector (contributing to improved contract enforcement procedures), governments should continue working towards a more predictable, transparent, adequately staffed and qualified judiciary. Ensuring equal protection of SME property rights vis-à-vis SOEs and public authorities is another area of focus. In addition, promoting alternative dispute resolution in commercial matters could be an important step towards facilitating SME access to justice. In the area of business integrity, all EaP countries have put significant effort into fighting corruption in both the private and public sectors, but more needs to be done to strengthen enforcement of anti-corruption legislation and promote business integrity principles, with a focus on SMEs.

Introduction

Dynamic business entry, growth and development require not only friendly administrative, tax, investment, and trade regimes, but also more fundamental and horizontal aspects of the business environment such as the level of competition, the strength of the rule of law, the transparency of business operations, and the overall quality of public governance. Shortcomings in the institutional framework hindering these factors, of course, affect *all* firms. However, they place particular burdens on SMEs, since smaller firms lack the resources and political clout that often enable large and/or state-owned firms to operate in severely flawed institutional environments. In fact, in the absence of strong institutions, markets are likely to be dominated by larger businesses with close ties to government that can engage in anti-competitive behaviours and abusive practices towards SMEs. Those abusive practices translate into artificial market entry barriers. Ensuring a level playing field for all firms – in other words, a business environment in which all participants compete under the same conditions – is an important prerequisite for SME development as it reduces opportunities for corruption and creates more space for entrepreneurs and SMEs to grow.

This is especially true in the EaP region, where, despite the significant government efforts described in this report, SMEs continue to face important challenges when it comes to equal treatment vis-à-vis SOEs (e.g. enforcing court decisions against SOEs), as well as high market concentration in certain sectors. In addition, weak and lengthy contract enforcement procedures, as well as inefficient dispute resolution systems, impede access to justice for SMEs, while weak enforcement of anti-corruption laws and low levels of transparency in business operations hamper investment, contribute to the growth of the informal economy, and undermine trust in state institutions.

Ensuring level-playing-field conditions for all firms could have a positive impact on SMEs in a number of areas, such as the following, to only name a few:

- *SME access to finance*: Unlike large firms, which tend to develop important political ties to ensure greater profitability and growth, SMEs often lack political resources, which constrains their access to state financing (e.g. credits and grants). And although politically connected firms proved to have easier access to state finance, they are also less profitable, less prone to invest, and less capitalised than politically unconnected enterprises (Bussolo, Maurizio; De Nicola, Francesca; Panizza, Ugo G.; Varghese, Richard, 2019[1]). As a result, SMEs disproportionately bear the costs of distortions in state-capital allocation, the latter leading to important welfare costs for the population and further losses in productivity and growth. Thus, ensuring that all firms have equal access to state financing through proper enforcement of competition and anti-corruption policies could facilitate SME access to finance.
- *SME internationalisation*: By ensuring transparency of their business operations through compliance with state regulations (e.g. proper auditing and reporting mechanisms), including with anti-corruption legislation, and by adopting business integrity practices (e.g. codes of conduct and integrity pacts), SMEs could boost investor confidence and further attract FDI. They also increase their chances for linking with large and/or multi-national enterprises, and are more likely both to integrate into global value chains and to establish sustainable cross-border partnerships building on the "clean" SME reputation.

- *Operational environment for SMEs*: An effective, transparent and independent judiciary facilitates SME access to justice and ensures that SME rights are properly enforced by the law. Thus, a well-functioning judicial system creates a climate of certainty and reliability that enables forward business planning, encourages development of new supplier and customer relationships, and boosts innovation and investment (EU, 2017[2]). In addition, the consistent and rigorous implementation of state policy against corruption in both private and public sectors minimises the risk of corruption – while increasing firms' productivity (Amarandei, 2013[3]), decreasing SME operation costs, and reducing the share of firms operating in the shadow economy.

This pillar covers level-playing-field conditions along three dimensions that analyse 1) the degree to which the competition policy regimes ensure fair competition for all companies, 2) the efficiency of the contract enforcement system and alternative dispute resolution mechanisms, and 3) the extent to which business integrity policies are in place and promoted by the government in order to prevent corruption in the private sector.[1]

Competition

Fair competition is critical to both economic growth and poverty reduction. A large body of evidence across both developed and emerging economies suggests that enhancing competition can help raise productivity growth through a number of channels, including the direct impact of competition on market efficiency and technical efficiency (Nicoletti and Scarpetta, 2003[4]; Conway, Janod and Nicoletti, 2005[5]), as well as its indirect impact via the role of competition in spurring innovation (Aghion et al., 2005[6]). Finally, Alesina (Alesina A., 2003[7]) finds that reforms that liberalise entry are likely to spur fixed investment in some sectors.[2] Competition creates an environment in which economic actors are incentivised to be more efficient, invest, innovate, and attract customers by offering better goods and services at lower prices. Consumers benefit from greater choice, advanced products and services, higher quality and greater value for money.

Fostering competition in EaP countries, as in many other post-communist economies, has presented a particularly daunting challenge – not only because the suppression of competition was integral to the socialist system, but also because the industrial structures bequeathed to the transition countries by central planners were often highly concentrated. Yet successful, competition-oriented reform has been rewarded: where reformers have been more successful in fostering competition, performance has tended to improve (see e.g., (EBRD, 2002[8]; Carlin W., 2001[9]; Vagliasindi, 2001[10]). Competition can also help promote a cleaner, fairer business environment in which success comes to those firms best able to meet their customers' needs, rather than to those with the best connections or the deepest pockets (OECD, 2014[11]).

Sound and effective competition does not always arise naturally from private decisions. The temptation is strong for economic players to restrict competition: for greater profits and for "an easier life".[3] While competition law and policy do not specifically target SMEs, a broad and effective competition law enforcement is essential to ensuring a level playing field that will in turn benefit them. "Competitive neutrality" is critical here – the principle according to which all enterprises, public or private, domestic or foreign, face the same set of rules, and where government's contact, ownership or involvement in the marketplace, in fact or in law, does not confer an undue competitive advantage on any actual or potential market participant (OECD, 2015[12]; OECD, 2018[13]).

From this flows naturally the need for an independent referee that applies "the rules of the game" in a fair and impartial manner, to instil trust in *all* market players that their efforts to compete on the merits will pay off, and will not be obstructed by private *or* public restrictions to competition. That is why governments around the world have adopted competition policies, consisting of competition laws and competition authorities to enforce them. Today, approximately 130 jurisdictions have competition regimes, most of which have been adopted in the last 20 years.

This chapter summarises the findings on the competition policy regimes in the six countries of the EU's Eastern Partnership (EaP). The analysis and recommendations, which stem from these findings, focus on the aspects of a competition law regime that provide for a neutral and effective legal framework while ensuring that the enforcement body is competent, objective and independent in its application.

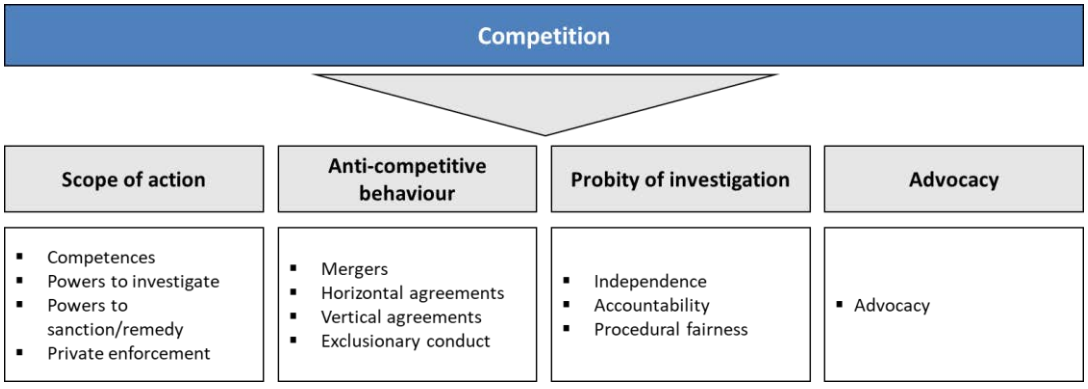
Assessment framework

The analytical framework applied to the six economies in this dimension draws on a questionnaire investigating four sub-dimensions that are widely agreed across the OECD as forming the foundations of an effective competition policy regime: scope of action, anti-competitive behaviour, probity of investigation, and advocacy (Figure 1.1).

The questionnaire does not seek to create complete and detailed accounts of competition policy regimes, but rather to broadly measure their scope and strength. It has a much stronger focus on the *de jure* characteristics of a regime than on its *de facto* enforcement and implementation. While the background research and the fact-finding missions have provided some insights into the actual workings of the various regimes, a fair assessment of their actual implementation may require individual and in-depth evaluations, such as, for example, peer reviews.[4]

Unlike other chapters of this report, where policy dimensions are assigned a synthetic score from 1 to 5, assessment in this chapter is based on "yes" or "no" answers to the 73 questions of the above-mentioned questionnaire. Where a response to a question is "yes", then it is referred to as an *adopted criterion*. Each of the four sub-dimensions has a different number of possible criteria that can be quantified as having been adopted. The assessment also draws on the opinions of OECD competition experts familiar with the EaP economies.

Figure 1.1. Assessment framework – Competition



Scope of action

This sub-dimension assesses the scope of competition regimes' powers to uncover, remedy, deter and penalize anti-competitive behaviour and mergers: It asks the following questions:

Is the competition authority invested by law with the power to investigate and sanction anti-competitive practices? Does it have the remit to investigate, remedy, or block anti-competitive mergers? What is the authority's budget and number of staff?

The scope of action is assessed across four thematic blocks:

- The *competences* block covers public and foreign firms' exemptions from competition law and the competition authority's financial and human resources.
- The *powers to investigate* and *powers to sanction/remedy* blocks encompass the statutory powers of the authority both to investigate and punish competition law infringements and to investigate and remedy or block anti-competitive mergers.
- The *private enforcement block* assesses the extent of provisions for civil action by individuals, firms or groups of consumers seeking compensation for financial damage incurred as a result of competition law violations.

Anti-competitive behaviour

An effective competition law and policy regime ensures that anti-competitive behaviour is punished and anti-competitive mergers are remedied or blocked. It also requires that investigations of alleged antitrust infringements or anti-competitive mergers include an assessment of the economic impact of each case and consider potential efficiency gains. In order to prosecute competition law violations effectively, the competition authority not only needs formal powers to investigate and impose a sanction or remedy, but should also be adequately resourced and skilled.

This sub-dimension gauges those powers and resources across four thematic blocks (mergers, horizontal agreements, vertical agreements, and exclusionary conducts) and asks the following questions: How does competition policy prevent and prosecute exclusionary vertical and horizontal agreements and anti-competitive mergers? Which factors are considered when ascertaining whether anti-competitive practices took place?

It also assesses whether the anti-competitive behaviour is prohibited, what tools authorities have at their disposal when investigating allegedly anti-competitive behaviour, and their enforcement track record.

Probity of investigation

Probity of investigation plays an essential role in fair and effective law enforcement. Companies must be safe in the knowledge that their practices conform to the applicable laws in the economies where they operate. They must also be able to interpret legal procedures correctly and to know and understand the workings of the statutory authority (or other body) that oversees them. Should they have to mount a defence in court, they need to be informed properly of the allegations against them and in good time. Freedom from political influence is a prerequisite of fair and equal competition law enforcement, to ensure that cases are brought or dropped only on their merit (OECD, 2016[14]).

This sub-dimension gauges the fairness of competition law enforcement and the degree to which competition authorities are independent and accountable. It involves three blocks (independence, accountability, procedural fairness) and asks the following questions: How independent and accountable are the institutions enforcing competition law? How transparent are they? How fair are their procedures?

Together, these blocks assess the absence of government interference in investigations or decisions in antitrust infringements and mergers, the rights of companies under investigation, and the transparency of the authorities' actions and activities, as well as their accountability in court.

Advocacy

Competition may be inhibited by policies, laws and regulations that create barriers to entry or distort incentives for firms. Some distortions are unnecessary and can be eliminated without affecting other government policy objectives. The mandate of a competition authority should therefore extend beyond merely enforcing competition law to addressing the additional obstacles to competition. A competition agency should also participate in formulating public policies to ensure they do not adversely affect competitive market structures, business conduct or economic performance, which would benefit in particular SMEs. In order to foster a widespread competition culture in a society, and to support businesses in their compliance efforts, agencies also need to reach out to various stakeholders and explain whenever possible the benefits of competition.

This section considers the capacity of the competition authority to advocate for a more competitive environment at various government levels. Such advocacy can involve 1) reviewing new and existing regulations to identify any unnecessary distortions to competition and 2) performing market studies that may lead to policy recommendations to make the regulatory environment more pro-competition. It also looks at outreach to public procurement bodies, which play an important role in the fight against cartels, and at wider advocacy activities and asks the following questions: What activities are used to further promote a competitive environment? Are market studies and reviews of new laws and regulations conducted for any distortionary impact on competition?

Analysis

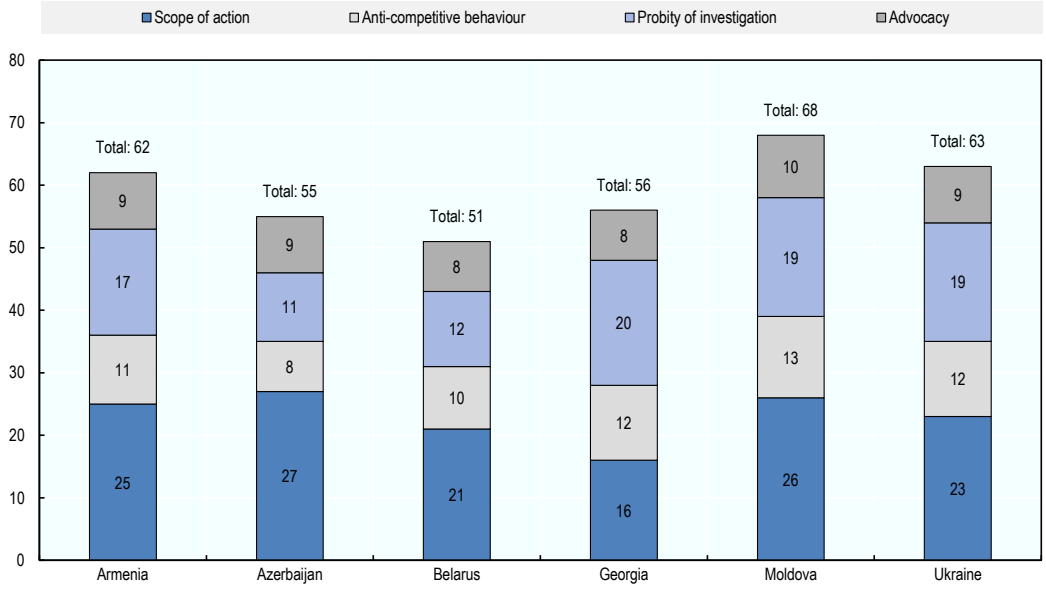
Fair competition is critical to both economic growth and poverty reduction. Competition creates an environment in which economic actors are incentivised to be more efficient, invest, innovate, and attract customers by offering better goods and services at lower prices. While competition law and policy do not specifically target SMEs, a broad and effective competition law enforcement is essential to ensuring a level playing field that will in turn benefit them. This dimension focuses on the aspects of a competition law regime that provide for a neutral and effective legal framework, and that ensure that the enforcement body is competent, objective, and independent in its application.

Although most of the basic building blocks necessary to create functional competition regimes are present in all six EaP countries (Figure 1.2), actual implementation remains the largest challenge. Legal frameworks for competition are generally well developed in all six EaP countries, and cover most basic provisions of functional competition policy regimes. All economies prohibit anti-competitive agreements and abuses of dominant behaviours, and have merger control provisions in place. In all six economies, competition law applies equally to all enterprises irrespective of their size and form of ownership; that is, neither state-controlled nor foreign enterprises are exempted from its scope. However, with the exception of Moldova and Ukraine, which show significant cartel prosecution and/or merger control activities, implementation of the competition law is insufficient. This may be due to a lack of necessary tools, a reluctance to use the available powers, inadequate funding and staffing of the competition agencies, or political factors. Apart from Belarus and Azerbaijan, where competition authorities operate under local ministries, the

competition authorities in EaP jurisdictions are formally independent institutions. The competition authorities in all EaP jurisdictions conduct competition assessment of laws and regulations and all six economies consider barriers to entry for SMEs when conducting competition assessments. As for other advocacy activities, such as training for public procurement officials in the prevention and detection of bid rigging in public procurement procedures, training is currently organised in three of the six evaluated countries: Azerbaijan, Georgia and Moldova.

The results of the analysis of competition policy in the EaP countries, based on the number of criteria adopted in each country, are shown in Figure 1.2.

Figure 1.2. Competition policy: Number of adopted criteria



Note: The maximum number of adopted criteria is 73. The data refer to the number of competition policy criteria *formally adopted in the legal framework* rather than actual enforcement activity in terms of relevance or quantity. Much also depends on the relevance of the criteria lacking or met, which is not reflected here.
Source: SBA assessment questionnaire 2019.

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Solid legal frameworks are in place, but implementation is insufficient

Legal frameworks for competition are generally well developed in all six EaP countries, and they cover most, if not all, basic provisions of functional competition policy regimes. All economies prohibit anti-competitive agreements and abuses of dominant behaviours, and have merger control provisions in place. The legal frameworks mostly provide for investigative powers and sanctions, as well as equal treatment of all undertakings irrespective of their size, form of ownership or nationality. Formally, competition authorities are separated from the government in most economies and do not receive directions from other government institutions. Most competition authorities publish regular reports on their activities and are active in competition advocacy – they conduct market studies and comment on laws and regulations, paying attention to entry barriers for SMEs. Most agencies communicate actively with their stakeholders by organising various events

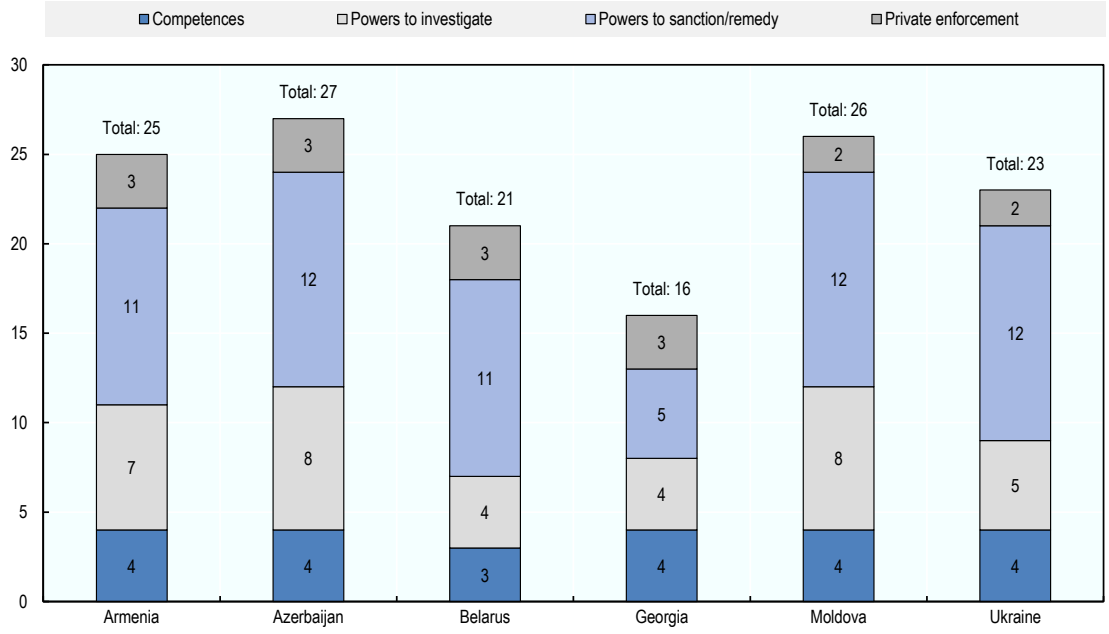
that target businesses, representatives of government institutions, lawyers, academia, and media.

With the exception of Moldova and Ukraine, which show significant cartel prosecution and/or merger control activities, implementation of the competition law is insufficient. This may be due to a lack of necessary tools, a reluctance to use the available powers, inadequate funding and staffing of the competition agencies, or political factors. Competition authorities in Belarus and Azerbaijan lack institutional independence, and all EaP economies would benefit from better and more-stable funding of their competition enforcers. The transparency of the legal framework and its implementation is often low, and the business community lacks guidance by the competition authorities. When the competition authorities conduct market studies and comment on the laws and regulations, governments often fail to act on their recommendations. In half of the EaP economies, no due attention is paid to communication between competition authorities and public procurement administrators, to prevent and detect bid rigging in public procurement.

Wide range of tasks, but lack of essential investigation tools

Figure 1.3. shows how the six EaP countries score in terms of the number of criteria adopted in the *scope of action* sub-dimensions.

Figure 1.3. Scope of action: Number of adopted criteria



Note: The maximum number of adopted criteria is 27. The chart above refers to the number of competition policy criteria formally adopted in the legal framework rather than actual enforcement activity in terms of relevance or quantity, or about the relevance of the criteria lacking or met.
Source: SBA assessment questionnaire 2019.

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In all six economies, competition law applies equally to all enterprises irrespective of their size and form of ownership; that is, neither state-controlled nor foreign enterprises are exempted from its scope. Co-operation between the competition authority and sectoral regulators is a regular occurrence.

When investigating an antitrust infringement, some competition authorities lack the power to compel enterprises under investigation, as well as third parties, to provide the necessary information. When investigating a merger, Belarus, Georgia and Ukraine have no or limited powers to enforce information requests. The competition authorities in Armenia, Belarus and Georgia lack the power to conduct unannounced on-site inspections ("dawn raids"), which is the major tool in cartel investigations. Moldova and Ukraine make frequent use of the tool, with positive implications for cartel enforcement in the countries.

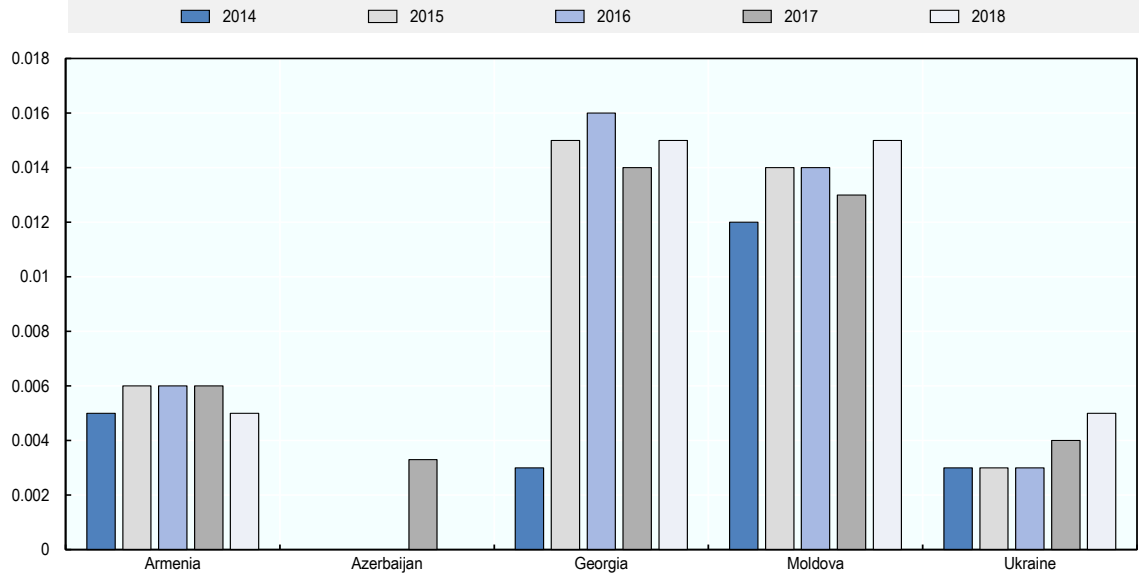
Most competition authorities have the power to impose sanctions on undertakings that have committed antitrust infringements, fail to comply with remedies[5] or cease and desist orders, hinder an investigation, or do not comply with a merger decision. Most competition authorities also have the power to impose remedies on undertakings in order to clear a merger. However, this does not seem to be a widely used tool across the EaP economies. In Georgia, the competition authority is exceptionally weak on this score: it cannot impose remedies or cease and desist orders in merger cases. While Azerbaijan, Belarus, Ukraine and Moldova can enter into settlements to bring antitrust infringements to a quick end, this is not the case in Armenia and Georgia.

Private enforcement is possible in principle in all six EaP economies for individuals and legal entities. However, this is little help in jurisdictions with low public enforcement activity. Public enforcement is usually the basis for any private enforcement actions to be successful.

The competition authorities usually have a wide range of tasks, often including consumer protection, unfair competition, public procurement or state aid supervision, or sectoral regulation. The overall budgets and average salaries are, in contrast, quite low, and often just a third to a fifth of the average salaries of sector regulators or the central bank (see Figure 1.4).

Figure 1.4. Annual budget of competition authorities (2014-18)

% of gross domestic product (GDP)



Note: Data not available for Belarus for 2014-2018 and Azerbaijan for 2014-2016 and 2018.
Source: SBA assessment questionnaire 2019.

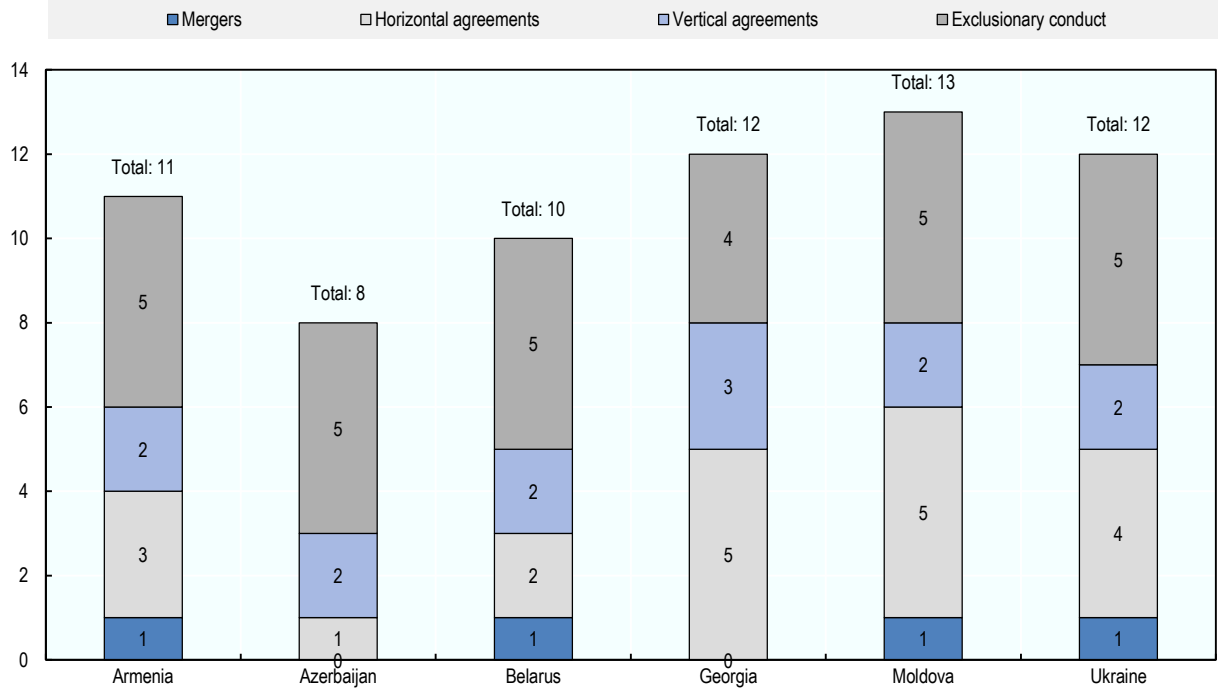
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Hard-core cartels are not prosecuted, and the number of reviewed mergers is low

Figure 1.5 shows how the six reviewed economies score on the number of adopted criteria in the *anti-competitive behaviour* sub-dimension.

In Azerbaijan, Moldova and Georgia the number of notified mergers is very low, which indicates a lack of compliance on the part of businesses and/or a lack of effective enforcement of the merger rules on the part of the competition agencies. Ukraine stands out – it considered 666 mergers in 2017 and 532 in 2018. With the exception of Georgia and Azerbaijan, all competition authorities blocked or cleared with remedies at least one merger during 2014-18.

Figure 1.5. Anti-competitive behaviour: number of adopted criteria



Note: The maximum number of adopted criteria is 15. The chart above refers to the number of competition policy criteria formally adopted in the legal framework rather than actual enforcement activity in terms of relevance or quantity, or the relevance of the criteria lacking or met.
Source: SBA assessment questionnaire 2019.

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Although anti-competitive horizontal agreements, including cartels, are prohibited in all six jurisdictions, cartel enforcement activities are insignificant to non-existent in most. The most likely reasons for this are the above-mentioned gaps in investigation and enforcement powers, particularly in Armenia, Azerbaijan, Belarus and Georgia. When leniency programmes exist, as in Armenia, Georgia, Moldova and Ukraine, they are not successful, which may be explained by a lack of enforcement and/or inadequate sanctions. Again, Ukraine stands out, as it investigated 288 hard-core cartels in 2017 and 144 hard-core cartels in 2018, the majority of which were bid-rigging offences.

Anti-competitive vertical agreements are prohibited in all six jurisdictions. Similar to cartel enforcement, the activity of the competition authorities in this field is low, with only

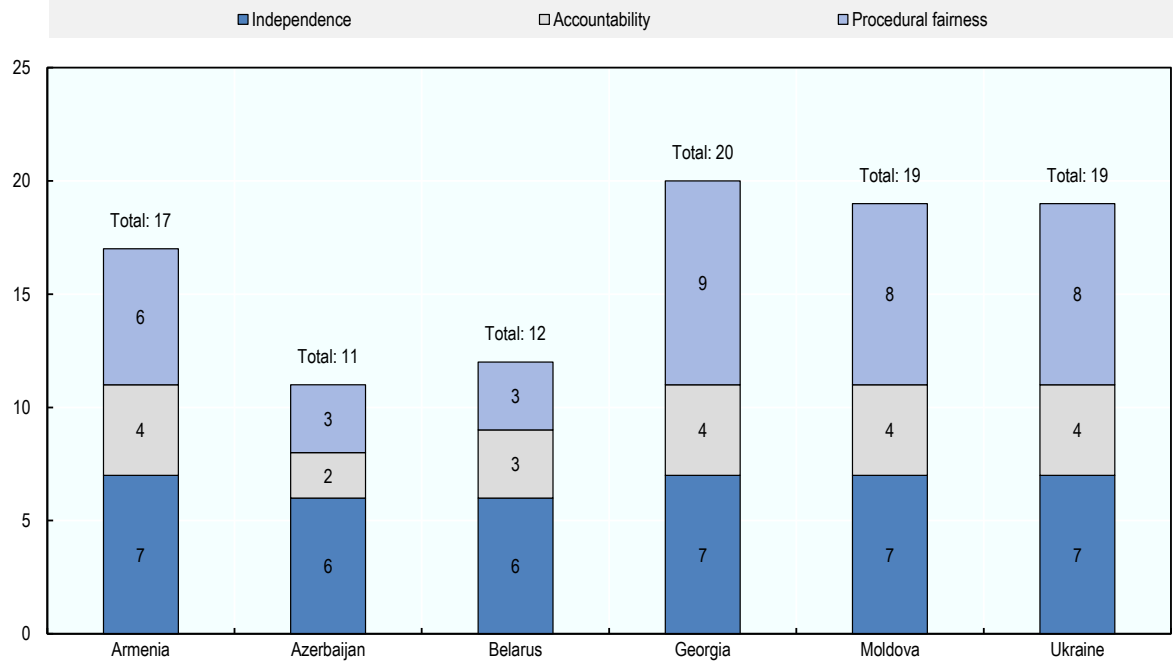
Ukraine and Georgia having imposed sanctions or remedies on anti-competitive vertical agreements during 2014-18.

Exclusionary conduct is prohibited in all six EaP jurisdictions, and authorities claim to conduct an economic analysis of the competitive effects of exclusionary conducts when investigating them. Over 2014-18, competition authorities in all jurisdictions, except for Georgia, imposed sanctions and/or remedies on at least one firm for exclusionary conduct.

Transparency and predictability support agency independence

Figure 1.6. shows how the six reviewed economies score on the number of adopted criteria in the *probity of investigation* sub-dimension.

Figure 1.6. Probity of investigation: number of adopted criteria



Note: The maximum number of adopted criteria is 20. The chart above refers to the number of competition policy criteria formally adopted in the legal framework rather than actual enforcement activity in terms of relevance or quantity, or the relevance of the criteria lacking or met.
Source: SBA assessment questionnaire 2019.

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Independence is important for the effective enforcement of competition rules. It enables competition authorities to take decisions based solely on legal and economic grounds, rather than on political considerations (OECD, 2016[14]). The competition authority is considered independent when it performs its duties and exercises its powers impartially, in particular when the persons making decisions in the competition authority are able to perform their duties and do not seek or take instructions from government or other public or private entity.[6] Apart from Azerbaijan and Belarus, where competition authorities operate under local ministries, the competition authorities in EaP jurisdictions are formally independent institutions. They do not obtain any binding directions from the government or ministers on whether they should open or close an investigation on an alleged antitrust

infringement, impose or refrain from imposition of specific remedies when closing an investigation on an alleged antitrust infringement, or undertake (or not) a given market/sectoral study. Similarly, the government or ministers have not overturned decisions concerning the clearance or prohibition of a merger in all evaluated economies during the last five calendar years.

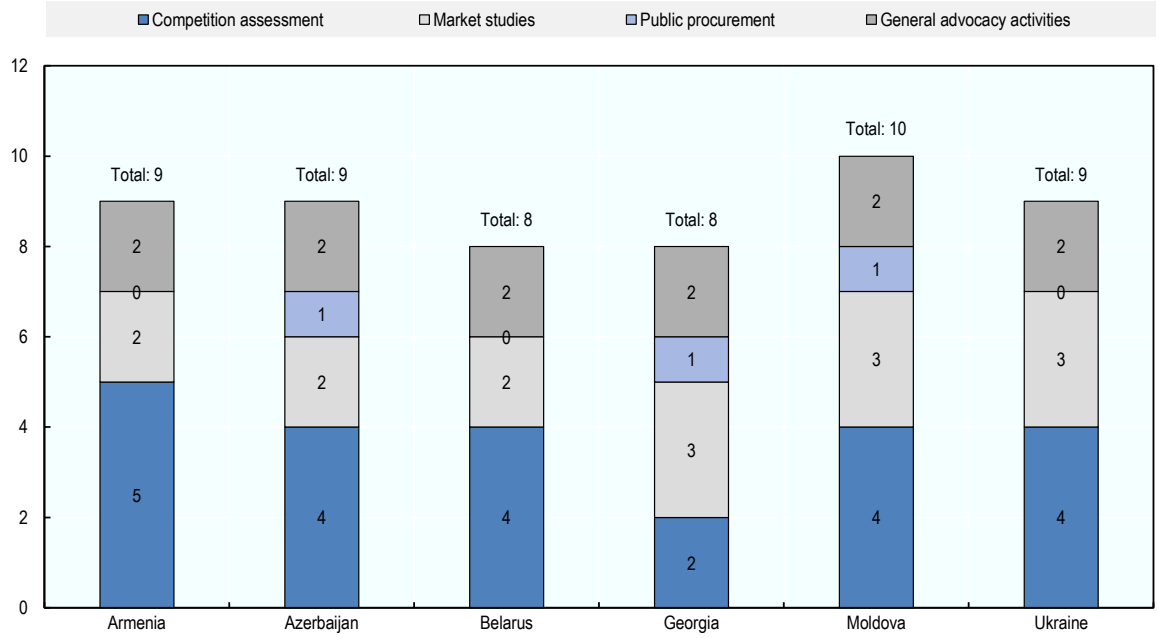
As for accountability, competition authorities in almost all evaluated jurisdictions publish reports on their activities and decisions that ascertain the existence of an antitrust infringement, block a merger or clear a merger with remedies. However, such decisions are not publicly available in Azerbaijan, which is also the case with decisions on mergers in Belarus. In all EaP countries, decisions on antitrust infringements and mergers can be subject to judicial review.

In terms of procedural fairness, some of the evaluated jurisdictions still have a long way to go, while others have coped successfully with transparency issues. Most countries provide the parties under investigation for an antitrust infringement with opportunities to consult on significant legal, factual or procedural issues during the course of the investigation, and grant the right to be heard and present evidence, as well as access to file before the imposition of any sanctions or remedies for having committed an antitrust infringement. Armenia, Azerbaijan, and Belarus publish either no or very few guidelines to explain to businesses how the regulator applies competition substantive and procedural provisions.

Competition assessment is essential, but advocacy should also target the private sector

Figure 1.7. shows how the six reviewed economies score for the number of adopted criteria in the *advocacy* sub-dimension.

Figure 1.7. Advocacy: number of adopted criteria



Note: The maximum number of adopted criteria is 11. The chart above refers to the number of competition policy criteria formally adopted in the legal framework rather than actual enforcement activity in terms of relevance or quantity or the relevance of the criteria lacking or met.
Source: SBA assessment questionnaire 2019.

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The competition authorities in all EaP jurisdictions conduct competition assessment of laws and regulations. It is worth noting that the competition authority of Moldova is becoming increasingly active in this field; for instance, the agency issued 71 recommendations for change in 2017 and 241 recommendations in 2018. At the same time, governments often do not follow such recommendations, without giving reasons for doing so. All six economies consider barriers to entry for SMEs when conducting competition assessment.

Market studies assess the level of competition in a particular sector, identify factors that prevent or distort competition, and issue recommendations to private firms and public bodies on how to improve competition in the sector concerned, or help to determine enforcement priorities for competition authorities (OECD, 2018[13]). The competition authorities in all six EaP economies can conduct market studies, and they have done so over 2014-18. Such market studies include an opinion or recommendation of the competition authority to the government to remove or reduce an obstacle or a restriction to competition caused by an existing public policy, but the government is often not required to respond publicly, as is the case in Armenia, Azerbaijan and Belarus.

As for other advocacy activities, such as training for public procurement officials in the prevention and detection of bid rigging in public procurement procedures, training is organised in half of the evaluated countries, namely in Azerbaijan, Georgia and Moldova.

The way forward

In order to ensure fair competition for all firms in the EaP region, and in particular for SMEs, countries need to boost their competition enforcement efforts, especially in the areas of cartels and merger control:

- **Cartels are the most clear-cut and undisputedly harmful competition law violation, and they affect every country**. In particular, small economies with limited openness to trade and small numbers of major economic actors seem to face an even higher risk of becoming victims of cartels than large, open economies (i.e. Armenia, Azerbaijan, Belarus, and Georgia). This comes at a high cost to the consumers and taxpayers (10 – 20% higher prices for goods and services). As cartels often target public procurement, public services come at a much higher cost to taxpayers as well. While leniency programmes can help, they are not a silver bullet and require determined enforcement in the first place in order to be attractive at all.
- **In order to improve merger control, the competition authorities need to ensure that all mergers that meet the legal thresholds are duly notified** (i.e. Azerbaijan, Georgia and Moldova). These mergers should then be analysed using sound economic methods where necessary. Authorities should consider a prohibition decision as a realistic option in problematic cases, when competition concerns cannot be appropriately addressed with remedies. If remedies are considered, structural merger remedies should be the preferred option (OECD, 2011[15]).
- **All competition agencies need to have the sufficient investigation and sanctioning tools as an enabling condition for strong enforcement.** Four economies – Armenia, Azerbaijan, Belarus and Georgia – do not have effective dawn raid powers, which are a universally agreed-upon indispensable tool for uncovering illegal cartels and bid rigging.[7] In addition, sufficient powers to investigate and sanction for non-compliance with orders and requests in all enforcement areas are a necessary tool for all agencies, including in Ukraine and

Moldova. This will enable them to base their decisions on a sound factual and economic basis. Competition and procedural laws of advanced jurisdictions can serve as an inspiration and blueprint for necessary changes.

- **Effective and impartial enforcement requires highly qualified enforcers who act in an institutional environment that assures independence from public or private stakeholder interventions and guarantees an absence of corruption**. Azerbaijan and Belarus should consider converting their competition enforcement bodies into government-independent institutions. Independence also hinges on competition authorities having sufficient resources, and on the existence of a functional decision-making body at all times, with members being appointed on merit. In order to attract and retain highly qualified lawyers and economists, the salaries of all agencies would need to increase significantly. While effective competition enforcement comes at a cost, all the agencies that have conducted an assessment of the impact of their actions (OECD, 2014[16]) can usually show that they offer an excellent business case.[8] Every euro invested in an agency can be expected to generate many euros of consumer savings every year.
- Governments should ensure that their **competition authorities are always involved in drafting or reviewing laws and regulations that have the potential to affect competition in a sector.** The authorities should be given sufficient time to comment. Their recommendations should be taken seriously, and governments should commit to publicly explaining themselves when they do not follow them (i.e. Armenia, Azerbaijan, Belarus). The OECD's Competition Assessment Toolkit[9] is a practical methodology for helping competition authorities and other decision makers identify and evaluate existing and proposed policies to see whether they unduly restrict competition (OECD, 2016[17]). Where a detrimental impact is discovered, the toolkit helps to develop alternative ways to achieve the same objectives, with minimal harm to competition.
- As part of their advocacy activity, and to fight in particular bid rigging in public procurement, **EaP economies should enhance** (i.e. Azerbaijan, Georgia, Moldova) **or start** (i.e. Armenia, Belarus, Ukraine) **activities to train and educate public procurement officials to draft tenders in a way that prevents bid rigging**, and to detect suspicious signs of bid rigging**.** OECD materials on fighting bid rigging in public procurement[10] can offer valuable guidance, and are a standard tool used by many jurisdictions around the world.

Contract enforcement and alternative dispute resolution

Efficient enforcement of contracts and the ability to resolve disputes in timely and cost-effective manner are fundamental elements of a sound business environment. Good enforcement procedures enhance predictability in commercial relationships and reduce uncertainty between the parties, among particular investors, by assuring that their contractual rights will be upheld promptly by the local courts (OECD, 2015[18]). Cumbersome and overly bureaucratic court procedures, as well as lengthy and costly dispute settlements, impose additional costs on firms and may cause them to reduce their activities, disengaging from trade and investment. In particular, they raise the risk of arm's-length transactions, thus reducing the range of potential suppliers and/or customers with whom the firm can do business. A well-functioning judicial system creates a climate of certainty and reliability that enables forward business planning, encourages the development of new supplier and customer relationships, and promotes innovation,

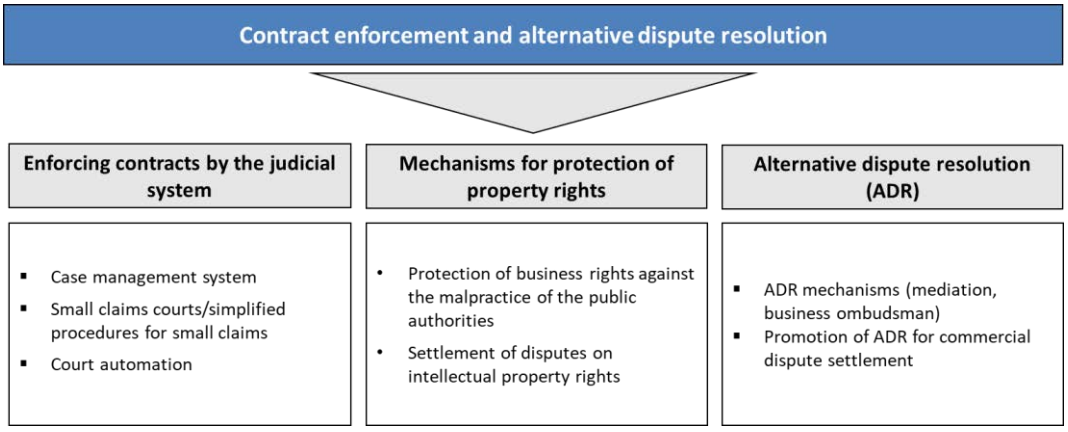
investment, business creation and fair competition – all of which are elements of performing economies (EU, 2017[2]).

The efficiency of the judiciary is particularly important for SMEs, which bear disproportionally higher costs when resolving disputes than larger enterprises, due to their size and limited resources (OECD, 2017[19]). Governments should thus ensure the efficiency and independence of their judicial systems in order to create a climate conducive to SME development.

Assessment framework

This dimension assesses the effectiveness of the contract enforcement and alternative dispute settlement mechanisms in the six EaP countries, paying particular attention to SME-relevant aspects, along three sub-dimensions that cover 1) actual enforcement of contracts by the judicial system; 2) mechanisms for protection of property rights of businesses, including IP rights; and 3) the use of alternative dispute resolution (ADR) mechanisms.

Figure 1.8. Assessment framework for contract enforcement and alternative dispute resolution



Enforcement of contracts by the judicial system

This sub-dimension looks at the time and costs required to enforce a contract in a jurisdiction, as well as at the overall quality of the judicial process. In particular, the assessment considers the existence and quality of case management tools to ensure the timely and organised flow of cases through the court from initial filing to disposition. These tools can simplify SME access to justice and include the availability of specialised commercial courts, the existence of small claims courts or simplified procedures for small claims, and court automation.

Specialised commercial courts contribute to a significant reduction in the number of cases pending before the main first-instance courts, shorter resolution times, consistency in the application of the law, and more qualitative dispute resolution, as judges build up their expertise.

Small claims courts and simplified procedures for small claims use informal hearings, simplified rules of evidence and more streamlined rules of civil procedure, including the possibility for the parties to represent themselves, which increase SME access to justice.

They also play an important role in reducing backlogs and caseloads in higher courts and provide for faster and less costly dispute settlement.

Court automation includes random case assignment to judges (which minimises opportunities for corruption) and the automation of key court procedures, such as filing of the court appeal, notification of a legal action taken against a business (i.e. process), payment of court fees, and publication of judgements – all of which improve the transparency and predictability of the judicial system.

Mechanisms for protecting companies' property rights

Protection of property rights is a crucial element for the effective functioning of a market economy as it ensures the secure and peaceful possession of property by businesses and individuals and contributes to long-run economic growth, investment, and financial development (Acemoglu, 2005[20]). Given that cases of direct expropriation of small businesses are very rare, this assessment considers the protection of property rights against indirect expropriation, that is, a situation where the state interferes in the use of property or in the enjoyment of its benefits even if the assets are not seized and their legal title is not affected (OECD, 2015[18]). The protection of the property rights of businesses is analysed through the prism of mechanisms available to SMEs to appeal an administrative decision affecting their property rights, and looking at the efficiency of the enforcement of court decisions against public authorities.

Intellectual property rights (IPR) protection is another element covered by this sub-dimension. A well-designed IPR system and its effective enforcement provide an important incentive for firms to invest in research and development and fosters the creation of innovative products and processes (OECD, 2015[18]). This component of the sub-dimension assesses the ways in which SMEs can ensure the protection of their IPR, i.e. the enforcement of the IPR by the judicial system and the efficiency of IPR dispute resolution mechanisms.

Alternative means of resolving commercial disputes

Alternative dispute resolution (ADR) mechanisms represent an alternative means of resolving commercial disputes, especially when traditional courts lack efficiency due to lengthy formal procedures, high filing fees or delays in case processing. ADR thus provides SMEs with more accessible and affordable channels to settle commercial disputes.

The best known and most frequently used ADR mechanisms, including for the settlement of commercial disputes, are arbitration, mediation, conciliation, mini-trials, and the ombudsman mechanism. They are usually performed by industry bodies, specialised agencies or third party evaluators at the national or international level. In the scope of this report, which is SME-specific, the analysis focuses on the availability of the mediation mechanism for settling commercial disputes, the business ombudsman mechanism, and government efforts to promote ADR as a means of conflict resolution between businesses.

Analysis

Efficient enforcement of contracts and the ability to resolve disputes in a timely and cost-effective manner are fundamental elements of a sound business environment. The efficiency of the judiciary is particularly important for SMEs, which bear disproportionately high costs when resolving disputes, due to their size and limited resources. This dimension assesses the effectiveness of the contract enforcement and

dispute settlement mechanisms in the six EaP countries with regard to three elements: include enforcement of contracts by the judicial system; mechanisms for protection of property rights of businesses, including IP rights; and the use of alternative dispute resolution mechanisms in commercial cases.

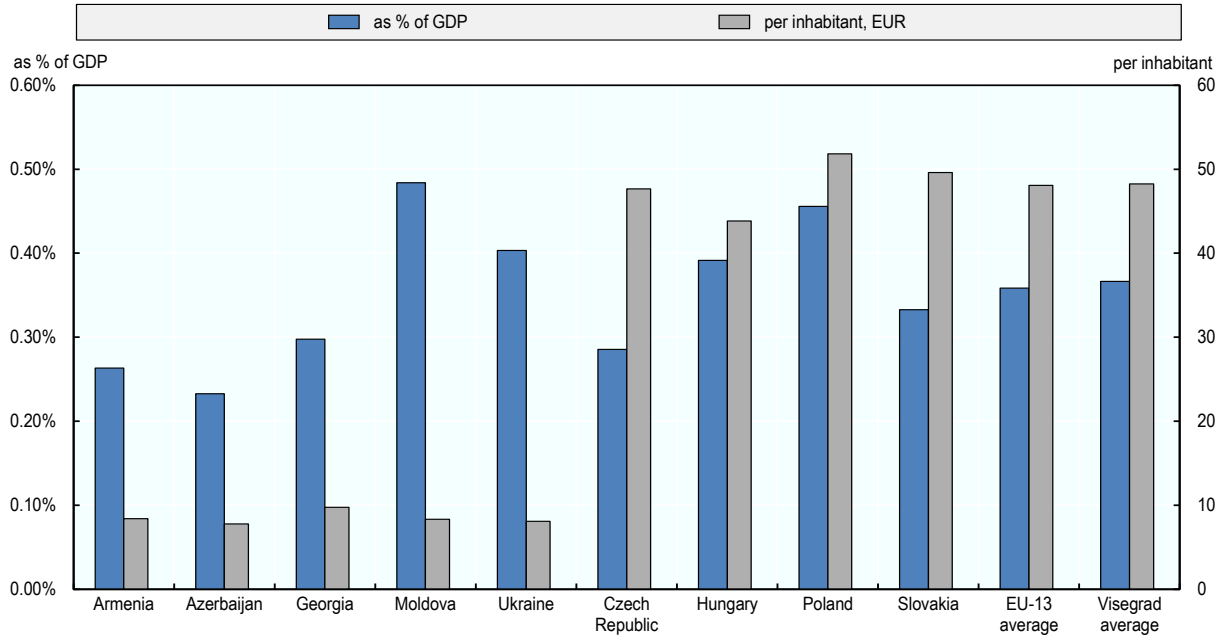
According to the World Bank's *Doing Business 2020* report (World Bank, 2019[21]), five EaP countries have advanced in implementing justice sector reforms and have improved their performance on the "enforcing contracts" indicator, except for Belarus (Table 1.1.). Thus, the time required to enforce a contract is very long in Armenia and Moldova, cost requirements are still very high in Moldova and Ukraine, and the quality of the judicial process leaves much room for improvement, particularly in Azerbaijan, Belarus, Moldova and Ukraine. In addition, according to the latest assessment of European judicial systems by the Council of Europe, the EaP countries[11] lack an efficient enforcement framework, as the execution of court decisions is excessively lengthy and is often subject to the unlawful practices of the enforcers, as well as the non-execution of decisions against public authorities and state institutions (Council of Europe, 2018[22]). In order to facilitate SME access to justice, all countries have introduced simplified procedures for small claims and court automation is under way.

At the same time, evidence shows that the EaP region still struggles to ensure independent judicial systems due to high corruption risks and undue government influence on the judiciary, which is an important impediment to quality contract enforcement.

The problem is exacerbated by the modest budgetary allocations to judicial systems in Armenia, Azerbaijan and Georgia, when compared to EU countries. (Council of Europe, 2018[22]) (Figure 1.9.). In case of Moldova and Ukraine, where the budgets for judiciary have increased following reforms in the sector, the allocated funds do not always translate into the efficiency of judiciary.

Figure 1.9. Allocated budgets to judiciary

% of GDP and per inhabitant, 2016



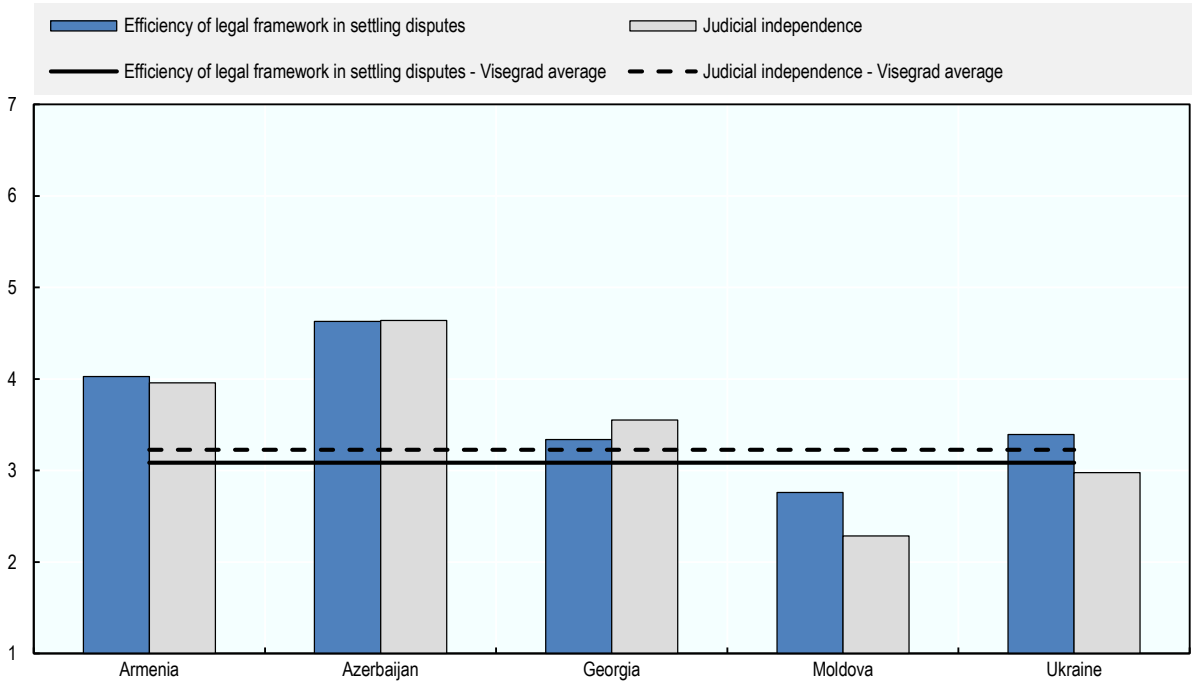
Note: Belarus is not included in the assessment.
Source: European Judicial Systems database, 2016.

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In addition, the results of the World Economic Forum's 2019 *Global Competitiveness Index* (World Economic Forum, 2019[23]), which looks at judicial independence and the efficiency of the judiciary in settling disputes, highlight the need for continued government efforts in this area (Figure 1.10.), with all EaP countries participating in the exercise showing modest results ranging from 2.3 to 4.6.

Figure 1.10. EaP countries in the WEF Global Competitiveness Index, selected indicators

Scale from 1 (lowest) to 7 (highest)



Note: Data for Belarus not available.
Source: World Economic Forum, *Global Competitiveness Index* 2019 database.

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In terms of protection of business property rights in litigation against public authorities, EaP countries struggle with the enforcement of court decisions against state institutions and state-owned or controlled companies. In order to protect legitimate business rights against unlawful decisions by public authorities, Ukraine and Georgia have established a Business Ombudsman mechanism, while Armenia and Azerbaijan have plans to establish one. Although IPR protection has been strengthened over the last decade in all EaP countries, its effective implementation is challenged by weak enforcement mechanisms, and, often, by the lack of qualified judges to treat IP disputes (except for Belarus). When it comes to alternative means of resolving of commercial disputes, mediation (as the most affordable ADR mechanism for SMEs) has been introduced in all EaP countries except for Ukraine. However, ADR has not gained ground in commercial dispute settlements, and SMEs have little awareness of ADR benefits. Government efforts to promote ADR have been limited to legal incentives, with a few actions taken to raise SME awareness on ADR.

Legal frameworks for contract enforcement are largely in place and the justice sector reforms are ongoing

This sub-dimension looks at the time and costs required to enforce a contract in a jurisdiction, as well as at the overall quality of the judicial process. According to the World Bank's *Doing Business 2020* report (World Bank, 2019[21]), five EaP countries have advanced in implementation of the justice sector reforms and have improved their performance on the "enforcing contracts" indicator, except for Belarus (Table 1.1.). However, the time and cost of enforcement are still very high in some countries (e.g. Armenia, Moldova and Ukraine), and the quality of the judicial process (i.e. court structure and proceedings, case management, and court automation) could be further enhanced-particularly in Azerbaijan and Belarus.

Table 1.1. Enforcing contracts in EaP countries, WB *Doing Business 2020*

EaP countries	Time (days)	Cost (% of claim value)	Quality of judicial process (0-18, 18 the highest)	Overall ranking for indicator
Armenia	570	16	12	30
Azerbaijan	277	18.5	8	28
Belarus	275	23.4	7.5	40
Georgia	285	25	12	12
Moldova	585	28.6	11	62
Ukraine	378	46.3	11.5	63

Source: World Bank's *Doing Business* 2020 database.

In all EaP countries, contractual disputes are heard within the first instance civil courts. Azerbaijan, Belarus and Ukraine have established specialised commercial courts to provide for quality dispute resolution, and Armenia, Georgia and Moldova have opted for judges specialised in commercial matters within common civil courts. In order to facilitate SME access to justice, all countries have introduced simplified procedures for small claims, with the peculiarity of Belarus, which has an extensive practice of using writ proceedings as a simplified means to resolve commercial disputes.[12]

All EaP countries reported at least some initiatives to automate court procedures. In particular, in 2019, Ukraine launched a pilot version of an upgraded Single Judicial Information and Telecommunication System, an automated system for key court procedures and communication, that covers all local and appeal courts. In Georgia, the automated case management and communication system now covers all courts across the country; in Belarus, a similar system is expected to be finalised in 2020. Azerbaijan continued its efforts to implement a President's Decree on the establishment of the Electronic Judicial Information System providing for court automation, while in Moldova, the modernisation of the courts ICT system is under way and not all courts have had their key procedures automated. With regard to random case assignment to judges, Armenia, Georgia and Ukraine have automated this procedure for all courts across the countries. Conversely, in Moldova and Azerbaijan random case distribution is only partial (i.e. 60% in Azerbaijan) (ACN, 2019[24]) and in Belarus judges are assigned cases manually.

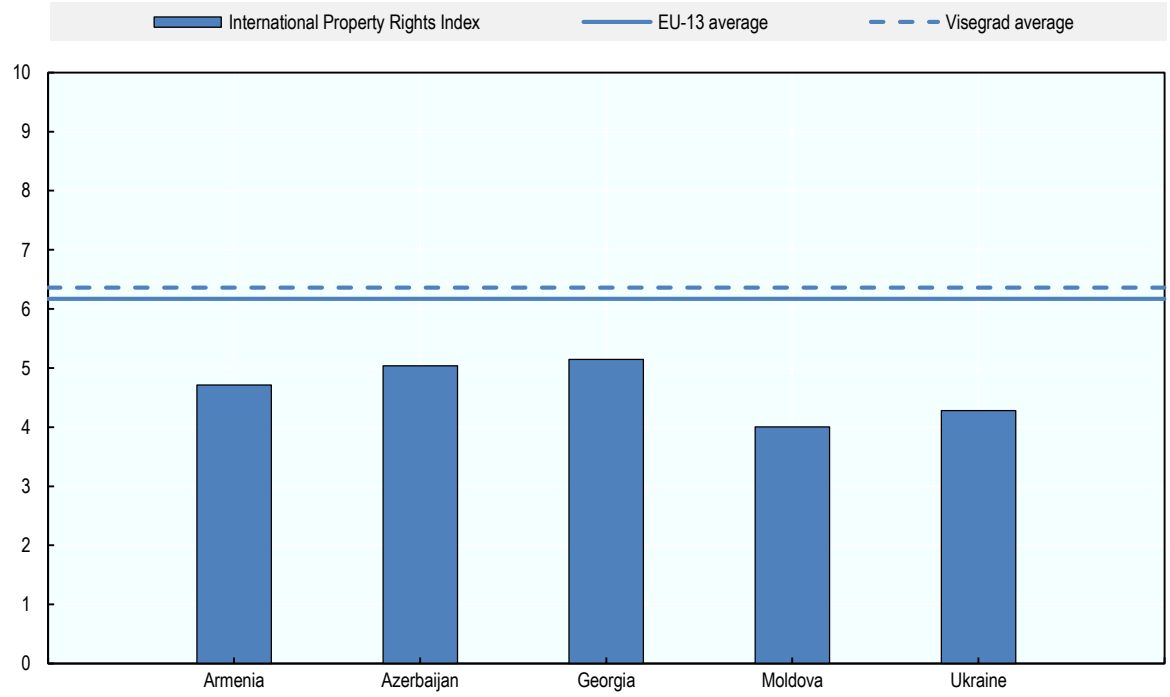
Property rights of SMEs face challenges when it comes to litigation against public authorities and enforcement of IP rights

This sub-dimension covers mechanisms available to SMEs to appeal an administrative decision affecting their property rights, the efficiency of the enforcement of court decisions

against public authorities, and the enforcement of the IPR by the judicial system. EaP countries' performance on protection of both physical and intellectual property rights suggests the need for further government actions to strengthen the legal framework and secure enforcement by an independent and effective judiciary in the context of a stable and predictable legal environment. According to the International Property Rights Index 2018, EaP countries perform quite low on property rights protection, with Ukraine and Moldova lagging behind (Figure 1.11. and Table 1.2.).

Figure 1.11. International Property Rights Index 2018

Scale from 1 (lowest) to 10 (highest).



Note: Data for Belarus is not available.
Source: Property rights alliance (2018[25]), *International Property Rights Index*.

StatLink http://dx.doi.org/10.1787/888934086679

The enforcement of property rights in private-to-public litigation remains a problematic issue across the EaP region, as the evidence suggests that court decisions against public authorities are rarely executed (Council of Europe, 2018[22]). For instance, in Ukraine, the law prohibits the enforcement of court's decision against the property of any business in which the state holds 25 % of stakes or more. In Azerbaijan and Moldova, court users complain on frequent non-execution of court decision against public authorities. Thus, public authorities and SOEs may directly or indirectly enjoy preferential treatment when it comes to the enforcement of court decisions, which ultimately breaches the principle of equal treatment of parties in the litigation. Reasons for poor enforcement in this area include restrictions in the public sector budget legislation (e.g. regulations on amount of and periods for, payments; and difficulties in determining the source of the state funds for the payment, etc.). Others include the absence of provisions on the satisfaction of the judgement debt for certain public entities (EBRD, 2014[26]), and the lack of knowledge and capacity of enforcement agents to execute court's decision against public authority or state-

owned entity. When it comes to IPR protection, all EaP countries have put in place a legal framework regulating the use and protection of IPR, including introduction of administrative, civil and criminal (mainly concerning counterfeiting and piracy) liability for IP violations. The state agencies dealing with intellectual property (i.e. AGEPI in Moldova, the National Centre on IP in Belarus, Sakpatenti in Georgia, the IP Agency in Armenia, Ukrpatent and the National IP Office in Ukraine, and the Copyright Agency in Azerbaijan) are responsible for granting patents and treating appeals of agencies' decisions through the special appeal committees or boards.

Armenia, Azerbaijan and Georgia have established departments with judges specialised in IP matters within courts of first and second instances (e.g. the Tbilisi City Court and the Tbilisi Court of Appeal in Georgia). Ukraine and Belarus have made a further step in this regard by introducing dedicated bodies to treat IP disputes at the level of the highest courts: a Specialised Tribunal for Intellectual Property under the Supreme Court of Belarus and the newly established High Court on Intellectual Property of Ukraine. However, given the current state of IP litigation and in spite of certain country achievements in enhancing the efficiency of IPR protection framework (e.g. Ukraine), EaP governments show overall modest results on the Property rights and Intellectual Property protection Index 2019 (Table 1.2.). Governments should continue working to improve the actual enforcement of the IPR protection system by the judicial system and to build the capacity of judges treating IP disputes (through training and the exchange of good practices with other jurisdictions) so they can provide timely and quality services.

Table 1.2. Property rights and intellectual property protection in EaP countries, 2019

Scale from 1 (lowest) to 7 (highest).

EaP country	Property rights	Intellectual property rights
Armenia	4.8	4.2
Azerbaijan	5.1	5.2
Georgia	4.7	3.8
Moldova	3.9	3.8
Ukraine	3.3	3.4
EU-13 average	4.5	4.5
Visegrad average	4.3	4.3

Note: Belarus is not included in the assessment.
Source: World Economic Forum, *Global Competitiveness Index* 2019 database.

Business ombudsmen are still rare in EaP countries. Only Georgia and Ukraine (see Box 1.1) have introduced such institutions to provide for the protection of legitimate business rights against the unlawful decisions by the public authorities. This is particularly relevant for SMEs, which, due to their relative lack of resources and influence over the decision of the public authorities, may find it more difficult than the large companies to appeal the administrative decisions affecting their property rights.

Box 1.1. The Business Ombudsman Council in Ukraine: Protecting business rights against the malpractice of public authorities

With the support of EBRD and OECD, Ukraine's Business Ombudsman Council was established in 2014 with the aim of being the first contact point for companies seeking redress against unfair treatment by public authorities. It is an alternative mechanism for resolving administrative disputes – between a company and a state institution, civil servants, or state-owned or state-controlled companies – in cases when an entrepreneur has attempted but failed to do so through administrative appeal process.

In order to seek the Council's assistance, an entrepreneur can file a complaint online providing all the supporting evidence. Upon receipt, the Council will assess the eligibility of the complaint, conduct the investigation, issue recommendations to the relevant public body and then monitor their implementation. To increase transparency, the outcome of the investigation is published on the Council's website and is communicated to complainants, relevant government agencies, and to the media.

Over the first four years of its operation, the Council received over 5 000 complaints of state bodies' malpractice and managed to close over 3 000 cases, resulting in companies recovering a total of UAH 13.3 billion (EUR 465 million). In 2018, the Council received 1792 complaints, 73% of them coming from SMEs, and mostly concerning tax issues (61%), the actions of law enforcement bodies (14%), malpractice by state regulators (7%) and local municipalities (4%).

The Business Ombudsman Council also monitors systemic issues and recommends changes to the legislation affecting business environment as a whole. For instance, in 2018 the Council published two reports covering labour-related issues and main business challenges in dealing with customs administration.

Source: Business Ombudsman Council (2018[27]), *Annual Report*.

Alternative dispute resolution mechanisms should be further promoted by the EaP governments

This sub-dimension covers 1) available ADR for settlement of commercial disputes by businesses and 2) government efforts to build an ADR culture within the business community, with a focus on SMEs. While ADR mechanisms are not yet a distinctive trait of EaP countries' judicial cultures, all countries have established important legal grounds for ADR implementation.

Mediation, the most affordable option of ADR for SMEs, has been embedded into the law in all EaP countries, except for Ukraine. Mediation services are mostly provided by the private sector, i.e. mediation centres connected to Chambers of Commerce at national and regional levels (i.e. Ukraine, Georgia) and other free-standing private organisations (e.g. Ukrainian Mediation Centre, Centre for Mediation and Negotiation in Belarus), with some cases of court-annexed mediation (Belarus[13]), and state-regulated mediation services provision (Moldova[14]). Ukraine represents an interesting case as it has an extensive practice of mediation in spite of absence of a law regulating mediation. Furthermore, the profession of mediator in Ukraine is included in the national occupational standards and mediation is provided by the recently established centres within the Chambers of Commerce across the country.

Nevertheless, despite the availability of mediation as an alternative mechanism of dispute resolution for SMEs in most EaP countries, evidence gathered during the SBA assessment suggests a lack of SME awareness of mediation and general preference among small businesses to settle disputes on their own without going to the courts or addressing to the third parties. In addition, SMEs in the region generally lack trust in mediation, as ADR has not gained ground in commercial dispute settlement in the region and is more familiar as a mechanism for settling other civil disputes (i.e. child-care, divorce, etc.).

When it comes to promoting ADR in the EaP countries, government efforts remain limited to legal incentives for ADR use in commercial disputes, whereas training and awareness-raising activities are for the most part provided by non-governmental organisations. Thus, mechanisms encouraging ADR use by businesses introduced by the states vary. In Ukraine and Belarus, for example, they include the reimbursement of up to 50% of court fees in case of dispute settlement through mediation; and in Georgia, a reduction of the state fee from 3% to 1% for parties engaged in mediation is in place. The requirement for pre-filing mediation for certain type of litigations will take effect in 2020 in Azerbaijan, and the possibility of referral to mediation with all parties' consent, as well as introducing ADR clauses in commercial contracts, are available in all EaP countries.

Arbitration, both domestic and international, is recognised across countries (except for Azerbaijan, where only a foreign arbitration mechanism is in place) and domestic courts have the *de jure* obligation to enforce foreign arbitral awards following the six countries' adherence to the New York Arbitration Convention.[15] However, given that arbitration is a costly mechanism that also imposes certain thresholds for claims, it is not accessible to the majority of SMEs, i.e. micro and small enterprises, and is generally more suited for medium-sized and large companies.

Another ADR mechanism – the business ombudsman – has lately gained prominence in Georgia and Ukraine, and is experiencing an uptake in Armenia and Azerbaijan. The business ombudsman plays an important role in resolution of private-to-public disputes, in particular when it comes to unfair treatment of businesses or the malpractice of the state authorities, civil servants, and SOEs. The ombudsman intervenes by studying the case and providing relevant conclusions and recommendations to the concerned public body, with the mandate to flag important systemic issues businesses face to the high government officials in order to seek a structural solution to the problem (i.e. the development of amendments to the law, regulations, etc.). For example, in Georgia, the Business Ombudsman Office is also present on the dispute resolution board of the Ministry of Finance and of the State Procurement Committee of Georgia, which enables the Office to represent business rights on relevant issues before the public bodies.

The way forward

Going forward, to provide for an efficient contract enforcement across EaP countries, the governments have to continue their efforts to ensure a predictable, transparent, adequately staffed and qualified judiciary. In addition, working towards strengthening legal frameworks for ADR in commercial matters and carrying out awareness-raising activities to promote ADR use by businesses, would be an important step towards facilitating SME access to justice. Thus, governments could consider the following:

- **Accelerate court automation procedures,** expanding e-court mechanisms[16] for countries where those are not widely adopted (Azerbaijan, Armenia, Belarus, Moldova), and introducing monitoring mechanisms to address the deficiencies of

the systems for countries where an e-court is already operational (Georgia, Ukraine).

- **Ensure proper qualification of judges treating IP disputes** within common civil courts of first instance (i.e. Armenia, Azerbaijan, Georgia, Moldova) through provision of regular training courses in IP law, and build the capacity of dedicated IP courts (i.e. Belarus, Ukraine) to provide timely and quality IPR resolution.
- **Consider strengthening the ADR infrastructure** by embedding certain mechanisms into the law (i.e. mediation in Ukraine; business ombudsman (or similar) in Armenia, Azerbaijan, Moldova, and Ukraine) to provide for efficient dispute resolution for SMEs, including when it comes to litigation with public authorities.
- **Stepping up efforts to raise SME awareness of ADR** and its benefits in resolving commercial disputes by developing of a comprehensive approach to promotion activities (e.g. organisation of information campaigns; training courses; conferences for businesses, judges and lawyers; etc.). This would be another important element of building ADR culture within the business community in EaP countries.

Business integrity

Business integrity refers to internal company programmes, functions, people, processes or controls that seek to prevent, detect and address "serious corporate misconduct" (OECD, 2015[28]). This comprises such corrupt practices as bribery, money laundering, financing of terrorism, facilitation payments, unethical provision and acceptance of gifts, and favouritism in concluding contracts.

Business integrity is a shared responsibility of governments, business associations, NGOs and companies, as their joint efforts can lead to reduced corruption and increased levels of compliance in the private sector. This dimension focuses on the role of governments in ensuring the integrity of enterprises, while it does not minimise the importance of actions taken by business associations and companies in this regard. On the one hand, the state can set up mechanisms to counter and eradicate corruption through preventive and enforcement measures. On the other hand, the state is the ultimate standard setter for business operations, including in such high-corruption risk areas as financial reporting and auditing, and can also assist companies in the implementation of business integrity standards.

Compliance with regulations on business integrity implies different costs for companies of different sizes and often reflects firms' assessment of the costs of non-compliance. Thus, large enterprises are believed to have greater reasons for seeking to detect, prevent and address corporate misconduct due to their complex and often decentralised structures, and the perceived high costs of non-compliance (i.e. company losses, reputational damage, decrease in investments, risk of enforcement actions, personal liability, etc.) (OECD, 2015[28]). At the same time, it may be easier for SMEs – due to their size, simpler corporate structure and smaller scale of operations – to ensure integrity, as they do not face the same corruption risks as large companies.

However, a number of SME-specific factors make them particularly exposed to corruption. These include, but are not limited to, the absence of an integrity function within the company (often due to limited resources to afford such a function); a short-term perspective (which often leads to the pursuit of short-term benefits of corruption rather than considering

its long-term consequences); lack of knowledge of laws regulating business operations; and lack of legal support. Also contributing to SME fragility in the face of corruption are 1) limited bargaining power over state institutions and public officials when receiving requests for unofficial payments and 2) a lack of transparency, knowledge and skills required for quality bookkeeping and internal audit, which contribute to SME fragility in face of corruption (UNODC, 2012[29]). Governments can generally act along two directions to promote business integrity practices in the SME sector. On the one hand, awareness-raising activities can communicate the benefits of business integrity measures for SMEs, such as enhancing the firm's reputation and potential to attract investment. On the other hand, governments can incentivise SMEs to invest in business integrity practices, using them as conditions for easier participation in public procurement, tax reductions and exemptions from inspections (Box 1.2).

This section presents recent policy developments in the field of business integrity in the EaP countries, outlines major challenges, and provides recommendations to EaP governments on further strengthening the business sector's integrity, with a particular focus on SMEs.

Box 1.2. Incentives for anticorruption compliance: Implications for SMEs

To complement enforcement actions against corruption in the private sector, governments can introduce incentives to promote compliance with business integrity standards and reward firms for good practice. At least four categories of incentives may be considered:

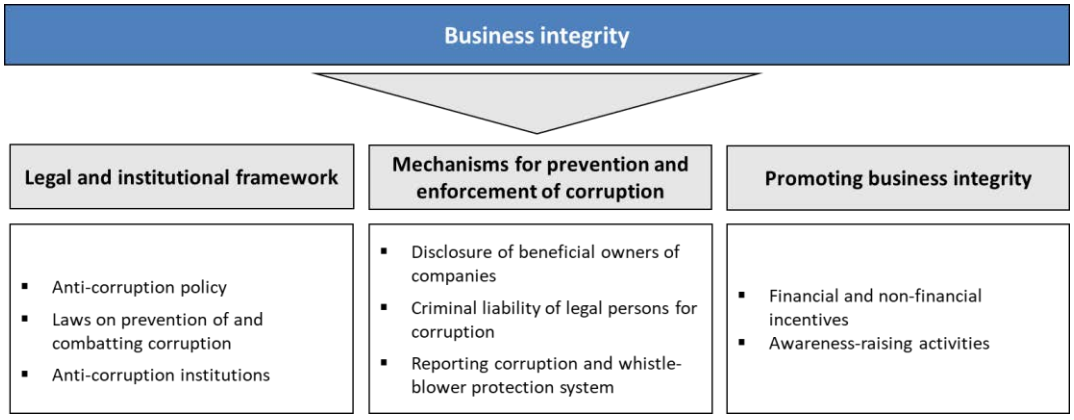
- **Penalty mitigation**. Penalty mitigation is used to encourage companies to report corruption and to co-operate during the investigation. Companies may be rewarded with reduced fines or charges, or even through a defence against corporate liability offences (i.e. committed by an employee or an agent).
- **Procurement preference**. This includes benefits for companies that demonstrate a meaningful commitment to integrity practices and could take form of an eligibility requirement or affirmative competitive preference. For SMEs, a minimum threshold for certain formal practices may be set to allow small enterprises to satisfy integrity requirements without having to invest into full-fledged integrity programmes.
- **Access to government benefits**. This measure foresees preferential access of a compliant company to state support or services. Benefits may include a "fast-track" access to customs services, preference in export credit support, corporate tax benefits, exemptions from inspections, etc. Such benefits could contribute to reducing regulatory burden and facilitating SME access to finance.
- **Reputational incentives**. Public acknowledgement of a company's commitment to combating corruption can be an important tool for encouraging corporate integrity. Governments can reinforce the effect of the good reputation by establishing whitelists of compliant firms, attributing certificates and integrity awards to enterprises. SMEs can draw a particular benefit from public recognition of their efforts in meeting anti-corruption requirements, because they can signal reliability and increase their chances of co-operation with large and international business partners.

Source: UNODC (2013[30]), *A Resource Guide on State Measures for Strengthening Corporate Integrity*.

Assessment framework

The assessment framework for this dimension looks at 1) the overall institutional and legal framework for business integrity policy; 2) mechanisms for prevention and enforcement of corruption in the private sector; and 3) activities carried out by the governments to promote business integrity measures (Figure 1.12.).

Figure 1.12. Assessment framework for business integrity dimension



Legal and institutional framework for business integrity

Business integrity is an aspect of anti-corruption policy. It includes laws and regulations on detection, prevention, investigation and prosecution of corruption in the private sector. To ensure the effectiveness of policy on business integrity, governments should adopt a risk-based approach to policy development, based on a study of business integrity risks[17] carried out in close co-operation with business associations, NGOs and enterprises. In addition, the institutional framework for policy implementation plays an important role, as independent, adequately staffed and professional anti-corruption bodies are essential for effective fight against corruption.

Mechanisms for prevention and enforcement of corruption in the private sector

Key mechanisms for prevention and enforcement of corruption in the private sector considered in the assessment are as follows:

- *Disclosure of beneficial owners of companies*. The beneficial or ultimate owner of the company, also referred to as *final beneficiary*, is the natural person who ultimately owns or controls a legal entity through a variety of means (e.g. holding more than 25% ownership interest of a legal person, or possessing significant voting rights over the company's decisions and the entity's board of directors) (OECD, 2019[31]). The identification of a beneficial owner is a complex process often requiring a case-by-case approach, and has an important impact on the transparency and integrity of the business sector. By creating a complex ownership structure,[18] the ultimate owner of a company can conceal his identity and interests, and attempt to conduct illegal economic activities that are difficult to detect for law enforcement authorities (i.e. corruption, tax evasion, money laundering, financing terrorism, etc.). Establishing mandatory disclosure of beneficial owners and related mechanisms to check the information provided are good tools for preventing of corruption in the private sector.

- *Criminal liability of legal persons for corruption* can take different forms depending on jurisdictions, but it always aims to ensure effective, proportionate and dissuasive sanctions for corruption crimes committed by legal persons (OECD, 2015[32]). Sanctions include fines (most frequently used), confiscation, restriction of corporate rights, and dissolution of the legal entity (exceptional penalty). Criminal liability of legal persons is more effective than administrative liability as it allows for a larger set of investigative tools and coercive measures, mutual legal assistance between jurisdictions and longer periods for crime investigation.
- *Mechanisms for reporting corruption and whistle-blower protection.* The availability and accessibility of various channels to report corruption for businesses is an important element of corruption detection. These should be complemented by a strong system for whistle-blower protection against discriminatory or retaliatory actions, providing guidance and information to prospective whistle-blowers on the existing system of protection and enforcement of their rights (OECD, 2010[33]).

Promotion of business integrity measures by the government

Governments can play an important role in incentivising businesses to comply with existing integrity standards and in promoting the adoption of compliance programmes. This can be done via a wide range of financial incentives that include, but are not limited to, tax reductions, benefits when applying for a loan, easier participation in public procurement, and attribution of financial awards, as well as non-financial incentives, such as integrity awards and whitelists of compliant companies that can bring a positive impact on a company's reputation.

Moreover, conducting awareness-raising activities with a focus on SMEs (e.g. training events, seminars, round tables) and supporting existing integrity initiatives through business associations helps to strengthen business integrity and make it part of the business culture of a country.

Analysis

Business integrity is an important part of government actions to prevent and combat corruption, both in private and public sectors, and to increase the levels of compliance with state policies and regulations in the private sector. This dimension analyses recent policy developments in the field of business integrity in the EaP countries, focusing on the overall institutional and legal framework for business integrity policy; mechanisms for prevention and enforcement of corruption in the private sector; and activities carried out by the governments to promote business integrity measures.

Since 2016, the EaP governments' efforts to improve business environment and to enforce anti-corruption policy in both public and private sectors at different levels of governance have resulted in some important advances for countries in World Bank's *Doing Business 2020* rankings (i.e. Azerbaijan, Georgia) (World Bank, 2019[21]). However, the EaP region cannot boast the same progress in the Transparency International Corruption Perception Index (CPI) (Table 1.3.). EaP countries' performance in CPI, except for that one of Georgia, remains well below the EU 13 or Visegrad average (Figure 1.13.).

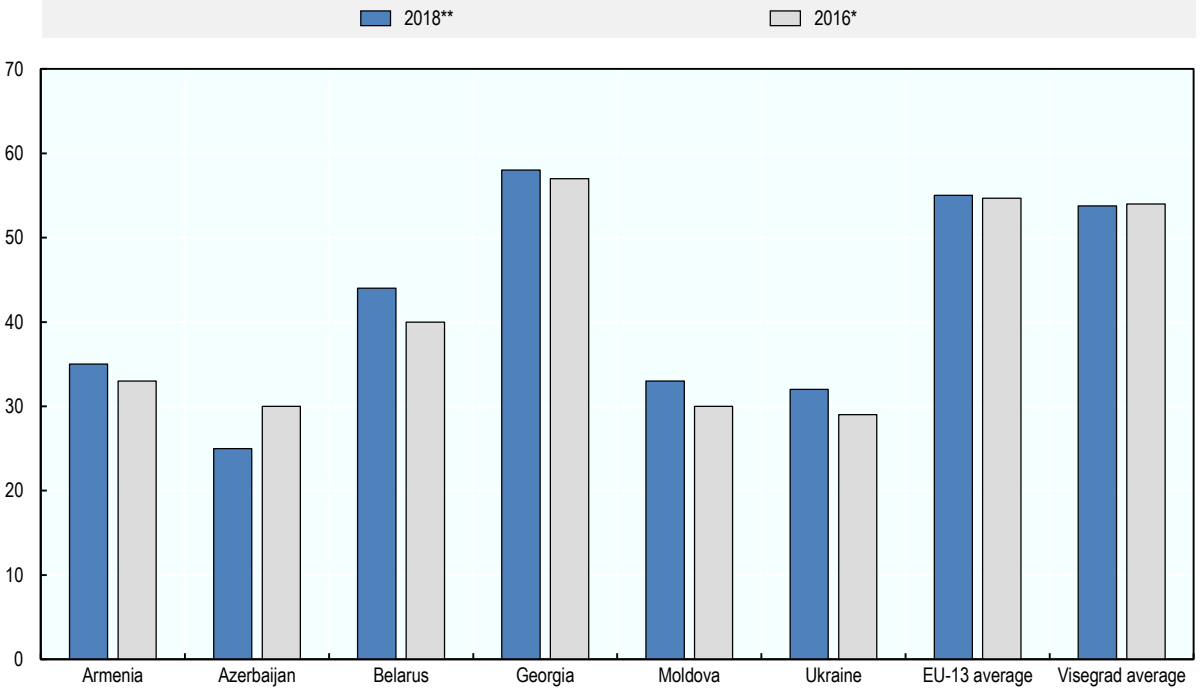
Table 1.3. EaP countries progress in Corruption Perception Index ranking

	Corruption Perception Index	
EaP countries	2016*	2018**
Armenia	113	105
Azerbaijan	123	152
Belarus	79	70
Georgia	44	41
Moldova	123	117
Ukraine	131	120

* Total number of countries = 176.
** Total number of countries = 180
Source: Transparency International, *Corruption Perception Index* 2016 and 2018 data.

Figure 1.13. Corruption Perception Index

Values range from 0 (highly corrupted) to 100 (very clean).



Notes: * Total number of countries = 176.
** Total number of countries = 180.
Source: Transparency International, *Corruption Perception Index* 2016 and 2018 data.

StatLink http://dx.doi.org/10.1787/888934086698

Thus, progress in the CPI remains very modest for all EaP countries, with incremental changes in countries with low rankings, i.e. Moldova and Armenia each moving 5 and 8 positions up, respectively; Azerbaijan sliding back to the 152nd position; and Ukraine making the most progress to reach 120th position. The results suggest that despite the success of reforms to improve the overall business conditions, EaP countries need to step up their efforts towards better governance, rule of law, greater transparency and accountability of public and private sectors, including through eradication of corruption.

To be sure, perception indexes can be a misleading indicator of corruption levels; for example, a single high-profile case can have a big impact on outsiders' perceptions, for better or for worse, whereas gradual improvement or deterioration may be registered only with a delay. However, this is true only up to a point. The evidence suggests that countries with a reputation for corruption generally do have serious problems with it (Mocan, 2008[34]; Olken, 2009[35]).

Moreover, surveys of ordinary citizens across EaP countries also point to high levels of corruption in public institutions, even when they ask direct questions about respondents' own experiences of paying bribes. While there are no very recent comparable data covering the six EaP countries, the last Transparency International's most recent *Global Corruption Barometer* found that in Azerbaijan, Moldova and Ukraine that more than 30% of citizens reported having paid a bribe when in contact with a public service in the preceding 12 months. Belarus and Armenia fell into the 20-30% bracket, while in Georgia fewer than 10% of respondents had done so (Transparency International, 2017[36]). These data reflect responses at the start of the current assessment period, so one cannot rule out improvements since then, especially with the development of e-services; nonetheless, they underscore the fact that certain realities are indeed mirrored in the perceptions index.

Business integrity is becoming an increasingly important part of anti-corruption frameworks in EaP countries, but it still lacks a risk-based approach. Despite the EaP countries' steps to promote business integrity through a number of laws on corruption prevention and prosecution, effective enforcement of these laws remains a challenge, due to the weak institutional anti-corruption infrastructure and lack of progress in reforming the judiciary. In terms of prevention of corruption and enforcement of anti-corruption legislation, all EaP countries except Azerbaijan have introduced mandatory beneficial ownership disclosure, but the mechanism lacks the tools required to effectively verify the validity of provided information. Criminal liability of legal persons for corruption has been introduced into all EaP countries' legislation, excepting Belarus and Armenia, but its enforcement often lacks effective co-ordination and implementation mechanisms. In addition, while EaP countries have put in place various means of reporting corruption and integrated the protection of whistle-blower rights into their respective legislations, these efforts still do not provide reliable protection due to persisting loopholes in the legislation, lack of independence of the judicial system, and weak institutional frameworks for corruption prevention across the EaP region. Moreover, EaP governments' initiatives to promote business integrity practices are scarce and rely extensively on donor or private sector support. Comprehensive awareness-raising programmes on business integrity and meaningful financial and other incentives to encourage SME adoption of integrity practices are lacking in all EaP countries.

Institutional and legal frameworks for business integrity need to be strengthened

This sub-dimension assesses the legal framework for business integrity, namely available provisions within the anti-corruption legislation, and institutions implementing anti-corruption policy. Business integrity is becoming an increasingly important part of anti-corruption frameworks in EaP countries. Moldova included business integrity in its Anti-corruption Strategy for 2017-2020, Azerbaijan foresees promoting transparency and accountability in the private sector under its National Action Plan on Promotion of Open Government 2016-2018, while Belarus is tackling corruption in the private sector through its National Programme for Combatting Crime and Corruption 2017-2019. Armenia, Georgia and Ukraine plan to introduce business integrity as one of the directions in their anti-corruption strategies.

However, such positive developments were not based on comprehensive studies of business integrity risks.[19] The few available reports assessing the corruption risks for businesses (with no particular focus on SMEs) have either been carried out by private research institutions (Moldova), or are the result of a risk-based approach to tax inspections (Belarus and Ukraine).

EaP countries are also promoting business integrity through laws on corruption prevention and prosecution, bribery, money laundering, terrorism financing, and integrity of the public service. However, effective enforcement of these laws remains a challenge, due to the weak institutional anti-corruption infrastructure lacking an appropriate mandate, adequate financial and human resources and independence from vested interests. In this regard, Ukraine has advanced the most since 2014, with the establishment of a number of specialised anti-corruption institutions: the National Agency for Corruption Prevention (NACP); the National Anti-Corruption Bureau (NABU), which is in charge of investigation of corruption offences; the Specialised Anticorruption Prosecutor Office (SAPO), in charge of prosecution of corruption; the Agency for Recovery and Management of Assets (ARMA), in charge of identification, tracing and management of seized assets; and the High Anti-corruption Court, which considers corruption cases. However, the success of the newly established institutions has been considerably slowed down by the lack of reform in the judicial system and some other factors, including the Prosecutor General's Office and the State Security Service challenging the mandate of NABU by not providing necessary co-operation and overtaking cases. In addition, NACP and SAPO have been sharply criticised for a perceived lack of political independence following their leadership's involvement into some unethical and allegedly corrupt behaviour (ACN, 2019[37]; Lough, John; Dubrovskiy, Vladimir, 2018[38]).

Mechanisms for prevention and enforcement of corruption in the private sector lack efficient implementation

This sub-dimension focuses on the ways corruption is prevented and anti-corruption legislation enforced with regard to the private sector, namely the analysis of disclosure of beneficial owners, criminal liability of legal persons for corruption, and mechanisms for reporting and whistle-blower protection available in EaP countries. Although all EaP countries have advanced in the prevention of corruption in recent years by introducing a number of positive reforms, the reforms often lack appropriate mechanisms for implementation. Beneficial ownership disclosure has become mandatory in all countries, except Azerbaijan, where it only applies to financial sector operators. In some countries like Armenia, the law on disclosure is recent (adopted in 2019), whereas in others it has been operating for a longer period – e.g. Ukraine that established a database of beneficiary owners within its open-data government portal in 2017. While this is an important development, the absence of tools to verify information on beneficial ownership hampers the effectiveness of the disclosure mechanism.

In addition, Azerbaijan, Georgia, Moldova and Ukraine, and have taken important steps towards the criminalisation of corruption by introducing liability of legal persons for corruption offences. For instance, in 2018, Azerbaijan adopted amendments to the code of punishment that enabled applications of the criminal liability mechanism introduced in 2016. Ukraine introduced the principle of criminal liability of legal persons to the Criminal Code in 2013, Belarus is in the process of amending the Law on Combatting Corruption, and Armenia has submitted draft provisions to the Criminal Code for Government approval. However, despite these significant improvements, the enforcement of the principle seems to have not taken an important place on the governments' agenda and lacks

efficient co-ordination and implementation mechanisms (Council of Europe, 2018[22]). Governments should continue their efforts to reform the judiciary to enable its independence from vested interests and ensure that law enforcement officers, investigators and judges are well-trained to enforce corporate liability law and have both efficient investigative tools at their disposal and sufficient time to investigate corruption crimes committed by legal persons.

All EaP countries have put in place different mechanisms for reporting corruption, including through the website of the Prosecutor General's Office (e.g. Azerbaijan, Belarus), the ministry of justice, or other ministries in charge of anti-corruption policy (Armenia, Georgia, Moldova, Ukraine). In addition, Armenia and Georgia have recently established dedicated whistle-blowing platforms: www.azdararir.am and www.mkhileba.gov.ge, respectively. In Moldova, the National Anticorruption Centre receives the reports on corruption by email or by phone, and in Ukraine businesses can blow the whistle through the National Agency on Corruption Prevention or file a complaint with the Business Ombudsman Council in case of presumed corruption acts by the public administration.[20] In Belarus, the government has put in place a mechanism of financial reward for those who help detect corruption cases; the amount of the award varies from 10 to 50 "basic values"[21] depending on the gravity of the corruption crime uncovered.

Protection of whistle-blower rights provides witnesses of corrupt behaviour with assurance and understanding of the mechanism for their actual protection in case they report corruption. All EaP countries, except for Azerbaijan, have integrated the protection of whistle-blower rights into their anti-corruption or other legislation (without, however, specific provisions for businesses). Nevertheless, the adopted reforms do not provide reliable protection and enforcement of whistle-blowers rights because of the existing loopholes in the legislation, lack of independence of the judicial system and weak institutional framework for corruption prevention (e.g. Georgia, Ukraine,) (OECD, 2019[39]). In addition, lack of data on the number of reports by businesses (except for Ukraine, where the data are partially provided by the Business Ombudsman Council), the difficulty of tracing enforcement actions following private sector reports, and the actual application of whistle-blower protection make it difficult to evaluate the efficiency of the protection system.

EaP governments' initiatives to promote business integrity are limited

This sub-dimension assesses state efforts to promote of business integrity, including through dedicated financial and other incentives, and awareness-raising activities. The role of governments in promoting business integrity practices is not yet recognised as a strategic priority; it remains generally limited to *ad hoc* activities organised jointly by state agencies or ministries, or in co-operation with NGOs and the private sector.

Nevertheless, interesting examples can be found. In Armenia, the Ministry of Justice, in partnership with a telecom operator, has conducted training in compliance; in Moldova, the National Anticorruption Centre and the Competition Council initiated an online co-operation platform to promote integrity in the private sector through the exchange of good practices between businesses. In Georgia, the recent expansion of the Business Ombudsman's mandate to encompass promotion of business integrity policy, has led to the organisation of business integrity seminars in the region and the launch of an e-platform for business complaints and requests. The Ukrainian Network for Compliance and Integrity (UNIC) has become an important actor in promoting business integrity (Box 1.3).

While these initiatives constitute an important development towards promotion of business integrity, no comprehensive or large-scale awareness-raising programme has been put in place by any government throughout the EaP region in order to encourage small companies to develop and adopt internal compliance programmes (i.e. code of conduct, integrity charts, etc.). Moreover, financial and other incentives encouraging businesses to adopt compliance mechanisms and meet the integrity standards are lacking in five EaP countries (Belarus excepted), and business associations and NGOs promoting the integrity of the private sector among their members could use some support from the government.

Box 1.3. Promoting private sector integrity: The Ukrainian Network of Integrity and Compliance

Launched by the Business Ombudsman Council with the support of the EBRD and OECD in May 2017, the Ukrainian Network of Integrity and Compliance (UNIC) is the most active organisation in promoting ethical, transparent and responsible ways of doing business in Ukraine. UNIC's role is threefold: it is a place for promotion of responsible business conduct, a platform for implementing integrity standards in line with best international practices, and lastly, an educational project fostering business integrity and transparency in the society and businesses community.

As of January 2019, the Network comprised 60 companies employing more than 63 thousand people in 46 cities in Ukraine. To become a member of the Network, a company should adhere to certain principles that include:

- publicly available commitment towards integrity and anticorruption
- development and implementation of internal policies and compliance rules
- provision of support for compliance at the management level
- improving business ethics awareness among partners and colleagues
- training employees, customers and contractors
- collaborating with partners and contractors sharing the same principles

As a member, the firm can enjoy the following benefits:

- good business reputation
- collective counteraction to corruption
- reduction of regulatory pressure
- easier access to finance (credit)
- sharing the best compliance practices
- use of the UNIC certification

UNIC has developed its own business certification procedure, is planning to establish a system to monitor the implementation of business integrity and compliance principles by its members, and supports the introduction of legal incentives for business integrity by the government.

Source: UNIC website, https://unic.org.ua.

The way forward

To enhance the integrity of SMEs in the EaP region, strengthen enforcement of anti-corruption legislation, and promote business integrity principles within the business community with a focus on SMEs, governments could do the following:

- **Conduct studies of business integrity risks, as an inherent element of anti-corruption policy.** This will allow for design and implementation of targeted policy addressing actual risks SMEs face when operating in a given business environment.
- **Put in place a system to verify the validity of information on beneficial ownership**. This would be an important step for all EaP countries towards ensuring the transparency of financial operations in the private sector and deterring potential infringements.
- **Adopt criminal liability of legal persons for corruption** (i.e. Armenia, Belarus) **and ensure effective enforcement of existing criminal liability provisions** (i.e. Azerbaijan, Georgia, Moldova, Ukraine) through relevant training for law enforcers and judiciary, as well as the provision of effective investigative tools and reasonable time for the investigation of corruption crime.
- **Conduct analysis and gather data on the number and nature of corruption reports** submitted by businesses through available platforms – i.e. dedicated whistle-blower platforms (Armenia and Georgia), hotlines to the Prosecutor General's Office and ministries (Azerbaijan, Belarus, Ukraine), and the agency on corruption prevention (Moldova) – while adopting a focus on SMEs.
- **All EaP governments should engage in active promotion of business integrity** through awareness-raising activities for SMEs, the introduction of incentives (including financial) for companies to adopt of compliance programmes by companies, and support for business associations in disseminating the information on the importance and benefits of integrity programmes for SMEs.

Policy Instruments – Level playing field

Table 1.4. Dimension challenges and policy instruments – Level playing field

Dimension	Challenges / Opportunities	Policy instruments
Competition	**Institutional and budgetary independence** To fulfil their mandate, competition agencies need to be trusted, impartial, and competent. Investigations and decision making should not be an easy target of corruption allegations.	**Provide competition agencies with a status of independence from the government**. This will allow them to pursue their mandate in a neutral way. **Increase budgets to allow for the recruitment of highly qualified lawyers and economists and the purchase of the necessary IT equipment.** This will allow for qualified and timely interventions against competition law violations.
	Effective enforcement Good legal frameworks are meaningless without effective enforcement. The consumers in all jurisdictions will benefit greatly from interventions – in particular those against cartels and anti-competitive mergers.	**Boost cartel enforcement by granting effective powers to carry out unannounced inspections (dawn raids**). They are a universally agreed upon indispensable tool for uncovering illegal conspiracies.

Dimension	Challenges / Opportunities	Policy instruments
		Strengthen investigation tools and sanctioning powers for all violations of the law, and for breaches of orders. This will enable proceedings based on sound facts and economics. **Ensure that mergers are duly notified, and that anti-competitive mergers are prohibited or remedied by mostly structural means**. This will ensure that market structures remain competitive, and that dominance will be prevented.
Contract enforcement and alternative dispute resolution	**Courts system lacks the efficiency, independence and transparency necessary to ensure effective contract enforcement** Deficiencies in case management, lengthy court automation processes, and the lack of effective enforcement of court decisions complicates SME access to justice.	**Accelerate on court automation,** expanding e-court mechanisms for countries where they are not widely adopted, and introduce monitoring mechanisms to address the deficiencies of the systems for countries where e-court is already operational. **Provide for stronger enforcement mechanisms of court decisions** against public authorities and SOEs, by ensuring legal grounds for timely reimbursement by the state, and that enforcements agents are well-trained, free from undue influence by the third parties, and have adequate workload.
	Almost non-existent use of ADR mechanisms in resolution of commercial disputes by SMEs Lack of legal grounds for ADR and gaps in SME awareness of ADR benefits for dispute settlement, as well as insufficient state efforts to promote relevant ADR mechanisms.	**Consider strengthening ADR infrastructure** by embedding certain mechanisms into the law to provide for efficient dispute resolution for SMEs, including when it comes to litigation with public authorities. **Step up efforts to raise SME awareness of ADR and its benefits in resolving commercial disputes** through development of a comprehensive approach to the promotion activities (i.e. organisation of information campaigns; training programmes; conferences for businesses, judges and lawyers; etc.) would be another important element of building ADR culture within the business community.
Business integrity	**Weak policy framework for business integrity in the context of lacking consistent enforcement of anti-corruption legislation** Institutional and legal frameworks in place could benefit from improvements to address existing weaknesses. Effective enforcement will contribute to greater integrity of the business sector.	**Make the study of business integrity risks an inherent element of anti-corruption policy** as it allows for the design and implementation of targeted policies addressing actual risks SMEs face when operating in the given business environment. **Adopt criminal liability of legal persons for corruption and ensure its effective enforcement –** through relevant training for law enforcement and the judiciary and the provision of effective investigative tools and reasonable time for investigation of corruption crime.
	Lack of government actions towards promotion of business integrity among SMEs SMEs are unaware of the benefits deriving from adoption of business integrity practices and often lack sufficient resources to invest in integrity measures. In this regard, businesses could benefit from state support.	**Actively promote business integrity** through awareness-raising activities for SMEs, the introduction of incentives (including financial), for the adoption of compliance programmes by companies, and support for business associations in disseminating the information on the importance and benefits of integrity programmes for SMEs.

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Notes

[1] These three dimensions are introduced as additional areas of investigation for the first time in this SBA assessment. For this reason, the authors have chosen to assess the performance of EaP countries in these areas not by using the 1-5 SME Policy Index scoring methodology, but rather by supplying a qualitative assessment that refers to established international benchmarks whenever applicable.

[2] Besides OECD recommendations, guidelines and instruments focusing on competition policy as such (www.oecd.org/daf/competition/), competition is an integral part of other OECD policy fields and instruments – such as the Policy Framework for Investment (PFI) (OECD, 2015[18]), the Business and Finance Outlook (OECD, 2018[40]), the Guidelines for Multinational Enterprises (OECD, 2011[41]), the Guidelines on Corporate Governance of State-Owned Enterprises (OECD, 2015[42]), the Recommendation on Regulatory Policy and Governance (OECD, 2012[43]), the Recommendation on Competition Assessment (OECD, 2009[44]), the Recommendation concerning Structural Separation in Regulated Industries (OECD, 2001[45]), the Recommendation for Co-operation between Member Countries in Areas of Potential Conflict between Competition and Trade Policies (OECD, 2019[46]), and the Trust and Business Report (OECD, 2015[47]).

[3] "An easier life" is a quote from the economist John Hicks (1935[50]). While laying down the foundations of free economy theory, Adam Smith pointed to the risk of anticompetitive strategies: "*People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices*." (The Wealth of Nations). Hence the need to "lend a hand to the invisible hand" through competition law and enforcement.

[4] More information is available at https://www.oecd.org/site/peerreview/ and https://unctad.org/en/Pages/DITC/CompetitionLaw/Voluntary-Peer-Review-of-Competition-Law-and-Policy.aspx

[5] Remedies are structural or behavioural measures imposed on undertakings by competition agencies in order to solve a competition concern in abuse of dominance or merger cases. Compared to outright prohibitions, remedies can be a more proportionate means to safeguard or re-establish competition on markets.

[6] Wouter P.J. Wils (2019) "Independence of Competition Authorities: The Example of the EU and its Member States", *World Competition*, Volume 42, Issue 2, June 2019, p. 8, http://ssrn.com/author=456087

[7] See also OECD Recommendations on effective action against hard core cartels (OECD, 2019[48]), with an explicit recommendation to confer dawn raid powers to competition agencies, and on fighting bid rigging in public procurement (OECD, 2009[49]).

[8] For instance, the Competition Council of Lithuania has averaged a ratio of direct consumer benefits to budget of at least 7:1 since 2012 (Competition Council of the Republic of Lithuania, 2017). The estimated consumer benefit generated by the EC Directorate-General for Competition, averaged between 0.1 and 0.2% of GDP, amounting to between EUR 14.21 billion and EUR 28.72 billion (DG Competition, 2017). The UK Consumer and Markets Authority calculated that for the period 2014-17 the estimated direct financial benefit to consumers of its activities was GBP 3.7 billion in aggregate, representing annual average consumer savings of GBP 1.2 billion. The ratio of direct

benefits to cost was 18.6:1 (CMA, 2017). The Dutch Authority for Consumers and Markets generated savings for consumers of around EUR 760 million in 2016 (ACM, 2017).

[9] See https://www.oecd.org/competition/assessment-toolkit.htm

[10] https://www.oecd.org/daf/competition/fightingbidrigginginpublicprocurement.htm.

[11] Belarus is not included in the assessment.

[12] See country chapter on Belarus.

[13] In Belarus, mediation is also provided within the court system, i.e. court-annexed mediation that suggests that the court controls the procedure by setting the timeline for the dispute settlement (one month) and ensuring the enforcement of the agreement reached by parties as a court order.

[14] In Moldova, mediation is regulated by the government and carried out by the private sector organisations. The Mediation Council established by the Ministry of Justice in 2007, organises and coordinates the work of mediators in the country and promotes mediation mechanism, including through certification of mediators, establishment of the list of accredited mediators, development of standards and training programmes, and awareness-raising campaigns on mediation. According to the data provided by the Council, 249 commercial disputes have been resolved through mediation in 2018 (vs 107 in 2017).

[15] Convention on the Recognition and Enforcement of Foreign Arbitral Awards, New York, 1958 https://www.uncitral.org/pdf/english/texts/arbitration/NY-conv/New-York-Convention-E.pdf

[16] E-court mechanisms or e-court system include availability of an electronic case management system; possibility to file initial complaint, to serve process, and to pay court fees electronically; online publication of judgments and automatic electronic case assignment to judges; inter-court electronic communication system. For more information, please see https://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB16-Chapters/DB16-CS-EC.pdf.

[17] Such a study would assess integrity risks at different levels of operations, i.e. in tax and customs sector, when applying for permits, licenses, complying with the state regulations, etc.

[18] For instance, consider the case where a limited liability company (LLC) is declared as direct legal owner of a Joint Stock Company (JSC), while the beneficial owner of the LLC indirectly controls JSC through the LLC.

[19] A study of business integrity risks is conducted with the involvement of the private sector and civil society to ensure that the identified measures are relevant and have the desired anti-corruption effect in practice, and that the private sector is committed to their implementation.

[20] See Box 1.1.

[21] As of 1 January 2019, the basic value equals BYR 25.5.

Chapter 2. Pillar A – Responsive government

A comprehensive and coherent policy and institutional and regulatory framework, simple and low-cost administrative procedures, and efficient insolvency systems are core elements of a sound SME policy. Pillar A assesses the Eastern Partner governments' responsiveness to SME needs, focusing on the institutional and regulatory framework for SME policy making, the operational environment, and bankruptcy and second chances procedures.

Since the 2016 assessment, all EaP countries have made significant progress in the institutional and regulatory framework dimension by improving their SME definition, establishing multi-year SME development strategies, and setting up SME development agencies. The performance in the operational environment dimension was already high in 2016, and countries have continued to make progress in the licenses and permits area and in e-government services. On the other hand, insolvency frameworks remain one of the weakest areas of the EaP region's business environment, and countries have experienced only modest progress in this area.

The EaP countries are invited to systematically apply RIAs, invest in IT skills and requirements to ensure entrepreneurs can benefit from e-government services, and assess the impact of simplified tax regimes. Governments should also implement early-warning systems for a systematic detection of insolvency, streamline judicial proceedings, and adopt co-ordinated and proactive second-chance strategies.

Introduction

Entrepreneurs in both developed and emerging economies must navigate a complex structure of government regulations, interventions and institutions. As a result, SMEs often view government as a source of bureaucracy and of often complex and heavy-handed regulation. Government regulation and institutions, though necessary to the proper functioning of a complex market economy, can indeed hinder entrepreneurship and discourage individuals from engaging in entrepreneurial activity.

Laws and regulations set the "rules of the game" that constrain and encourage economic actors (North, 1990[1]; Schmid, 2008[2]; Williamson, 2000[3]), while institutions define and guide the operational framework. An effective institutional and regulatory environment, which provides clear and universal rules, is essential for promoting risk-taking, encouraging investment, and reducing both informality and corruption (OECD, 2017[4]).

SMEs contribute significantly to employment and value added generation, but their views and needs are often neglected in day-to-day policy making. Moreover, SMEs are typically more dependent than large companies on the surrounding business ecosystem and, due to their limited resources, more vulnerable to market failures, policy inefficiencies and inconsistencies. In efficient markets, the exit of inefficient or unviable firms is a natural part of the competitive process, yet this exit must take place in an orderly manner, so to protect the interests of both debtors and creditors. Moreover, exit and restructuring of failed companies ensure that productive assets remain in use and scarce resources are allocated efficiently.

In order to achieve SME policy objectives such as increasing value added and employment and promoting innovation and competitiveness, the government as a whole – not just the institutions directly in charge of SME policy – need to be suitably attentive to SMEs' needs.

Conducting an effective SME policy is a complex task, due to the highly-diversified nature of the SME population and the fact that SME policy cuts across many different policy areas. Governments need to set clear strategic guidelines for SME policy, secure business sector support and build a broad consensus involving the SME community, including NGOs, experts, and international organisations.

An effective institutional and regulatory environment that provides clear and universal rules is essential for promoting risk-taking, which will encourage investment and in turn promote innovation. In particular, a strong legal framework reduces the transaction costs of economic activities and ensures that economic gains from starting and growing businesses are not expropriated and can be devoted to the generation and diffusion of innovations.

Furthermore, a strong institutional and regulatory framework plays a fundamental role in reducing informality and corruption, which is essential for a healthy public procurement sector and for ensuring a level playing field. Indeed, corruption in procurement can hinder economic development and distort market mechanisms.

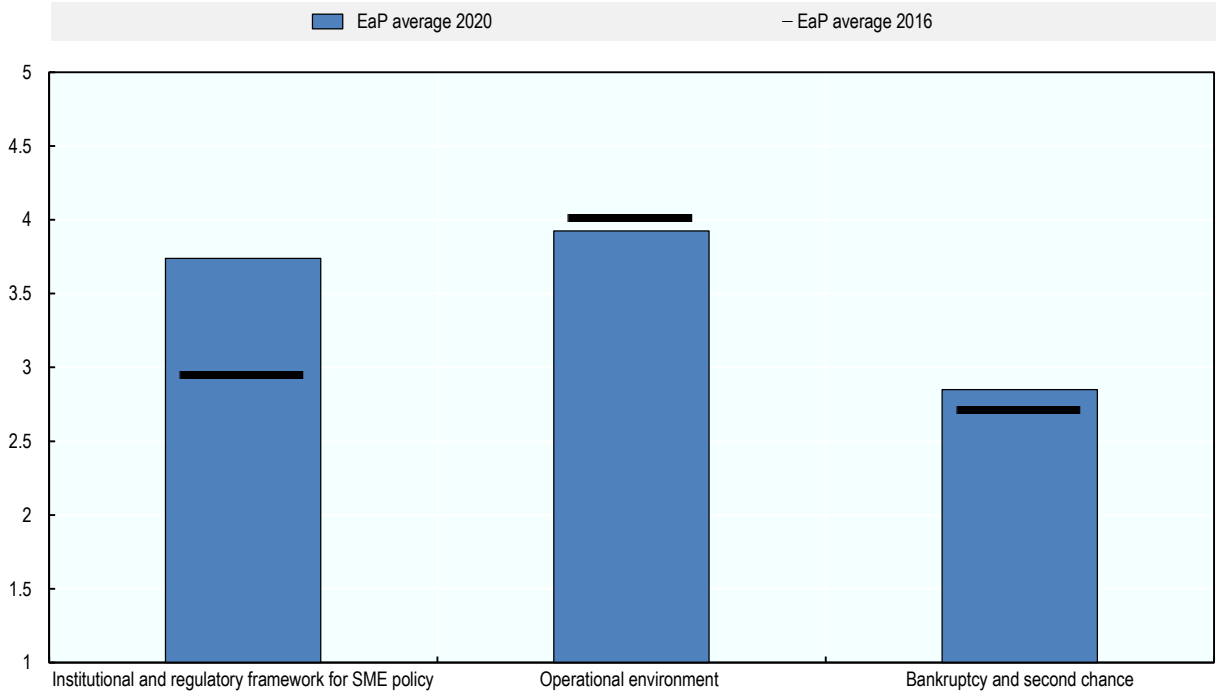
This pillar investigates recent EaP reforms in these areas with an assessment of three policy dimensions: 1) the institutional and regulatory framework for SME policy, 2) the operational environment for SMEs, and 3) bankruptcy and second chance.

As illustrated in Figure 2.1, significant improvements in the institutional and regulatory framework have been made in the region since 2016. The regional average score for the

Bankruptcy and second chance dimension has increased, while the result for the Operational environment one remains high, yet slightly lower than in 2016.

Figure 2.1 SME Policy Index scores for Pillar A: Responsive government

Regional scores, 2020 vs. 2016



StatLink http://dx.doi.org/10.1787/888934086717

Table 2.1. Country scores by dimension and sub-dimension, 2020

	ARM	AZE	BLR	GEO	MDA	UKR	EaP average 2020	*EaP average 2016*
Institutional and regulatory framework for SME policy	**3.76**	**3.53**	**3.51**	**4.20**	**3.92**	**3.50**	**3.74**	***2.95***
Institutional setting	3.76	4.00	3.52	4.53	4.05	3.32	3.86	*3.27*
Legislative simplification and RIA	3.49	3.37	3.25	3.92	3.94	3.71	3.61	*2.47*
Public-private consultations	4.05	3.08	3.75	4.04	3.72	3.53	3.69	*3.00*
Operational environment	**3.55**	**4.20**	**4.12**	**4.36**	**3.76**	**3.55**	**3.92**	***4.01***
Digital government for SMEs	3.14	4.14	3.84	4.17	3.43	3.52	3.71	*3.82*
Business licensing*	2.94	3.21	3.68	4.82	4.52	3.88	3.84	-
Company registration	4.58	4.58	4.49	4.85	3.97	3.81	4.38	*4.17*
Tax compliance procedures for SMEs*	3.14	4.26	4.34	3.80	3.70	3.06	3.72	-
Bankruptcy and second chance	**2.40**	**2.97**	**3.34**	**3.03**	**2.79**	**2.56**	**2.85**	***2.71***
Preventive measures*	1.29	2.43	3.76	2.71	2.90	2.71	2.63	-

	ARM	AZE	BLR	GEO	MDA	UKR	EaP average 2020	*EaP average 2016*
Survival and bankruptcy procedures	3.84	3.87	3.85	3.67	3.01	3.15	3.56	*2.96*
Promoting second chance	1.17	2.00	1.92	2.25	2.25	1.33	1.82	*2.25*

Note: The dimension score is the weighted average of the sub-dimension scores (see Overview of key findings chapter and Annex A). The following methodological changes have been introduced in the 2020 assessment, which should be taken into account when observing trends in SME Policy Index scores: Operational environment (new sub-dimensions: Business licensing and Tax compliance procedures for SMEs), Bankruptcy and second chance (new sub-dimensions: Preventive measures).
* These sub-dimensions have been introduced in 2020 and were not covered in previous assessments.

Institutional and regulatory framework for SME policy

The institutional and regulatory framework for SME policy shapes the scope and the efficiency of SME policy interventions. It includes elements such as the definition of an SME; the institutions in charge of elaborating, implementing, monitoring and evaluating SME policy at the central government level; and the mechanisms for policy dialogue and co-ordination.

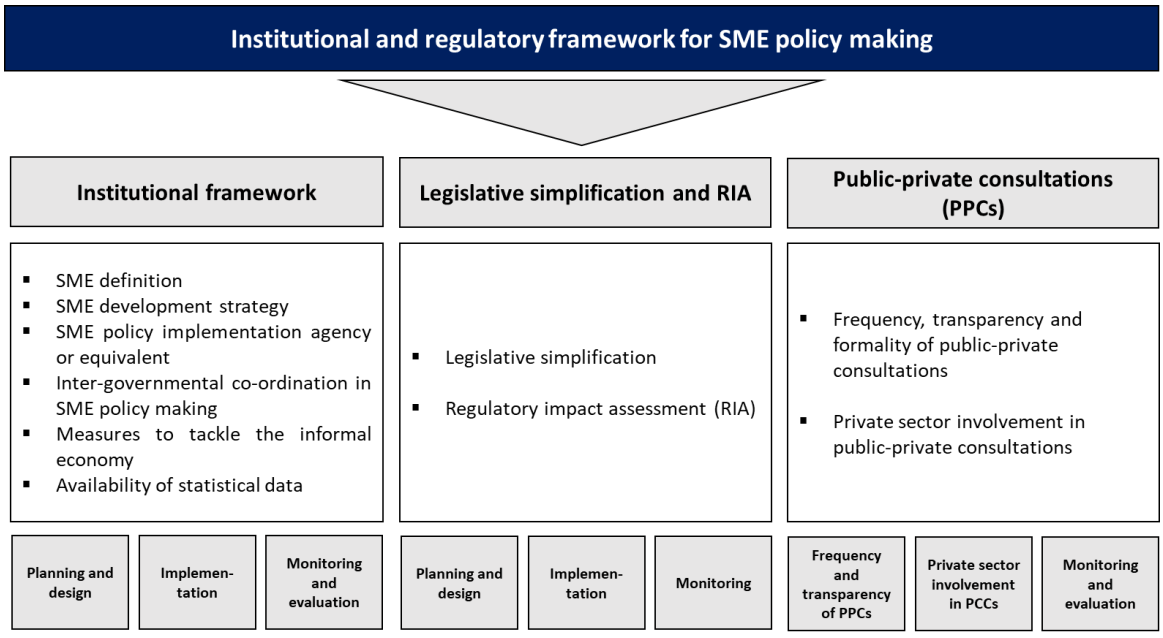
Giving SME needs full consideration at an early stage of policy development requires governments to devise comprehensive SME strategies, including a clear and consistent SME definition, data collection goals and an autonomous SME policy implementation agency. Such a strategy should be co-ordinated among all stakeholder ministries, agencies and departments involved in SME-related policy making. The application of the "Think Small First" principle, as presented in the EU Small Business Act and which instructs policy makers to give priority consideration to the impact of policy decisions on small businesses,[1] should be derived from specific country and local contexts. Action plans, as well as prioritised and sequenced reforms, need to be grounded in broader socio-economic or development strategies and to reflect the main local business constraints – such as, in many contexts, the incidence of informal activity.

Ex ante and *ex post* regulatory impact analysis (RIA) has great potential to ensure the promotion of better laws with less uncertainty. Evaluating the costs, benefits and social impact of regulation for SMEs (the so-called "SME test"[2]) enables policy makers to adapt regulations to smaller firms' needs. Implementing comprehensive public-private consultations including SMEs is key also for the implementation of the "Think Small First" principle.

Assessment framework

The framework for the *institutional and regulatory framework for SME policy* dimension assesses three sub-dimensions: 1) the institutional framework, 2) legislative simplification and RIA, and 3) public-private consultations (Figure 2.2).

Figure 2.2. Assessment framework – Institutional and regulatory framework for SME policy making



Institutional framework

The first sub-dimension covers the main building blocks of a proactive SME policy. It starts with a review of the current SME definition, its applicability across the country's public administration, and the efforts made to collect timely and accurate SME data. A set of indicators focuses on the institutions in charge of coordinating and conducting interventions towards the SME sector, looking at the assignment of the policy mandate, the relations between institutions charged with policy elaboration and policy implementation and the inter-ministerial and inter-agency co-ordination mechanisms. Indicators cover the entire policy cycle, starting with policy design, implementation, monitoring and evaluation. Specific attention is devoted to the presence and the structure of a multi-year SME development strategy, a key instrument for organising and linking policy interventions around a set of pre-agreed objectives. Finally, a number of indicators look at the quality and the timely availability of SME data, while a final set of indicators capture the policy actions conducted to fight informality among the SME population, as a high incidence of enterprise and labour informality may distort SME development and significantly reduce the impact of policy interventions.

Legislative and regulatory simplification and RIA application to SME policy

The second sub-dimension looks at the actions taken by the government to reduce the administrative burden on SMEs. Horizontal policies aimed at improving the business climate and the operational conditions for all enterprises are a major component of SME policy, and they have been actively pursued by all the EaP countries. The focus is on the process of legislative and regulatory simplification and the application of RIA, including the introduction of a SME test to evaluate the impact of new legislative and regulatory acts on small enterprises.

Public-private consultations

The third-sub-dimension concerns the frequency, transparency, inclusiveness and formal influence of public-private consultations. The presence of effective channels of consultations and the capacity to conduct a constructive dialogue with the private sector are essential to the development of a well-structured and broadly supported SME policy. Small firms tend to be less organised than larger companies and have a limited capacity to come up with policy proposals. Governments must therefore take specific initiatives to ensure that the voice of the small enterprises is properly heard and that all categories of enterprises are represented in the consultation process. A good example of an effective public-private consultation initiative can be found in Korea, where the government launched the Public-Private Joint Regulation Advancement Initiative (PPJRAI) initiative (see Box 2.1 for more information).

Box 2.1. Public-private consultations on regulatory reforms in Korea

In 2013, the Korean government launched the Public-Private Joint Regulation Advancement Initiative (PPJRAI) to improve and advance its regulatory framework, with a particular focus on the conditions under which SMEs operate. It operates as a task force of the Office of Government Policy Coordination (OGPC) and is composed of 26 members – half being experts from each of the regulating government ministries, and half representing private sector organisations such as the Korea Chamber of Commerce & Industry (KCCI) and the Korea Federation of SMEs (KBIZ). The PPJRAI includes a team in charge of addressing the regulatory obstacles of SMEs and microenterprises. Its overarching objective is to identify on-site regulations which appear overly onerous for SMEs, improve them, and monitor their implementation in direct consultations with the pertinent regulating government ministry.

The task force works on a case-by-case basis, and each case analysis can take up to two weeks. It identifies pertinent regulations in need of reform through its function as a forum for stakeholders and the public to submit petitions for review of regulations via its monthly town hall meetings, through its website, or by phone. Pertinent submissions are then allocated to the national or local levels for review and drafting suggestions for improvement. Finally, consultations with the relevant ministries decide whether to accept or reject proposed amendments. PPJRAI is also responsible for conducting retrospective reviews to quantify the impact of the introduced changes on Korea's economy (OECD, 2017[5]).

The PPJRAI's success with regulatory reform stems from three factors (Pérez, 2015[6]):

- A high level of political support from the President, who is directly involved in the PPJRAI;
- Engagement with highly technical and institutional experts who can propose reforms while identifying first-hand the limits and advantages of each effort;
- A public-private partnership that strongly engages the community and signals the desire for market-oriented regulatory reforms.

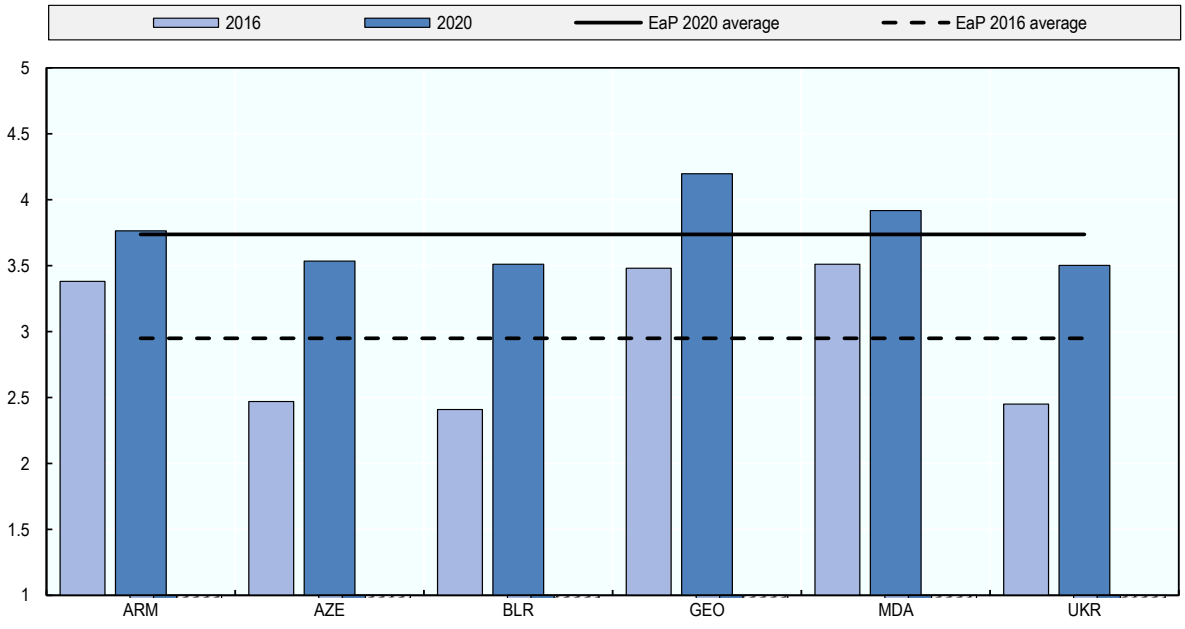
Source: OECD (2017), *Regulatory Policy in Korea. Towards Better Regulation*, https://doi.org/10.1787/9789264274600-10-en; Pérez (2015), Insights on South Korea's Public-Private Partnership for Regulatory Reform, https://regulatorystudies.columbian.gwu.edu/insights-south-korea%E2%80%99s-public-private-partnership-regulatory-reform.

Analysis

Effective institutional and regulatory frameworks are crucial for the success of all other SME support initiatives. This dimension measures progress towards developing 1) a functional institutional and regulatory framework for SME policy making (including elements such as the definition of an SME), 2) the institutions in charge of elaborating, implementing, monitoring and evaluating SME policy at the central government level, and 3) mechanisms designed to promote policy dialogue and coordination.

All the EaP countries have made significant progress in this area since the completion of the last assessment in 2016. The progress was stronger in countries which in 2016 were lagging behind, such as Belarus and Ukraine. As shown in Figure 2.3, the overall average score for the dimension has reached the level of 3.74, an increase of 0.79 points over the average score for 2016, indicating that a relatively well-structured institutional and regulatory framework is now mostly in place across all EaP countries. Most EaP countries improved their SME definition, which is now based on multiple criteria and includes stratification breakdowns by micro, small and medium-sized enterprises. The EaP countries have made significant efforts to organise SME policy interventions around multi-year SME development strategies, albeit with significant across-country variation in structure. Nearly all EaP countries have now established SME development agencies. The availability of SME data has also improved, especially in Armenia, Georgia and Ukraine. The above-mentioned progress is also reflected in the regional average score increase in the *institutional framework* sub-dimension (+0.59). Regarding regulatory impact assessment (RIA), Moldova is currently the only country among the EaP where RIA is systematically applied at the moment. However, a strong regional average increase can be seen in the value of the *legislative simplification and RIA application* sub-dimension (+1.14). All EaP countries showed incremental progress towards a more systematic and institutionalised *public-private consultation* process, with Armenia, Georgia and Moldova leading the way. In fact, the regional average score in this sub-dimension has increased by 0.69 points with respect to the 2016 assessment.

Figure 2.3. Scores for the *Institutional and regulatory framework* dimension compared to 2016



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Institutional framework

The *institutional framework* sub-dimension assesses the level of development of the institutional framework – which includes the systems of formal laws, regulations and procedures – as well as the functioning of government institutions that regulate socio-economic activity.

Over the last four years, all EaP countries have worked to improve the institutional framework for SME policy. The 2016 assessment noted that efforts have been made to strengthen the institutional framework in all the EaP countries, but there were still gaps in terms of institutional building and strategic elaboration. The 2020 assessment shows that most of those gaps have been filled and most of the main building blocks of a proactive SME policy are now established across the region. Georgia performs particularly well in this sub-dimension, achieving a remarkably high score (4.75) in monitoring and evaluation (see Table 2.2).

Table 2.2. Scores for the *Institutional framework* sub-dimension

	ARM	AZE	BLR	GEO	MDA	UKR	EaP average
Planning & design	3.20	4.37	3.50	4.30	4.13	3.66	3.86
Implementation	3.93	3.93	3.40	4.60	3.93	2.73	3.76
Monitoring & evaluation	4.33	3.50	3.83	4.75	4.19	4.08	4.11
Weighted average	**3.76**	**4.00**	**3.52**	**4.53**	**4.05**	**3.32**	**3.83**

Note: see Annex A for information on the assessment methodology.

The main SME policy building blocks include: 1) a comprehensive SME definition, widely adopted throughout the public administration, defining the SME policy scope; 2) a clear assignment of the mandate over the elaboration and supervision of the SME policy to a central government ministry, as well as establishment of effective policy co-ordination mechanisms; 3) the delegation of policy implementation to a specialised SME development agency or a group of executive agencies, responding to the central ministry but benefitting from a good level of operational autonomy; and 4) the presence of a multi-year SME development strategy or a similar strategic document that clearly indicates the main policy objectives and priorities as well as qualitative and quantitative targets, key performance indicators, and the monitoring and evaluation mechanisms. The strategy should be complemented by detailed yearly or bi-annual action plans.

Five of the six EaP countries currently have in place an SME definition based on multiple parameters; Belarus is the sole exception, as its definition is based on the employment parameter alone. All definitions include stratification breakdowns by micro, small and medium-sized enterprises – with the partial exception of Ukraine, which uses an indirect definition of the medium-size enterprise segment, and Belarus, which has a separate breakdown for individual entrepreneurs. The country definitions, established either through a legislative act or a government decree, are modelled on the EU definition (even if the thresholds related to turnover and balance sheet assets differ) and they are generally widely applied across the public administration (see Table 2.3).

Table 2.3. EaP and EU SME definitions

	Micro	Small	Medium	Source
EU	<10 employees ≤ EUR 2 million turnover or ≤ 2 million balance sheet	<50 employees ≤ EUR 10 million turnover or ≤ 10 million balance sheet	<250 employees ≤ EUR 50 million turnover or ≤ 43 million balance sheet	The SME definition, European Commission (2005)*
Armenia	< 10 employees ≤ AMD 100 million (EUR 185 580) turnover ≤ AMD 100 million (EUR 185 580) balance sheet	< 50 employees ≤ AMD 500 million (EUR 927 900) turnover ≤ AMD 500 million (EUR 927 900) balance sheet	< 250 employees ≤ AMD 1 500 million (EUR 2 783 700) turnover ≤ AMD 1 000 million (EUR 2 041 380) balance sheet	Amendments to the Law on State Support of Small and Medium Entrepreneurship (2011)
Azerbaijan	< 10 employees ≤ AMD 200 000 (EUR 104 000) turnover	< 50 employees < 3000 000 AZN (EUR 1 056 000)	< 250 employees < 30 000 000 AZN (EUR 15 690 000)	Decision of the Cabinet of Ministers of the Republic of Azerbaijan (2018)
Belarus	< 15 employees (individual entrepreneurs <4 employees)	<100 employees	< 250 employees	Law of the Republic of Belarus of 1 July /2010, No. 148-31, On State Support for Small and Medium Entrepreneurship
Georgia	Not defined	≤ 50 employees ≤ GEL 12 million (EUR 3.6 million)	≤ 250 employees ≤ GEL 60 million (EUR 19.5 million)	Geostat
Moldova	< 10 employees < MDL 9 million (EUR 0.46 million) < MDL 9 million (EUR 0.46 million)	< 50 employees < MDL 25 million (EUR 1.28 million) < MDL 25 million (EUR 1.28 million)	< 250 employees < MDL 50 million (EUR 2.56 million) < MDL 50 million (EUR 2.56 million)	Law No. 179 of July 2016
Ukraine	≤ 10 employees ≤ EUR 2 million	≤ 50 employees ≤ EUR 10 million	All enterprises that do not fall into the category of small or large enterprises (large: > 250 employees; > EUR 50 million)	Commercial Code of Ukraine No. 436-IV of 16.01.2003 (as amended)

* For more information see https://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_en. For the EC's *User guide to the SME Definition* in various languages, see https://ec.europa.eu/docsroom/documents/15582/attachments/1/translations.
Note: Exchange rates as of October 2019, https://www1.oanda.com/lang/it/currency/converter/.
Source: OECD – Governments inputs to the EP SME Policy Index 2019.

In all the EaP countries, with the exception of Armenia, the SME policy mandate is clearly assigned to the economy ministry and there have not been significant changes in the configuration of the mandate since 2016. In Armenia, the Ministry of Economy and Investments, in charge of SME development, has been merged with the Ministry of Agriculture in 2019. The newly enlarged ministry has gone through an internal reorganisation, which entailed the redefinition of the competences of the General Directorate in charge of SME policy and the implementation agencies operating under the Ministry.

SME policy co-ordination mechanisms vary significantly across EaP countries, but overall, they remain relatively weak, as SME policy cross- ministerial coordination mandate is not clearly defined and assigned to a dedicated body in charge of supervising and coordinating

the actions of the different line ministries dealing with SME policy issues (Economy, Trade, Finance, Employment, Education and Science and Technology). However, Georgia and Azerbaijan have made progress towards a more effective inter-ministerial and inter-agency coordination. Georgia has established a high-level Steering Group, chaired by the Minister of Economy and Sustainable Development and composed by all the relevant line ministries, to monitor and co-ordinate the implementation of the country's SME development strategy. In Azerbaijan, the Center for Analysis of Economic Reforms and Communications (CAERC) is in charge of monitoring and co-ordinating the implementation of the country's Strategic Road Maps, including the one covering the SME sector.

The EaP countries have made significant efforts to organise SME policy interventions around multi-year SME development strategies, fulfilling one of the key recommendations of the 2016 assessment formulated under the *institutional and regulatory framework* dimension. Such strategic documents are now in place or are at an advanced stage of elaboration in all EaP countries. The structure of the SME development strategy varies significantly across the EaP countries. Azerbaijan, Georgia, Moldova and Ukraine have adopted well-structured documents containing quantitative and qualitative targets and sections on monitoring and evaluation. On the other side, Armenia and more recently Belarus, have adopted documents that indicate the general strategic guidelines, but often lack clear indications about qualitative and quantitative targets, and do not contain sections on monitoring and quantitative targets, and do not contain sections on monitoring and evaluation (see Table 2.4).

The strategic documents adopted by all the EaP countries emphasise the improvement of the business climate for SMEs, legislative and regulatory simplification, access to finance, and entrepreneurship promotion, but are less specific about the segments of the population and sectors targeted for policy intervention. Across the region, SME policy is still viewed mostly as a horizontal policy supporting entrepreneurship and small enterprises, placing a significant emphasis on the social role played by SMEs, rather than a policy supporting the country's productive transformation and integration into the global economy.

Table 2.4. SME Strategies in EaP countries

	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine
Timeframe	3 years (2016-2018)	5 years (2016 – 2020)	11 years (2019-2030)	5 years (2016-2020)	8 years (2012 – 2020)	4 years (2017-2020)
Number of strategic directions (SDs)/ actions	7 SDs/ not clear	5SDs / 72 actions	9SDs/ not specified	5SDs/33 actions	6 SDs	6 SDs/31 actions
Targets for the whole strategy	Yes	Yes	Yes	Yes	Yes	Yes
KPIs for every SD	No	Yes	No	No	Yes/ partially	Yes
KPIs for every action	No	No	No	No	No	No
Key implementers	Minisrty of Economy, SME DNC	Ministry of Economy	Ministry of Economy	MoESD, Enterprise Georgia, GITA	Ministry of Economy and Infrastructure/ ODIMM	Ministry for Development of Economy, Trade and, SME Development office
Reporting (e.g. quarterly, yearly)	Not specified	Quarterly	Yearly (on relevant SME state support programmes)	Yearly	Quarterly	Quarterly
Coordination mechanism (e.g. inter-ministerial meetings; dedicated councils)	Not specified	Yes	Yes	Yes	Partially specified	Yes
Impact evaluation (external assessment)	Yes, carried out by Adwise group, October 2018	Foreseen for 2020	Foreseen for 2020, to be informally carried out by research institute	Yes, informally carried out by research institute, January 2018	No	Foreseen for 2020
Costing carried out	No	Partially		Partially	No	No
Budget allocated for implementation	(For 2016, AMD 152 600 000) Mostly state funds with some donor funding	Mostly state funds (not specified)	State funds (amount specified in relevant SME state support programmes)	Combination of donor and state funds (not specified)	Combination of donor and state funds (not specified)	Combination of important donor funds and state funds

Source: Armenia's SME Strategy 2016-2018, Strategic Road Map on Production of Consumer Goods at the Level of Small and Medium Enterprises in the Republic of Azerbaijan; Georgia's SME Development Strategy 2016-2020; Belarus's SME Development Strategy 2030 – Country of successful entrepreneurship; Moldova's SME Sector Development Strategy 2012-2020; Ukraine's SME Development Strategy 2020.

Another area where there have been significant improvements over the last four years is related to the establishment of national SME development agencies (see Box 2.2).

Until 2016, only Moldova and Armenia had operational SME development agencies. Since then, Enterprise Georgia has become fully operational while the Small Business Development Agency (SBDA) of Azerbaijan, although still in the early operational phase, it is expected to be fully staffed by 2020. As of this writing (mid-2019), Belarus is in the process of creating an SME agency; while Ukraine, which currently does not have an independent national SME agency, will in 2020/21 evaluate the performance of the SME Development Office (SMEDO), which at the moment operates as an advisory and co-ordination body associated with the Ministry of Economic Development, Trade and Agriculture (MEDTA). It will be decided in 2021 whether to transform SMEDO into a national agency playing a more active role in managing SME development programmes, or to maintain SMEDO's current functions.

Box 2.2. SME agencies across the EaP region

As part of the SBA assessment, a survey of SME agencies in EaP countries was conducted in June-July 2019. All countries responded except for Belarus, which is in the process of establishing its SME agency. The table below presents a summary of the information collected.

Table 2.5. Detailed information on SME agencies in EaP countries

	Armenia	Azerbaijan	Georgia	Moldova	Ukraine
SME Agency	SME Development National Centre	Small and Medium Business Development Agency	Enterprise Georgia	ODIMM	SME Development Office
Year of establishment	2002	2017	2014	2007	2018
Reporting to	Ministry of Economy	Ministry of Economy	Ministry of Economy and Sustainable Development	Ministry of Economy and Infrastructure	Ministry of Economic Development and Trade
Areas of support	SMEs, innovation, export, investment, regional development	SMEs, innovation, export, access to finance, investment, regional development	Business support, export, Investment	Incubation, training, internationalisation, greening, women/youth/migrant entrepreneurship	Entrepreneurship, access to finance, information on EU support
Nr. of staff	36	117	60	53	10
Yearly budget,[1] mln EUR (operations)	1	5.2	1.2	0.56	n.a
Yearly budget,* mln EUR (financial support)	4 (guarantee fund)	n.a.	15	4	n.a
Nr of beneficiaries (per year)	8000 – 10000 (all forms of support)	3770 (all forms of support)	1 387 (financial support)	670 (financial support) 2058 (non-financial support)	n.a.
Territorial presence	Yes (10 offices)	Yes (14 offices)	Yes (1 office)	Yes (11 incubators)	No

*. 2018 for Armenia, Azerbaijan and Moldova. 2019 for Georgia.
Source: Survey completed by national SME development agencies.

In relation to the establishment of a dedicated public agency in charge of SME development, the EaP countries could be divided in three sub-groups:

- Armenia and Moldova were the first countries to establish SME development agencies (SME DNC in Armenia in 2002 and ODIMM in Moldova in 2007), adopting a model already tested in the other transition countries, from Eastern Europe to the Western Balkans. Those two agencies were established when the

countries were introducing more direct tools of SME support, but well before the elaboration of a multi-year SME Development Strategy. Both SME DNC and ODIMM, in addition to providing standard training, market information and consultancy services, run a credit guarantee facility.

- Azerbaijan and Georgia established dedicated agencies at a later stage, as a result of the adoption of a more proactive SME policy approach. Enterprise Georgia has a clear implementation mandate and benefits from relatively extensive autonomy in the planning of support programmes and related budget allocation. The SMBDA in Azerbaijan has a wider mandate: in addition to training, market information and consultancy activities, it is also in charge of developing RIA and formulating regulatory reforms inputs. While Enterprise Georgia is supported by a mix of budget and donor funds, the SMBDA can count on a relatively large state budget allocation.
- Belarus and Ukraine had a more de-centralised approach to SME policy, with most support programmes designed and implemented at the local level, SME support being seen as a component of local development policy. SMEDO in Ukraine operates as an advisory body to the Ministry of Economic Development, Trade and Agriculture (MEDTA) and performs an important co-ordination function, with the potential to evolve into a centrally managed agency. The decision is expected in 2020-2021 after an evaluation of the first phase of SMEDO's activity. Belarus is planning to establish an SME agency, but the structure and the mandate of the new agency is still to be decided.

Over the last four years, there have been also significant improvements in the availability of SME data, creating better conditions for evidence-based policy making. For instance, Armenia and Ukraine have produced, in co-operation with the OECD (Compendium of Enterprise Statistics, Armenia[3] and Ukraine,[4] OECD 2018), compendiums of SME statistics, compiled according to international standards. The Georgian national statistical agency, Geostat, has further improved its coverage of the SME statistics and published enterprise demography data, and it has been put in charge of monitoring the quantitative indicators listed in the country's SME Development Strategy.

Compared with other middle-income economies, the EaP countries have a generally more contained informal sector. Within the region, enterprise and labour informality is relatively high in Moldova and Ukraine but limited in Armenia, Belarus and Georgia.[5] In Azerbaijan, according to official estimates, informality is relatively limited, while independent researchers claim that the data tend to underestimate the real incidence of informality. No EaP country has a dedicated strategy to reduce informality. In all the EaP countries, the issue is mainly addressed through the reduction of administrative burdens, in particular highly simplified company registration procedures, and through the introduction of favourable tax regimes for auto-entrepreneurs and microenterprises, the two types of enterprises most likely to operate informally.

Legislative and regulatory simplification and RIA application

The *legislative and regulatory simplification and RIA application* sub-dimension assesses the mechanisms for legislative simplification and regulatory impact analysis to ensure that the impact of new laws and regulations on SMEs is properly measured and mitigated.

Legislative and regulatory simplifications remain a key priority for all EaP countries, as also highlighted by the relevance given to this topic in the different countries' SME

development strategies. The results achieved across the region come from the application of a number of tools, such as the introduction of a regulatory guillotine in Armenia and Moldova, the establishment of dedicated task forces in Azerbaijan and Belarus, the implementation of regulatory reform action plan in Ukraine and the transition towards a one-stop public service centre in Georgia.

Table 2.6. Scores for the *Legislative simplification and RIA* sub-dimension

	ARM	AZE	BLR	GEO	MDA	UKR	EaP average
Planning & design	4.20	3.80	3.27	4.47	4.38	4.20	4.05
Implementation	3.16	2.81	3.85	3.91	3.76	3.70	3.53
Monitoring & evaluation	3.00	3.89	1.89	3.00	3.56	2.87	3.03
Weighted average	**3.49**	**3.37**	**3.25**	**3.92**	**3.94**	**3.71**	**3.61**

Note: see Annex A for information on the assessment methodology.

While progress on revision and simplification of existing laws and regulation is well advanced in most of the EaP countries, the systematic application of RIA is less advanced (see Table 2.6), although incremental progress has been recorded over the last four years.

RIA is systematically applied in Moldova, although quality standards are not always respected, due to a high level of turnover of public officials in charge of RIA application. In Armenia, the only EaP country where RIA was systematically applied until 2018, the government has currently put on hold new application, pending a review of the RIA procedures. In Georgia, where RIA has been adopted on ad hoc basis, the government has taken a commitment to systematically apply RIA to all new business-related legislative acts. Ukraine has also taken steps to apply RIA in a more systematic way and it has upgraded the country's RIA methodological guidelines. In Belarus, the government is systematically applying cost-benefit analysis to new laws and regulations, but the evaluation is not yet conducted in accordance with standard RIA guidelines. Azerbaijan is at an early phase of RIA introduction, the mandate to apply RIA for laws and regulations on the SME sector having been assigned to the SMBDA.

Public-private consultations

The *Public-private consultations* sub-dimension assesses the frequency, transparency, inclusiveness and formal influence of public-private consultations.

Over the last four years there has been, on average, incremental progress towards a more systematic and institutionalised consultation process in the EaP region, although there are significant variations in terms of country experiences and performance, with Armenia, Georgia and Moldova leading the way. Georgia in particular performs well in the *private sector involvement* thematic block (see Table 2.7).

Table 2.7. Scores for the *Public-Private Consultations* sub-dimension

	ARM	AZE	BLR	GEO	MDA	UKR	EaP average
Frequency and transparency	4.14	2.62	3.70	3.56	4.37	3.33	3.62
Private sector involvement	4.15	3.24	3.85	4.70	3.42	3.67	3.84
Monitoring & evaluation	3.67	3.67	3.67	3.67	3.00	3.67	3.56
Weighted average	**4.05**	**3.08**	**3.75**	**4.04**	**3.72**	**3.53**	**3.69**

Note: see Annex A for information on the assessment methodology.

In terms of institutional development, Georgia and Belarus have established private sector or entrepreneurship advisory councils which are directly engaged in the policy elaboration process and include representatives of the main SME and business organisations. Particularly, in Georgia, in addition to the Private Sector Development Advisory Council, a number of public-private bodies – such as the Investors Council, the DCFTA Advisory Council and the Sub-council for the Promotion of Women Entrepreneurship – also involve SME associations. In Armenia, public-private consultations are co-ordinated by the Business Support Office operating directly under the Prime Minister and established in 2007. In Moldova, there are regular consultations co-ordinated by the Ministry of Economy and Infrastructure.

In Ukraine, every ministry has established a Public Council, with an advisory and consultative function. The Public Council associated with the Ministry of Economic Development, Trade and Agriculture (MEDTA) is composed of 56 members, 70% of whom represent private sector organisations. In Azerbaijan, the policy-making process is still dominated by a top-down approach; however, efforts have been made to involve the private sector more closely.

The way forward

- The first generation of SME Development strategies adopted by Georgia, Moldova, Azerbaijan and Ukraine placed high importance on improving the business environment and reducing administrative barriers. Several of those have already come to an end or will do in 2020. **The next set of SME strategies should include clearly defined objectives, quantitative targets and key performance indicators,** building on the initial set of aggregated quantitative targets already included in the current strategies elaborated by Azerbaijan, Georgia, Moldova and Ukraine**.** Armenia and Belarus, which do not have yet introduced quantitative targets, should identify key measurable targets and set in place a data collection system. When productive transformation is a priority objective, as in the case of Azerbaijan, the strategy should also identify the targeted SME population segments and the sectors driving the transformation.
- **The relations between implementation agencies and the supervisory ministries should be clearly defined**. Agencies in all EaP countries should have 1) the necessary operational autonomy, in defining the best tools and sequence for reaching assigned objectives and targets related to SME development and in selecting their staff and experts; and 2) human and financial resources proportionate to their objectives and targets.
- **Focus should progressively shift from the review of the existing stock of laws and regulations to the assessment of the impact of new legal and regulatory**

acts, so as to avoid falling back into a highly-regulated economy. The systematic application of RIA should be therefore a crucial element in the regulatory reform strategy of all EaP countries.

- **Public-private consultations should be more open** and, given the ongoing changes in the structure of the SME population, **efforts should be made to involve new categories** (such as innovative start-ups, self-entrepreneurs and social enterprises) in the public-private dialogue.

Operational environment for SMEs

A strong legal framework reduces the transaction costs of economic activities and ensures that economic gains from starting and growing businesses are not expropriated, providing the incentives for individuals to maximise profits. Thus, strong property rights and contract enforcement are foundations for the development of the SME sector (Aidis, Estrin and Mickiewicz, 2010[7]; Verheul et al., 2002[8]). Besides, within the operational life of firms, registration and interaction with authorities are potential sources of administrative burden. Principle 4 of the European Union's Small Business Act seeks to "make public administrations responsive to SME needs, making life as simple as possible for SMEs" (Commission of the European Communities, 2008[9]).

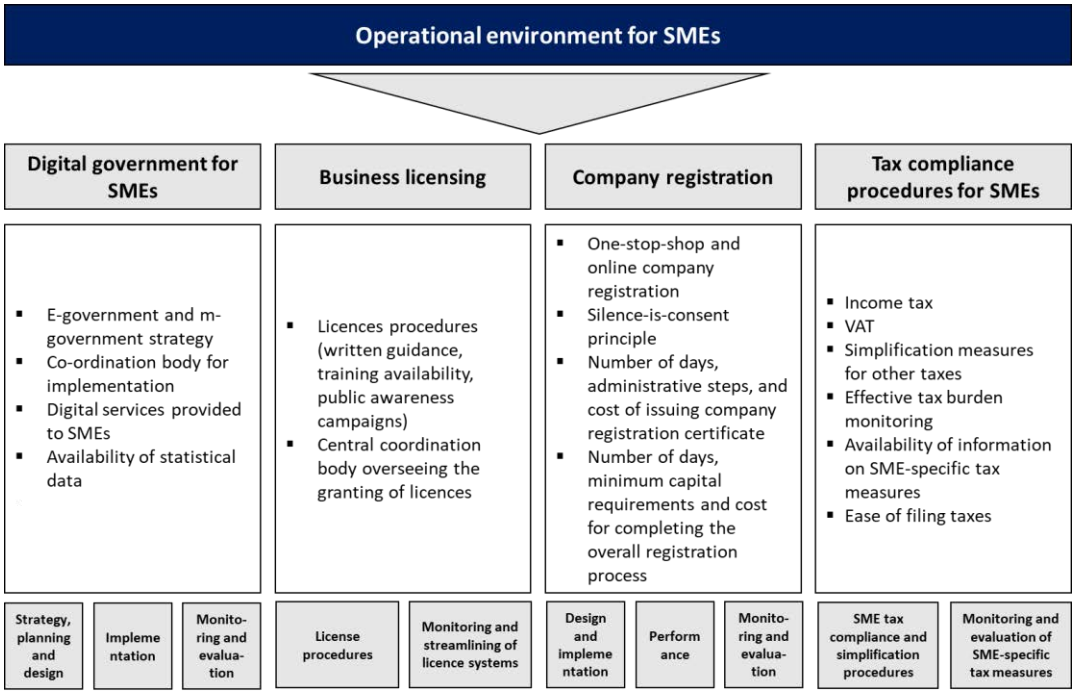
Reducing the burden of procedures for starting and managing businesses, as well as interacting with public authorities, enables SMEs to free crucial resources for innovation or job creation (Parker and Kirkpatrick, 2012[10]). The literature also suggests that reducing barriers and delays in business registration can lead to more dynamic market entry and efficiency gains for entrepreneurs. Conversely, lengthy and costly registration procedures disproportionately affect micro- and small enterprises and act as a deterrent to entrepreneurial activities. Fewer legally registered firms can also contribute to a bigger informal sector, a smaller tax base and more corruption. (Dickinson, 2008[11]; European Commission, 2009[12]; Klapper et al., 2010[13]).

The adoption of ICT – notably through the use of e-services – improves the reach and efficiency of government services and plays an important role in reducing corruption and informal economic activity given the increased transparency, objectiveness and enforceability of decisions. The move to a one-stop, automated, web-enabled registry capable of delivering online products and services with authenticated users and documents represents global best practice. Further measures can include the application of the silence-is-consent principle as well as unification of identification numbers and enhanced data exchange across all government agencies. SMEs can also benefit from streamlined and tailored tax schemes as simplification provisions encourage business creation and reduce the burden of tax compliance, while also reducing tax collection costs.

Assessment framework

The assessment framework related to the operational environment for SMEs includes four sub-dimensions: 1) digital government for SMEs, 2) business licencing, 3) company registration and, 4) tax compliance procedures for SMEs (Figure 2.4).

Figure 2.4. Assessment framework – Operational environment



E-government services

The provision of government services through digital platforms provides an opportunity to simplify administrative procedures, to improve the dissemination of information on administrative requirements, and to cut significantly the time required to perform administrative functions. All this should help to reduce the administrative burden imposed on the business sector. In particular, SMEs should greatly benefit from the provision of e-government services because they have generally more limited resources for dealing with administrative procedures, provided they also have a good IT connection, the right IT equipment and appropriate ICT skills. The sub-dimension includes indicators covering the government strategy towards the provision of e-services, the range of services provided, the level of inter-operability among the different data banks run by the public administration, and the action taken to implement an open-data approach.

Business licenses and permits

Some of the most complex administrative procedures are related to the issue of licenses and permits. All six EaP countries formerly had highly-regulated economies, and firms had to deal with large numbers of license and permit requirements. Traditionally, in all enterprise surveys, the high number of administrative and fiscal inspections is mentioned as among the most severe impediments to doing business. This sub-dimension analyses the actions taken by governments to reduce the number of required business licenses and permits and to improve the business license allocation systems, through better coordination among the licensing institutions.

Company registration

The first contact most new entrepreneurs have with the public administration is during the company registration phase. Complex, costly and lengthy procedures may discourage new entrepreneurial activities and push new enterprises towards informality, thus protecting incumbent enterprises by reducing competition from new business entrants. The sub-dimension includes indicators looking at the presence of one-stop shops, at the introduction of a single company identification numbers, in addition to a number of indicators taken from the "Starting a Business" section of the World Bank's 2020 *Doing Business* report (World Bank, 2019[14]).

Tax compliance procedures for SMEs

The sub-dimension includes a set of indicators related to the tax regime applied to SMEs, looking at the presence of special tax regimes and tax incentives for small enterprises as well as indicators related to the procedures for tax filing. This second section is largely based the "Ease of Filing Taxes" indicator from the *Doing Business* report.

Analysis

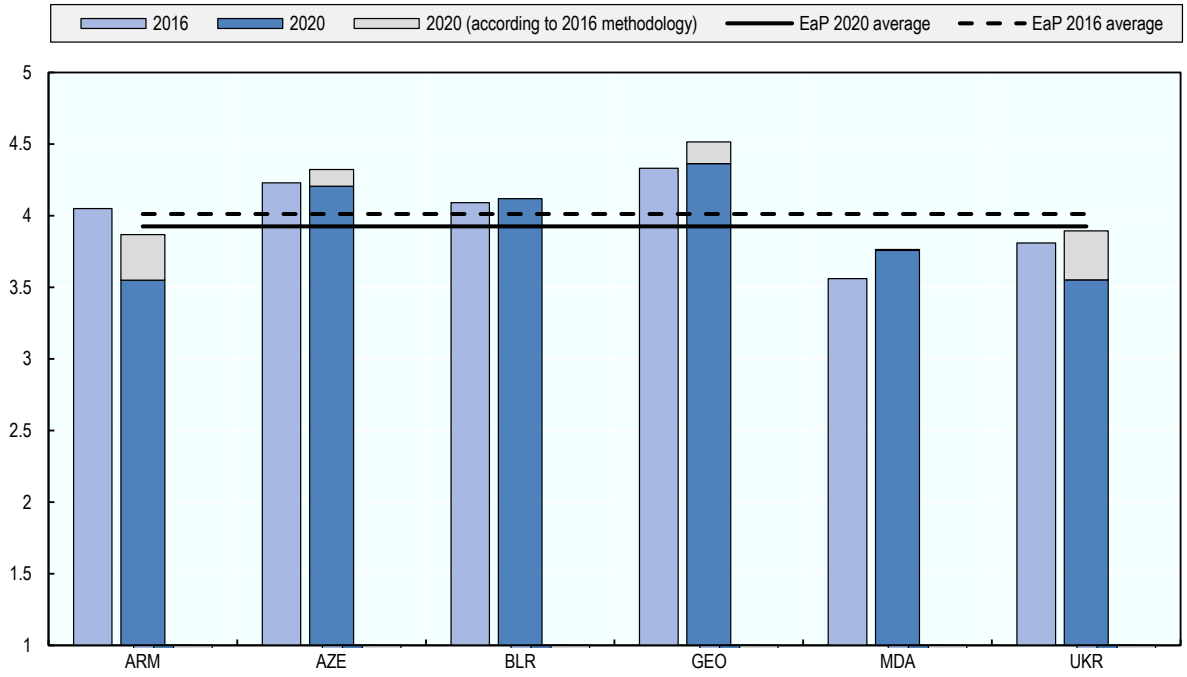
Clear and straightforward regulations, low administrative costs and simple procedures for starting and operating a business are all fundamental aspects of ensuring that economic gains from starting and growing businesses are not expropriated. The operational environment dimension assesses the extent to which public administrations have simplified regulations and reduced costs and procedures to slim administrative burden on SMEs.

Since 2016, EaP countries have recorded only incremental progress in the operational environment for SMEs. The results of the assessment, presented in Figure 2.5, show incremental improvements in all EaP countries, with a regional average score of 3.92.[6]

In particular, Georgia performs well across all sub-dimensions, while Azerbaijan and Belarus have further improved their company registration procedures and made additional progress concerning SME interaction with digital government services. For instance, as a result of the State Programme for the development of ICT and the establishment of the E-Gov Development Centre, Azerbaijan launched a new single-entry portal for all e-government services in 2018. However, none of the EaP countries have yet fully reached the high level of inter-operability needed to move forward in the transition to full digitalisation. In addition, in order to benefit from the provision of e-government services, the digital divide within the SME population must be reduced and small enterprises, particularly those operating in the traditional service sectors, must be assisted in upgrading their ICT skills and their IT technology use. Armenia is the only country whose dimension's score has fallen, mainly due to the fact that the implementation of regulatory reforms was put on hold during the 2018-19 political transition. In the licenses and permits area, Moldova and Ukraine have made substantive progress.

Since 2016, several countries amended their tax codes to introduce new tax incentives and simplify tax regimes for SMEs. Both Azerbaijan and Armenia have introduced some form of tax exemption for 1) small, innovative start-ups and SMEs operating within approved clusters and 2) individual entrepreneurs and small businesses. Most EaP countries have also introduced a set of thresholds below which enterprises are exempted from keeping a VAT account and have made efforts to speed up tax refund payments.

Figure 2.5. Scores for the *Operational environment* dimension compared to 2016



Note: Methodological changes have been introduced to the 2020 assessment and should be taken into account when observing trends in SME Policy Index scores.

StatLink http://dx.doi.org/10.1787/888934086755

E-government services

The *E-government* sub-dimension assesses the development stage of online services designed to improve the efficiency of interactions between SMEs and the public administration.

Over the last four years, all EaP countries have made significant efforts to build integrated platforms for providing e-government services to enterprises and citizens, and the introduction of e-government services today is at an advanced implementation stage. All the EaP countries have elaborated multi-year strategies and shorter-term action plans for dealing with structural constraints and promoting the deployment of digital services. Azerbaijan, Georgia and Ukraine have also established a public agency in charge of directing and co-ordinating the digitalisation process. Armenia had a similar agency, the Armenia Digital Foundation, but it was dissolved in 2018, pending a review of the government digital strategy. In Belarus and Moldova, the coordination role is exercised respectively by the Ministry of Communications and Informatisation and by the State Chancellery. The best performers in this sub-dimension are Azerbaijan and Georgia, the only two countries to score above 4 (see Table 2.8).

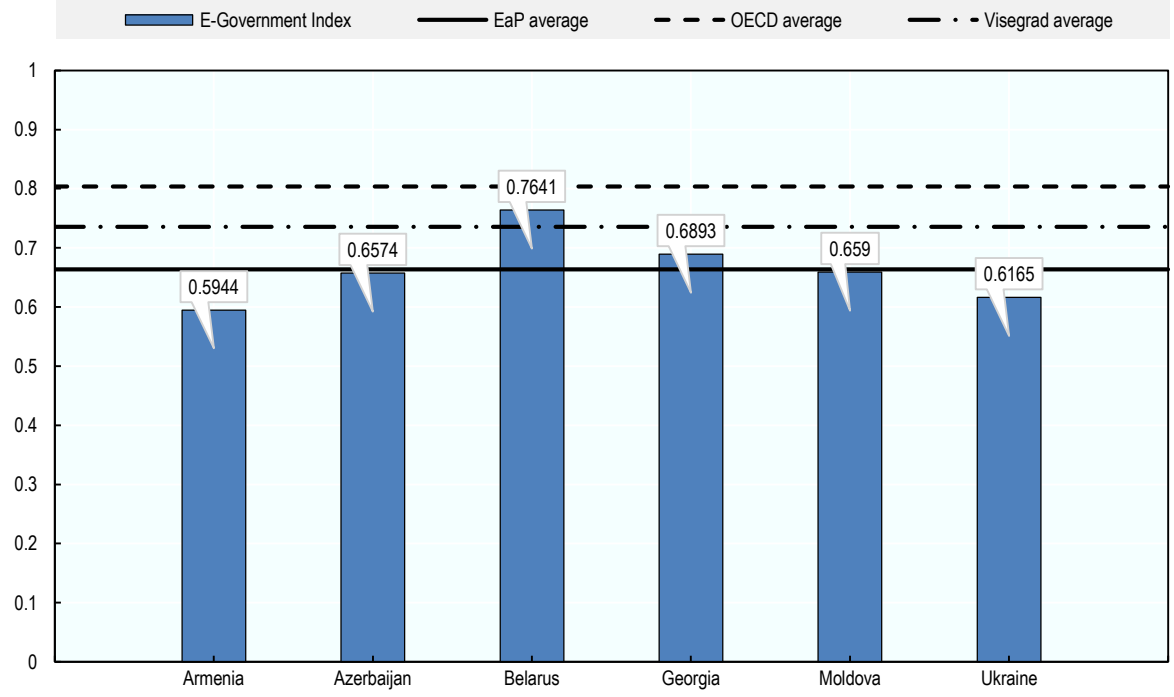
Table 2.8. Scores for the *E-government services* sub-dimension

	ARM	AZE	BLR	GEO	MDA	UKR	EaP average
Strategy, planning & design	1.96	4.22	4.44	4.33	3.67	2.89	3.59
Implementation	4.07	4.48	3.63	4.78	3.67	4.46	4.18
Monitoring & evaluation	3.08	3.25	3.25	2.50	2.50	2.50	2.85
Weighted average	**3.14**	**4.14**	**3.84**	**4.17**	**3.43**	**3.52**	**3.71**

Note: see Annex A for information on the assessment methodology.

While overall progress across the region has been remarkable, UN data on the development of e-government services (Figure 2.6) suggest that EaP countries, with an exception of Belarus, are still distant from the best global performers, such as Estonia (Box 2.3).

Figure 2.6. UN E-Government Development Index, 2018



Note: The assessment covered 193 countries. Index value ranges from 0 (minimum) to 1 (maximum).
Source: UN E-Government Knowledge Base, https://publicadministration.un.org/egovkb/en-us/Reports/UN-E-Government-Survey-2018.

StatLink http://dx.doi.org/10.1787/888934086774

Box 2.3. E-government in Estonia

Since 2013, Estonia has repeatedly outperformed European Union member countries in terms of its scores on the "responsive administration" principle of the Small Business Act for Europe. Entrepreneurs in Estonia complain significantly less about burdensome legislation or complex administrative procedures as problems for doing business, and enjoy the fastest tax payment procedures in Europe. Estonia's public infrastructure relies on ubiquitous internet coverage and delivers most public services online.

E-government services of particular interest to businesses include:

- e-Tax: the electronic tax filing system set up by the Estonian Tax and Customs Board. Currently, 98% of tax declarations are filed online every year;
- e-Business Register: a secure, one-stop platform for carrying out most business administration requirements. Entrepreneurs can register a new business online, change data in the business register, file yearly reports, and inquire about other enterprises, without the involvement of a third party. Since 2011, 98% of new companies have been established online and the process has been significantly shortened to less than three hours.

Alongside, there are e-Banking, an online public procurement register, and an online system for reporting statistics. The online infrastructure relies on a safe ecosystem of online services such as digital signatures, digital ID cards and e-Residency, and facial recognition.

Source: European Commission (2018), SBA Factsheet: Estonia, https://ec.europa.eu/growth/smes/business-friendly-environment/performance-review_en.

The case of Azerbaijan is illustrative of how EaP countries have managed to build well-designed e-government systems, compared to those in place in several OECD countries, in a relatively short period.

Azerbaijan has launched the "National ICT Strategy of the Republic of Azerbaijan 2014-2020", which is aimed at removing legal obstacles to the introduction of digital services. In March 2018, a Presidential Decree established the E-Gov Development Centre, placed under the supervision of the State Agency for Public Service and Social Innovation, with the mandate of co-ordinating the introduction of the e-government services, enhancing the management of public information, and increasing the awareness of the e-service availability. As a result of those combined efforts, Azerbaijan in 2018 launched a new single-entry portal for all e-government services (www.digital.gov.az) with over 440 different digital services currently available to the entire population for both legal and physical persons.

Similar approaches have been adopted by other EaP countries in their efforts to speed up the implementation of an e-government system, as part of a wider process of reform of the public administration.

The main actions taken since 2016 in the other EaP countries are as follows: Armenia and Georgia have updated their respective e-government strategies, setting a number of intermediary targets and made further progress in their implementation, with Georgia also establishing a co-ordinating body, the Data Exchange Agency. Belarus and the Republic of Moldova have further extended the range of e-government services and facilitated access to e-services through the use of electronic signatures. Belarus has also introduced an m-

signature system. Ukraine has launched an E-Governance Action Plan (2018-2020) and enhanced the implementation role of the State Agency for e-governance.

Business licenses and permits

This sub-dimension assesses the extent to which governments have succeeded in streamlining administrative procedures related to the issuance of licenses and permits.

Since 2016, several EaP countries have taken steps to reduce the number of business licenses and permits requirements, simplifying the issuance procedures, and increasing transparency. Armenia still has much room for improvement, especially in the *Monitoring and streamlining of licence systems* thematic block; by contrast, in the same block, Georgia achieved the best possible performance, obtaining a score of 5 (see Table 2.9).

Table 2.9. Scores for the *Business licenses and permits* sub-dimension

	ARM	AZE	BLR	GEO	MDA	UKR	EaP average
Licence procedures	3.22	2.78	4.33	4.56	4.56	4.70	4.02
Monitoring and streamlining of licence systems	2.75	3.50	3.25	5.00	4.50	3.33	3.72
Weighted average	**2.94**	**3.21**	**3.68**	**4.82**	**4.52**	**3.88**	**3.84**

Note: see Annex A for information on the assessment methodology.

In Georgia, the number of business licenses has been reduced by 85% since 2016, according to the questionnaire provided by the government as part of the SBA assessment, and the "silence is consent" principle is generally applied. The procedure for allocating the few remaining compulsory business licences is conducted entirely online and it is based on an e-auction system that excludes any direct intervention by public officials to avoid any opportunity for discretion and corrupt practices.

In 2017, Moldova significantly cut the list of business licenses and permits, eliminating 18 business licenses and 122 permits. In Ukraine, the government launched two Deregulation Actions Plans (2015-16 and 2016-17). Although the implementation of the two plans has been relatively slow (only 58% of the actions included in the 2016-17 plan had been completed by the end of 2018), the plans led to a reduction of the required business licenses from 56 to 33 since 2016, while the number of required permits was reduced from 143 to 85 by the end of 2018.

In Armenia, the government has acted to improve the transparency of business licenses requirements by establishing a dedicated website accessible through the government general portal (www.e-gov.am). In Azerbaijan the government has amended its licenses and permits system through a new Law on Licences and Permits approved in June 2016, which reduces the number of licensing requirements and simplifies the application procedures.

Company Registration

The *Company registration* sub-dimension analyses the reforms undertaken by the EaP governments to make it simpler to start a business.

Since 2016, the EaP countries have made further progress in reducing the number of procedures, the time and the costs associated with company registration, and the overall process of starting a business. The regional average score for the sub-dimension covering

company registration has increased from 4.17 in 2016 to 4.38, indicating a good level of effective implementation. Georgia obtained the maximum possible score of 5 in the *Design and implementation* thematic block, while all the countries except for Moldova and Ukraine, obtained it in the *Monitoring & evaluation* thematic block (see Table 2.10).

Table 2.10. Scores for the *Company registration* sub-dimension

	ARM	AZE	BLR	GEO	MDA	UKR	EaP average
Design and implementation	4.67	4.67	4.83	5.00	4.33	4.00	4.58
Performance	4.33	4.33	4.00	4.67	3.83	4.33	4.25
Monitoring & evaluation	5.00	5.00	5.00	5.00	3.66	2.32	4.33
Weighted average	**4.58**	**4.58**	**4.49**	**4.85**	**3.97**	**3.81**	**4.38**

Note: see Annex A for information on the assessment methodology.

Furthermore, data from the *Doing Business* 2020 report (World Bank, 2019[14]), related to the Starting a Business sections, provide a clear indication of the progress achieved by a single country, in relation to the other EaP countries and to the global level. According to the *Doing Business 2020* report, the region includes three countries – Georgia (2), Azerbaijan (9) and Armenia (10) – that are positioned at the global frontier and have put in place effective procedures for starting a business. Ukraine is the only significant outlier, as its global rank on the "starting a business" indicator fell from 30th in 2017 to 61st in 2020.[7] In part, this reflects improvements elsewhere, during a period when the Ukrainian government was focused primarily on macro-economic stabilisation and managing the conflict in the Donbass region.

The positive scores recorded at the regional level in this sub-dimension are the results of the continued efforts made by most of the EaP countries to improve the institutional and regulatory setting, develop online registration applications, and further reduce the number of procedures and time required to complete the notification procedures.

Four EaP countries (Azerbaijan, Belarus, Georgia and Ukraine) have now adopted a single company registry, and all the EaP countries have established one-stop shops. In Armenia, Belarus and Georgia it is possible to conduct the full registration process on line, while in Azerbaijan, Moldova and Ukraine, only the loading of the documents can be performed on line, but to obtain the company registration document, personal interaction with the company registration authority is required.

Among all the EaP countries Georgia stands-out for its state-of-the-art company registration process. Further significant improvements compared with 2016 have been recorded, due to the work conducted by the National Agency for Public Registry. In 2018, the process of starting a business was reduced to a single procedure that can be completed in a matter of minutes, either online or in one of the Public Services Halls located across the country.

Tax compliance procedures for SMEs

This sub-dimension investigates the presence of simplified tax regimes and tax incentives for small enterprises, and assesses the procedures for tax filing.

All EaP countries apply simplified tax regimes for small enterprises and individual entrepreneurs, and they have made significant efforts to simplify tax administration and increase the transparency and effectiveness of tax inspection systems. More needs to be

done in terms of *monitoring and evaluation*, especially in Armenia and Ukraine, which scored respectively 2.78 and 2.33 in the relevant thematic block (see Table 2.11).

Table 2.11. Scores for the *Tax compliance procedures for SMEs* sub-dimension

	ARM	AZE	BLR	GEO	MDA	UKR	EaP average
SME tax compliance & simplification procedures	2.78	4.78	4.56	3.67	3.22	2.78	3.63
Monitoring & evaluation	2.78	3.40	4.56	3.22	3.67	2.33	3.33
Doing Business: Paying Taxes	3.98	4.41	3.83	4.56	4.38	4.17	4.22
Weighted average	**3.14**	**4.26**	**4.34**	**3.80**	**3.70**	**3.06**	**3.72**

Note: see Annex A for information on the assessment methodology.

Since 2016, several countries have amended their tax codes to introduce new tax incentives and improve tax regimes for SMEs. Azerbaijan has introduced a three-year corporate tax exemption for small innovative start-ups and a seven-year exemption on corporate tax, property tax and VAT on qualified machinery imports for SMEs operating within approved clusters. Similarly, Armenia has introduced a profit tax exemption for individual entrepreneurs and small businesses with a turnover of up to AMD 9 million (EUR 16 630) and family run enterprises with a turnover of up to AMD 18 million (EUR 32 265). Georgia has introduced a similar tax exemption for small enterprises with a turnover not exceeding GEL 30 000 (EUR 9 840) and a reduced profit tax rate equal to 1% of the taxable income for enterprises with a turnover below GEL 500 000 (EUR 164 040). However, the impact of those measures on enterprise growth and entrepreneurship promotion is not generally evaluated. In Belarus and Moldova, no significant changes in the tax regime applicable to SMEs have taken place since 2016, while in Ukraine a new electronic administration system (EAS) for VAT was introduced since July 2016. (The new system has helped improve the VAT collection rate, but it is seen by most of the enterprises as non-user friendly.)

Most EaP countries have also introduced a set of thresholds below which enterprises are exempted from registering for and collecting VAT and have made efforts to speed-up VAT refund payments. Table 2.12 provides an overview of the tax compliance procedures for SMEs in the EaP countries.

Table 2.12. Tax compliance procedures for SMEs in EaP countries

Overview of the tax compliance procedures for SMEs in the EaP region.

	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine
Is it possible to complete tax filing procedures online?	Yes.	Yes.	Yes.	Yes.	Yes.	Yes.
No. of tax payments per year	15	9	7	5	10	5
Hours required to complete tax compliance procedures per year	264	159	170	216	183	328
Post-filing index[1]	79.4	83.8	50.0	85.9	90.8	86.0

[1] Maximum value is 100.
Source: SME Policy Index 2020, *Doing Business 2020*

The way forward

The EaP countries should consider the following actions to improve the overall operational environment for SMEs:

- **Upgrade the IT skills and IT equipment of small enterprises and individual entrepreneurs in all EaP countries,** so that they can optimise benefits from the introduction of e-government services. While the introduction of e-government services has moved at relatively rapid pace, no specific actions have been taken to promote the upgrading of IT skills and IT equipment in small enterprises and in particular micro-enterprises. If no remedies are taken, there is a risk of developing a new digital divide and limiting the benefits generated by the development of an e-government system.
- **Expand the role of the company registration agencies,** placing them at the centre of an enterprise data collection and management system. Company registers, once fully digitalised, are in the position to collect and disseminate valuable data on enterprise structure and performance to the public administration and, subject to privacy conditions for sensitive data, to the financial and business sector. Now that the "starting a business" processes in all the EaP countries (with the partial exception of Ukraine) are becoming more efficient, governments should actively consider the additional value-added that well-managed company registers may provide to the improvement of the overall business climate.
- **All EaP countries (except for Belarus) that still need to simplify their tax regimes should assess the impact of such a simplification** on business development and SME performance, and ensure that tax exemptions do not discourage SMEs with growth potential from engaging in activities that may lead to further expansion of their turnover and profitability or encourage businesses to operate informally, even if this may result in being subject to less favourable tax regimes.

Bankruptcy and second chance

Business failure, like business creation, is part of a dynamic, healthy market. Exit (liquidation) and restructuring of failed companies, or "fresh start" for honest entrepreneurs, ensure that productive assets remain in use and scarce resources are allocated efficiently. On the other hand, inefficient, lengthy and burdensome proceedings cause opportunity and procedural costs for both creditors and debtors, while diminishing prospects of a successful company reorganisation or asset recoveries by creditors. Principle 2 of the European Union's Small Business Act hence seeks to "ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance" (Commission of the European Communities, 2008[9]).

Moreover, insolvency reforms are often difficult to implement given the complex nature of insolvency frameworks and their spillovers. In high-income countries, encouraging debtors to take actions early in financial distress is often considered as the best option to maintain the activity of insolvent businesses and save the value of the estate. Early warning systems (such as self-tests, call centres and training courses for entrepreneurs that fear failure) and preventive measures (such as restructuring proceedings) can avoid bankruptcy altogether by identifying distressed companies and striking the right balance between financial support contingent on business viability, training and assistance. EaP countries might also want to consider out-of-court settlement mechanisms, such as mediation and arbitration, associated with reduced bankruptcy rates (European Commission, 2011[15]; European Commission, 2014[16]). EaP countries, however, also benefit from legal features facilitating

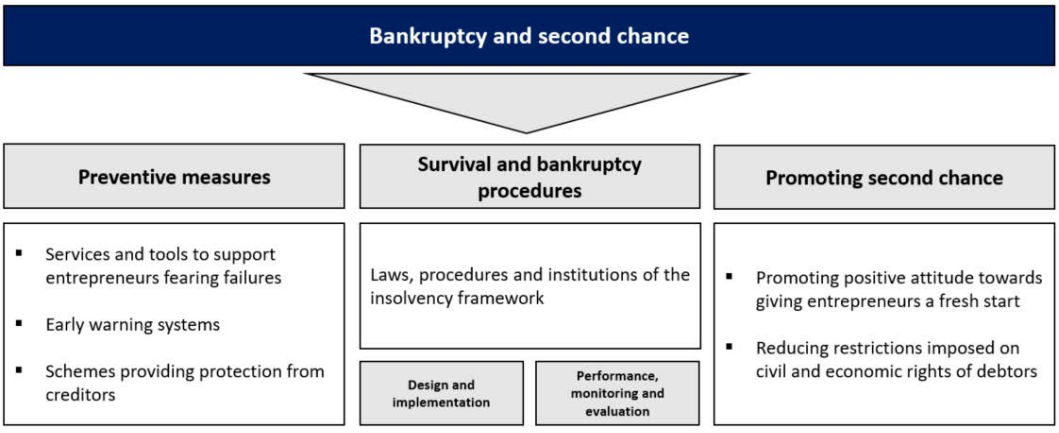
the development of a sound and active credit market, such as stronger creditor rights (Succurro, 2012[17]).

Government campaigns mitigating the negative attitude towards failed businesses can pave the way for a second chance for honest entrepreneurs. Re-started businesses grow faster and create more jobs and turnover than start-ups (Stam, Audretsch and Meijaard, 2008[18]). In many countries, successful entrepreneurs often succeed only at the second or third attempt – after they have learned from failure. If failed entrepreneurs are less likely to enter the field again, then more entrepreneurs will be first-timers, making first-time mistakes (Ucbasaran, D., P. Westhead and M. Wright, 2011[19]),[8] and little learning will occur. This contrasts with the experience of places like Silicon Valley, where the motto of "fail fast, fail cheap, and move on" is often quoted (Lee, S.-H. et al., 2011[20]). Hence, measures to reduce stigma, such as setting a reasonable maximum debt-discharge period or eliminating discriminatory provisions against re-starters, would allow entrepreneurs to benefit from their first entrepreneurial experience, even though failed, and efficiently plan the start of a new firm.

Assessment framework

The framework for the *bankruptcy and second-chance* dimension assesses three sub-dimensions: 1) preventive measures, 2) survival and bankruptcy procedures and 3) promotion of second chance (Figure 2.7). A major change since the 2016 assessment has been the introduction of the *preventive measures* sub-dimension to account for policies that promote the early detection and rescue of financially distressed entrepreneurs.

Figure 2.7. Assessment framework – Bankruptcy and second chance



Preventive measures

This sub-dimension captures the measures in place to prevent insolvency. Early detection and resolution of financial distress can reduce the bankruptcy rate, maximise the value of assets recovered by creditors, and allow for the quick reallocation of assets and resources of distressed firms to more productive uses (Garrido, 2012[21]; European Commission, 2011[15]). The lack of preventive measures can push viable firms with temporary financial distress into bankruptcy.

A first set of investigated measures comprises business services (e.g. financial and debt counselling) and information tools (e.g. self-test websites, call centres and training courses) provided by public or private institutions to entrepreneurs fearing failure. The existence of

early-warning systems – such as financial reviews of tax declarations or mandatory alert of early-insolvency signs from managers to creditors – is also taken into consideration, given that they allow for a systematic detection of financially distressed businesses before filing for bankruptcy. The sub-dimension finally looks at pre-insolvency schemes providing protection from creditors and allowing time to restructure debts while continuing operations.

Survival and bankruptcy procedures

Well-designed and performant insolvency regimes are at the core of the dimension. This sub-dimension specifically measures the alignment of laws, procedures and institutions of the insolvency regime with international standards, but also captures the actual performances of insolvency proceedings and related institutions.

The sub-dimension primarily assesses the design and implementation of the insolvency regime. A first factor is the clear distinction between honest and fraudulent bankruptcies, which is crucial for giving honest entrepreneurs a second chance. The sub-dimension then assesses the consistency of in-court procedures with international standards. This includes 1) transparency of procedures, 2) neutrality of courts, 3) formal discharge from bankruptcy, 4) strength of restructuring procedures as an alternative to liquidation, 5) sufficient protection of creditors' rights, and 6) strength of the legal framework governing secured transactions. The existence of alternatives to in-court bankruptcy processes is also explored in the sub-dimension, including out-of-court-settlements and the availability of independent legal and accounting services to provide advice on the recovery plan.

In addition, this sub-dimension takes into account the performance, monitoring and evaluation of the insolvency regime. The average time required for typical insolvency proceedings and to obtain discharge, and the related costs (as a percentage of the estate) and recovery rates (cents on the dollar), are important measured factors. The sub-dimension finally assesses the scope and structure of the monitoring and evaluation system, as well as the existence of registries to collect data on bankruptcy.

Promoting second chance

This sub-dimension assesses the extent to which insolvency regimes promote a "fresh start" for honest entrepreneurs going bankrupt and reduce the stigma associated with a failing business. Second chance can be assimilated to the treatment of failed entrepreneurs, once the bankruptcy procedures are completed.[9] The promotion of second chance creates incentives for entrepreneurship and experimentation by increasing firms entry and by allowing entrepreneurs to apply their experience and lessons learnt to new businesses (OECD, 2018[22]).

This assessment first measures the degree of promotion of second chance through co-ordinated policies at the national or local level or through information campaigns (through training or online tools). Governments can play an active role in fostering market re-entry by promoting the idea that failing a business is not a "life sentence" and ultimately translates into valuable experience in fresh starts. Another element measured by the sub-dimension is the extent to which insolvency regimes "punish" honest entrepreneurs. While effective measures should be taken to prosecute fraudulent entrepreneurs who are going bankrupt, the restrictions imposed on the civil and economic rights of debtors (e.g. restrictions to getting credit or being involved in the management of a firm; incarceration or restrictions to travel; loss of the right to vote or hold elected office) limit honest entrepreneurs' ability to start new businesses following a failure.

Analysis

Given their limited resources compared to larger firms, SMEs (as both debtors and creditors) especially benefit from cost-effective, streamlined bankruptcy systems. This dimension assesses the extent to which EaP countries have facilitated market exit and re-entry by adopting effective and efficient insolvency frameworks.

Insolvency frameworks remain one of the weakest areas of the EaP region's business environment and countries have experienced only modest progress in this area. The results of the assessment show that the scores on average increased by only 5% in EaP countries with a regional average score of 2.85.[10] Even though Belarus, Georgia, Moldova and Ukraine have developed a range of tools to detect and prevent insolvency at early stages of financial distress, or to promote a culture of sound business management and business rescue, those tools often lack visibility and accessibility. The development of early-warning systems is at nascent stages in all EaP countries, with the exception of Belarus, where a comprehensive system based on tax declarations has been implemented. (Belarus's system provides for the monitoring of tax declarations, and firms showing signs of financial distress are invited to explain the reasons for their situation; unsatisfactory explanations may be followed by further investigations from the authorities.) Azerbaijan and Georgia have amended their insolvency legislations and Ukraine has introduced a new Bankruptcy Code. The insolvency framework is also expected to improve in Armenia, Belarus and Moldova, where reforms are planned for 2020. Proactive policies and initiatives promoting second chance for honest re-starters are at very early stages in EaP countries and entrepreneurs seeking a fresh start still face some form of discrimination (e.g. in Ukraine and Belarus). Only in Moldova are awareness campaigns, training and restructuring services provided in the context of the DanubeChance2.0 project to support honest re-starters.

Despite recent improvements, measures to promote business rescue and second chance are still lacking

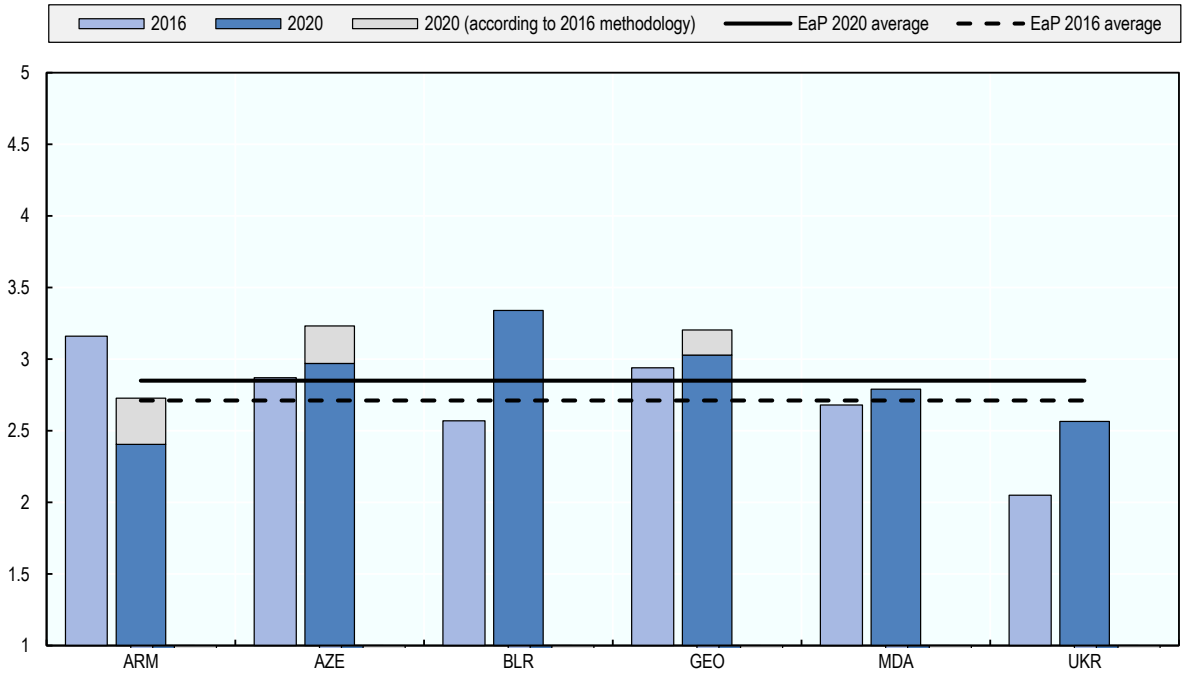
EaP countries have experienced modest progress in the bankruptcy and second-chance dimension, especially when compared to other dimensions of Pillar A, *Responsive government*. Insolvency frameworks remain one of the weakest areas of the region's business environment. This is due not only to the complexity of reforming insolvency legislation – i.e. striking a right balance between restructuring and liquidation, or maintaining a healthy credit market – but also to the lack of proactive policies promoting business rescue and second chance.

The average score for EaP countries remains below 3 in this dimension, whereas their scores in other Pillar A dimensions are closer to 4 (Figure 2.8). EaP countries show significant progress in the sub-dimension on bankruptcy and survival measures, driven by recent reforms in insolvency legislation (notably in Azerbaijan, Georgia and Ukraine); however, the only modest or weak policy progress with respect to preventive measures and promotion of second chance tend to rebalance the scores downwards. Belarus and Georgia stand at the forefront, although for different reasons. Georgia is carried by strong formal frameworks, while Belarus shows efforts to prevent insolvency and increase the efficiency of procedures. Armenia, Azerbaijan, Moldova and Ukraine lag behind because of the sub-par efficiency of bankruptcy procedures and low emphasis on prevention, restructuring and second chance.

It is critical to note that the introduction of the *preventive measures* sub-dimension has lowered the scores compared to the previous methodology, despite the improvements

introduced in EaP legislation. This is particularly the case for Armenia, which experienced a decrease in its *bankruptcy and second chance* score partly due to weak preventive measures.

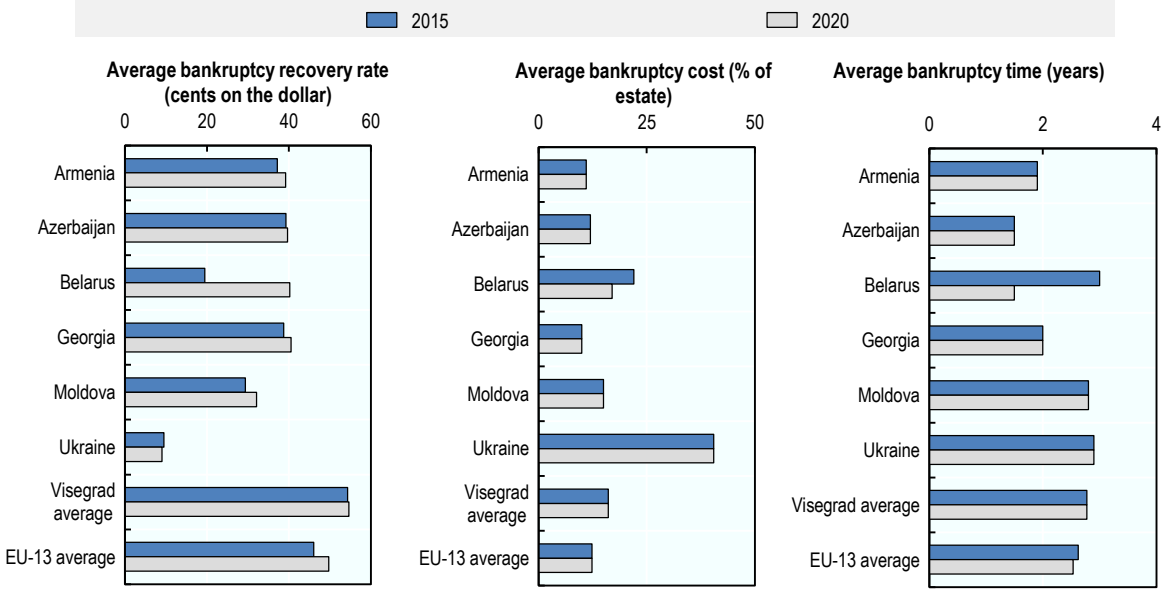
Figure 2.8. Scores for the *Bankruptcy and second chance* dimension compared to 2016



Note: Methodological changes have been introduced to the 2020 assessment and should be taken into account when observing trends in SME Policy Index scores.

StatLink http://dx.doi.org/10.1787/888934086793

Figure 2.9. Performance of insolvency frameworks in EaP and OECD countries



Note: EU-13 Member States – Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia.
Source: World Bank (2019[14]), *Doing Business 2020*.

StatLink http://dx.doi.org/10.1787/888934086812

Implementing more comprehensive and systematic preventive measures

This sub-dimension assesses the measures in place to prevent insolvency – measures that are essential to reducing the bankruptcy rate, maximising the value of assets recovered by creditors and allowing for the quick reallocation of assets and resources of distressed firms.

Belarus, Georgia, Moldova and Ukraine have developed a range of tools to detect and prevent insolvency at the early stages of financial distress, or to promote a culture of sound business management and business rescue:

- In Belarus, private companies have access to pre-insolvency services provided by the Ministry of Economy (self-test and advice website) and by business support centres (training courses, consulting services, e.g. by the Republican Confederation of Entrepreneurs). An early-warning system has been implemented by the Ministry of Taxes and Duties – based on the review of tax declarations – and by Commissions on Preventing Economic Insolvency, created and operated under the control of state bodies. Firms showing signs of financial distress are invited to explain the reasons for their situation: unsatisfactory explanations may be followed by further investigations from the authorities. As a result of these policies, Belarus obtained a score of 3.76, which is the highest score in this sub-dimension (see Table 2.13).
- In Georgia, Moldova and Ukraine, business support organisations (e.g. Chambers of Commerce in Georgia and Moldova and the Start-Up Ukraine seminar in Ukraine) provide SMEs with a range of consulting services and basic pre-insolvency information. In Moldova and Ukraine, a self-test website is available before starting a business. It is also mandatory for the debtor's manager to alert stakeholders and the owner of the property about any sign of insolvency in Ukraine.

Table 2.13. Scores for the *Preventive measures* sub-dimension

	ARM	AZE	BLR	GEO	MDA	UKR	EaP Average
Preventive measures	1.29	2.43	3.76	2.71	2.90	2.71	2.63

Note: see Annex A for information on the assessment methodology.

However, a closer look at the preventive measures and early-warning tools reveals that they often lack visibility and accessibility. Even though business support organisations provide useful consultancy advice or training, they are often concentrated in economic centres and do not advertise their services properly to SMEs. In Belarus, for instance, few business support organisations have appropriate websites describing the services they provide, especially in peripheral regions. Best practices in this regard can be derived from the Early Warning project implemented in several EU countries (Box 2.4).

In addition, the development of systemic early-warning systems is at a very early stage in the EaP countries. As described earlier, only Belarus has a solid early-warning system based on tax declaration (although the investigations following the signs of financial distress often focus on the manager's responsibility instead of promoting a rescue-oriented dialogue). Repeatedly exceeding borrowing limits, receiving frequent demands for payment from creditors, or concentrating on risky and late-paying clients are all early signs of insolvency risks. Implementing systemic detection mechanisms is an efficient way to lower the risks of insolvency.

Box 2.4. Early warning systems: building on EU best practices

The Early Warning Europe project has provided advice and support to distressed entrepreneurs since 2017. Its objective is to establish 1) an early warning system based on a data-driven method to identify companies in distress and 2) an organisation supporting entrepreneurs and contributing to the policy debate to promote preventive measures and promotion of second chance. The project has so far implemented early warning mechanisms in Belgium, Denmark, Germany, Greece, Italy, Poland and Spain. Additionally, Croatia, Finland, Lithuania and Slovenia have completed the Early Warning Europe Training Academy and are preparing to set up the Early Warning mechanism.

Early Warning Europe notably derives best practices from the following:

- **Early Warning, Denmark.** Since 2007, the programme has provided over 5.500 Danish SMEs with tailor-made assessments of financial distress and services to avoid bankruptcy and promote second chance. At the request of distressed entrepreneurs, a team of consultants, lawyers and voluntary entrepreneurs undertake economic assessments and support the turn-around of the company if it can be saved, and the restructuring or the bankruptcy otherwise. The group of voluntary advisors accompanying financially distressed companies is a key success factor of this early warning system.
- **Team U, Germany.** Started in 2007 as a self-help group to empower entrepreneurs fearing failure, Team U provides financially distressed businesses with a hotline, peer-to-peer support, self-help groups, online services and consulting by a team of experienced practitioners. The focus on entrepreneurs' well-being and emotional issues, in addition to the focus on financial issues, is key to helping entrepreneurs overcome insolvency.
- **Dyzo, Belgium.** Established in 2015, this institution provides advice and support to self-employed people in financial distress. Dyzo provides entrepreneurs with a hotline, an informative website, a legal helpdesk, seminars and consulting services. The institution keeps in close contact with the authorities to follow legal changes and enhance the efficiency of legal assistance.

Sources: https://ec.europa.eu/easme/en/news/early-warning-europe-support-businesses-distress.

Insolvency laws and procedures have improved, but more can be done to encourage restructuring

The *Survival and bankruptcy procedures* sub-dimension measures the sophistication level of bankruptcy laws and procedures and their alignment with international standards.

Since the last SBA assessment, the EaP countries have undertaken a significant number of reforms to align the main provisions of their insolvency legislation with international standards:

- Azerbaijan has enacted over 50 amendments to its insolvency legislation. Also, the new Law on Secured Transactions with Movable Property has since 2016 strengthened the protection of creditors' rights, extended the obligations for insolvency administrators, and introduced the notion of a recovery plan. As a result,

the country achieved a score of 3.78 in the *Implementation* thematic block (see Table 2.14).

- Georgia has amended its insolvency legislation to expedite reorganisation and liquidation proceedings, strengthen secured and unsecured creditors rights through better participation in the decision-making process, introduce an electronic system for insolvency proceedings and regulate the appointment of bankruptcy trustees. Georgia now plans to further reform its insolvency legislation with the support of donors (e.g. GIZ and USAID).
- In 2019, Ukraine introduced a new Bankruptcy Code to replace the previous insolvency legislation. The reform introduces the notion of personal bankruptcy for individuals, strengthens the protection of creditors' rights, and simplifies and expedites bankruptcy procedures, while also reducing the scope for appeal and introducing transparent sales procedures through e-platforms.

In addition, although no major improvements to the insolvency framework have been introduced in Armenia, Belarus and Moldova, reforms are planned in all three countries.[11] Moreover, Armenia performs particularly well in the *implementation* thematic block, achieving a score of 4.20.

Table 2.14. Scores for the *Survival bankruptcy procedures* sub-dimension

	ARM	AZE	BLR	GEO	MDA	UKR	EaP Average
Implementation	4.20	3.78	3.62	3.47	3.34	3.97	3.73
Performance	3.60	3.93	4.00	3.80	2.80	2.60	3.46
Weighted average	**3.84**	**3.87**	**3.85**	**3.67**	**3.01**	**3.15**	**3.56**

Note: see Annex A for information on the assessment methodology.

Persistent challenges remain, however, in the design and performance of insolvency legislation. First, the majority of insolvency cases in EaP countries are resolved through liquidation, which lowers the potential value of recovered assets. This largely reflects the generally weak restructuring and mediation frameworks. In Armenia, for instance, debtors cannot file for restructuring proceedings at an early stage of financial distress. In Azerbaijan, although mediation procedures were recently introduced, they have not yet been implemented. In Moldova, the procedure for accelerated restructuring does not provide sufficient protection from creditors. Such liquidation and credit-driven orientation of insolvency regimes in EaP countries contrasts with the recent re-orientation of the EU insolvency frameworks towards the preservation of debtors' assets through the harmonisation of restructuring procedures in Member States (Box 2.5). Hence, strengthening restructuring procedures and striking the right balance of opportunities for debtors to file for restructuring or liquidation procedures is a key practice EaP countries should consider in order to lower the predominance of liquidation in their frameworks.

In all EaP countries, many SMEs prefer not to engage in formal insolvency because they wish to avoid lengthy and costly insolvency procedures. Instead, debtors tend to sell their assets at early stage of financial distress, often at low prices, or to continue operating even though the firm is effectively insolvent. In addition, SME insolvency may lead to personal insolvency of owners in the case of family businesses, in which families pledge their personal assets for loans. Simplified or pre-packaged in-court procedures specifically

targeting SMEs are key provisions to address this issue and encourage SMEs to engage in formal procedures.

Box 2.5. Giving entrepreneurs a second chance in the EU

In June 2019 the Council of the European Union for the first time harmonised restructuring procedures and adopted the promotion of second chance for troubled businesses. It formally adopted a directive on preventive restructuring frameworks, second chance, and measures to increase the efficiency of restructuring, insolvency and discharge procedures. Member States will implement the new provisions within two years.

The objective of the directive is to reduce the barriers to cross-border investments arising from the differences in Member States' insolvency framework. The promotion of restructuring procedures and second chance for honest entrepreneurs aims at reducing the amount of non-performing loans and increase the recovery rate of creditors within the EU.

Key features of the reform include:

- **Core elements of preventive restructuring frameworks.** Debtors have access to preventive restructuring procedures with facilitated negotiations. Debtors may also benefit from protection from individual enforcement actions and a suspension of insolvency proceedings during the negotiations (up to four months). New financing and interim financing are protected under specific conditions to support the restructuring process.
- **Enhanced second chance for entrepreneurs.** Honest entrepreneurs have access to a full debt discharge after a maximum of three years. Restrictions to become a member of a board of a firm (disqualification order) are time-limited and should end with the discharge period.
- **Enhanced efficiency of insolvency, restructuring and discharge procedures.** The directive frames the specialisation of courts, as well as the qualifications, supervision and remuneration of insolvency practitioners. The digitalisation of proceedings is also encouraged.
- **Minimum rules on monitoring and evaluation.** Member States have to collect key statistics on insolvency – such as the number of preventive restructuring procedures and the length of insolvency procedures – and communicate the data to the Commission.

Sources: Council of the EU (2019[23]), "Giving entrepreneurs a second chance: new rules on business insolvency adopted"; European Parliament (2017[24]) Directive (EU) 2017/1132 of the European Parliament and of the Council of 14 June 2017 relating to certain aspects of company law; European Parliament (2018[25]), "New EU insolvency rules give troubled businesses a chance to start anew."

Promoting second chance for honest entrepreneurs

The *Second chance* sub-dimension assesses the measures in place to facilitate a second chance for entrepreneurs and to reduce the stigma associated to a failed business.

Proactive policies and initiatives promoting second chance for honest re-starters are at very early stages in EaP countries, as reflected in the relatively low scores presented in Table 2.15. All legislations now include provisions to distinguish honest from dishonest bankrupt

entrepreneurs, which are important to avoid unnecessary costs and the stigma of insolvency. However, economic or civic disabilities – such as preventing failed entrepreneurs from applying to public support programmes for SMEs – still worsen the treatment of failed entrepreneurs in some EaP countries. For instance, in Ukraine, entrepreneurs seeking a fresh start cannot apply for a bank loan for three years or file for bankruptcy for five, while in Belarus they are allowed to register a new business entity only one year after their exclusion from official registries.

Table 2.15. Scores for the *Promoting second chance* sub-dimension

	ARM	AZE	BLR	GEO	MDA	UKR	EaP Average
Promoting second chance	1.17	2.00	1.92	2.25	2.25	1.33	1.82

Note: see Annex A for information on the assessment methodology.

Five of the six EaP countries do not implement informational campaigns and targeted support and training for honest re-starters. Moldova has been the exception since ODIMM recently got involved in the DanubeChance2.0 project, giving formally bankrupt entrepreneurs a second chance in the Danube Region though awareness campaigns, training, and restructuring services. ODIMM and the Ministry of Economy and Infrastructure also held a first event in 2018 on "Embracing failure to facilitate second-chance entrepreneurship in the Danube region".

The way forward

The following key policies and initiatives should be considered by EaP countries to promote business rescue and fresh start for entrepreneurs:

- **Armenia and Azerbaijan could increase support to financially distressed entrepreneurs** by fostering the implementation of training and debt counselling by practitioners at the local level for private companies with financial difficulties, with appropriate visibility and accessibility for SMEs (i.e. through a hotline or website).
- Armenia, Azerbaijan, Georgia, and Moldova should **implement early-warning systems for a systematic detection of insolvency**, either from inside (from managers and accountants, e.g. first steps implemented in Ukraine, such as self-test websites) or outside the company (from tax declarations, e.g. in Belarus, or from creditors). All EaP countries should give preventive measures and early-warning tools more visibility and accessibility.
- **Continue reforming insolvency legislation**, notably regarding restructuring procedures (Armenia, Azerbaijan). Sound restructuring tools generally allow 1) creditors to initiate restructuring and to take decisions by the majority ("cramming-down" on dissenting creditors), 2) for continuity of operations (automatic stay on assets[12]), 3) for new or interim financing or 4) for incumbent managers to stay in office (OECD, 2018[22]). Azerbaijan should institute specialised courts for insolvency cases and credit reporting institutions, while Belarus could align more with international standards, introducing a clear definition of discharge from bankruptcy and a maximum time of discharge, and covering secured transactions for companies filing for bankruptcy in the insolvency framework. Georgian insolvency legislation could also be further improved to reach international standards.

- **Introduce simplified or pre-packaged in-court proceedings specifically targeting SMEs** (Georgia) or give SMEs the option to pay expenses related to insolvency procedures in instalments (Azerbaijan). Alternatives to in-court procedures could also be introduced and encouraged in both countries.
- **All EaP countries should collect more comprehensive and systematic data on insolvency and efficiency of procedures**, such as survival rate of new businesses, size of firms going bankrupt or number and outcome of insolvency procedures.
- All EaP countries should **adopt co-ordinated and proactive second chance strategies**. Key features of second-chance promotion in EaP countries could include 1) facilitated access to finance after bankruptcy, 2) guidelines or training for re-starters, and 3) awareness raising campaigns.

Policy instruments – Responsive Government

Table 2.16. Dimension challenges and policy instruments – Pillar A

Dimension	Challenges / Opportunities	Policy instruments
Institutional and regulatory framework	**Lack of focus on SMEs**. Despite the significant contribution of SMEs to the economy, policies often do not fully acknowledge them, leading to higher compliance costs and market failures.	**Tailor policy objectives to SMEs**. Adopt a definition of SMEs that encompasses the different enterprise categories; then promote its adoption to enhance policy focus. Strategies should include clearly defined, consensus-based objectives, quantitative targets and key performance indicators. **Enhance the government approach to SME regulations.** The clear assignment of the mandate over the elaboration and supervision of the SME policy, the smooth co-ordination between the implementation agencies and supervisory ministry, and the systematic application of the new regulation are necessary to ensure the success of the regulatory reforms and avoid falling back to a highly-regulated environment.
Operational environment	**Administrative impediments and poor IT skills**. Complex, costly and lengthy administrative procedures might discourage entrepreneurship and push SMEs to the informal sector and hamper competition in the markets. E-government could help SMEs cope with the procedures, but only if the digital divide within the SME population is reduced.	**Enhance the efficacy of e-government.** Upgrade IT connection, equipment and ICT skills of SMEs to enable them to take advantage of e-government and reduce the administrative burden imposed on them. Integrate databases run by public institutions to ensure a comprehensive range of e-government services. **Expand the role of company registration agencies.** Place them at the centre of SME data collection and management to smooth the company registration process (e.g. simplify the notification procedures or issue a single company identification number).
	Inefficient tax regime. The current simplified tax regime present in most EaP countries offers tax simplification measures and incentives for SMEs, on one hand; on the other hand, one should keep in mind the unintended consequences of such manoeuvres, as SMEs might prefer remaining "small" in order to keep the tax incentives they are entitled to by size.	**Improve the tax regime.** Assess the impact of the current simplified tax regimes and redesign them to ensure sustainability of SME growth.

Bankruptcy and second chance	**Late detection of failing businesses**. Because support services are not specifically targeted at SMEs and because early-warning systems are not well co-ordinated, businesses filing for bankruptcy cannot be rescued on time.	**Enhance visibility and accessibility of preventive measures.** Increase training and debt counselling services for SMEs, and enhance their accessibility (e.g. through hotline or website). **Detect failing firms early**. Implement early-warning system, acting internally (e.g. accountants) or externally (e.g. tax declarations) to systematically detect financially distressed firms before bankruptcy.
	Weak insolvency frameworks. The complexity, the lack of proactive policies promoting business rescue and second chance, and the associated costs result in a very few SMEs engaging with formal insolvency procedures, with dire consequences for the financial stability of the entrepreneurs.	**Introduce simplified or pre-packaged in court proceedings targeting SMEs**, or allow for instalments for the expenses in insolvency procedures. **Adopt co-ordinated and proactive second-chance strategies.** For instance, facilitate access to finance after bankruptcy, provide training, and launch awareness-raising campaigns.

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Notes

[1] The "think small first principle" requires public authorities to consider SMEs' interests early on in the policy-making process. A comprehensive and coherent policy and institutional and regulatory framework is therefore necessary to ensure that laws and regulations are SME-friendly and that public initiatives address the needs of SMEs effectively. This dimension assesses three interrelated aspects of the SME policy process: the institutional framework; the adoption of legislative simplification and regulatory impact analysis tools for SMEs; and the existence of participatory platforms for public-private consultations on SME-related topics.

[2] In the EU, the SME Test analyses the possible effects of EU legislative proposals on SMEs. By assessing the costs and benefits of policy options, it helps implement the 'Think Small Principle' and improve the business environment. See https://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/sme-test_en.

[3] https://www.oecd.org/eurasia/competitiveness-programme/eastern-partners/Compendium-Entreprise-Statistics-Armenia-2018-EN.pdf

[4] https://www.oecd.org/eurasia/competitiveness-programme/eastern-partners/Compendium-Entreprise-Statistics-Ukraine-2018-EN.pdf

[5] The low estimates of the informal sector provided by GEOstat (around 10% of GDP) are not in line with estimations from the IMF, according to which Georgia figures among the largest shadow economies (with a size of 64.9% of GDP). Such discrepancy may be due to differences in the methodology used. For more on this, see (Medina and Schneider, 2018[26]).

[6] According to new methodology.

[7] 2020 World Bank Doing Business assessed 190 countries

[8] However, the point should not be pushed too far: Ucbasaran, Westhead and Wright (2011) cite data suggesting that this is not necessarily true of some "serial entrepreneurs", who often fail not just once but repeatedly, owing to an optimistic bias in their decision making and a failure.

[9] Promotion of second chance should hence be distinguished from restructuring/survival measures for financially distressed businesses.

[10] New 2020 methodology

[11] Planned improvements and reforms, such as draft laws pending in Parliament, are not reflected in the sub-dimension score.

[12] An automatic stay on asset temporarily prevents creditors from pursuing the debtors for amounts owned – i.e. starting or continuing c4ourt proceedings against the debtor, moving to foreclose on a debtor's property, creating, perfecting or enforcing a lien against a debtor's property and attempting to repossess collateral. An automatic stay goes into effect the moment a debtor files for bankruptcy.

Chapter 3. Pillar B – Entrepreneurial human capital

This chapter looks at the progress made by the Eastern Partner countries since the last SBA assessment in advancing the entrepreneurial potential of their human capital. Enhancing citizens' entrepreneurial skills and competences can not only boost their career and employment opportunities, but can also strengthen the competitive power of enterprises and stimulate overall economic growth. The assessment reviews developments at policy and practice levels with reference to three sub-dimensions of the Small Business Act for Europe: entrepreneurial learning, women's entrepreneurship and enterprise skills.

The analysis focuses on the entrepreneurship key competence as one of the imperatives for transforming education and training systems in Europe, supported from a lifelong learning perspective through the modernisation of curricula, teacher training and development of an entrepreneurial culture and mindset.

Another area of primary importance is gender-sensitive policy making sustained by cross-sectoral vision and coordinated stakeholder action in support of women's entrepreneurship. This chapter also explores the latest developments and challenges in enhancing the quality of human capital for making SMEs strong, competitive and innovative through relevant policies and effective support measures.

Introduction

With the launch of the Europe 2020 Strategy (European Commission, 2010[1]), the Small Business Act review (European Commission, 2013[2]) and of the Industrial Policy Communication[1], EU policies have focused increasingly on support for entrepreneurship to put Europe on track in terms of growth dynamics and employment creation. To achieve this ambitious objective, the Entrepreneurship 2020 Action Plan[2] (Elson and Seth, 2019[3]) has made nurturing new skills and capabilities of citizens one of its key priorities. This would require, among other things, developing entrepreneurial education and training, creating role models and reaching out to specific groups. While fast economic development is a major trigger of demand for skills and competences of citizens, it depends greatly on the availability of relevant skills, and lack of human capital represents a serious obstacle to overcoming the employability challenges and promoting economic growth and prosperity.

World Bank research in this area recognises education as a critical input into high-quality human capital and of improving the population's attitudes toward entrepreneurship, defining human capital as an important determinant of entrepreneurial development and demonstrating the link between the entrepreneur's education level and more sophisticated forms of entrepreneurial activity – including the creation of innovative, high-growth businesses in the most technologically-advanced industries (Acemoglu and Angrist, 1999[4]). International studies provide evidence of the importance of investments in skills, knowledge and know-how and their complementarity to investments in physical capital (Angrist et al., 2019[5]). To make this investment effective and efficient, governments need to use relevant and good-quality data and other evidence in tailoring policy reforms to the needs of specific groups (such as youth, adults and seniors) to ensure that human capital development policies are inclusive and responsive to citizens' needs.

The current momentum is critical to the human capital development agenda for both the European Union and its neighbours. Rapidly changing economic conditions are prompting an irreversible transformation of demand for skills and competences of the labour force. The evaluation of the implementation outcomes and action plans conducted under this SBA assessment represents an opportunity for the EaP countries to modernise their human capital policies in response to this changing demand for skills. The recent World Bank analysis signals a gap in human capital formation in that students are in school but are not learning; closing this gap thus offers an important opportunity to drive economic development (Angrist et al., 2019[5]). Both the quality and relevance of the supply of education and training services are essential for developing human capital, which will require massive public and private investment and cross-sectoral policy partnership around common objectives.

The human capital dimensions are at the core of the economic and SME development agenda, and policies addressed under Pillar B of this report cut across all dimensions of the Small Business Act. Adequate skills and competences are key enabling factors of entrepreneurial activity, business innovation, SME sector governance and public-private partnership. The focus on skills reflects synergies within the SBA framework: skills development is an integral part of SME support services, green skills underpin strategies for sustainable development and resource efficiency, financial literacy is essential for SME access to capital, and digital skills are one of the strong assets for the Eastern Partnership enterprises joining the EU single digital market.

This chapter looks into the state of policies and government measures in the EU's Eastern Partner region that support opportunities for citizens to learn and develop their

entrepreneurial skills and competences in line with the EU policy frameworks for human capital and SME development. It identifies successful practices that could underpin policy design. It focuses on advanced, modern skills and competences – including key competence and occupation-related competences – that support youth and adults in managing life and work transitions, as well as in finding high-quality employment, succeeding in self-employment and creating jobs for others.

This chapter will address the three dimensions of Pillar B: 1) entrepreneurial learning and entrepreneurship key competence development, 2) support for women's entrepreneurship and 3) strengthening skills for SMEs.

Methodological changes to the assessment framework

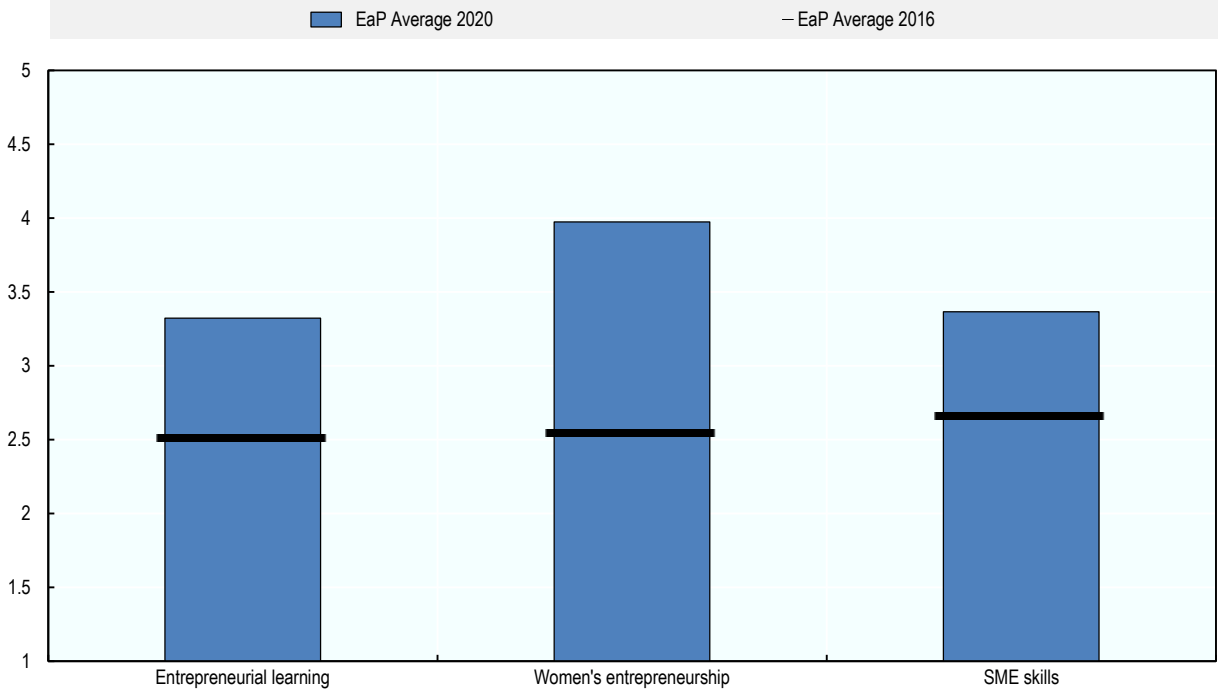
The new assessment framework has been developed with the broad participation of human capital policy experts and practitioners and was first piloted in 2016 in the Western Balkans and Turkey (WBT) region (OECD et al., 2019[6]).

For the human capital sub-dimensions, the EaP governments first implemented self-assessments led by the National SBA Co-ordinators with support from European Training Foundation (ETF) national experts. Following the collection of draft self-assessment questionnaires, the ETF organised focus groups in each country around the human capital sub-dimensions during which preliminary findings of the self-assessment were discussed and additional evidence provided.

Due to the transition to the new methodology between two assessments, comparison of scores between 2016 and 2020 under the Entrepreneurial Human Capital dimension should be approached with caution.

Figure 3.1. SME Policy Index scores for Pillar B: Entrepreneurial human capital

Regional scores, 2020 vs. 2016



StatLink http://dx.doi.org/10.1787/888934086831

Table 3.1. Country scores by dimension and sub-dimension, 2020

	ARM	AZE	BLR	GEO	MDA	UKR	EaP average 2020	EaP average 2016
Entrepreneurial learning/ women's entrepreneurship	**2.84**	**3.41**	**2.79**	**4.24**	**4.25**	**3.98**	**3.59**	**2.52**
Entrepreneurial learning	2.53	3.02	2.46	3.86	3.97	4.09	3.32	2.51
Women's entrepreneurship	3.31	3.99	3.28	4.80	4.65	3.81	3.97	2.54
Enterprise skills	**3.37**	**2.62**	**3.06**	**4.03**	**3.86**	**3.19**	**3.36**	**2.66**

Note: Dimension's score is the weighted average of sub-dimensions' scores.

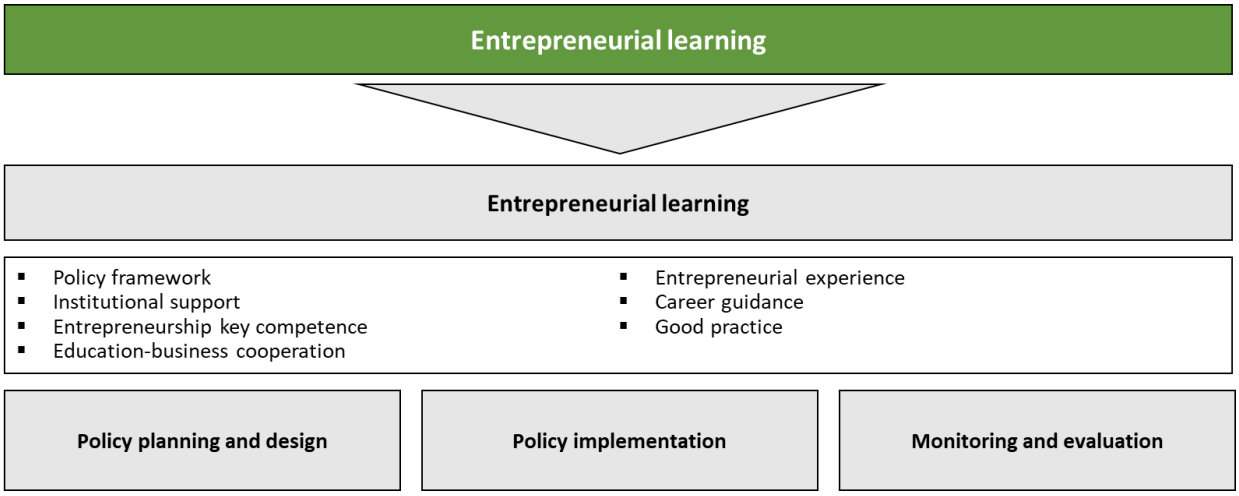
Entrepreneurial learning

Developments in entrepreneurial learning are increasingly considered an imperative for sustainable economic growth in both transition and developed economies (Gribben, 2018[7]) (OECD, 2018[8]). Given the region's growing interest in developing a more entrepreneurial workforce and more and better jobs, particular attention is given to entrepreneurship as a key competence (Council of the European Union, 2018[9]). Unlike more-developed entrepreneurship skills (e.g. marketing, sales, business management), the entrepreneurship key competence comprises a range of traits that are both cognitive (e.g. opportunity spotting, risk assessment) and behavioural (teamwork, mobilising resources) – traits which employers increasingly seek in their bid for greater competitiveness (Sozuer, Altuntas and Semercioz, 2017[10]). It is also important for enhancing employability (Bell, 2016[11]).

Assessment framework

Overall, the revised 2020 assessment framework reflects the sets of indicators applied in 2016. First, in terms of planning and design, the assessment focuses on the policy context and institutional support arrangements for entrepreneurship across all levels of education (primary, secondary, vocational and higher). Second, on policy implementation, particular attention is given to the curriculum arrangements for the entrepreneurship key competence, including teacher training, career guidance and education-business co-operation. Pupil-tracer studies is a new variable in the present assessment. The assessment also considers how each of the countries has responded to the European Commission's recommendation that all young people should have acquired at least one practical entrepreneurial experience prior to leaving school (European Commission, 2012[12]). Wider issues of awareness raising and good-practice sharing are also addressed. Finally, the assessment considers how entrepreneurial learning is monitored and evaluated specifically at the system level.

Figure 3.2. Assessment framework – entrepreneurial learning



Analysis

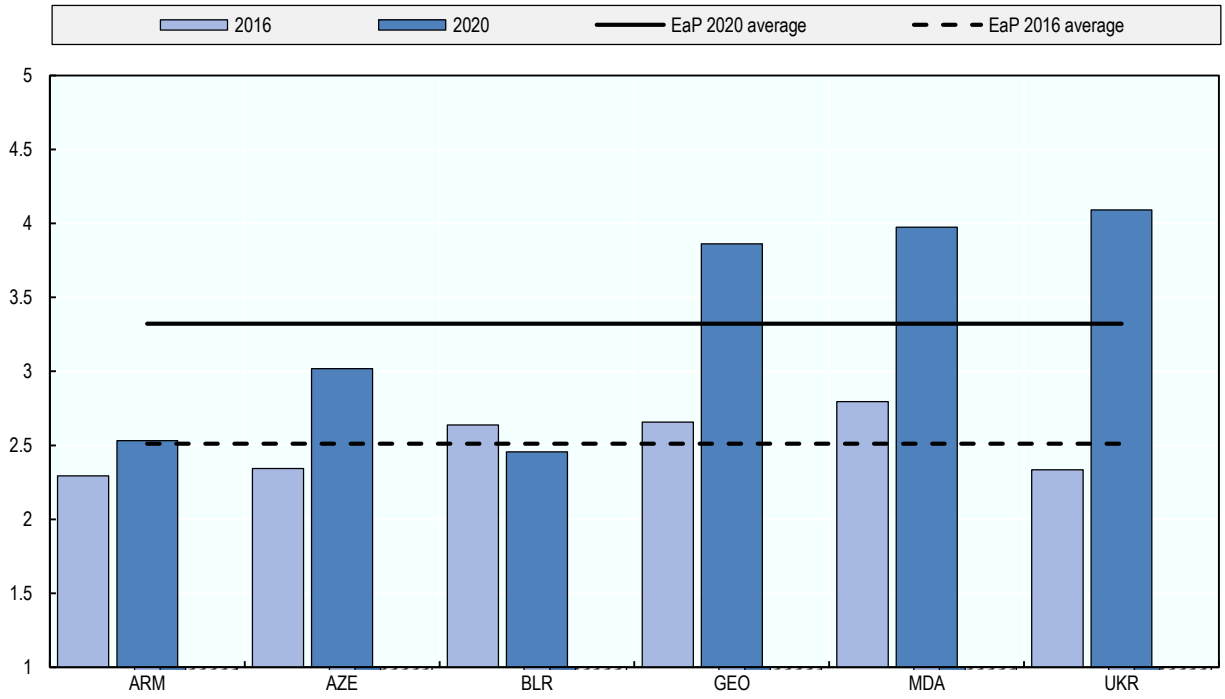
With most of the EaP countries entering a period of growth (EBRD, 2017[13]), the attention of all governments should now focus on medium- to long-term growth prospects, in particular, in generating more entrepreneurial value from the region's economies. A key factor in sustaining the growth momentum will be more dedicated commitment and investment in entrepreneurial learning to ensure SMEs can meet the challenges of flexibility, competitiveness, efficiency and innovation.

This section reviews the EaP countries' progress in promoting entrepreneurial learning. Important policy references in this drive are:

- The European Entrepreneurship Action Plan (European Commission, 2013[2])which underscores the importance of education for wider SME development policy; and
- The European Entrepreneurship Competence Framework, or EntreComp (Bacigalupo et al., 2016[14]) and supporting tools (McCallum et al., 2018[15]), the objective of which is to help policymakers and the education communities generate more entrepreneurial value from national education systems.

Overall, the assessment identifies two distinct groupings, with Georgia, Moldova and Ukraine ahead on almost all variables across the three thematic blocks (see Table 3.2). In terms of developments within each country since 2016, the greatest progress was made by Ukraine, Azerbaijan and Georgia.

Figure 3.3. Scores for the *Entrepreneurial learning* dimension compared to 2016



Note: Methodological changes have been introduced to the 2020 assessment and should be taken into account when observing trends in SME Policy Index scores.

StatLink http://dx.doi.org/10.1787/888934086850

Table 3.2. Scores for the *Entrepreneurial learning* sub-dimension

	ARM	AZE	BLR	GEO	MDA	UKR	EaP Average
Planning and design	2.45	1.00	2.09	3.91	3.55	3.55	2.76
Implementation	3.44	3.44	3.67	4.33	4.11	3.44	3.74
Monitoring and evaluation	4.00	3.00	3.00	4.00	4.00	2.00	3.33
Weighted average	**3.26**	**2.62**	**3.06**	**4.14**	**3.92**	**3.19**	**3.36**

Note: see Annex A for information on the assessment methodology.

Reinforce policy and partnership arrangements to include employment authorities

A country's policy position on entrepreneurial learning provides a critical basis for all developments in the area. All the EaP countries except Belarus have a defined policy commitment to entrepreneurial learning. Policy instruments vary, from the inclusion of entrepreneurial learning in the national curriculum (e.g. Armenia, Georgia) or as part of education legislation (e.g. Azerbaijan, Ukraine) to a more comprehensive, cross-policy package involving education and SME legislation (e.g. Moldova). These trends reflect wider policy approaches to entrepreneurial learning across EU member states (Eurydice, 2018[16]). The value of a cross-policy approach – as in Moldova, where entrepreneurial learning is an integral feature of the national Education Code and SME strategy, as well as enshrined in SME legislation – is that a mutually-reinforcing package of education and

economic policies facilitates implementation in areas such as school-business co-operation. It also prompts diverse stakeholders (e.g. education authorities, SME agencies, schools, businesses) to cooperate in the development of entrepreneurial learning, ensuring that economic and education policies are consistent, coherent and complementary.

Partnership arrangements also enable the education community, in particular, to be embedded in a country's entrepreneurship eco-system (Gribben, 2013[17]).

In looking at the degree to which partnership arrangements are in place to support entrepreneurial learning, the assessment found that only three countries demonstrate mechanisms for co-operation. Both Georgia and Moldova have dedicated cross-ministerial partnership arrangements (education and economy) including SME agencies and education services, while in Azerbaijan entrepreneurial learning policy interests feature within several institutions, such as the Lifelong Learning Commission and the Standing Committee on Education and Employment.

Overall, across all countries, entrepreneurial learning policy and support could be improved by ensuring that the ministries and key agencies responsible for education, employment and enterprise, as well as private-sector and civic groups, communicate and co-ordinate in a more structured way, with education partners leading the process.

Attention should turn to pre-service teacher training for the entrepreneurship key competence

A particular feature of the assessment was the focus on EntreComp – entrepreneurship as a key competence. Since the last assessment, this has taken on greater significance at the EU level with the publication of a dedicated competence framework (Bacigalupo et al., 2016[14]). Unlike traditional entrepreneurship education and training, which is characterised by curricula addressing economics or business (e.g. business planning, managing cash flow or taxation legislation), the entrepreneurship key competence focuses on promoting the entrepreneurial mindset. The aim is to ensure that learners develop a set of cognitive and behavioural traits associated with the entrepreneurial character (e.g. opportunity identification, risk-taking, creativity, resilience, teamwork). The rationale in prioritising the entrepreneurship key competence in the SBA assessment is that it will provide impetus and potential for more 1) start-up activity (competitiveness), 2) entrepreneurial employees bringing innovation and value into businesses (productivity), and 3) enhancements to the labour market prospects particularly of young people (employability).

Armenia, Georgia, Moldova and Ukraine have adapted their curricula frameworks to include the entrepreneurship key competence. Armenia, for example, has integrated the key competence within primary school curricula, with plans to pilot it in secondary education in 2020. Both Georgia and Ukraine have integrated the key competence within their curricula (primary, secondary, vocational), specifically applying the EU's EntreComp provisions. Moldova has applied a modular approach, with the competence introduced across all compulsory education curricula. The piloting of the competence in vocational education by the Minsk City Institute for Educational Development provides an opportunity for the Belarusian authorities to explore options for bringing the key competence forward in the country. Similarly, Azerbaijan's efforts to promote the entrepreneurship key competence in vocational education could be leveraged through to primary and secondary education.

Overall, teacher training specifically addressing the entrepreneurship key competence is underdeveloped, with Ukraine in particular making good efforts to support teachers,

particularly through in-service teacher training (see Box 3.1). Pre-service teacher training will need to be given greater consideration to ensure that those joining the profession have the head start needed to address the pedagogic challenges of the entrepreneurship key competence. An important point here is that teacher training should reinforce the vocation of future teachers in committing to a reformed model of teaching and learning and to include the development of the teachers' entrepreneurship key competence (Keen et al., 2019[18]).

Box 3.1. Embedding the entrepreneurship key competence in Ukraine's school curriculum

In 2016, the Ukrainian government announced an ambitious education reform programme under the banner "the New Ukrainian School". At the centre of the reforms is the development of competence-based, student-centred learning across all schools. Set against EU key competence developments, this work is led by the Ministry of Education in co-operation with representatives from teacher-training institutes (pre- and in-service), the Ukrainian Centre for Assessment of Education Quality, the National Academy for Pedagogical Sciences and educational and civic interest groups. The work of the group is particularly inspired by the European Entrepreneurship Competence Framework (EntreComp) and the European Digital Competence Framework (DigComp). These are considered important for 1) the strategic promotion on competence-based education and key competences for LLL, but also 2) allowing education experts and policy makers to focus on career opportunities for pupils and students which include entrepreneurship.

Ukrainian education experts used EntreComp to design a progression model for the overall education standards. In 2017, the focus was on primary education with reforms implemented via extensive curriculum re-design defined by EntreComp, piloting processes and teacher-training. A key lesson from the piloting was that EntreComp learning outcomes were too complex, and they have been simplified. A roll-out to the remaining primary school community took place in 2108. The expert group also adapted curriculum for lower secondary education; upper secondary education will be addressed in a next phase. Across all levels of secondary education and vocational education and training (VET), the DigComp and EntreComp frameworks will be co-worked within the curriculum.

Three lessons were learnt:

EntreComp can be used to support 'light' improvements to standards and curricula.

Moving into large-scale revision inevitably brings the need to engage large groups of experts into a multi-annual work plan involving step-by-step integration of new approaches into the standards and curricula.

Teacher training is key to all reforms, with the need for changes in teacher qualifications and career promotion systems.

Once each phase is fully developed, the new education standard and the competence-based approach will be reflected across all levels of education. EntreComp has been a model for building understanding across different stakeholder groups, integrating entrepreneurial outcomes and reflecting how these progress across the different levels of learning.

Source: https://mon.gov.ua/ua/osvita/zagalna-serednya-osvita/navchalni-programi/naskrizni-zmistovi-liniyi

Practical entrepreneurial experience continues to rely primarily on student mini-company approaches

A critical factor in adapting the teaching and learning paradigm to accommodate a country's wider entrepreneurship drive will be to ensure that the learner is at the core of entrepreneurial learning and that an entrepreneurial task is the vehicle for learning (O'Dwyer, Costin and Hynes, 2019[19]). It is this factor which prompted the European Commission to recommend that all young people should have a practical entrepreneurial experience before leaving school (European Commission, 2012[12]).

As in the previous assessment, the school-based student mini-company continues to be the most prominent mechanism for developing the entrepreneurial experience in the region. Junior Achievement, an international non-profit education support institution, works in partnership with education authorities and schools in most of the countries, supporting school-business co-operation (see below).

The practical entrepreneurial experience is better addressed in vocational education programmes either as a compulsory activity in the curriculum (e.g. Armenia, Azerbaijan, Georgia), as an elective subject or as an *ad hoc* project within the curriculum (Belarus, Moldova, Ukraine). The introduction of FabLabs (a support mechanism to inspire university students to develop ideas and translate these into products and prototypes for the market) to vocational education pupils in Georgia is good practice. These address both the entrepreneurship key competence (ideas, opportunity seeking) and more applied entrepreneurship skills (relevance of product to market).

Aside from vocational education, more should be done to ensure that pupils following general secondary education also have the opportunity for practical entrepreneurial experience. This may not necessarily need to be market-driven but particularly set against the provisions of the entrepreneurship key competence, it may address wider societal concerns, reflecting real world contexts and where EntreComp learning principles could be applied.

Education-business co-operation improving particularly in vocational education

Education-business co-operation in the region is best developed around vocational schools. The thrust of the co-operation drive is primarily in terms of reinforcing vocational skills. Equal attention should be given to entrepreneurship skills through school-based learning and work placements. This should address classic entrepreneurship skills such as accounting, taxation, sales, business ethics and social responsibility (European Commission, 2009[20]) and should be developed alongside the entrepreneurship key competence (Asghar, Kyrö and Gul, 2019[21]). One practice that particularly stands out in the assessment is the engagement of young entrepreneurs by vocational schools in Georgia, where role-modelling is a central plank in preparing young people for an entrepreneurship career. This serves four inter-related purposes: 1) inspiration and motivation (awareness), 2) increased self-efficacy (confidence), 3) learning by example (peer influence) and 4) learning by support (hands-on guidance and support) (Bosma et al., 2012[22]).

It was not always apparent during the assessment how and to what extent vocational and entrepreneurship skills reflected the wider economic development agendas of each country. In this regard, recommendations that Georgia engage SME exporters in the teaching of entrepreneurship in vocational schools, set against Deep and Comprehensive Free Trade Agreement with the EU, are good (Babiashvili, 2018[23]) and could also be considered by Moldova and Ukraine.

Turning to general secondary education, the Junior Achievement network plays an important role in facilitating school-business co-operation in the region. Activities include engaging entrepreneurs as guest speakers and involving local businesses into business plan competitions.

Extend entrepreneurship career guidance to general education

Since 2016, good progress has been made by all countries in upgrading their career guidance services to include entrepreneurship as a career option. Within the school system, this is most developed around vocational schools. Azerbaijan stands out for combining career guidance with entrepreneurship practice within its Career Guidance Action Plan. Such exposure to entrepreneurship practice directly contributes to career direction by improving confidence and self-efficacy with knock-on implications for entrepreneurship career intentions (Liguori et al., 2019[24]). Tracking of secondary education graduates into the labour market remains an area to be addressed by all countries, apart from Azerbaijan. Data developments would not only support impact assessments but also allow address wider policy concerns on skills mismatches[3] (Rubal Maseda, 2017[25]).

Government and private sector should reach out to higher education institutions

The 2016 SBA report highlighted how higher education institutions did not feature in the assessment drive. It argued that higher education was too important to be outside the SBA policy dialogue, given its potential for innovation and economic development. The report also put forward a number of proposals to prompt better integration of the higher education community in SBA developments in-country. These included government-university dialogue on promoting entrepreneurship in higher education, the use of a European Commission support tool (HEInnovate[4]) to further entrepreneurship in higher education, good practice sharing, and the establishment of a multi-country forum to kick-start higher education engagement in SBA developments. None of the proposals has been followed up.

While entrepreneurship is addressed in all countries (particularly in business and technical faculties), the assessment nonetheless demonstrates that there are initiatives around individual universities concerning entrepreneurship promotion in wider subject areas. One good example is the entrepreneurship courses available at Brusef University (Armenia) in social sciences and language programmes. Ukraine, nonetheless, stands out for taking steps to include the entrepreneurship key competence in higher education programmes through education standards. This is important, given growing evidence that transferable skills are in growing demand in fast-changing economies (Israel-Cohen and Kaplen, 2019[26]).

While the recommendations from the 2016 assessment still stand, a greater understanding of the non-engagement of the higher education community in the SBA assessment and wider economic policy drive is required. If governments and the private sector do not have sufficient influence to engage with the higher education community, bolder initiative and leadership from public authorities and employers' organisations is required. If the university establishment is not convinced of the potential of strategic entrepreneurship promotion in higher education, good-practice compilation and research on entrepreneurship, in the specific context of a market transition, may spur the higher education community to consider strategic economic reforms.

Reinforce awareness-raising and good-practice sharing, and extend advocacy networks

The assessment points to increasing efforts in all EaP countries to promote visibility and raise awareness of entrepreneurship, through teacher awards as well as promoting good practice through high-profile events (e.g. conferences). Of particular interest in this assessment is the wider range of advocates and support organisations engaged in entrepreneurial learning developments, including national, regional and local bodies. The National Youth Council in Moldova, for example, is behind a youth entrepreneurship campaign. In the assessment, the Guba Khachmaz regional development centre in Azerbaijan was noted for its social media developments around youth entrepreneurship. Meanwhile, Rivne Municipality in Ukraine promotes awareness raising events through its Week of Creative Entrepreneurship. Finally, the Junior Achievement network sponsors business plan competitions and awards for teachers across the region.

Improved capacity and tools to support monitoring and evaluation

Monitoring of all entrepreneurial learning efforts remains underdeveloped and is confined to general reporting by ministries and agencies on education within annual reports. Primary data (e.g. the numbers of teachers trained on entrepreneurship provisions) is not available in any of the countries while student tracer mechanisms are underdeveloped. Moreover, while entrepreneurial learning featured in a range of policy instruments (e.g. education, SME strategies) it was unclear how the monitoring arrangements were co-ordinated. Given the newness of the policy area, and with implementation in its early stages, particularly on the entrepreneurship key competence, a more dedicated monitoring effort (with clearly defined responsibilities by a range of stakeholders) is necessary. This would allow for specific data to be established to track ongoing reforms. This would also provide a basis on which to assess the value and impact of revised pedagogic methods and learning outcomes through evaluation.

The focus group discussions employed in the assessment suggest that evaluation continues to be misunderstood. Evaluation is considered more in terms of individual assessments of pupils or trainees, with little attention given to impact (e.g. entrepreneurial intention, employment status, start-ups). A second factor from the focus group highlighted that institutional capacity for evaluation was often underdeveloped. Drawing on expertise outside education and economy ministries was one way to address this. In this regard, plans in Moldova to engage the National Institute for Economic Research for an evaluation of entrepreneurial learning developments are good.

Finally, because monitoring and evaluation are integral features of donor-supported projects in most of the countries, the capacity developed and tools applied through donor-supported projects should be embedded into national monitoring and evaluation frameworks. Results, including good practice, should also be made available on platforms. This will allow the range of players involved in education and the wider entrepreneurship ecosystem to draw on the analysis and experience.

The way forward

Moving forward consideration should be given to the following:

- ***Structured coordination at both policy and system level:*** Entrepreneurial learning should be supported at system level by structured coordination of policies and support measures between ministries and key agencies responsible for education,

employment and enterprise; this should include more effective communication and coordination with representatives of private-sector and civic-interest groups, with education partners leading the process.

- ***EntreComp and teacher training:*** Dialogue between the policy and teaching communities is required to ensure that teachers and schools are aware of the complexity of the teaching and learning processes for the entrepreneurship key competence. This should preface wider policy discussions on the organisational backing required for the teaching profession (e.g. by pedagogic institutes or similar) and the financial resources required to ensure teacher training reforms are carried out.
- ***Compulsory practical entrepreneurial experience***: Measures are required to ensure that all students in general secondary education have access to practical entrepreneurial experience. These may be market-driven or address wider societal concerns, reflecting real world contexts where EntreComp learning principles could be applied.
- ***Engaging higher education in the promotion of entrepreneurial learning:*** Education authorities and employers' organisations in each country should jointly engage the higher education community in dialogue to determine more systemic and across-campus developments (all students, all faculties) in entrepreneurial learning.
- ***Monitoring and evaluation:*** All countries should examine the potential for engaging research institutes or other bodies outside of government which have the expertise to provide services to support monitoring and evaluation of systemic entrepreneurial learning developments.

Women's entrepreneurship

While women's entrepreneurship support has been a topic of policy debate worldwide for decades, recent initiatives have been fragmented on an international scale. Challenges of female labour market entry (including through entrepreneurship) have also increasingly been gaining the attention of policy makers in both the European Union and its Eastern Partner countries despite a severe lack of gender-sensitive SME data in most countries. It is an undeniable fact that the share of women entrepreneurs' remains around 30% globally (Bekh, 2014[27]) whereas women constitute almost half of the world's population, and a similar dynamics is observed in the EaP region. To close the gender gap in entrepreneurship, policy makers need to deal with a broad variety of factors – including legal barriers for women, institutional bias, socio-cultural norms, and disproportionate responsibility for unpaid housework and family care, all of which limit the time women can dedicate to their businesses; the net result is lower growth and revenue (Chin, 2017[28]). To overcome stereotypes in defining the traditional roles of women and men in society and to encourage women's entrepreneurship, a "'key competence" (Council of the European Union, 2018[9]) gap needs to be closed. It is important to ensure that education, training and career guidance are gender- and entrepreneurship-sensitive from an early age and to support the development of the entrepreneurship key competence in girls and boys, women and men, in both formal education and non-formal learning contexts (Bekh, 2014[27]).

This publication builds on recent policy research that recognises the equal value and contribution of both women and men to the development of entrepreneurship, including the foreseen impact of gender diversity – when achieved – on global productivity,

competitiveness and innovation (Bekh, 2014[27]). Studies confirm that women own over a third of all businesses worldwide, generating millions of employment opportunities and spurring local development. They also control about $20 trillion in annual consumer spending and, by 2028, are likely to control nearly 75% of consumer discretionary spending globally (Chin, 2017[28]). UN research proves that closing the gender gap would add $10-17 trillion to the global economy.

Policy design aiming to increase women's contribution to entrepreneurship should connect different parts of the policy agenda. This will ensure an effective policy response to the complexity of factors that manifest themselves in low numbers of women entrepreneurs (Bekh, 2014[27]). A strategic focus on the gender-responsive development of entrepreneurial human capital should inform policy making throughout the policy cycle, from design and implementation to monitoring and evaluation.

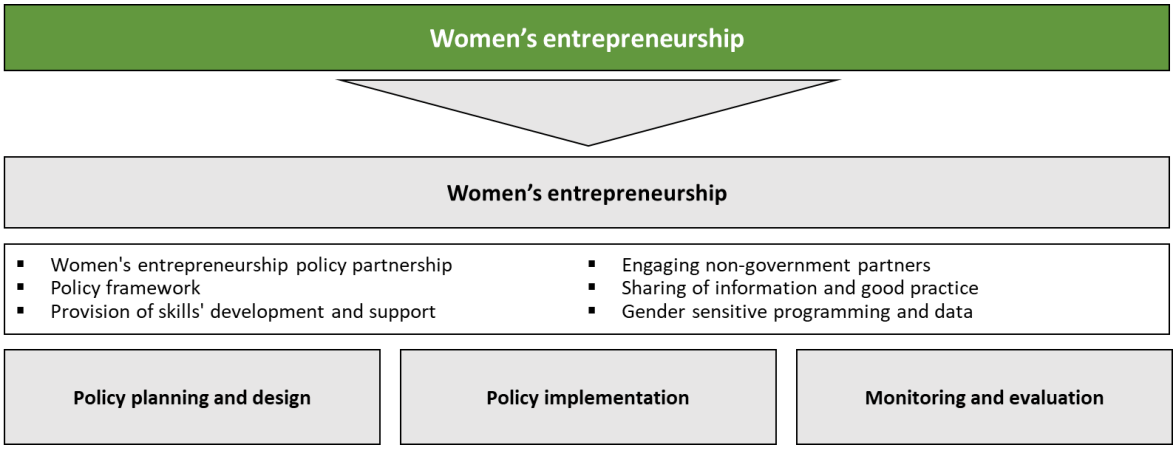
Assessment framework

The Small Business Act for Europe puts women's entrepreneurship among its priorities under dimension 1 in view of its great potential for boosting economic growth and societal well-being. Women's economic participation and entrepreneurship development represent serious policy challenges both within the EU and in the EaP region.

The assessment framework for the women's entrepreneurship sub-dimension addresses evidence-based policy making. It looks at policy partnership for women's entrepreneurship promotion, while assigning equal value to a variety of partnership formats: both structured and actively working, non-formal partnership, engaging key players and networks of women's entrepreneurship support. It reviews the availability of strategies and dedicated action plans. A "whole of government" approach requires close co-ordination and division of labour between different parts of the government and policy partners, as well as quality data for policy making that enable identification of specific challenges for women's entrepreneurship in each country's context. This assessment looks for the availability of a holistic framework of women's entrepreneurship policy implementation, including cross-sectoral co-ordination in the government and cross-references between sectoral policies. The assessment reviews institutional arrangements for provision of training and support services and public incentives for non-government organisations and peer networks to provide support for women's entrepreneurship. This chapter also addresses the critical enabling factors of women's entrepreneurship support, e.g. strategic investment in communication, awareness raising measures and good practice exchange. Finally, the chapter reviews monitoring and evaluation arrangements for women's entrepreneurship policies and advocates gender-sensitive policy making based on high-quality, sex-disaggregated data.

For the women's entrepreneurship sub-dimension, the change of methodology was first piloted in the 2016 and 2018 SBA assessments in the WBT region (OECD et al., 2016[29]; OECD et al., 2019[6]). For this assessment, some new questions were introduced relating to non-formal policy partnerships, cross-sectoral co-ordination of policies addressing women's entrepreneurship, government support for the non-government sector in women's entrepreneurship, incentives for strengthening women's participation in the formal sector, data availability and gender sensitivity of policies.

Figure 3.4. Assessment framework – Women's entrepreneurship



Analysis

The promotion of women's participation in the SME sector is a fundamental element for sustainable economic growth. During the last decade, women's entrepreneurship has been gradually gaining a priority status in the policy agenda of EaP countries. However, declarations of strategic importance have not translated into the generation of gender-sensitive data and analysis, which are both essential for evidence-based policy making, especially for understanding the deep roots of the state of women's entrepreneurship in each country and specific policy measures to cope with the current challenges. Despite data scarcity, little available data in the Eastern Partnership indicates a gender gap in employment, self-employment and entrepreneurship.

Incidence of self-employment among women ranges between 2.8% in Belarus to 72.8% in Azerbaijan (World Bank, 2018[30]). The share of self-employed among women is comparable to the share among men, although lower except for Azerbaijan. Men are also more likely than women to work as employers. The share of employers among women ranges between 0.3% (2017) of the employed women in the Republic of Moldova to 10.2% (2018) of the employed women in Azerbaijan (ETF, 2019[31]). Economically active women in the EaP region tend to be highly educated, but this does not always translate into labour market performance. Women are more likely to work in agriculture and as family workers, pointing to more precarious working conditions (ETF, 2019[31]).

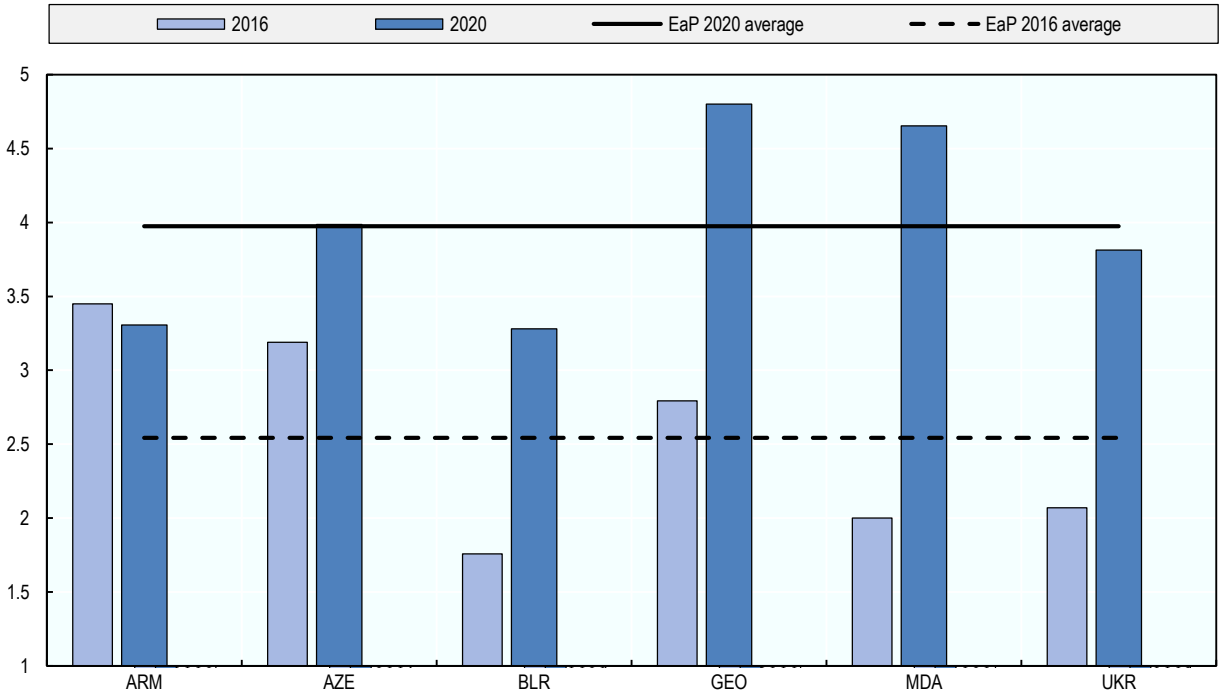
Some EaP countries are part of international indexes measuring women's entrepreneurship, but it is hard to find comparable data sets across the region. Several EaP countries were included into the 2016 World Bank's comparative analysis of the gap between female and male entrepreneurship, which, again, confirmed that the share of new female and male LLC owners is less than 30% in Georgia and Belarus, and the share of new female sole proprietors in Belarus, Georgia and Azerbaijan is around 30% (Meunier, Krylova and Ramalho, 2017[32]).

Since the 2016 SBA assessment, women's entrepreneurship has become a priority in all EaP countries (Figure 3.5). Georgia and Moldova are taking the lead, due to the maturity of their women's entrepreneurship support policy frameworks and persistent investment into this area. Communication actions for raising awareness have been included among the women's entrepreneurship support measures in Armenia, Azerbaijan, Georgia and Moldova. In all EaP countries except for Azerbaijan, women's entrepreneurship is now

supported by non-formal policy partnerships, such as the Armenian Young Women's Association (AYWA), the Women's Business & Art Co-operation (WBAC) group in Belarus and the regional Chambers of Commerce and Industry in Ukraine. The only few examples of structured, formal women's entrepreneurship policy partnerships at the national level can be found in Azerbaijan, Moldova and Georgia. Since the 2016 assessment, significant progress has been registered in the provision of training and support to women entrepreneurs and plenty of excellent practices can be found in all EaP countries. Moreover, there have been impressive developments in all countries in terms of good practice sharing on women's entrepreneurship support.

As shown in Table 3.3, all EaP countries tend to do well in the *Implementation* thematic block. In particular, Azerbaijan, Georgia and Moldova reach the highest possible score. Georgia also scores 5 in the *Monitoring and evaluation* thematic block.

Figure 3.5. Scores for the *Women's entrepreneurship* dimension compared to 2016



Note: Methodological changes have been introduced to the 2020 assessment and should be taken into account when observing trends in SME Policy Index scores.

StatLink http://dx.doi.org/10.1787/888934086869

Table 3.3. Scores for the *Women's entrepreneurship* sub-dimension

	ARM	AZE	BLR	GEO	MDA	UKR	EaP Average
Planning and design	3.80	3.40	3.27	4.33	4.73	3.27	3.80
Implementation	3.40	5.00	4.20	5.00	5.00	4.20	4.47
Monitoring and evaluation	2.33	2.33	1.00	5.00	3.67	3.67	3.00
Weighted average	**3.31**	**3.99**	**3.28**	**4.80**	**4.65**	**3.81**	**3.97**

Note: see Annex A for information on the assessment methodology.

Women's entrepreneurship policies moved up in the national policy agenda

The 2016 SBA assessment concluded that women's entrepreneurship has received increasing attention in the policy discourse of EaP countries, but concrete measures have been rather fragmented and driven mainly by a gender equity agenda. Since then, women's entrepreneurship has become an official priority in all EaP countries. This is a major development, and the inclusion of women's entrepreneurship in all EaP countries – as either a special pillar or a dedicated section of formal national policies, strategies, programmes and action plans – deserves strong support. Support actions are still spread across sectors and strategies; however, the economic dimension of women's entrepreneurship is the focus of growing attention across the region, as EaP countries have included it in the agendas of government offices dealing with socio-economic, SME development and employment policies.

Georgia and Moldova became top performers in the region due to the maturity of their women's entrepreneurship support policy frameworks and persistent investment into a dedicated set of implementation measures since the 2016 assessment. Georgia drastically improved its performance between the two assessments and demonstrated concentrated efforts to raise the effectiveness of women's entrepreneurship policy design, co-ordination and evaluation of policy effectiveness. Azerbaijan stands out due to the impressive scope and spread of policy measures and earmarked women's entrepreneurship support actions addressing the challenges facing the government. Ukraine has also made a big step forward since the last assessment (where it received the lowest score, reflecting its lack of government policies supporting women's entrepreneurship) by introducing a set of completely new policy measures as part of recently adopted SME and export promotion policy frameworks.

Georgia, Moldova, Ukraine and Azerbaijan each have four or more official policy documents (belonging to different government domains) containing policy measures and actions designed to support women's entrepreneurship. Armenia has implemented a separate women's entrepreneurship strategy that has set a basis for developing a new strategic vision for the next period.

Increasingly, EaP governments appreciate the importance of communication actions for raising awareness of interested population groups and broader society about the challenges and the high returns of investment in women's economic participation, including entrepreneurship and self-employment in the context of national, regional and local socio-economic strategies. Communication actions have been included among the women's entrepreneurship support measures in most of the countries – Armenia, Azerbaijan, Georgia and Moldova.

At the same time, building an over-arching, comprehensive policy vision that extends across economic sectors and encompasses all parts of the government remains a serious challenge in all countries. The lack of sex-disaggregated data makes it hard to design gender-responsive policies, which should be based on a rigorous analysis of the structural and socio-cultural factors behind the lack of women's entrepreneurship.

The complex nature of the problem requires cross-sectoral policy co-ordination. According to recent studies, gender gaps in female business entry and ownership in many economies worldwide (Meunier, Krylova and Ramalho, 2017[32]) are reinforced by the gender differences in key forms of human, social, and financial capital (Kauffman Foundation, 2018[33]). These gender differences are born in existing societal perceptions, cultural norms and traditions, and are reinforced by gender-blind policy measures belonging to education,

employment, labour market, social protection and other sectors, legal provisions and institutional frameworks. One of the areas having a strong impact on career choices and wellbeing of people, both women and men, is the integration of the entrepreneurship key competence development in the curricula of formal education and non-formal learning in a gender-sensitive way.[5]

Cross-linkages between policy documents addressing women's entrepreneurship have been found in Armenia, Belarus, Georgia and Moldova. Ukraine has set an excellent example of how to improve the effectiveness and efficiency of the women's entrepreneurship policy approach by introducing direct cross-referencing of women's entrepreneurship support measures between the SME, gender-equity and export-promotion policies and implementation plans. Azerbaijan is using series of Strategic Roadmaps to promote women's entrepreneurship support actions across policy areas of socio-economic development of regions, production of consumer goods and agricultural products. Action plans for women's entrepreneurship have been adopted as part of sectoral policies in Armenia, Azerbaijan, Georgia (see Box 3.2) and Moldova.

Women's entrepreneurship policy co-ordination has also substantially improved in the region due to the development of policy partnerships. Policy partnership represents a platform for investigation into the root causes of the lack of women's engagement in entrepreneurship. It allows peer networks, non-government experts and civic interest groups to be part of relevant policy formulation, monitoring and evaluation, and provision of feedback on the effectiveness of government actions and the implementation of gender-sensitivity checks of existing and new policies. It also allows policy makers to tap into the models represented by innovative practitioners and to apply good practices in designing new policies and planning government support measures.

Box 3.2. Evaluation of women's entrepreneurship support policies in Georgia

Women's entrepreneurship development is one of the high policy priorities of the government of Georgia. The first step towards a strategic approach to developing women's entrepreneurship in the country was carried out through the elaboration of the SME Development Strategy of Georgia 2016-2020 and its relevant Action Plan in order to define clear objectives and measures necessary for women's economic empowerment.

It is this SME development strategy that places relatively higher emphasis on the issue of support of women's entrepreneurship in the country. Coordination, monitoring and evaluation of policies supporting women's engagement in business is put under the responsibility of the Private Sector Development Advisory Council (PSDAC) under the Ministry of Economy and Sustainable Development of Georgia. The Council ensures a dialogue between the state and the private sector representatives and oversees public-private co-operation, including the area of women's entrepreneurship in the wider context of economic and SME sector policies. The Council's membership envisages broad representation of government bodies, comprising the key ministries and agencies, as well as a large spectrum of non-government stakeholders: employers, business associations – among them the "Woman and Business" association – as well as international partners and NGOs. As a member of the Council, the Georgia's Innovation and Technology Agency (GITA) fosters the economic potential of women by facilitating their participation in innovative projects. Besides, GITA conducts campaigns and public meetings, as well as

special training programs for women to raise their awareness of existing possibilities in the fields of entrepreneurship, innovation and technology. These comprehensive measures ensure women's engagement in both relevant entrepreneurship support programs and innovative projects. In 2018 the Council established a dedicated Sub-council of Women Entrepreneurship Promotion (SCWEP) that lays the groundwork for creating an institutional framework to support the promotion of women in business in Georgia and gradually close the gender gap in entrepreneurship. SCWEP conducts, among other things, gender-gap assessments of women's economic engagement, training and support needs analyses, and provides recommendations for further strengthening of women's entrepreneurship. In Georgia, gender analysis of policies, strategies and programmes is an integral feature of the government's policy process.

The monitoring and evaluation block is featured in the design of policies and support measures. There is an internal, government evaluation process covering women's entrepreneurship policies and support measures addressed within the SME Development Strategy Action Plan implementation cycle. Women's entrepreneurship is also evaluated by the policy partners, such as non-governmental organizations and international donors. They evaluate women's entrepreneurship support policies through in-depth interviews with representatives of responsible state agencies and with beneficiaries of the programs. The evaluation reports of the strategies are publicly available online.

Source: Ministry of Economy and Sustainable Development of Georgia.

Engaging with women's entrepreneurship civic interest groups at the policy and practice levels

In all EaP countries except Azerbaijan, women's entrepreneurship is now supported by non-formal policy partnerships. These partnerships play a policy-supporting role and engage in joint implementation of programmes and projects with other stakeholders. They include women's business associations, networks and international partners and actively co-operate with the government. This is an important achievement, in line with the most up-to-date policy approaches in women's entrepreneurship support.

The Armenian Young Women's Association (AYWA), the Women's Business & Art Co-operation (WBAC) in Belarus, and the regional Chambers of Commerce and Industry in Ukraine (e.g. Donetsk, Lviv, Chernihiv, Vinnytsya and other regional CCIs) are active policy partners driving co-operation for women's entrepreneurship support in the countries. Examples of structured, formal women's entrepreneurship policy partnerships at national level are few. In Moldova, a structured partnership has existed since 2015 in the form of the National Co-ordination Council for Women's Entrepreneurship, which is now facing transformation as part of ongoing public administration reform. In Azerbaijan, the Ministry of Economy and the State Committee for Family, Women and Children's Affairs are two major players that steer structured policy partnership on women's entrepreneurship, while the co-ordination function belongs to the Social Council under the Agency for the Development of SMEs. In Georgia, structured policy partnership functions under the umbrella of the Sub-council for Women's Entrepreneurship Promotion of the Private Sector Development Advisory Council under the Ministry of Economy and Sustainable

Development, and it is responsible for supporting the policy dialogue between state and private sector representatives, evaluating policies, and providing policy recommendations.

The role of partnerships is also critical in ensuring that public policies are gender-sensitive and respond to the specific needs of women and men. This is done by applying a procedure of gender-sensitivity checks to all new and existing policies, as well as gender expertise[6] of legislation. Such procedures are in place in Georgia, Moldova and Ukraine, and should become a standard practice across the region.

Planning women's entrepreneurship policies with the impact in mind

The availability and quality of gender-sensitive data on SMEs remains a major challenge in the region. Data are needed to support both the design of policy and effective targeting of policies and women entrepreneurs' support measures. The lack of individual-level, disaggregated data available that would allow the analysis of the state of women's entrepreneurship, the scope and quality of training, and the specific support needs of entrepreneurial women at national, regional or sectoral levels signals a lack of true policy attention to these aspects, and could reduce the impact of budget-financed support measures in the medium and long terms.

Specific challenges for women entrepreneurs may differ from country to country because of socio-economic context and cultural factors. However, only two EaP countries have declared the availability of gender-sensitive SME skills intelligence. In Moldova, ODIMM has since 2017 collected and used sex-disaggregated data for policy making, and in Belarus, a recent study applied a gender-sensitive approach at the company and sectoral levels. Moldova, as well as Armenia, Belarus and Georgia, also confirmed the availability of SME training statistics in disaggregated format, and these data cover training programmes supported by state budgets.

To the same degree as for policy design, high-quality data are critical for monitoring and evaluation (M&E) of policies and programmes. Although monitoring of women's entrepreneurship support policies and programmes is implemented in most countries (except Belarus), policy evaluation remains a challenge. A leader in women's entrepreneurship policy evaluation is Georgia, which has established an institutional framework for monitoring and evaluation of women's entrepreneurship policies under the Sub-council of the Advisory Council for Private Sector Development. For the other countries, evaluation of women's entrepreneurship programmes remains a challenge.

Where implemented, monitoring in most cases has a somewhat "blurred", unclear focus. It covers implementation of general, sectoral (e.g. SME) policies and action plans without zooming into specific dimensions of policy agenda (e.g. women's entrepreneurship within the national SME strategy). Moreover, results of "parallel" monitoring of programmes that benefit self-employment or entrepreneurial activities of women and implemented by different government bodies may never be shared or put together to ensure consistency of results and co-ordination of actions. In many cases, monitoring is confined to a simple reporting by implementing organisations, while policy makers miss a chance to apply corrective measures. The evaluation aspect is vital for the quality of policy interventions in the area of women's entrepreneurship, and the authorities should seek the engagement of independent experts and stakeholders. The results should be publicly available for feedback and policy input from policy partners and beneficiaries.

Looking forward, monitoring and evaluation need to become an imperative of women's entrepreneurship policy design. If it is implemented in a focused and systematic manner

and supported by high-quality data – and if its results are shared with policy partners – monitoring and evaluation could be of critical importance in achieving efficiency and effectiveness of government spending and for making a strategic impact on the state of women's entrepreneurship in the EaP countries.

Improving the quality and relevance of women entrepreneurs' training and support actions

Significant progress since the last SBA assessment has been also demonstrated across the region with regard to the provision of training and support to women entrepreneurs. Whereas the 2016 report recorded a lack of a systematic approach to women entrepreneurs' training, the current assessment has found in all countries a variety of training programmes both supported by the state and financed from the local budget.

There are plenty of excellent practices in all countries. These include women's start-up bootcamps in Georgia, implemented by GITA; the "Entrepreneurial Landowner" programme implemented by the Youth Social Service in the Orsha region of Belarus; the "She exports" programme on internationalisation for women-owned businesses provided by the Export Promotion Office in Ukraine; and the Self-employment program implemented by the Ministry of Labour and Social Protection of Population in Azerbaijan. All countries actively co-operate with international organisations and donors as well as join forces with private partners. For example, in Armenia, SMEDNC has a joint programme with the Asian Development Bank; in Moldova, ODIMM is collaborating with EBRD's Women in Business programme; and in Ukraine, the "Women's Business School" is a joint programme between the Bila Tserkva City Council and USAID. Overall, governments provide funding for women's entrepreneurship development, including training and other forms of support, in all countries of the EaP region.

Up-to-date information on women's entrepreneurship support can be found on dedicated web portals in Azerbaijan, Belarus, Georgia, Moldova and Ukraine, and all countries were able to demonstrate a strong focus on sharing good practices, including the organisation of a dedicated national event annually. For example, in Georgia, all relevant information can be found on the websites of Enterprise Georgia and GITA, while in Moldova ODIMM and its partners (EBRD, UN-Women) put all relevant information on the web. In Ukraine, the Export Promotion Office website has dedicated information for women entrepreneurs, and more information for women entrepreneurs can be found on the websites of its partners, i.e. CUTIS (the Canada-Ukraine Trade and Investment Support Project). In Azerbaijan, the SME agency's website has a specific section dedicated to the "Development of Women's Entrepreneurship" with regularly updated information; and in Belarus, a website of the recent initiative PROWOMAN contains well-developed information on business support services for women.

There have been impressive developments in all countries in terms of sharing good practices in women's entrepreneurship support. The diversity of actions spans from annual conferences ("Women's Role in Economic Growth and Policy Development" in Georgia, or a National Forum for Women from Moldova under the National Platform of Women in Moldova, or "New opportunities in the horizon: green light for women entrepreneurs" in Azerbaijan), to "The Best Woman Entrepreneurs" Award by the Prime Minister organised annually in Armenia – or a variety of events organised at the national and local levels in Ukraine (e.g. the celebration of the World Women's Day) with the participation of a former President of Ukraine or regional actions organised by PROWOMAN in Belarus.

There is an overall positive trend in the governments' financial support for strengthening the capacity of women's entrepreneurship NGOs and networks in Azerbaijan, Belarus, Moldova and Ukraine. This opens the door to strengthening the quality and impact of service provision for women in business by engaging active peer organisations with solid know-how and diversifying the service providers chosen for government-financed programmes.

Despite the wealth of excellent initiatives and fast-developing partnerships, to cope with the existing gender gap in all EaP countries, governments often approach the design of women's entrepreneurship measures from a generalised (but simultaneously fragmented) policy perspective. This could result in "labelling" women as a vulnerable population group and applying a segregated approach to the implementation of basic entrepreneurship support programmes, which should be offered as gender-neutral in most of the countries.

Achieving maximum quality and relevance of women's entrepreneurship support should be the next objective. There is no argument for developing the basic entrepreneurial skills of women and men separately. Non-segregated learning environments allow both men and women to take advantage of interactive peer-learning in mixed groups (Bekh, 2014[27]). A training needs analysis should help to distinguish between gender-neutral skills development objectives (e.g. start-up training for women and men) and highly relevant actions (pre-start-up, awareness raising and role models for young women, mentorship and coaching for women entrepreneurs, growth mindset, incentives for accomplished female business managers, access to finance, etc.). Women entrepreneurs training should be linked to the sensitisation and awareness aspects (Bekh, 2014[27]).

This provides another argument in favour of the urgency and importance of applying a concentrated effort in all EaP countries to generate and collect gender-sensitive evidence for designing women's entrepreneurship policies and support programmes.

The way forward

Moving forward consideration by all EaP countries should be given to the following:

- ***Development of a cross-sectoral vision to support women's entrepreneurship:*** To improve the effectiveness and efficiency of government investment in women's entrepreneurship, policy makers should engage in cross-sectoral co-ordination at all levels both, within and outside of the government, towards a common vision aimed at holistic results cutting across programmes and implementation arrangements. This includes strategic focus on making evaluation an integral feature of policy design. The role of policy partnerships for women's entrepreneurship should not be limited to participation in policy discussions and implementation of projects. They must provide inputs into policy development and improvement at the system level, as well as participate in independent evaluation of government programmes. Attention to well-targeted communication measures should be strengthened for engaging in the change process broad groups of population, raising their awareness of the economic and social value of women's entrepreneurship and strengthening the entrepreneurial spirit of the population.
- ***Apply gender-sensitive data and analysis to inform evidence-based policy making:*** Policy measures to support the development of women's entrepreneurship address the root causes of existing gender gaps in entrepreneurship – to achieve a long-term impact on the state of women's entrepreneurship. Quality data are

essential for designing effective legal, financial and institutional measures addressing the gender gap.

- ***Development of key competences should be seen through a gender-sensitive lens***: Education and training programmes need to support the gender-sensitive development of key competences for women and men from a lifelong learning perspective. This could substantially reduce the gender gap in entrepreneurship and employment by focusing on the root causes, making a strong impact on the entrepreneurial spirit of women and men and entrepreneurial culture of the society. Development of women's key competences – first and foremost the entrepreneurship competence – should be supported by strategic communication actions that build awareness among the wider population and deal with deeply-rooted misconceptions regarding the traditional role and place of women in society.
- ***Gender-neutral vs. gender-specific support:*** Based on the results of gender-sensitive needs analysis of training and support, policy makers should design appropriate instruments that clearly distinguish between gender-neutral and gender-specific development objectives, with a view to achieving maximum quality and relevance of women's entrepreneurship support measures. These decisions require the analysis of specific evidence in terms of the local, context-defined needs of various groups of women, existing barriers and socio-economic inequalities.

Enterprise skills

The EU's "Europe 2020" strategy[7] is the EU's growth strategy. It states the EU's policy commitment to human capital, underlining the role of SMEs as the cornerstone of the EU's drive for job creation, economic growth and competitiveness.

The number of SMEs in the EU increased by 13.8% between 2008 and 2017 (European Commission, 2018[34]). Internationalisation contributed to this growth, with SME exports of goods having increased by 20% since 2012. Between 2014 and 2016 the number of high-growth businesses increased by 24% (European Commission, 2018[34]).

SMEs contribution to employment in the EU is 60%.[8] Although the unemployment rate in Europe has recovered to pre-recession levels, the quality and availability of skilled workers remains key to the competitive edge of SMEs in Europe.

Although the significance of SMEs in most EaP economies is undeniable, many SMEs remain tied to low-valued-added sectors due to lack of skills in management, quality control or financial management (European Commission, 2018[35]). Building stronger, diversified and vibrant economies will require that SMEs acquire the enterprise skills necessary to grow, create jobs and contribute to wealth generation. Enterprise skills, obtained and developed by SME staff and managers through training, will allow businesses to make effective use of their full potential and enhance competitiveness. Meaningfully investing in enterprise skills requires multi-level, collaborative governance by 1) government bodies responsible for economic policy, 2) education and training providers, and 3) civil society organisations active in the field. The collaboration lays the foundation for comprehensive and systematic intelligence that then enables the design of policies and education and training provision that meets the skills needs of SMEs (European Commission, 2016[36]).

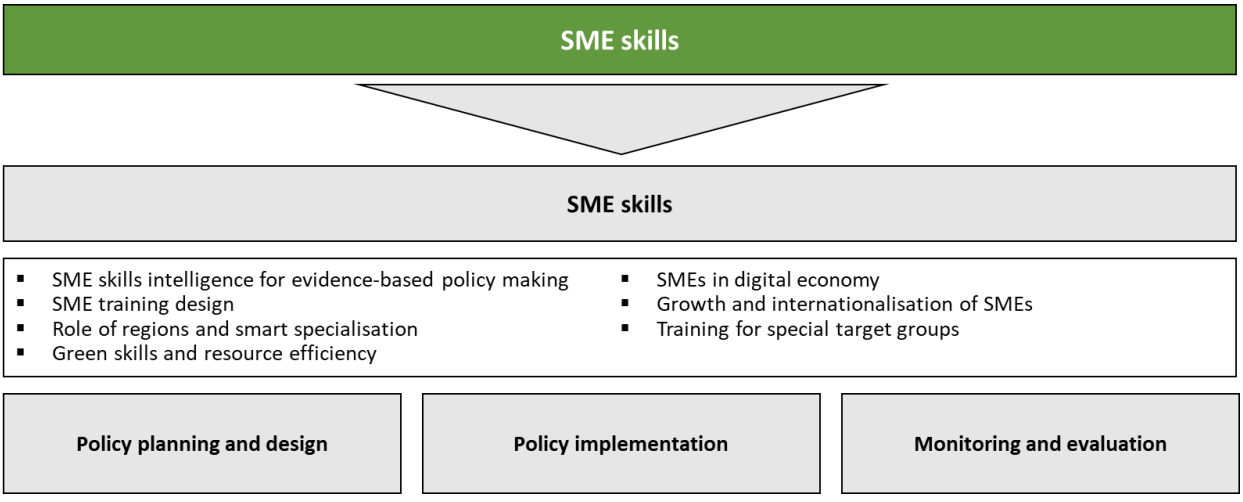
Assessment framework

For the purposes of this assessment, *enterprise skills* comprise business skills (e.g. marketing and finance), entrepreneurship as a key competence (e.g. creativity, innovation and risk management) and vocational skills (i.e. professional skills for specific sectors). All three areas are necessary in order for companies to deliver their business plans, operate effectively and add value in increasingly open and competitive global value chains. A company's demand for skills will change as it advances from start-up to growth phases; it will also constantly evolve due to external factors such as technological change or the transition to a green economy. To be able to trade internationally, businesses need to be aware of and meet international trading standards for their respective sectors (Gribben and Lasku, 2013[37]).

Specific training is required to equip innovative and growth-oriented businesses with the right knowledge and skills for them to be able to compete in international markets. While the general areas assessed under this dimension remain the same, there have been notable changes in assessing the individual progress of each EaP country. For example, a new element under SME training is the recognition of the value of good practices in informing *training provision* and policies. *Smart specialisation* is another new element in the assessment brought on by the rapid expansion of the concept to Georgia, Belarus, Moldova and Ukraine.

Under the current methodological approach, government policy and/or financing of SME training is examined specifically in new areas such as the digital and green economy. Government financial support for SME training is now broken down into types of SMEs throughout the lifecycle of a business. Finally, the indicator on quality assurance has been replaced by questions on statistics and the addition of a new area on monitoring and evaluation.

Figure 3.6. Assessment framework – SME skills



Analysis

Enterprise skills are important for businesses to make effective use of their full potential and enhance competitiveness. This dimension assesses the EaP governments' respective support for SMEs in terms of the development of enterprise skills – which, as explained earlier, comprise business skills, entrepreneurship as a key competence, and vocational skills. Effective investment in skills in the SME sector requires multi-level governance

among government bodies, training providers, civic interest groups and the enterprises themselves.

In general, the EaP economies are similar to those of the OECD in terms of SMEs' share of employment generation. With SMEs responsible for 68% of jobs in Armenia, 64% in Georgia, 63% in Ukraine, and 60% in Moldova, SME enterprise skills are an important determinant of employment levels. In spite of the relatively small contribution of SMEs to employment in Belarus (47%) and Azerbaijan (43%), where the number of SMEs has increased exponentially in recent years (European Commission, 2018[35]), SMEs are an important driver of economic diversification and prosperity.

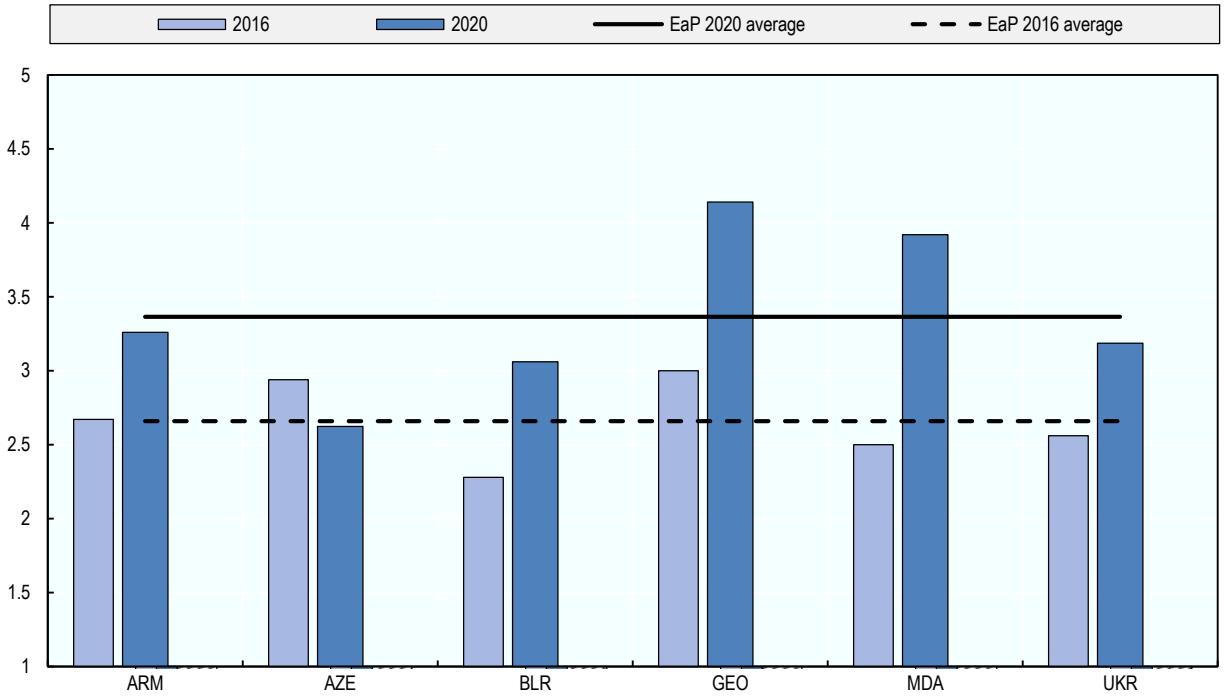
Although their job creation potential is important, the majority of SMEs in EaP economies operate in low-value-added activities, with retail, trade and agriculture being the most common. During the assessment period, SME contribution to value added was significant in four EaP economies: Moldova (71%), Georgia (61%), Armenia (60%), and Ukraine (49%). In the other two EaP economies the SME contribution to value added is more modest and a shift towards a stronger contribution of SMEs to the economy is needed: Belarus (29%), and Azerbaijan (13%).[9] Enterprise skills are essential in expanding the potential of SMEs to contribute to GDP, value added, and employment, and thus to increase the wealth and standard of living of citizens.

Irrespective of the country context, across the region, disruptive technological change is opening up new growth prospects which skills gaps and mismatches risk damaging. Employers already generally lack sufficient high-quality skills, particularly for growing enterprises and export-oriented companies (Gribben and Lasku, 2013[37]).

As shown in Figure 3.7, during the current assessment period Georgia, Moldova and Ukraine progressed, while an institutional change has disrupted previously attained progress in Azerbaijan, pushing its score down, especially in the *Planning and design* thematic block (see Table 3.4). Although Armenia and Belarus also advanced, skills intelligence in those countries remains ad hoc, and the available data are often not pooled together and analysed.

In 2017 in Georgia, the first nationwide Establishment Skills Survey was conducted, and a dedicated labour market information web portal was also put in place. Azerbaijan and Ukraine made attempts to develop quantitative forecasts with a longer time horizon. Disruptive technological changes are causing skills gaps, which are being addressed in Belarus, Georgia, Moldova and Ukraine by implementing smart specialisation. In all EaP countries, a wide range of training for SMEs is available, targeting different groups. For instance, in Azerbaijan, Georgia and Moldova, special attention is given to small and medium-sized family-owned businesses. Moreover, in Armenia, Belarus, Georgia and Moldova, training is available for SMEs to increase their digital skills. Finally, in Armenia, Azerbaijan, Georgia and Moldova, monitoring of government-financed SME training is regularly conducted – although it is often focused on quantitative factors, and only rarely focused on the quality of the training offer.

Figure 3.7. Scores for the *Enterprise skills* dimension compared to 2016



Note: Methodological changes have been introduced to the 2020 assessment and should be taken into account when observing trends in SME Policy Index scores.

StatLink http://dx.doi.org/10.1787/888934086888

Table 3.4. Scores for the *Enterprise skills* dimension

	ARM	AZE	BLR	GEO	MDA	UKR	EaP Average
Planning and design	2.45	1.00	2.09	3.91	3.55	3.55	2.76
Implementation	3.44	3.44	3.67	4.33	4.11	3.44	3.74
Monitoring and evaluation	4.00	3.00	3.00	4.00	4.00	2.00	3.33
Weighted average	**3.26**	**2.62**	**3.06**	**4.14**	**3.92**	**3.19**	**3.36**

Note: see Annex A for information on the assessment methodology.

Deliberate steps are needed to ensure that skills intelligence generates deeper insights on SME capabilities and training needs

The 2016 assessment concluded that enterprise skills intelligence in the EaP region was still rather *ad hoc* and that all countries were holding discussions on the importance of reliable data for ensuring the quality of training programs for SMEs. During the current assessment period three countries (Georgia, Moldova and Ukraine) progressed in this area, while an institutional change disrupted previously attained progress in Azerbaijan. In two countries (Armenia and Belarus) skills intelligence remains ad hoc and the data that is available is often not pooled together and analysed.

There are large differences between the data collection and dissemination practices of Public Employment Services (PES) in the various EaP countries. In most of them, PES regularly prepare short-term labour market forecasts (based on administrative data and

vacancy registers) and conduct employer surveys. In Moldova and Armenia, PES implement annual employer surveys to identify workforce requirements and labour shortages and publish the results in a labour market barometer.

Georgia stands out by having conducted, in 2017, its first nationwide Establishment Skills Survey. Over 6 000 companies from all sectors of the economy took part in the survey, which was published on the Labour Market Information System (LMIS) section of the Ministry of Economy and Sustainable Development (MoESD) website (www.labour.gov.ge). A dedicated labour market information web portal (www.lmis.gov.ge) was also put in place and can be accessed in both Georgian and English.

Azerbaijan and Ukraine made attempts to develop quantitative forecasts with a longer time horizon. Ukraine, with the support of the ETF, developed a skills forecasting model based on modern international methodological approaches. This will enable forecasting of labour force demand and supply in the medium term, considering occupational and qualification developments, and using different scenarios of economic growth (ETF, 2019[38]). Ukraine also implements an annual business survey on training needs.

In addition to data collection and analysis, governance of enterprise skills through institutionalised public-private dialogue platforms progressed in the EaP region – in Armenia via the SME Development Council, in Belarus via the Council for Entrepreneurship Development, in Georgia via the Private Sector Development Advisory Council, and in Moldova via the Consultative Council for SMEs. The other EaP economies are currently creating or reforming their SME agencies in the wake of recently adopted or upcoming SME strategies.

Four countries (Armenia, Georgia, Moldova and Ukraine) use skills analysis for planning government policies, but only Georgia uses skills analysis to design SME training. However, good practices are used in Armenia, Georgia and Moldova to help design new training programs. Feedback mechanisms in EaP are generally not designed to support the improvement of government policies and identifying relevant modalities for their implementation. All EaP economies are planning and implementing actions to strengthen skills anticipation; however, SME skills needs anticipation is not systematically conducted.

Smart specialisation is opening new ways to boost SMEs' skills

The impact of the innovation drive on enterprise skills is well understood in the EaP region, which continues to suffer from limited innovation assets[10] and poor enterprise skills, in particular. Belarus, Georgia, Moldova and Ukraine are implementing smart specialisation[11] by designing national and/or regional development strategies that focus on innovation and investment in areas of national and regional strength. This approach enables regions to connect to knowledge flows and collaborative networks both nationally and internationally to boost regional innovation.

Co-operation is key in smart specialisation. In the EU, smart specialisation has changed cross-regional co-operation. Regions developing links and promoting business co-operation beyond regional and national borders have in turn changed how SMEs learn and innovate. While SMEs use both formal and informal training, they get better outcomes from informal training through dialogue and coaching.

In the EaP region, there is similar demand for supporting dialogue and facilitating partnerships for SMEs. Smart specialisation is creating opportunities, based on matching smart-specialisation priorities, for EaP economies to collaborate with the EU and other regions in competitive priority areas. New training and mentoring pathways in high-value-

added activities are opening up not only in such areas as the digital or green economy, but also in traditional sectors where innovative technology or manufacturing processes are unlocking new opportunities with higher value-added.

In combination with smart specialisation, two other elements support Georgia, Moldova and Ukraine in boosting innovation, growth and competitiveness. First, their respective Association Agreements with the EU require them to harmonise innovation policy instruments in line with EU standards and principles. Second, the Deep and Comprehensive Free Trade Area (DCFTA) is enabling SMEs from these three countries to benefit from liberalised trade in goods and services (European Commission, 2015[39]). In doing so, new levels of interaction, information sharing, and SME collaboration, innovation and skills development are opened up.

In Ukraine, smart specialisation strategies are being developed at both the national and regional levels. The three pilot regions are Kharkiv, Odesa and Zaporizhzhya. In 2018 smart specialisation was made a part of the State Strategy of Regional Development 2020, and a requirement for regions to follow this approach when designing their regional development plans was incorporated into a new law on regionalisation. While human capital and skills are part and parcel of regional development planning mechanisms, during the assessment period it was not yet clear how enterprise skills will be reflected in the new regional development strategies.

In Moldova, a national smart specialisation strategy is being developed. The low overall level of innovation and technical development within business in Moldova is one of the key issues affecting the development of SMEs there (European Commission, 2017[40]). The Ministry of Education is working with the ETF to analyse the skills implications of smart specialisation, while also addressing the specific implication for enterprise skills.

Georgia and Belarus started the smart specialisation process later than Moldova and Ukraine and have opted for a regional approach. In Georgia, smart specialisation is addressed in four regional development plans. In Belarus, the State Committee on Science and Technology's request for the support of the Joint Research Centre of the European Commission in developing a smart specialisation strategy was accepted only in late 2018. Armenia and Azerbaijan have not adopted the smart specialisation approach.

Training provision has improved across economies but important gaps remain

The importance of SME training is recognised in all EaP countries. Various training courses for SMEs are widely available, including those for targeted groups – such as youth, for whom training is widely available across EaP countries.

Azerbaijan, Georgia and Moldova recognise the potential of small and medium-sized family-owned businesses, which often prefer informal means of learning, and provide targeted training for them. In Azerbaijan, a project by the State Agency for Public Service and Social Innovations, the Simplified Support for Family Businesses (ABAD) programme, assists with the establishment of family businesses. In Georgia, support for family businesses is a priority within the new rural development strategy (2017). In Moldova, a "diaspora excellence groups" programme of the Bureau for Diaspora Relations aims to capitalise on the diaspora's human capital to upskill and reskill family businesses. (Another Moldovan programme, one directed by ODIMM, is aimed at members of the returning diaspora; see Box 3.3).

Box 3.3. Create your future at home (Moldova)

In Moldova, a dedicated programme is persuading Moldovan expatriates to return home to start businesses. Using the slogan "Create your future at home", it has resulted in an increase in the number of returning migrants, allowing the country to capitalise on their entrepreneurial potential.

The PARE 1+1 Programme (Support for the Programme to Attract Remittances into the Economy of the Republic of Moldova) is targeted at returning migrants and their first-degree relatives. The programme consists of financial and logistical support, training and, most important, the instilling of confidence that the returning citizens can succeed in their own country. It uses remittances to redirect the financial resources of returning migrants from consumption (e.g. real estate) to investing in starting a business. In doing so, the program directly contributes to the achievement of the objectives of the government's social and economic policy.

Under the programme, entrepreneurs have initiated and developed new, innovative business ideas in the domestic market. Thus, companies from PARE 1 + 1 have been among the first to develop businesses in such areas as biomass (pellets and briquettes, green energy); the cultivation of paulownia trees, white sea buckthorn and dog-rose; and the creation of interactive applications in virtual reality. The beneficiaries of the program were oriented towards activities that bring more added value to agricultural products by creating greenhouses, refrigerators, mills, sorting and processing lines for agricultural products, agro-tourism, etc.

The PARE 1+1 Programme is implemented ODIMM with the financial support of the European Union.

Sources:

- Official web page: https://odimm.md/en/component/content/article/70-programul-pare.html
- PARE as success story: https://www.euneighbours.eu/en/east/eu-in-action/stories/moldova-pare-11-encouraging-migrants-return-home
- EU4Business Press Release on PARE 1+1 results as per June 2018: http://eu4business.eu/news/1246-moldovan-businesses-funded-through-pare-11-programme-2010

Across the EaP region, good progress has been made in providing training to businesses, beginning with start-ups and extending all the way throughout the firms' lifecycles. However, while youth is well catered for, senior entrepreneurs – the so-called "silver" entrepreneurs between the ages of 50 and 64 – are a forgotten demographic group. Yet demographic changes are just as relevant in EaP as they are in the EU. In the EU seniors are more likely to be self-employed than the overall adult population (15-64 years old) (OECD/EU, 2017[41]) and their economic importance is reflected in the European Commission policies (European Commission, 2018[42]). Senior entrepreneurship could be a mean to address some of the challenges of an ageing population – but it will necessitate relevant policies and support measures. No debate on how senior entrepreneurs could help boost the EaP region's job creation, innovation, growth and competitiveness is currently taking place in the region.

Ensuring that SMEs receive relevant and high-value-added training can encourage SMEs to invest more time and resources in upskilling and reskilling their workforce – with a positive spillover in terms of productivity and competitiveness. During the assessment period, across the region, persistent gaps in skills intelligence and the absence of feedback from training, combined with weak co-operation with SMEs, continued to hamper the design of targeted training (for SMEs with growth potential, for example), which remains rather generic across economies. In implementing smart specialisation strategies, it will

become increasingly important to identify needs and to provide dedicated training to SMEs that have innovation and growth potential.

Digitalisation, an important driver of globalisation, is an area with still untapped potential

Digitalisation can be understood as the changes that digital technology causes or influences in all aspects of human life (Stolterman and Fors, 2004[43]). It has been identified as one of the major trends changing society and business in the near- and long-term future (Parviainen et al., 2017[44]). The relentless pace of advances in artificial intelligence, robotics and other technologies is changing the skills required faster than SMEs can acquire them. With technical skills mismatches predicted to increase, the most alarming talent shortages in Europe are in digital skills, with cybersecurity (48%), and artificial intelligence and robotics (48%) identified as the scarcest skills (Ernst & Young, 2018[45]).

All EaP economies have in place policies that recognise the importance of SMEs in the evolving digital economy. While most jobs are created by SMEs in Armenia, Georgia, Moldova and Ukraine, they are less likely to participate in workforce development and conduct up to 50% (Parviainen et al., 2017[44]) less training than larger companies, thus compromising their own productivity and competitiveness.

In Armenia, Belarus, Georgia and Moldova, training is available for SMEs in the digital skills that will enable them to introduce and be able to absorb new productivity-enhancing technologies and ways of working. Government financing is available for SME training on integrating global value chains in Azerbaijan and Belarus.

In Georgia, Moldova and Ukraine, the DCFTA is changing the business rules and regulations for all businesses. This has particular implications for SMEs, which need extra skills and more financial resources to adapt to the new regulatory environment (European Commission, 2015[46])

Monitoring and evaluation need to be systematically implemented

Monitoring and evaluation are an important part of the SME skills policy process. They are essential for assessing the effectiveness of SME skills policies and for adjusting them to the needs of specific target groups and priority areas. Monitoring and evaluation need to be systematically implemented and are closely connected with skills intelligence, which serves as a feedback loop on policy effectiveness.

All the EaP economies regularly monitor government-financed SME training. However, the existing monitoring activities are often limited to quantitative factors such as measuring participation in training events (e.g. Belarus, Moldova and Ukraine), with little attention being paid to the quality of the training offer. This limits the value of the current monitoring for improving the efficiency of SME training.

Monitoring reports on government commitments and expenditures for SME training are generally not publicly available. Even if made public, their relevance to improving the effectiveness of SME training is limited because 1) targets are either missing or not ambitious enough and 2) the overall focus of the monitoring is on implementation monitoring and not results monitoring.

In Armenia the SME Development National Centre (SME DNC), which is the implementing arm of state support for SMEs, tracks trainees e.g. in terms of new

registrations, investments and jobs created. Monitoring of state SME support programs is built into the agreement between the Ministry of Economy and the SME DNC.

Evaluation of SME training programs is conducted in Armenia, Azerbaijan, Georgia and Moldova. The impact of training on SME performance is captured in evaluations in Armenia and Georgia.

The way forward

Moving forward, consideration should be given to the following:

- ***Improving SME skills intelligence:*** All countries need to build on the progress made in skills intelligence to strengthen data on the specific needs of SMEs in priority areas for growth and competitiveness (including regional smart specialisation). In order to maximise SMEs' potential to drive innovation, growth and job creation, all economies need consistent, reliable and up-to-date intelligence on the supply of entrepreneurship support schemes such as business counselling and entrepreneurship, training needs, and gaps in provision.
- ***Addressing the gaps in training provision:*** Training provision should be better targeted in all EaP economies to address the specific needs of various types of SMEs and cover the training needs at different phases of the life-cycle of an enterprise (e.g. family businesses, "silver" entrepreneurs, fast growing enterprises, green skills, etc.).
- ***Making use of new learning opportunities offered to SMEs through actions related to smart specialisation:*** SME networks and collaboration, both nationally and internationally, need targeted support to facilitate their integration into global value chains. All countries need to strategically improve access to high-quality training on internationalisation (import and export) and global value chains in priority areas for growth and competitiveness (including regional smart specialisation). Connecting SMEs to global value chains opens up new training and learning pathways, technological transfer, skills upgrading, and innovation that would give a much-needed boost to SMEs and encourage them to move from low- to high-valued-added activities.

Policy instruments – Entrepreneurial Human Capital

Table 3.5. Dimension challenges and policy instruments – Entrepreneurial Human Capital

Dimension	Challenges / Opportunities	Policy instruments
Entrepreneurial learning	Teacher training specifically addressing the entrepreneurship key competence (EntreComp) is underdeveloped, while little attention is being given to EntreComp in pre-service teacher training.	**EntreComp and teacher training:** Increased dialogue between the policy and teaching communities is required to ensure that teachers and schools are aware of the complexity of the teaching and learning processes for the entrepreneurship key competence. This should preface wider policy discussions on the organisational backing required for the teaching profession (e.g. by pedagogic institutes or similar) and the financial resources required to see through teacher training reforms.
	Monitoring of entrepreneurial learning developments is underdeveloped, while evaluation is often confused with student assessment.	**Monitoring and evaluation:** All countries should examine the potential for engaging with research institutes or other bodies outside of government that have the expertise to support the monitoring and evaluation of systemic entrepreneurial learning developments.
Women's entrepreneurship	Lack of gender-sensitive data hinders evidence-based policy making, monitoring and evaluation. High-quality data should be used to formulate policy designed to remove the legal, financial, social, institutional, and other barriers associated with the gender gap.	**Gender-sensitive data and analysis for evidence-based policy making:** Policy measures to support the development of women's entrepreneurship should be based on the analysis of hard evidence and address the root causes of existing gender gap in entrepreneurship – to achieve a long-term impact on the state of women's entrepreneurship.
	To improve the effectiveness and efficiency of government investment in women's entrepreneurship, policy makers should engage in cross-sectoral co-ordination at all levels within and outside of the government towards a common vision and focus on global results that cut across programmes and implementation arrangements.	**Cross-sectoral vision to support women's entrepreneurship**: This includes a strategic focus on making evaluation an integral feature of policy design, with a focus on impact and with the view of specific challenges for the state of women's entrepreneurship in a country context.
Enterprise skills	All countries need to build on the progress made in skills intelligence to strengthen data on the specific needs of SMEs in priority areas for growth and competitiveness (e.g. smart specialisation).	**Improving SME skills intelligence:** In order to maximise SMEs' potential to drive innovation, growth and job creation, all economies need consistent, reliable and up-to-date intelligence on the supply of entrepreneurship support schemes such as business counselling and entrepreneurship, training needs and gaps in provision.
	SME networks and collaboration, both nationally and internationally, need targeted support to integrate into global value chains. All countries need to strategically improve access to high-quality training on internationalisation (import and export) and global value chains in priority areas for growth and competitiveness (e.g. smart specialisation).	**Making use of new learning opportunities offered to SMEs through smart specialisation:** Connecting SMEs to global value chains opens up new training and learning pathways, technological transfer, skills upgrading, and innovation that would give a much-needed boost to SMEs and encourage them to move from low- to high-valued-added activities.

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Notes

[1] https://ec.europa.eu/growth/content/public-consultation-industrial-policy-communication-2012_en

[2] https://ec.europa.eu/growth/smes/promoting-entrepreneurship/action-plan_en

[3] This issue is addressed further in the enterprise skills section later in this chapter.

[4] https://heinnovate.eu/en.

[5] The policy area of entrepreneurship key competence development is given a substantial place in the first part of this chapter, and in individual economy profiles.

[6] *Gender expertise* in this context refers to the social-legal analysis of legislation for the purpose of identifying the extent of equality irrespective of sex.

[7] See https://ec.europa.eu/eurostat/web/europe-2020-indicators.

[8] OECD calculations based on data from Eurostat.

[9] OECD calculations based on data from national statistical offices of the six EaP countries.

[10] "Everything that has to do with an innovation or an innovation process can become an innovation asset. Patents, copyrights, licenses, trade secrets, knowhow and production processes" - https://www.zacco.com/innovation-assets

[11] *Smart specialisation* is part of the EU's cohesion policy and aims to boost growth and jobs by enabling regions to identify and develop their areas of competitive advantage. It is a strategic way to create productive collaboration between actors with the objective of stimulating innovation-driven growth. It requires all actors to work together across all levels. For more information, see https://s3platform.jrc.ec.europa.eu/

Chapter 4. Pillar C – Access to finance

Access to finance remains a major obstacle for SMEs across the Eastern Partnership region, and features prominently in the Small Business Act as key to SME development. This chapter assesses the policies in the region that support SMEs' access to external sources of finance, assessing progress in establishing a comprehensive legal and regulatory framework to support external financing, the availability of bank and non-bank finance, venture capital and financial literacy.

Overall, the region has made some progress, but the lending environment remains difficult and financial inclusion remains low, particularly in countries that have suffered from difficulties in their banking sectors in recent years. All countries have a robust legal and regulatory framework in place to support lending, though the need for enforcement remains critical. Financial sector supervision has strengthened, and the availability and accessibility of credit information has improved. Bank lending remains the single most commonly used type of finance, and many countries have or are working towards putting credit guarantee schemes in place to support lending expansion. In contrast, non-bank financial instruments such as microfinance, leasing and factoring, and equity financing remain largely underutilised. Some countries are currently undertaking reforms to better regulate leasing and factoring, which is expected to increase uptake in the medium term. Lastly, notable improvements have been made in the area of financial literacy. All countries now have a financial literacy strategy in place, although thorough implementation and monitoring will be essential to gauge long-term and systemic impact.

Introduction

Access to finance is critical to companies' survival and growth, allowing them to expand operations, modernise equipment or move into new undertakings. Lack of capital presents a particular problem for SMEs, as ease of access to finance is typically correlated with firm size. The smaller the company, the more difficult it is to tap external financing options. This reflects such diverse factors as higher rates of informality among the smallest firms, a higher perceived risk profile, fewer collateral options, and lower accounting and financial management capacities. As a result, lenders and investors may see SMEs as higher-risk prospects, but some of these challenges reflect market failures that sound policies can remedy, thus reducing the gap in cost of finance between smaller and larger firms.

According to EU data, access to finance is perceived to be the single most important obstacle faced by 1 in 11 SMEs (down from 1 in 6 in 2009). Smaller businesses also tend to be particularly exposed to downturns in the supply of finance due to their higher risk profile and commonly limited collateral options; access to finance is a particular hindrance for young and fast-growing SMEs (EC, 2017[1]).

Governments can play an important role in improving access to credit by creating a legal environment that provides flexible collateral options as well as transparent and reliable legal processes in cases of default, and by establishing support schemes to ease SME access to finance. While they cannot *eliminate* differences in access to finance (some of which reflect genuine economies of scope and scale that benefit large firms), they can *reduce* the financing gap, sometimes substantially. The Small Business Act for Europe recognises that governments "should facilitate SMEs' access to finance, in particular to risk capital, microcredit and mezzanine finance, and develop a legal and business environment supportive to timely payment in commercial transactions" (EC, 2008[2]).

For instance, an efficient legal framework that supports the enforcement of creditor rights helps to increase financing opportunities from banks by reducing perceived credit risk. A comprehensive cadastre and a system to register security interests over movable assets increases SMEs' collateral options while reducing risks for lenders. Comprehensive, reliable and easily accessible credit information systems can reduce information asymmetries between creditors and borrowers. When it comes to bank financing, credit guarantee schemes can stimulate SME lending by addressing banks' concerns over the risks presented by SMEs. Well-regulated alternative sources of finance – such as microfinance, leasing and factoring and crowdfunding – are important tools for increasing financial inclusion. Finally, supporting SMEs' financial literacy through formalised programmes helps them develop their business planning and financial management skills, making them more attractive clients to financial service providers.

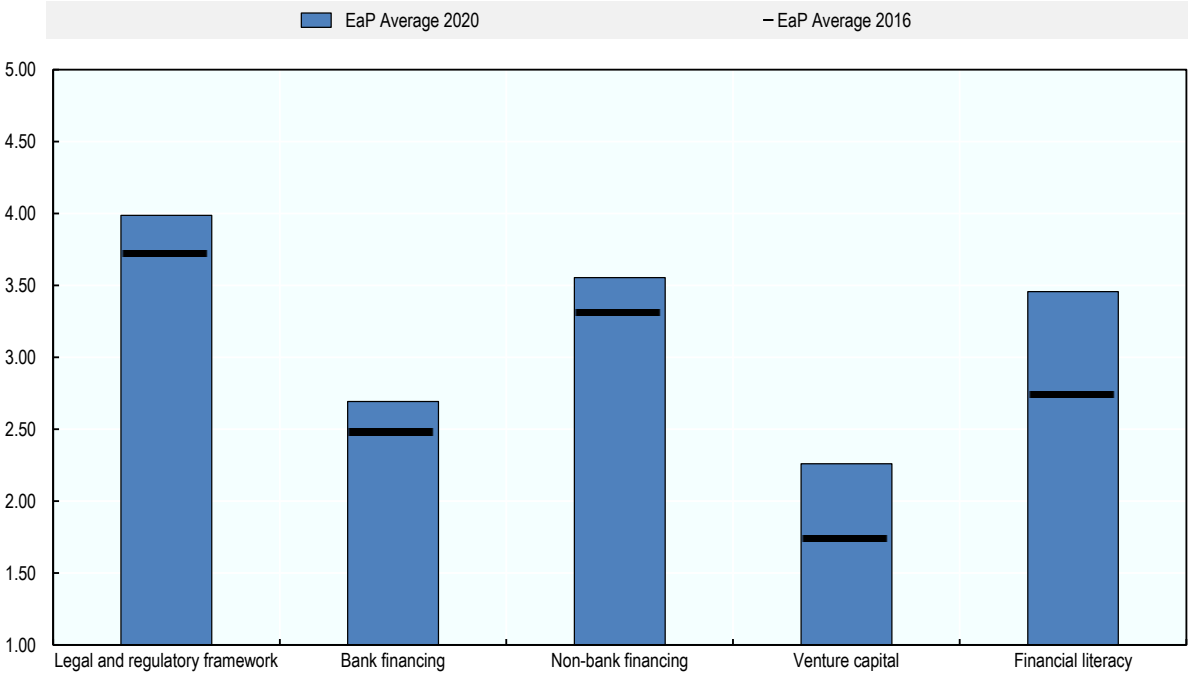
Governments can resort to a range of mechanisms to facilitate SME access to finance. A critical aspect of any support scheme is its additionality: the aim should be to support the private provision of financial services without crowding it out. Ill-designed interventions can risk making businesses dependent on continued public support rather than leveraging private funding, which in turn affects the sustainability of support schemes. In addition, any support programme should be systemically monitored against performance indicators and evaluated to make sure that it reaches those most in need of support, and adjusted as needed.

Improved access to finance can give SMEs the resources necessary to invest in innovation inputs such as new technologies, research and development (R&D), and human capital. Those inputs can enable them to increase productivity and introduce innovation-oriented

practices, which, in turn, are crucial to competitiveness, entry into new foreign and domestic markets, and growth.

Figure 4.1. SME Policy Index scores for Pillar C: Access to finance

Regional scores, 2020 vs. 2016



StatLink http://dx.doi.org/10.1787/888934086907

Table 4.1. Country scores by dimension and sub-dimensions, 2020

	ARM	AZE	BLR	GEO	MDA	UKR	EaP average 2020	*EaP average 2016*
Access to finance for SMEs	**3.81**	**3.12**	**3.57**	**4.02**	**3.61**	**3.31**	**3.57**	**3.28**
Legal and regulatory framework	4.18	3.63	3.74	4.42	4.10	3.85	3.99	*3.72*
Bank financing	2.89	2.21	3.05	3.42	2.79	1.79	2.69	*2.48*
Non-bank financing	3.66	2.45	4.38	3.01	3.79	4.02	3.55	*3.31*
Venture capital	3.37	1.81	2.27	2.92	1.53	1.66	2.26	*1.74*
Financial literacy	3.82	3.29	3.25	4.66	2.67	3.06	3.46	*2.74*

Note: The dimension score is the weighted average of the sub-dimension scores. The following methodological changes have been introduced in the 2020 assessment (and should be taken into account when observing trends in SME Policy Index scores): 1) references to savings and loan associations have been excluded from the analysis, as these are typically already captured under microfinance or bank finance; and 2) more emphasis has been placed on quality of leasing and factoring legal frameworks and higher weights given for their penetration data.

Assessment framework

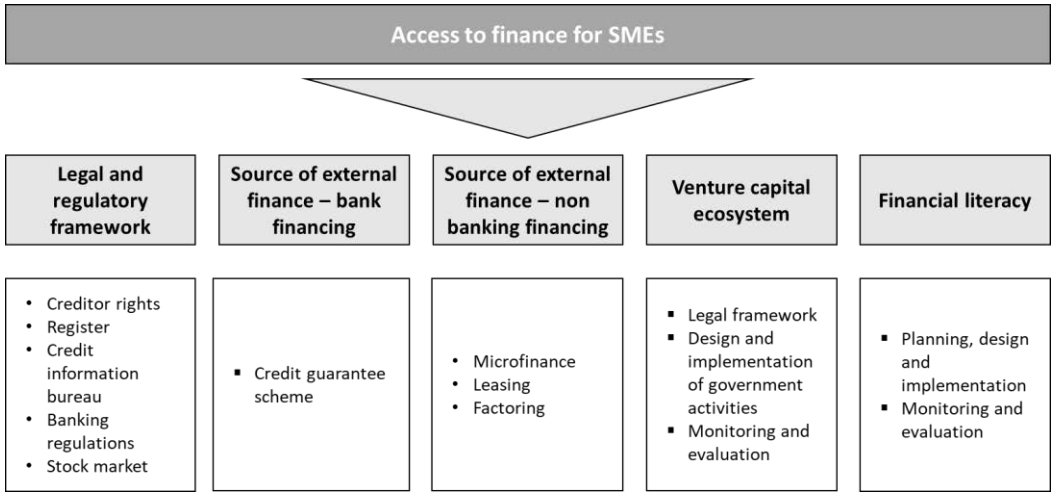
Access to finance for SMEs is assessed through the following five sub-dimensions:

- **Legal and regulatory framework**, which focuses on the legislation facilitating access to finance, including protection of creditor rights, facilitating the use of collateral and credit information, and banking and stock market regulations;
- **Bank financing**, including the lending practices of local banking markets and the availability of credit guarantees;
- **Non-bank financing**, reviewing the legal framework and usage of microfinance, leasing and factoring;
- **Venture capital**, assessing the legal framework enabling venture capital and the existence of business angel networks; and
- **Financial literacy**, analysing government efforts to promote financial know-how among the business community and wider population.

The assessment framework puts particular emphasis on the legal and regulatory framework for facilitating access to finance for SMEs. However, access to finance is the result of a complex interaction of a variety of determinants, including the macroeconomic environment, the health of local financial markets and the overall creditworthiness of enterprises. The assessment framework cannot capture all these factors; rather, it focuses on a set of specific themes and indicators that are deemed disproportionately important for SMEs as opposed to larger firms.

Figure 4.2 illustrates how the sub-dimensions and their constituent indicators make up the assessment framework for this dimension.

Figure 4.2. Assessment framework for Pillar C: Access to finance for SMEs



In contrast to the previous assessment, references to savings and loan associations have been excluded from the analysis, as these are typically already captured under microfinance or bank finance. In addition, more emphasis has been placed on the quality of legal frameworks for leasing and factoring and higher weights given for their penetration.

Data from the World Bank's *Doing Business* report were used to supplement the assessment of the legal framework for secured transactions (World Bank, 2018[3]). These include indicators (such as the coverage of credit information systems and recovery rates in cases of insolvency) that facilitate the drawing of cross-country and over-time comparisons. Data from the *Business Environment and Enterprise Performance Survey* V (BEEPS V) (EBRD, 2014[4]) are used to provide information on the extent of credit constraints. Reports – mainly by national or international associations on the use of certain instruments such as factoring, leasing or capital markets – were also used to provide context for the relevant sections. The World Bank's *Global Financial Development* database (World Bank, 2018[5]) provided credit data for the Eastern Partner countries and comparator economies.

Overall, the data available for this chapter were relatively limited (particularly data disaggregated by firm size and data on non-bank financing instruments), and it was not always possible to use the same reporting year. However, in all cases the latest available data were used.

Analysis

Access to finance is critical to companies' survival and growth. Due to their smaller size, SMEs often face barriers in accessing external financing. Pillar C assesses government's efforts to facilitate SMEs access to financial resources.

In order to encourage lending to SMEs, it is important to develop a well-designed legal and regulatory framework that reduces lending risk. Some progress in developing such a robust legal framework has been achieved: Armenia, Azerbaijan and Belarus have passed laws to establish modern and unified registers to facilitate the use of movable assets as collateral, and banking regulations in most countries have been aligned with Basel III requirements.

The lending environment still suffers the effects of the banking crisis experienced in recent years by Azerbaijan, Moldova, and Ukraine. Almost all EaP countries have made efforts to establish credit guarantee funds to support SME lending.

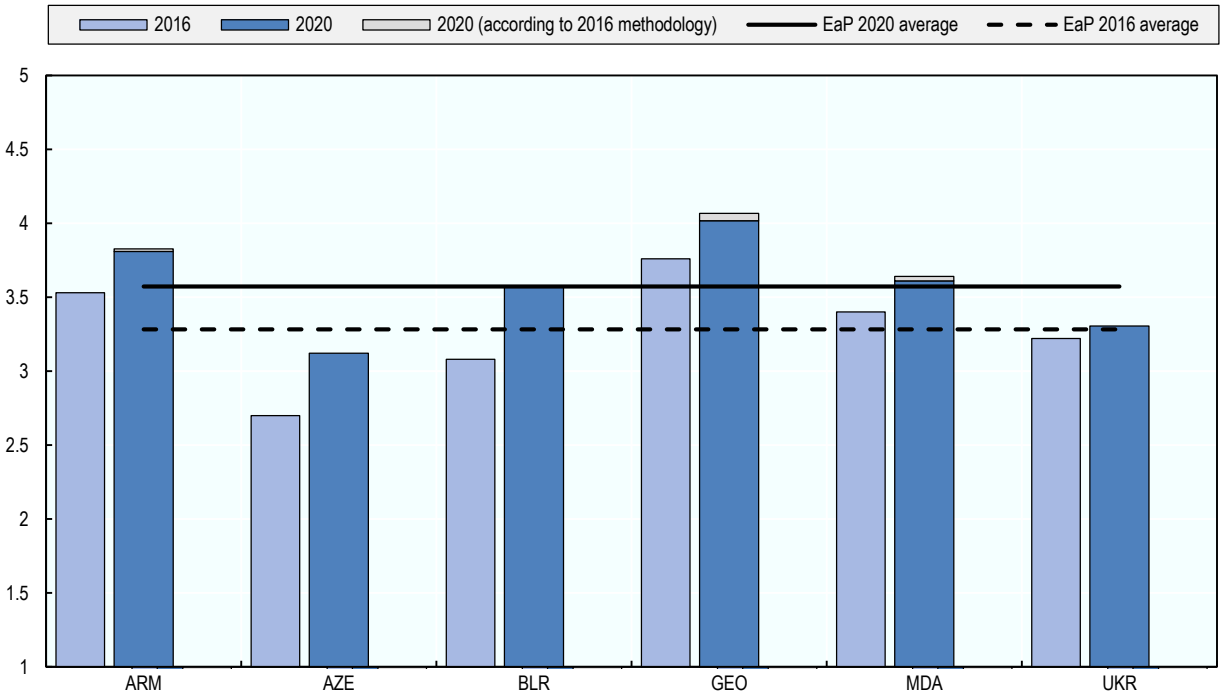
Little progress has been made in recent years in fostering the development of non-bank financial instruments, such as leasing and factoring. However, many countries have undertaken (Belarus and Moldova) or are undertaking (Azerbaijan and Georgia) reforms to their legal frameworks to support the development of both types of alternative financial instruments.

None of the EaP countries has progressed significantly in developing dedicated legal frameworks to facilitate venture capital (VC) investments, and VC financing is unlikely to play a major role in the EaP region any time soon.

EaP countries usually underperform in the context of financial literacy promotion. However, there are some encouraging initiatives taking place: Armenia, Azerbaijan and Georgia now have a national strategy on financial education in place, while Ukraine has incorporated financial literacy into its SME strategy for 2020. Georgia is the leading economy in this regard, and a dedicated financial education programme targeting SMEs was started there in 2018. Georgia is also gradually introducing mandatory compliance with International Financial Reporting Standards (IFRS) for SMEs, which will lead to more-accurate financial management and reporting amongst the business community in the medium term.

Figure 4.3 shows EaP country scores for the *Access to finance* dimension compared to 2016. Even though the 2020 scores are not directly comparable with those from 2016, some improvements in policies to support SME access to finance can be observed across all countries, albeit to a varying extent. All countries have made progress in a number of sub-dimensions of the legal framework underpinning access to finance, resulting in an overall increase in the average score for the Eastern Partnership region from 3.28 in 2016 to 3.57. Georgia continues to outperform the region in the area of access to finance for SMEs, followed by Armenia. Azerbaijan and Belarus are the strongest overall reformers, with scores improving significantly, albeit from low levels.

Figure 4.3. Scores for the *Access to finance* dimension compared to 2016



Note: Methodological changes have been introduced to the 2020 assessment and should be taken into account when observing trends in SME Policy Index scores.

StatLink http://dx.doi.org/10.1787/888934086926

Progress is particularly apparent in developing registers for security interests over movable assets, aligning banking regulations with Basel III requirements, and expanding the coverage of credit information systems.

The lending environment for SMEs continues to be difficult, however, in much of the region. Azerbaijan, Moldova and Ukraine have gone through a major restructuring of their banking sector in recent years and credit growth has been negative in these countries as a consequence, affecting SMEs' access to finance. In Armenia and Belarus private sector credit as a share of gross domestic product (GDP) has slightly expanded, while Georgia has experienced a significant upward shift between 2014 and 2018 (see Table 4.2). On average, private credit stands at around 38% of GDP in the EaP region. This compares to private credit levels of 94% of GDP in the EU-28, which suggests that the level of financial intermediation is still low in most economies in the region. Even though recovery is

underway, credit is still below levels seen in 2014 for Azerbaijan, Moldova and Ukraine. Governments are, however, making efforts to support access to loans for small businesses. Many, such as Azerbaijan, Georgia and Moldova, have chosen to establish or reform credit guarantee schemes, which should help SMEs deal with collateral requirements and reduce lenders' risks. Their effectiveness remains to be tested, however.

Table 4.2. Key banking sector indicators (2008-18)

	Private sector credit, as a % of GDP			Credit constrained firms, as a % of firms needing a loan		NPLs, as a % of total gross loans		
EaP Country	2011	2014	2018	2008	2012	2011	2014	2019
Armenia	35.4	48.9	55.6	34.7	38.1	3.4	7.0	5.4
Azerbaijan	17.3	30.6	20.8	78.3	75.5	6.0	12.7	11.0
Belarus	39.2	23.6	27.8	33.7	41.3	4.2	4.4	5.8
Georgia	32.7	48.9	68.0	36.2	35.0	4.5	3.0	2.9
Moldova	35.9	31.0	23.5	41.2	52.5	10.7	11.7	10.6
Ukraine	71.1	75.2	34.1	50.5	75.7	14.7	19.0	50.8

Note: NPL ratios: latest data for Q2 2019. Figures for Azerbaijan based on overdue loans reported by the Central Bank of Azerbaijan, for all other countries based on IMF data.
Source: World Bank, (2019[6]), *World Bank Development Indicators*; EBRD, *Business Environment and Enterprise Performance Survey*, (2014[4]); IMF, (2019[7]), Financial Soundness Indicators ; Central Bank of Azerbaijan, 2019.

Non-bank financing alternatives remain underdeveloped and little progress has been made over recent years to improve accessibility and uptake. This can reflect the failure of legal frameworks to provide sufficient certainty when entering into e.g., leasing or factoring transactions, for example. Often, limited awareness by potential users is also a key obstacle to uptake, as business owners rely on bank credit and overdrafts in order to manage their finances. Some countries have either undertaken, or committed to, reforms of the legal frameworks for leasing and/or factoring, which should help develop these activities in the medium term. Equity investments in general and venture capital in particular remain in their infancy across the region. Governments are putting in place initiatives to support these types of financing, however; these include government-sponsored equity funds, support programmes for start-ups and innovative businesses, and creating crowdfunding platforms.

Progress, in some cases significant, has also been observed in the area of financial literacy, though financial literacy across the region remains low by international standards. All economies now have financial literacy programmes in place, but these tend to focus on personal finance, with entrepreneur-focused initiatives and training being provided more on an ad hoc basis without centralised co-ordination. There is an increasing awareness, however, that more-focused training could go a long way in improving small business owners' capacity to manage their finances – and thus improve their ability to access different sources of external funding.

Legal and regulatory framework

The legal and regulatory framework surrounding secured transactions should be designed so as to encourage banks to lend to SMEs, especially as small firms are seen as riskier borrowers. It is important to have a framework that reduces lending risk, for example by tackling information asymmetries and by creating systems that allow security interests to be established and enforced in case of default. Therefore, creditor rights, functioning systems for registering security interests, comprehensive credit information systems and

adequate banking regulations are important ingredients of a legal framework that supports, rather than impedes, lending to SMEs.

This section looks at these different aspects of the legal and regulatory framework that supports bank lending to SMEs.

All EaP countries have made progress in a number of sub-dimensions of the legal framework underpinning access to finance, although score improvements are mostly moderate (Table 4.3). Two areas with major improvements are banking regulations and registers for securities over immovable and movable assets. The coverage of credit information systems has also expanded, albeit from a low base in most countries.

Table 4.3. Scores for the *Legal and regulatory framework* sub-dimension

	ARM	AZE	BLR	GEO	MDA	UKR	EaP average
Creditor rights	4.22	4.56	2.78	3.89	5.00	4.22	4.11
Register	4.05	4.12	4.12	4.83	4.47	4.28	4.31
Credit information bureau	4.73	4.22	4.32	5.00	3.88	4.28	4.40
Banking regulations	4.50	1.50	4.50	5.00	4.00	2.50	3.67
Stock market	3.04	2.33	3.00	3.08	2.43	3.07	2.83
Weighted average	**4.18**	**3.63**	**3.74**	**4.42**	**4.10**	**3.85**	**3.99**

Note: see Annex A for information on the assessment methodology.

Legal frameworks for secured transactions are in place across the region but enforcement remains an issue

A well-designed legal framework for secured transactions can reduce lending risks and therefore lending costs, encouraging bank lending at acceptable terms. Most economies in the EaP region have robust legal frameworks for secured transactions in place and scores have only changed marginally in most cases. One exception is Azerbaijan, where secured creditors were provided with grounds for relief and time limits during an automatic stay. However, enforcement remains an issue, with lengthy procedures and sub-optimal outcomes. For instance, according to the World Bank's *Doing Business*, insolvency proceedings take an average of 2.1 years compared to 1.78 years in OECD member countries. Similarly, secured creditors in the region on average recover less than half of the amounts collected in OECD members: 33.45 cents on the dollar compared to 67.87 (World Bank, 2019[8]). Further details can be found in the section on Bankruptcy and Second Chance in Pillar A.

Registers for security over movable assets are being developed

Having reliable and accessible registers that facilitate the use of immovable and movable assets as collateral is important in the context of a legal framework for secured transactions. Up-to-date information and accessibility are crucial to ensuring that lenders can check whether a certain asset is already pledged and register their own security interest. Together with a legal framework that allows for a straightforward repossession process, such systems can facilitate collateralised lending and bring down interest rates by increasing the chances of recovery in cases of default.

It is therefore important to have a cadastre that allows for the registration of land and real estate, including information on their value, ownership and existing pledges over the asset. Online availability and broad access (within the limits of privacy laws) are important to

improve ease of use and reduce costs. In addition, registers for security interests over movable assets can widen the range of assets that companies can use as collateral. This is particularly important for SMEs, as they often lack access to sufficient land or real estate to use as a security. Such registers should be centralised and unified in order to avoid multiple use of the same asset. As with a cadastre, accessibility is important with respect to lowering costs and increasing usage.

In particular, in the area of putting in place registers for security interests over movable assets, progress has been made in all EaP economies by improving legal frameworks and online availability. Notably, Armenia, Azerbaijan and Belarus have launched modern and unified registers to facilitate the use of movable assets as collateral. Georgia, Moldova and Ukraine, on the other hand, have undertaken measures to expand and further improve the operability of their already existing online registers for security over movable assets. In many economies, movable assets are accepted as collateral by banks, but mostly used to top up collateral requirements that are insufficiently covered by immovable assets.

The coverage of credit information systems has expanded but is still relatively low

Credit information systems can help reduce information asymmetries between lenders and borrowers by giving potential lenders access to the credit history of a borrower. While public registries are usually managed by the central bank (which is collecting lending data mainly for supervisory purposes), private credit bureaus often collect a broader range of information which can include data from a wider range of financing providers as well as utilities or telecommunication companies. Collecting information from a broader range of (non-bank) sources can be particularly helpful for first-time borrowers who have not yet established a credit history with a bank or other financial institution.

All economies in the region have either a public credit registry or a private bureau, with the coverage of the population varying (Table 4.4). The coverage has generally improved in recent years; in the case of Georgia it even reached 100% of the population, giving the country the best possible score in this thematic block (see Table 4.3). However, in Azerbaijan and Moldova, coverage remains below 50%. In a number of economies, information from non-bank finance providers such as credit unions or microfinance institutions is missing, and records from utilities are only collected in Armenia, Azerbaijan and Georgia.

Table 4.4. Credit information coverage in the EaP economies (2008-19)

	Public credit registry coverage (% of adults)			Private credit bureau coverage (% of adults)		
EaP country	2007	2014	2019	2007	2014	2019
Armenia	2.8	23.5	n/a	13.5	65.8	82.5
Azerbaijan	1.4	28.7	n/a	n/a	n/a	44.6
Belarus	1.1	64.5	53.0	n/a	n/a	n/a
Georgia	n/a	n/a	n/a	0.2	56.8	100
Moldova	n/a	n/a	n/a	n/a	8.8	18.2
Ukraine	n/a	n/a	2.4	n/a	48	56.9

Note: 'n/a' means institution does not exist in the economy.
Source: World Bank, (2019[8]), *Doing Business 2020*.

Banking regulatory frameworks have started to align with Basel III

The consistent implementation of banking regulations across credit institutions functions as an important safeguard against financial and operational risks, faced by banks and the banking system. The strength of banking regulatory frameworks varies across the region. Over the last few years, most central banks have either completed or advanced the adoption of Basel III requirements, thus strengthening the oversight and stability of the banking sector more generally. This is particularly important in a region where a number of countries have seen major banking crises in the past years.

Many of the economies in the region are highly dollarized, however. Foreign exchange (FX) denominated loans average 49%, ranging from 41% in Azerbaijan to 63% in Armenia (as of December 2017). Such loans can expose small businesses to exchange rate risks when borrowing. SMEs in particular tend to lack a natural hedge because most are not exporters but rather have income in local currency. In such a context, it is important that banks disclose such exchange rate risks to prospective borrowers and make sure they understand them. This is particularly important because smaller-scale entrepreneurs tend to be less-sophisticated borrowers and financial literacy remains an issue across the region. However, such a regulatory requirement exists only in Armenia, Azerbaijan, Belarus and Moldova. For example, in Moldova regulation was put in place in 2015, which requires lenders to inform prospective borrowers of the additional risks associated with foreign currency loans. Moreover, only SMEs, which sell to international markets (and thus have a natural hedge) are legally permitted to access FX loans.

Capital markets require significant development before SME segments could be considered

The notion of financing SMEs through capital market instruments has gained traction in recent years. If tailored to SME needs, capital markets can provide a viable alternative for some more mature companies to access (long-term) financing, either in the form of an initial public offering (IPO) or corporate bonds. Attempts to adapt capital market instruments to SME needs have been made in both developed and emerging markets in recent years – albeit with mixed results.

Capital markets remain underdeveloped across the region. Even though a stock exchange nominally exists in all countries, the majority are not effectively working and market capitalisation as a percentage of GDP is ten times less than that of economies in the EU or OECD. As such, the establishment of SME or low-capitalisation segments seems like a rather distant objective.

Bank financing

Across the globe, bank finance remains the most important source of external financing for SMEs. Many factors influence the availability of bank financing for SMEs, including the competitive environment in the banking system, the legal framework for bank lending, and the financial readiness of borrowers. Governments can put in place policies to target the "enabling environment", such as the legal framework or financial literacy, and they can run support schemes that target an increase in bank lending.

Support schemes can take many different forms: interest-rate subsidies or caps, guarantees and other instruments. While the choice of instruments can depend on a variety of factors, it is important to align instruments as much as possible with market decision making in order to have a more sustainable instrument that minimises market distortions. For

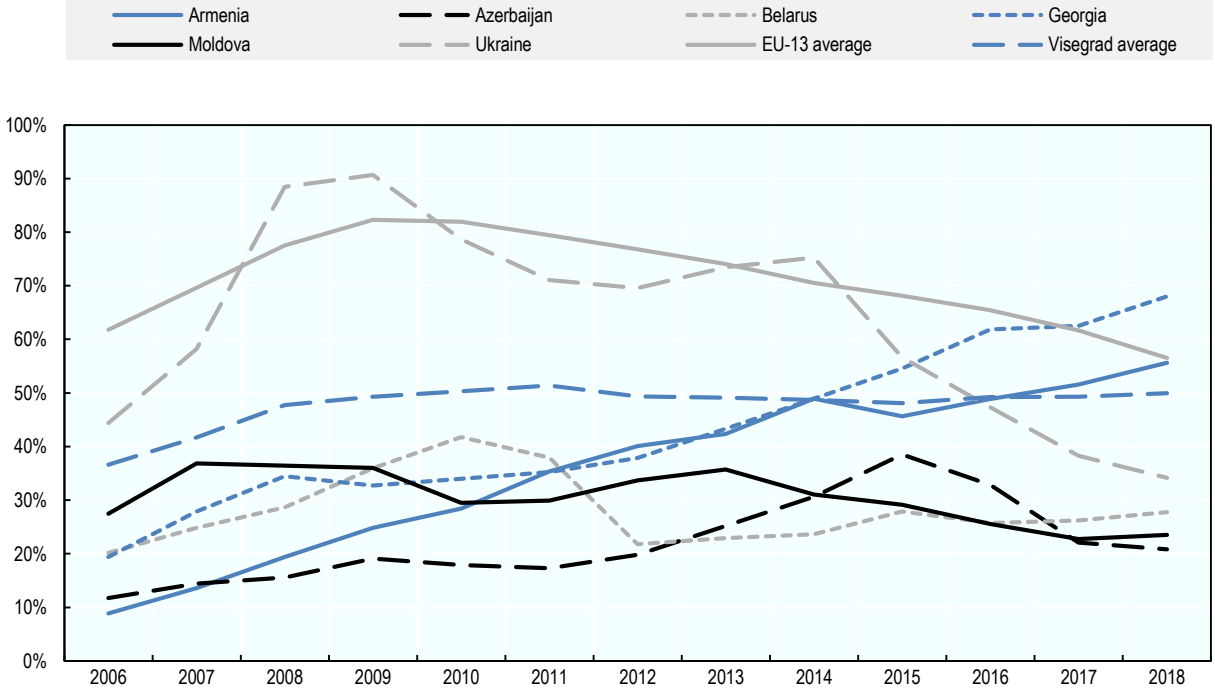
example, providing guarantees is more closely aligned with banks' commercial lending decisions than interest-rate caps dictated by policy makers with no consideration for risk profiles and cost of funding.

This section looks at the availability of bank financing more generally and then discusses support schemes that could facilitate lending to SMEs.

Bank lending is well below levels seen in OECD economies

In recent years, Azerbaijan, Moldova and Ukraine have gone through a difficult period in the banking sector that led to drops in lending levels and required significant restructuring to resolve. Much has been done by regulatory bodies to support the clean-up and recovery is underway. However, lending levels remain subdued and have not returned to pre-crisis levels (Figure 4.4). Armenia and Georgia have seen steady credit growth, which is likely to have made lending conditions for SMEs easier as well. The domestic credit provided in the Eastern Partnership region equals on average 38% of GDP compared to around 98% of GDP for OECD members – although the regional average conceals wide variation, from around 22% (Azerbaijan) to 62% (Georgia).

Figure 4.4. Domestic credit to private sector as percentage of GDP



Source: World Bank, (2019[6]), *World Development Indicators*.

StatLink http://dx.doi.org/10.1787/888934086945

Many governments have put in place new credit guarantee schemes but their effectiveness remains to be tested

Governments can support SME access to finance through a range of tools, such as credit on more favourable terms, interest-rate subsidies, or credit guarantees. Credit guarantee

schemes (CGSs) can be an effective tool for supporting SME lending. They can provide important security for lenders in light of existing information asymmetries and the perceived risk of lending to small businesses. Therefore, they can help alleviate financing constraints for SMEs. In addition, credit guarantees tend to be more aligned with commercial lending practices than measures such as interest rate subsidies. If well designed and monitored, they are also less onerous on public budgets.

A number of economies in the EaP region have made efforts over the last few years to establish credit guarantee funds to support SME lending. Azerbaijan, Belarus and Georgia are making efforts in this direction and Moldova expanded its Credit Guarantee Fund in 2018. Armenia continues to provide guarantees through its SME agency (the SME DNC) but there is room to increase its scope and reach. Ukraine has certain regional support programmes in place and is considering setting up a public guarantee scheme, but for now there is no such scheme in place, which is reflected in the score of 1.0 in this thematic block (see Table 4.5). Many of the above-mentioned initiatives are relatively recent and little is yet known about their operationalisation and, ultimately, effectiveness. Private sector participation in the management or ownership of these schemes is still rare. This can result in a limited feedback loop between guarantee schemes and the commercial banks that are supposed to use them. It will be important to monitor uptake and calibrate new and existing schemes as necessary to maximise their impact. Box 4.1 provides an overview of credit guarantee schemes and their key design features.

Table 4.5. Scores for the *Bank financing* sub-dimension

	ARM	AZE	BLR	GEO	MDA	UKR	EaP average
Statistics	2.82	2.12	3.53	4.04	2.70	2.32	2.92
Credit guarantee schemes	3.00	2.33	2.33	2.48	2.92	1.00	2.35
Weighted average	**2.89**	**2.21**	**3.05**	**3.42**	**2.79**	**1.79**	**2.69**

Note: see Annex A for information on the assessment methodology.

Box 4.1. Credit guarantee schemes and their key design features

Credit guarantee schemes (CGSs) can help alleviate financing constraints for SMEs by allowing banks to absorb more risk and thus encourage more lending to the SME segment. However, if poorly designed or implemented, they add only limited value and can prove to be costly.

CGSs provide guarantees on loans by covering a share of the default risk of the loan. In case of default, the lender recovers the value of the guarantee. Guarantee schemes can be designed in many different ways. They can have differing coverage ratios, risk-sharing arrangements, and pricing structures; can cover individual loans or loan portfolios; and may have private sector participation. While the ultimate design of any scheme depends on the circumstances of its inception and specific objectives, there are certain aspects that should be taken into account when setting up or reforming a CGS.

One key component is the setting up of the risk-sharing and coverage structure. For example, a high coverage ratio (i.e. the guarantor bears most or all of the losses in case of default) or imbalanced risk-sharing arrangement can increase moral hazard and may incentivise borrowers to default prematurely, or relieve banks of their responsibility to

assess loan risk adequately at origination. An interesting example of how to establish the guarantee rate and reduce moral hazard is FOGAPE in Chile, where the coverage ratio is determined through an auction. Pricing should adequately reflect risk-taking by the guarantor in order not to overly subsidise private market participants. While this should keep losses to a minimum, credit guarantee schemes should not pursue a profit-maximising objective as this would defeat the purpose of the scheme, which is to provide affordable financing to SMEs. Therefore, the structure should reflect policy priorities in terms of balancing loan incrementality and cost recovery.

Providing guarantees for individual loans gives more control to the guarantee scheme as it can evaluate each loan application. However, it may be cumbersome to implement for commercial banks, which must fill in documentation for each loan and wait for a decision by the CGS. This can significantly lengthen the application and decision-making process by the commercial bank and make the loan more costly. Portfolio guarantees may be easier to implement but can be more difficult to design in order to minimise moral hazard.

While many guarantee schemes are originated and funded by the public sector, private sector participation should be considered and even encouraged. Having commercial banks participate in the scheme's capital can not only provide additional financing but enables an important feedback loop between commercial banks and the credit guarantee scheme to ensure that the products offered are tailored to market needs, thus increasing effectiveness.

Finally, some schemes provide additional services to end-borrowers, beyond just the guarantee. These include technical assistance (which can also be provided through referral to other state agencies), advisory services and training. For example, the Korea Technology Finance Corporation (KOTEC) provides services beyond guarantees that have had a positive effect on the recipients' performance.

* http://www.fogape.cl/sitio/

Source: Industry Canada (2014[9]), *Evaluation of the Canada Small Business Financing Program Final Report*; EBCI Vienna Initiative (2014[10]), *Credit Guarantee Schemes for SME lending in Central, Eastern and South-Eastern Europe*; OECD (2010[11]), *Facilitating Access to Finance: Discussion Paper on Credit Guarantee Schemes*

Non-bank financing

Diversifying access to finance for SMEs has been recognised as a key policy instrument for increasing financial inclusion. According to the G20/OECD High-level Principles for SME Finance (G20, OECD, 2015[12]), economies need to develop more comprehensive options for SME financing to support sustainable economic growth and boost the resilience of the financial sector, particularly targeting enterprises more likely to be under-served by the banking sector.

One such instrument is microfinance, which is a common tool to increase financial intermediation among smaller enterprises that are typically not yet covered by commercial banks. In a development context, microfinance is traditionally used as a way to alleviate poverty, focussing on consumer lending. However, recent research has shown that microfinance achieves the biggest impact for existing entrepreneurs. If well designed and sufficiently tailored to individual borrowers, microfinance therefore can be an important tool for ensuring the continuation of borrowers' growth trajectory and transition to SME status. Integrating information from microfinance institutions into the credit information system can further help borrowers build a credit history and increase their creditworthy in

the long run. The literature addressing microfinance's impact on entrepreneurship and poverty alleviation is discussed in Box 4.2

Box 4.2. A literature review: The impact of microfinance on entrepreneurship and poverty alleviation

Microfinance has long been considered a key tool for alleviating poverty by allowing poor people to set up or expand small-scale enterprises. However, recent rigorous studies, using randomised controlled trials, have found that access to microfinance does not systematically lift people out of poverty. One reason is that many households are simply not interested in taking up microfinance when it is offered to them. In addition, conditional on loan take-up, households often use microfinance for consumption purposes rather than for investments in new or existing businesses. While this may enhance household wellbeing, for instance by smoothing their consumption patterns over time, it does little to systematically boost incomes in the longer run. Yet, even where the borrowed money is used for entrepreneurial purposes, microfinance typically does not translate into higher incomes. As such, the evidence suggests that microfinance has not proven to be an effective poverty-alleviation tool.

Having said that, recent evidence also indicates that specific groups of borrowers may benefit from improved access to small loans. For instance, evidence from Mongolia suggests that under certain circumstances, joint-liability (group) lending may help entrepreneurs to diversify risk, especially in volatile environments. This may explain why, at least in the Mongolian context, joint-liability loans can have slightly more positive (though still small) impacts on consumption.

Recent evidence also shows that microfinance can be an important factor in supporting *existing* micro-businesses on their growth trajectory. Findings from India indicate that improved access to microfinance has led to more business investments and higher profits for those borrowers that already had a small enterprise when they started to borrow. That is, while microfinance in and of itself does not seem to enable poor borrowers to turn into successful entrepreneurs, it does seem to help at least some more-experienced entrepreneurs to further scale up their businesses.

These findings suggest a number of important insights for policy makers and financial sector players alike. First, the purpose of microfinance lending needs to be clearly defined and the structure has to be tailored to local needs and circumstances. Microfinance institutions (MFIs) should move away from offering standardised products that do not sufficiently consider the borrower's needs and prospects of success. For instance, micro-businesses that are very likely to succeed could be provided with larger and more flexible microloans to enable them to reach their full potential and ultimately attain SME status.

Second, research has shown that more-flexible repayment arrangements, such as granting longer grace periods, gives businesses time to grow and positively affects long-run profits. Indeed, in a similar vein, some MFIs already offer the option to adjust repayment schedules to their borrowers' predicted cash flows.

Lastly, MFIs should especially concentrate their efforts on high-performing micro-businesses and help them to gain access to SME lending once they have outgrown the microfinance sector. For this purpose, MFIs could design a mechanism to refer these successful enterprises to local commercial banks in exchange for a fee.

As a result, recent research cautions against too-generic microloan programmes and advocates instead for products that are tailored to the specific needs, risk level and stage of development of a given microenterprise.

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Other non-bank financial instruments include asset-based financing tools such as leasing and factoring, which can provide credit to enterprises without sufficient collateral or credit history. Leasing can help SMEs modernise equipment and implement expansion plans in the absence of bank loans or financial resources of their own. In contrast, factoring is an instrument based on the sale of accounts receivable from a firm with good credit performance; the firm can increase its cash flow by selling its invoices to a third party (a factor, or factoring company) at a discount. Factoring, in particular, can alleviate liquidity constraints for SMEs (especially those in supply chains), and enable them to have off-balance sheet access to working capital, which is priced against the credit risk of the enterprise's customers rather than that of the company itself.

Overall, the region has made little progress in this sub-dimension; in particular, the potential of leasing and factoring to bolster financial inclusion remains untapped (Table 4.6). However, due to limited availability of comprehensive statistical data on non-bank financing, the analysis of this sector is limited.

Table 4.6. Scores for the *Non-bank financing* sub-dimension

	ARM	AZE	BLR	GEO	MDA	UKR	EaP average
Microfinance	4.00	2.67	4.33	5.00	5.00	4.33	4.22
Leasing	3.44	3.00	5.00	3.00	3.67	4.33	3.74
Factoring	3.55	1.70	3.83	1.02	2.73	3.41	2.71
Weighted average	**3.66**	**2.45**	**4.38**	**3.01**	**3.79**	**4.02**	**3.55**

Note: see Annex A for information on the assessment methodology.

Microfinance is commonly available in most countries, but primarily focussed on consumer lending

Microfinance continues to be the most commonly used source of alternative finance across the Eastern Partnership region, although reliable data remains largely unavailable. The availability of microfinance continues to grow in particularly in Belarus and Moldova, where the number and volume of MFIs have increased substantially since the last assessment, and where MFIs often operate at commercially viable levels. Georgia and Moldova do particularly well in this thematic block, reaching the maximum possible score

(see Table 4.6 above). In other countries, volumes of microfinance have decreased. This is particularly true for Azerbaijan, where microfinance operations were hit hard by the deterioration of the financial industry between 2015 and 2017 and the number of customers more than halved. In Ukraine, even though microfinance is available through credit unions and banks, dedicated MFIs are not at all active due to the lack of a legal framework for their establishment. Similarly, in the absence of a dedicated framework, microfinance remains subdued in Armenia.

Despite their broad presence, however, the majority of MFIs across all countries in the EaP region continue to focus on lending to households. Especially in Belarus, where a dedicated regulatory framework is in place, this is due to legal limitations: MFIs are structured as "consumer co-operatives". In the rest of the region, microfinance is regulated by more-general legislation on non-bank finance institutions or credit organisations, with little or no dedicated legislation.

Leasing and factoring has gained momentum as legal reforms are being implemented in some countries, but market penetration remains low

Statistical data on leasing and factoring is scarce across the region, with available data suggesting that outreach and size of operations remains very limited, offering significant development potential. Leasing is available in all countries, but levels are relatively low. In most countries, leasing activities tend to focus on vehicle leasing rather than other assets such as, for example, equipment. Similarly, factoring penetration remains negligible and below 1% of GDP across all countries, compared to an average of 6.3% in OECD countries (World Bank, 2019[6]). Demand-side limitations play a role here, such as low awareness of the opportunities and benefits of such financial instruments, but also lack of adequate legislation supporting these operations.

Both types of financial instruments require a supporting legal framework, either incorporated into the general legal framework or, preferably, supported through dedicated factoring and leasing laws. Factoring often includes complex contracting procedures and requires more sophisticated legislation. In addition, policy makers and regulators can encourage the development of leasing and factoring by maximising stability and legitimacy of the industry, ensuring that market players are well established and increasing the legal certainty of transactions.

Encouragingly, many countries have made progress in strengthening their legal frameworks since the last assessment. Belarus (which achieved the highest possible score in the *Leasing* thematic block – see Table 4.6) and Moldova have undertaken reforms to strengthen leasing and factoring legislation, while in Azerbaijan (leasing only) and Georgia, reform is currently underway. In Ukraine, the SME Strategy mentions a reform of the factoring legal framework, but no concrete steps have yet been taken. If co-ordinated well with the needs of the private sector and linked to awareness raising, these measures are expected to help increase uptake in the medium term.

Venture capital

Conventional debt financing is particularly ill-suited for high-growth and innovative early-stage firms – which, in addition to lacking of credit history and collateral, operate in a rapidly changing environment. For these types of enterprises, venture capital, which is a more equity-based financial instrument, is more relevant. Venture capitalists – ranging from business angels and accelerators to specialised VC funds – complement investments with business expertise and advice, and typically invest in enterprises at the pre-launch,

launch, or early development phases (Table 4.7). In return for the higher risk of investing in early phase enterprises, VC funds usually envisage higher-than-average returns on investment.

Business angel networks have a similar approach to VC, though the size of investment is usually much smaller and driven by high-net-worth individuals or successfully established entrepreneurs.

Accelerators are cohort-based programmes that, while offering seed finance, also offer mentoring and support for the beneficiary companies in developing business connections.

Table 4.7. Venture capital by stage

Stages	Definition
Pre-seed/ seed	Financing provided to research, assess and develop an initial concept before a business has reached the start-up phase.
Start-up/ other early stage	Financing for product development and initial marketing. The company has not sold its product commercially and is in the process of being set up.
Later stage venture	Financing for the expansion of an operating company.

Source: OECD (2015[19]), *New Approaches to SME and Entrepreneurship Financing: Broadening the Range of Instruments*, https://doi.org/10.1787/9789264240957-en.

Crowdfunding, though currently not part of this assessment, is another emerging type of equity-based, non-bank financial instrument particularly relevant to start-up companies. Crowdfunding allows businesses to draw on a multitude of investors without having to meet excessive reporting requirements and due diligence. The downside, however, is that it usually does not offer adequate investor protection, unless embedded in a dedicated legal framework.

Venture capital remains in its infancy across the region, with efforts focussing on building a conducive ecosystem

Venture capital, like equity investments in general, is scarce across the Eastern Partner region and is unlikely to play a major role in the region for some time to come. Venture capitalists require a substantial deal flow in order for the model to work – they finance large numbers of firms, most of which fail or succeed very modestly, but reap the greater rewards that come from the minority of ventures that really take off. However, the outreach and success of VC is heavily influenced by a number of factors, including the availability of innovative and high-growth potential enterprises, the investment readiness of companies, and a policy framework conducive to equity investment.

As reflected in the country scores for this sub-dimension (Table 4.8), none of the Eastern Partner countries has progressed significantly in developing dedicated legal frameworks to facilitate VC investments, thereby limiting investors' appetite and opportunities. With the support of international donors, Belarus has undertaken a review of existing legislation, but no further steps have been taken to date. Similarly, in Azerbaijan, a working group has been established to identify impediments to VC in existing legislation. In Ukraine, some preliminary work is also being conducted. In Moldova, plans for introducing a dedicated legal framework to support VC have existed for years but have not resulted in any actions.

Table 4.8. Scores for the *Venture capital* sub-dimension

	ARM	AZE	BLR	GEO	MDA	UKR	EaP average
Legal framework	3.00	1.45	2.78	2.78	1.22	1.45	2.11
Design and implementation	4.11	2.45	2.45	3.89	2.00	2.11	2.83
Monitoring & evaluation	2.33	1.00	1.00	1.00	1.00	1.00	1.22
Weighted average	**3.37**	**1.81**	**2.27**	**2.92**	**1.53**	**1.66**	**2.26**

Note: see Annex A for information on the assessment methodology.

Innovation financing for enterprises is predominately public sector- or donor-funded, and much focus is placed on establishing a business environment supportive of innovation, which is expected to lead to more investments in the medium term. Granatus Venture in Armenia and the "Start-up" project in Azerbaijan continue to invest in a selective number of local companies, although as yet there is little evidence of successful exits. In Georgia, the Innovation and Technology Agency (GITA) offers a range of financial support schemes to innovative companies.

However, some private-sector led initiatives have emerged recently. In 2017, the Investors Club of Armenia was established to support international investments into Armenia, and the EBRD/EU-supported SME Equity Fund became operational in 2019; it is expected to invest up to EUR 70 million into Armenian SMEs in the coming years. In Ukraine, VC activities have also increased in recent years, reaching a volume of almost USD 337 million in 2018 (UVCA, 2018[20]); however, the investments have focused on the seed stage. In Armenia, Belarus and Ukraine, Business Angel networks have also been established, but these remain largely inactive.

Recognising the increasing opportunities offered through crowdfunding, Georgia established a crowdfunding platform in 2015, and legislation to regulate activities is currently under preparation. Similarly, in Armenia, introduction of a dedicated legal framework for crowdfunding is under consideration.

Financial literacy

Supporting financial literacy is a key tool employed by policy makers to help increase the demand side of access to finance and bridge gaps in financial inclusion. From a macroeconomic perspective, research has shown that higher levels of financial education among a population lead to lower rates of loan defaults and higher retirement saving rates (Lusardi and Mitchell, 2014[21]). This is particularly pertinent in the Eastern Partnership region, where market economies are relatively young and surveys have shown only 32% of the population to have a general level of financial literacy, compared to 52% in the EU countries (Klapper, Lusardi and Van Oudheusden, 2015[22]).

Comprehensive policy frameworks in support of enhancing financial literacy levels should incorporate basic financial education into the education curriculum, ranging from the basics of personal finance and the financial system in the general secondary educational track to more specific subjects in vocational secondary education. As for the adult population, any policy measures should be built on a comprehensive financial literacy survey that allows policy makers to fully understand existing financial literacy levels; such a survey should be demographically disaggregated so as to better target individual sub-groups (e.g. younger people may require more targeted support on budgeting and retirement). In particular, the analysis should distinguish business owners to enable a closer assessment of the level of

financial literacy of entrepreneurs. (For an example of targeted financial literacy measures, see Box 4.3).

Box 4.3. Money Wise Action Plan for financial literacy in the Netherlands

The **Netherlands** has a long tradition of financial education that has been consolidated into a national education strategy targeting young people. Indeed, Dutch students repeatedly score above the average of the OECD countries assessed for financial literacy by PISA (OECD, 2015[23])

Since 2008, the Ministry of Finance has chaired a Steering Group that leads the National Strategy for Financial Education. The group includes the Central Bank, the Authority for Financial Markets, the Banking Association, the Insurers' Association, the Pension Federation and the National Institute for Family Finance Information (Nibud). The programme board includes the ministries of Education and Social Affairs, the Consumer Authority, the Association of Financial Advisors and Tilburg University. The strategy was launched as the Money Wise Action Plan, which involves a plethora of stakeholders from both the public and the private sectors: more than 40 partners from the financial sector, government, public information, academia, and consumer organisations that are involved in the implementation of the national strategy.

The initiative targets students and young people, as well as working-age adults, SMEs and potential entrepreneurs.

Money Wise performs financial literacy activities both online and offline. Online, the Money Wise website offers tested teaching material that can be employed in classes of primary and secondary education. It launched a tool called "What does it mean for me?" that screens the personal information of the users and gives them an overview of the impact of government measures that are relevant for them. For outreach to the public, and young people in particular, it uses social media too. Offline, Money Wise hosts two events every year: National Money Week and Pension3Day. The former targets primary school pupils and their parents, focuses on basic financial literacy and takes place in the classroom at school, with around half of Dutch schools participating in the last edition alone. The latter delves into pension issues and collaborates with over 250 organisations to raise awareness among employers, employees, and SMEs.

Source: Money Wise, (2019), https://www.wijzeringeldzaken.nl/english/press_releases/money-wise-platform-committed-to-responsible-financial-behaviour/; OECD (2015), *The Netherlands – Country Note – Results From Pisa 2015 Financial Literacy,* https://www.oecd.org/pisa/PISA-2105-Financial-Literacy-Netherlands.pdf; OECD (2012), *Financial Literacy in Dutch schools: A platform approach*, http://www.oecd.org/daf/fin/financial-education/50346929.pdf.

Off the back of such an assessment and a subsequent framework or strategy, policy makers can draw on a variety of tools to alleviate the issues identified – from online information portals and awareness-raising campaigns to classroom training. Crucially, all such support mechanisms must be implemented alongside stringent monitoring and evaluation mechanisms – with specific targets (and measurements thereof) for efficiency and impact – and should be implemented in close co-ordination with private sector participants.

Within this context, the Eastern Partnership region generally underperforms. While virtually all six countries implement some form of financial literacy support, they tend to be focused on personal finance and centred on ad hoc training, without centralised co-

ordination or evaluation. Georgia is leading the way, especially regarding the *Design and implementation* thematic block. By contrast, Azerbaijan, Moldova, and Ukraine are still lagging behind in the *Monitoring and evaluation* building block, as their scores of "1" indicate (see Table 4.9).

Table 4.9. Scores for the *Financial literacy* sub-dimension

	ARM	AZE	BLR	GEO	MDA	UKR	EaP average
Design and implementation	3.86	3.86	3.48	4.90	3.09	3.57	3.79
Monitoring & evaluation	3.67	1.00	2.33	3.67	1.00	1.00	2.11
Weighted average	**3.82**	**3.29**	**3.25**	**4.66**	**2.67**	**3.06**	**3.46**

Note: see Annex A for information on the assessment methodology.

There are encouraging signs across the region, with all countries adopting elements of the best practices outlined above. Armenia, Azerbaijan and Georgia all now have a national strategy on financial education in place, while Ukraine has incorporated financial literacy into its SME strategy for 2020. However, rarely are these efforts based on a comprehensive government assessment of the population, and monitoring and evaluation frameworks remain entirely absent.

Most comprehensively within the region, Georgia has followed the initially described outline: an assessment of the population, followed by a national strategy and most recently, in 2018, a dedicated financial education programme targeting SMEs and specifying various forms of financing. This is accompanied by financial education in secondary schools and a National Bank certification for education providers. While this strategy would also benefit from a stronger focus on financial products and entrepreneurship (the strategy explicitly targets the broader population), it is an encouraging move for the region given its breadth.

As the first country in the region, Georgia is also gradually introducing mandatory compliance with IFRS for SMEs for most businesses (more information is available in the Georgia country chapter), which will lead to more accurate financial reporting among the business community in the medium term.

The way forward

As highlighted above, SMEs' access to finance remains limited in the EaP region, and governments could intensify their efforts to address the issues at the core of this problem by considering the following policies and initiatives:

- **Collect payment information from a wider range of actors**. The credit information system coverage is relatively low, meaning that only a limited share of the population is able to build a credit history, which is important to access a loan. Collecting such information from a wider range of sources would make it possible to expand credit information coverage. This can include microfinance institutions and credit unions, credit card issuers, retailers and utilities.
- **Set up (or reform, if the circumstances require it) credit guarantee schemes**. Small businesses often face high collateral requirements while at the same time lacking access to assets they could pledge. Credit guarantees can help SMEs that struggle with collateral requirements and encourage the supply of credit by reducing lending risk. Governments should continue their efforts to set up credit guarantee schemes where appropriate. Where schemes exist but are ineffective, reforms should be considered. The design of these schemes should be mindful of

questions of sustainability, scale and private sector participation in order to ensure that they are meaningful and result in appropriate uptake.

- **Improve the availability and collection of statistics on the financial industry.** Improve the availability and collection of more granular statistics on the financial industry, segregating sub-borrowers by type and size and broadening data from non-bank financial institutions. Doing this would address the poor record of statistical information on the financial sector.
- **Complete and review the ongoing reform of legislation on leasing and factoring.** The low coverage of comprehensive and up-to-date statistical information on the financial sector limits the assessment needed to develop tailored products and provide adequate policy support to enhance financial inclusion. Governments should complete ongoing reform of legislation on leasing and factoring, where applicable, and link to awareness-raising efforts to ensure uptake. They should also review existing legislation to identify regulatory impediments to the development of leasing and factoring in particular, and – in co-operation with the financial sector – amend legislation.
- **Co-ordinate and formalise financial literacy efforts.** Central co-ordination of financial literacy efforts, including targeted training for entrepreneurs and a centralised monitoring and evaluation framework, would strongly improve the effectiveness of support mechanisms.

Policy instruments – Access to finance

Table 4.10. Dimension challenges and policy instruments – Pillar C

Dimension	Challenges / Opportunities	Policy instruments
Legal and regulatory framework	**Low credit information system coverage**. Limited credit information system coverage means that for many it is nearly impossible to build a credit history, which is crucial for accessing loans.	**Collect payment information from a wider range of actors.** Collecting payment information from multiple sources (e.g. microfinance institutions and credit unions, utilities or retailers) allows for a wider coverage of the credit information system and allows more people to build a credit history.
Bank finance	**Lack of well-designed credit guarantee schemes.** Small businesses in particular typically face high collateral requirements while at the same time having restricted access to assets they could pledge.	**Set up and/or reform credit guarantee schemes.** Focus on sustainability, scale and private sector participation to ensure the schemes are relevant for SMEs and to encourage the supply of credit with reduced lending risk.
	Poor information on financial sector. Lack of comprehensive and up-to-date statistical information of the financial sector limits the detail and efficacy of needs assessments and policy making.	**Enhance the availability and collection of statistics.** Improve the availability and collection of statistics on the financial industry, segregating sub-borrowers by type and size and broadening the reach to non-bank financial institutions.
Non-banking finance	**Low market penetration of factoring and leasing**. Lack of comprehensive and specific legislation, which reduces uncertainty around such transactions limits take-up of alternative financing methods.	**Enhance the legislative framework.** Complete ongoing reform of legislation on leasing and factoring, in concert with awareness-raising efforts. Review existing legislation to identify regulatory impediments to the development of leasing and factoring.
Financial literacy	**Existing support schemes are disparate and rarely formalised.** A lack of centralised oversight	**Formalise financial literacy support**. Introduce centralised coordination of financial literacy efforts with a stringent monitoring and evaluation framework of

Dimension	Challenges / Opportunities	Policy instruments
	means that support measures cannot be targeted effectively.	support mechanisms, including disaggregated support for different demographic groups, such as existing or potential entrepreneurs.

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Chapter 5. Pillar D – Access to markets

International markets and the public procurement sector represent huge opportunities for SMEs in the Eastern Partnership region. However, they face high barriers and risks in entering those markets due to lack of information about export opportunities, internationally incompatible quality standards, and discriminatory rules, as well as complex application procedures for public tenders. Pillar D assesses governments' efforts to facilitate SME access to these markets.

Since the 2016 assessment, the public procurement regulatory environment has improved, but none of the EaP countries has yet fully introduced all the standard practices recommended in this area – and e-procurement systems, despite having considerably developed since 2016, remain limited. The EaP countries have made some progress in the Standards and technical regulations dimension, as they have all applied for associate membership in the European co-operation for Accreditation (EA) and Belarus, Georgia, Moldova and Ukraine have signed bilateral recognition agreements with the EA. Since 2016, all EaP countries have also started implementing new strategies for SME internationalisation, but only limited progress has been made in implementing policies to foster SME integration into global value chains.

The EaP countries should improve their e-procurement systems and invest in training for procurement officers and contracting authorities, as well as expand financial and non-financial measures to foster the use of standards and conformity assessment services. Finally, they should expand the range of provided export support services and introduce the provision of trade finance tools for exporting SMEs.

Introduction

Increasing globalisation and growing international trade offer SMEs the opportunity to join global value chains (GVCs) and allow firms to specialise within production networks, contributing to higher innovation activity and productivity growth. However, the drive for deregulation and openness, which is often linked to globalisation, can also have a negative impact on SMEs that are not ready to compete globally and can exacerbate the consequences of market distortions that undermine fair competition in some countries and sectors (OECD, 2017[1]). Moreover, shorter product life cycles put more pressure on SMEs to be more innovative and flexible. As a result, SMEs tend to be under-represented in international trade and often lose traditionally strong domestic markets.

Against this background, a proactive attitude to global competition and markets is increasingly a matter of necessity. Policy responses are needed to ensure that SMEs turn the pressure of international competition into an opportunity to increase quality and competitiveness, and thus to participate in the growth of international markets.

Domestically, with public procurement, governments are major consumers of goods and services offered by the private sector. SMEs should be given an opportunity to meet such sizeable demand and tap into a market that can be designed to deliver important social returns, as is the case in mission-oriented public procurement.[1]

However, SMEs face particularly high barriers and risks in these areas. These include a lack of information about export opportunities, internationally incompatible quality standards, discriminatory rules and complex application procedures for public tenders. Targeted polices and support programmes can help mitigate such impediments and further open market opportunities for SMEs.

This pillar investigates recent EaP reforms in these areas by assessing three policy dimensions: 1) Public procurement, 2) Standards and technical regulations, and 3) SME internationalisation.

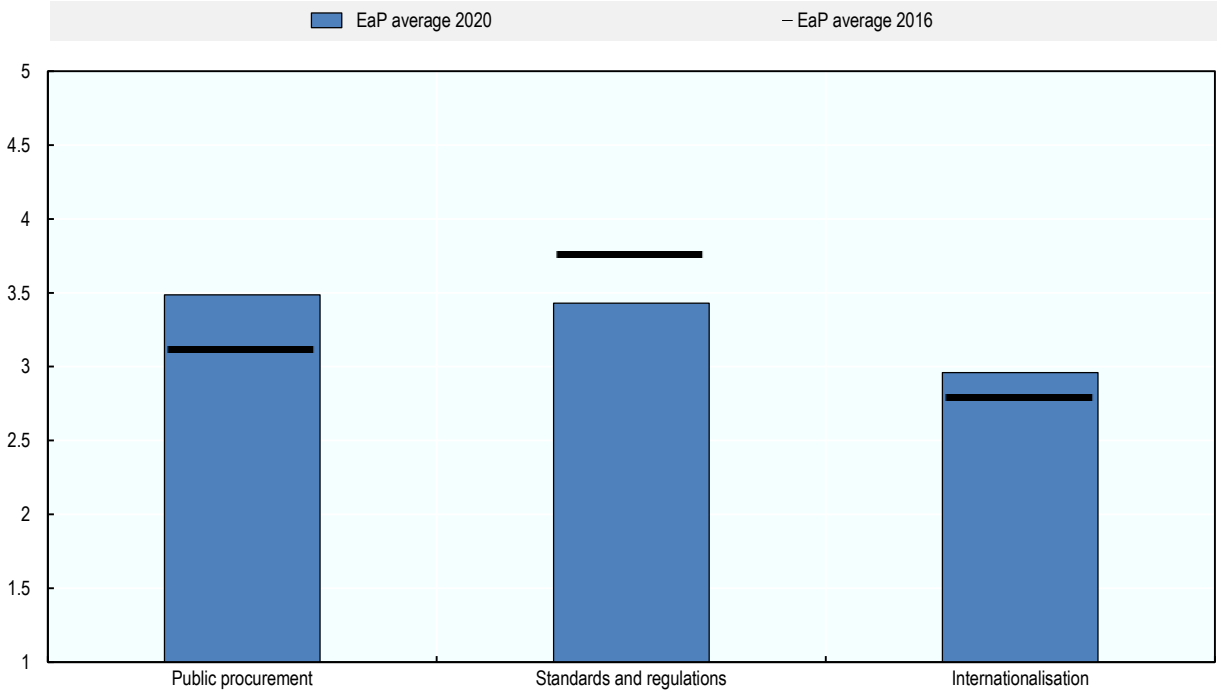
However, one should keep in mind the interlinkages between the various pillars and dimensions of the SME Policy Index: the public procurement sector can only prosper in an environment with reduced informality and corruption. This is why a strong institutional framework and level playing field conditions are a key element for a healthy public procurement system and access to markets as a whole.

Moreover, internationalisation of SMEs contributes to an increase in productivity, quality and innovation by exposing SMEs to international competition and helping them achieve economies of scale. Finally, access to and uptake of business development services (BDS) is also a fundamental element of internationalisation promotion. Advanced BDS and enterprise skills can provide firms with the knowledge and resources they need to internationalise by offering them targeted information, training, mentoring and consulting.

As shown in Figure 5.1, progress have been made in the region in terms of public procurement and internationalisation of SME. Regarding the *Standards and regulations* dimension, the score difference between 2016 and 2019 can partly be explained by the change in the methodology as the dimension was completely restructured.

Figure 5.1 SME Policy Index scores for Pillar D: Access to markets

Regional scores, 2020 vs. 2016



StatLink http://dx.doi.org/10.1787/888934086964

Table 5.1. Country scores by dimension and sub-dimension, 2020

	ARM	AZE	BLR	GEO	MDA	UKR	EaP average 2020	*EaP average 2016*
Public procurement	**3.61**	**2.87**	**3.15**	**4.26**	**3.86**	**3.17**	**3.49**	***3.12***
Standards and regulations	**2.66**	**3.10**	**3.04**	**4.56**	**3.68**	**3.55**	**3.43**	***3.76***
*Co-ordination and general measures****	3.50	3.70	3.50	5.00	3.50	3.50	3.78	*3.00*
*Approximation with EU acquis***	2.81	3.53	3.18	4.44	3.76	4.35	3.68	-
*SME access to standardisation**	2.08	2.23	2.65	4.54	3.63	2.43	2.92	-
Internationalisation	**2.86**	**3.08**	**2.68**	**3.76**	**2.74**	**2.64**	**2.96**	***2.79***
Export promotion	3.77	3.60	3.73	4.27	3.44	3.39	3.70	*3.16*

	ARM	AZE	BLR	GEO	MDA	UKR	EaP average 2020	*EaP average 2016*
Integration in GVCs	1.68	1.59	1.29	2.85	1.92	1.56	1.81	*1.31*
*Trade facilitation**	3.00	3.24	2.14	4.10	2.99	2.99	3.08	-
*E-commerce**	1.70	3.17	1.70	3.20	1.70	1.70	2.19	-

Note: The dimension score is the weighted average of the sub-dimension scores. The following methodological changes have been introduced in the 2020 assessment, which should be taken into account when observing trends in SME Policy Index scores: Standards and regulations (new sub-dimensions: SME access to standardisation, Approximation with EU acquis), Internationalisation (new sub-dimensions: Trade facilitation, Use of e-commerce).
* These sub-dimensions have been introduced in 2020 and were not covered in previous assessments.
** This sub-dimension has been introduced in 2020 and it combines various building blocks that in the previous assessment contributed to the Standards and technical regulations sub-dimension (technical regulation, standardisation, accreditation, conformity assessment, metrology, and market surveillance).
*** This sub-dimension used to be a building block in the previous assessment.

Public procurement

While the share of public procurement in overall public expenditure is often large, SMEs often miss this important market opportunity. SMEs shy away from bidding because of complex rules and lengthy procedures. They also often lack the human and financial resources and know-how required to deal with burdensome administrative requirements and may expose themselves to financial risks through potentially fruitless applications.

Other issues limiting SMEs' participation in public procurement pertain to the size of public contracts and to the disproportionate qualification and financial requirements demanded of bidders. These problems, as well as the widespread phenomenon of late payments in the public sector, systematically discriminate against SMEs with limited turnover.

If effective, attempts to increase the generally low participation rate of SMEs in public procurement could spark competition and lower prices for public purchasers, counterbalancing dominant market players (SIGMA/OECD, 2016[2]), since SMEs are often particularly innovative and may offer solutions that larger companies cannot provide.

A few relatively simple legislative measures can considerably improve the situation for SMEs in public procurement. In many cases, very large contracts are not justified and such purchases could take place through several smaller contracts – or, if legally facilitated, through subcontracting. Likewise, limiting requirements about the financial abilities of tenderers to reflect only strictly necessary preconditions, and allowing tenderers to submit joint bids, are generally reasonable and proportionate measures in most contexts.

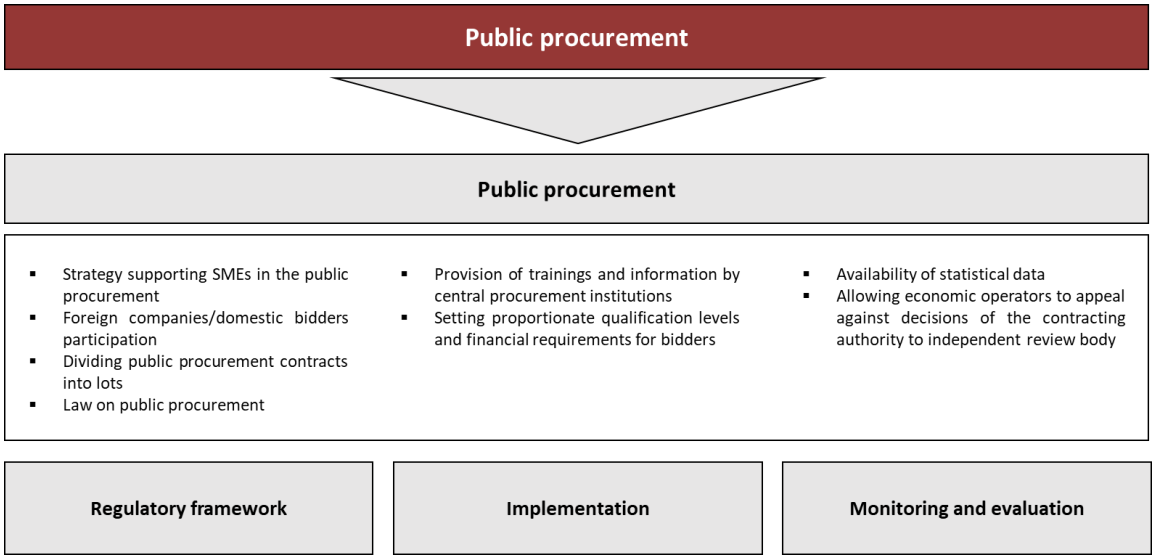
Furthermore, SMEs benefit from electronic procurement, as this makes information more easily available, at lower costs, and facilitates the submission of bids. Laws setting strict deadlines and penalties for late payment by the public sector are a first step towards avoiding late payments to contractors, albeit not sufficient on its own.

Assessment framework

The assessment framework for this dimension is unchanged since the previous SBA assessment. While it does not have any "sub-dimensions", the analysis looks at policies and tools in place in EaP countries to allow SMEs better access to public procurement

markets, and it does so through three thematic blocks covering policy and regulatory framework, implementation and monitoring and evaluation (Figure 5.2).

Figure 5.2. Assessment framework – Public procurement



In particular, the assessment focuses on:

- the extent to which public authorities use tools to take account of the small size of firms bidding in tenders and to provide them with equal opportunities – such as allowing tenders to be cut into lots, allowing SMEs to bid jointly, and setting proportionate qualification levels and financial requirements;
- whether information on public procurement is centralised and free of charge for all participantsBu, and whether there is training and a helpdesk available to help interested firms;
- the existence and implementation of electronic procurement, starting with the provision of procuremeBullnt information online and continuing through to the electronic sBullubmission of tender;
- whether legislation is in place that imposes strict deadlines for payments by public authorities and penalties for non-compliance; and
- whether public procurement is open to foreign enterprises (both SMEs and large enterprises) to ensure a faBullir level of competition.

Analysis

Public procurement represents a large share of public expenditure and is an important market opportunity for SMEs. Unfortunately, the unreasonably large size of public contracts, disproportionate qualification and financial requirements, and ineffective electronic procurement portals systematically discriminate against SMEs with limited turnover. This dimension assesses EaP countries' efforts to make public procurement more open to entrepreneurial SMEs.

The low average number of tenderers in public procurement procedures (mostly between two and three) indicates that many SMEs continue to struggle to participate in public

procurement markets in the EaP region. They face competition either from large firms with well-established contacts among the contracting authorities and resources for preventing prospective competitors from gaining a foothold, or from a multitude of other small firms, some of which may seek to gain unfair advantage by failing to play by the rules and therefore discourage others from participating. At the same time, qualitative information gathered through the SBA assessment reveals that most contracting authorities find it difficult to obtain competitive offers from qualified suppliers, whether SMEs or larger firms.

As Figure 5.3 shows, the regulatory environment is improving in most EaP countries – especially for Georgia, Moldova and Ukraine, which are adapting their legislation in conformity with European Union directives. However, gaps remain in the provisions intended to facilitate SME participation in public procurement. None of the EaP countries has yet fully introduced all the standard practices recommended in this area, such as systematic division into lots, the proportionality of award and qualification criteria, simplified rules for demonstrating conformity with formal requirements, possibilities for joint bidding and subcontracting, and timely payments by contracting authorities. Although e-procurement systems have developed considerably since 2016, they remain limited in terms of the award criteria that can be applied and related tendering procedures, and their expected advantages for facilitating and supporting SME participation in public procurement have not yet materialised.

Weak institutional capacity is also part of the problem. Contracting authorities capable of competently handling public procurement are crucial to SME participation. The institutional environment would benefit from the use of joint procurement by several contracting authorities, of external experts (even just by pooling some small authorities for engaging a competent procurement officer), and of one or several centralised purchasing bodies.

To improve this, some measures have been taken by EaP governments to make public procurement more open to entrepreneurial SMEs. Compared with the situation in 2016, the conditions for successful SME participation in public procurement show at least some developments in all EaP countries. The average score for this dimension in the 2020 assessment is 3.49 (increasing for all countries except Belarus), but still leaves ample room for improvement (Table 5.2).

Figure 5.3. Scores for the *Public procurement* dimension compared to 2016

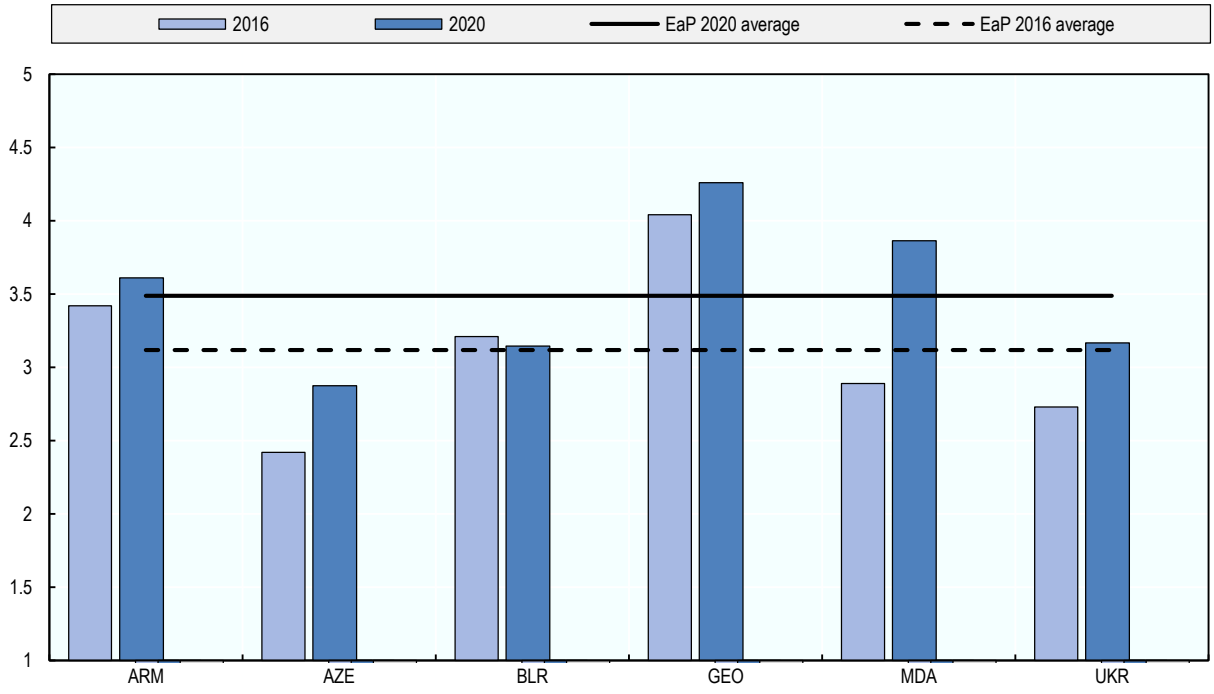


Table 5.2. Scores for the *Public procurement* dimension

	ARM	AZE	BLR	GEO	MDA	UKR	EaP average
Policy and regulatory framework	3.17	2.94	2.81	3.44	4.23	3.23	3.30
Implementation	3.71	3.13	3.84	4.64	4.33	3.27	3.82
Monitoring & evaluation	4.17	2.17	2.17	4.83	2.17	2.83	3.06
Public procurement	**3.61**	**2.87**	**3.15**	**4.26**	**3.86**	**3.17**	**3.49**

Note: see Annex A for information on the assessment methodology.

The regulatory environment is improving, especially for DCFTA countries

The regulatory environment continues to benefit from the commitments of Georgia, Moldova and Ukraine to adapt their legislation in conformity with the directives of the European Union. This process is spread over several years, according to a set timetable for successive alignment, and progress is being made, even if there is some delay in the execution of the obligations. Recent amendments to the legislation have also been made in Armenia and Azerbaijan. In Belarus, a number of revisions to the public procurement law have been enacted but will not come into force before the end of the period under review.

Nevertheless, in all countries concerned, many SMEs remain discouraged by the many detailed, formal requirements for participating in public procurement. Their proper application requires tenderers to have strong administrative skills and to invest considerable time and effort just to ensure compliance with formal requirements, in addition to the work needed for preparing a commercially competitive offer.

At the same time, there are still gaps in the provisions intended to facilitate SME participation in public procurement, and even more so in their application. Although the countries with association agreements with the EU (Georgia, Moldova an Ukraine) have formally engaged themselves to fully align with the EU Directives on public procurement within the next few years, none of the countries in the region has yet fully introduced all the standard practices recommended: systematic division into lots, proportionality and appropriateness of award and qualification criteria, simplified rules for demonstrating conformity with formal requirements, possibilities for joint bidding and subcontracting, and timely payments by contracting authorities, and independent bodies for review of complaints.

Institutions handling public procurement could favour greater SME participation

The shortcomings in the application of the regulations mainly reflect weaknesses in institutional capacity: lack of skills and incentives of officials in charge of public procurement, a tendency to focus on procedural issues rather than on the substantive aspects of the full procurement cycle, and a lack of the transparency.

Training opportunities for contracting authorities are usually available, but mostly cover the award procedures and the use of the e-procurement systems, while often failing to cover substantial aspects of contract management. This is when decisions should be taken about division into lots, technical specifications open enough to give a range of SMEs a fair chance to compete, qualification requirements that are not unduly restrictive, and award criteria that favour value for money, innovative approaches and sustainability.

An underlying issue for developing an institutional environment that favours SME participation lies in the large number of small contracting authorities in several of the EaP countries. These typically lack the resources required for employing skilled and experienced officials who can competently handle public procurement as their main duty, and there is little or no use of measures that could help address some of these capacity issues such as joint procurement by several contracting authorities, better use of external experts (even just by pooling some small authorities for engaging a competent procurement officer), and creation of one or several centralised purchasing bodies. Improving the level of SME participation thus requires building the capacities of public authorities, as a complement to building the capacities of the SMEs and creating favourable conditions for them.

Box 5.1 discusses steps Georgia has taken to facilitate SME participation in public procurement.

Box 5.1. Facilitating SME participation in public procurement: the case of Georgia

Contracting authorities are often uncertain about the advantages of SME participation and the measures that should be taken to facilitate it. The State Procurement Agency of Georgia (SPA) has sought to address this problem by preparing and publishing a corresponding guidance note. It also includes the recommendations made there in the training it provides to contracting authorities.

The SPA's "Methodological guidelines for facilitating SME participation in public procurement" were issued on 20 July 2017 as a complement to other guidance materials on

the SPA website. They recall the importance and usefulness of SME participation and identify a number of difficulties that they typically face:

- inadequate determination of the scope and nature of the items to be procured
- too little time for submission and delivery
- biased, too restrictive or too open technical specifications
- unnecessarily high qualification requirements
- disproportionate performance guarantee requirements or other contract conditions
- late payments by contracting authorities

Each of these is illustrated with specific examples of restrictive practices encountered in Georgia.

The guidelines then further explain these difficulties and give detailed advice for how to address them. The advice includes specific, good practice recommendations as well as references to applicable regulations and other guidance documents.

Source: State procurement agency and Centre for international migration, *Methodological guidelines to facilitate SME participation in public procurement*, http://procurement.gov.ge/getattachment/ELibrary/metod-mititebebi-da-recomendaciebi/SME.pdf.aspx.

E-procurement is being developed, but SME participation remains low

E-procurement has developed considerably since 2016, with systems covering most of the notification, tendering and award phases of the public procurement cycle in all countries except Azerbaijan, where intensive work on introducing a new system for contracts below USD 3 million was under way at the end of the reporting period.

That said, the systems used remain limited in terms of the award criteria that can be applied and related tendering procedures. The predominant use of price as the only award criterion continues to make it difficult for SMEs to participate with solutions that offer better value for money in terms of quality, conditions, or life-cycle costs. Price-only evaluation has often been seen as a necessary means of preventing corruption, like when e-procurement systems were first introduced in Georgia and Ukraine, but has not been sufficient to this effect.

Disproportionate qualification requirements often unduly restrict SME participation. Conversely, when qualification requirements are not stated or not applied, they expose SMEs to unfair competition from unqualified tenderers, and this may also be the case when only the best placed tenderer's qualifications (in addition to the conformity of the best placed tender with the technical specifications) are checked and this is only done, if at all, after an electronic auction, as is typically the case with the e-procurement system used in the region. In fact, good e-procurement practice, as set out in e.g. the EU Directives, requires this sequence of steps to be inversed, so that only the fully qualified tenderers having submitted technically acceptable tenders are invited to participate in an e-auction.

Further, as can be seen in the frequency of estimated contract values just below the thresholds, many contracting authorities have a tendency to split their needs into smaller contracts that fall below the threshold for compulsory use of e-procurement or other competitive procedures, thus limiting the access to the market.

Despite the notional openness and transparency of the e-auction systems in place and the often relatively large number of prospective tenderers, the average number of participants remains surprisingly low, with many such auctions attracting only a single tenderer. It is thus clear that the expected advantages of e-procurement for facilitating and supporting SME participation in public procurement have not yet materialised.

The way forward

Based on the preceding observations and the analysis of the situation, the following general recommendations can be made for moving ahead:

- **Adopt the full range of standard regulatory measures for facilitating SME participation**, without privileges or preferences that would distort the markets. For instance, all EaP countries could introduce 1) division into lots, with the obligation to publicly record reasons for not doing so; 2) policies on timely payment by contracting authorities; and 3) adjustments to procurement procedures, time limits and qualification requirements that make them more explicitly proportionate to the value and complexity of the procurement.
- Armenia, Georgia, Moldova, and Ukraine should **strengthen the capacity of central regulatory and supervisory institutions** for evidence-based policy making, delivering guidance and training, reviewing complaints, and monitoring the performance of the public procurement system, all with a clear SME focus included. Raising the status and skill levels of procurement officers, including their ability to plan and carry out procurement and manage contracts would be a crucial step for all EaP countries.
- Armenia, Ukraine and Azerbaijan should consider **improving e-procurement** by improving the sequencing of steps, adding criteria other than price, and ensuring that qualification requirements are proportionate and properly applied to ensure fair competition;
- Georgia should **make better use of the potential of centralised purchasing** and the use of framework agreements to support wider SME participation; and
- Armenia, Azerbaijan, and Belarus should **enhance the generation and accessibility of data on SME participation**, monitor and analyse it in order to identify untapped potential and address corresponding impediments.

Standards and technical regulations

Technical regulations set out essential requirements for products before they are placed on the market. They are at the heart of national quality infrastructure (NQI) systems,[2],, and are designed to serve legitimate public policy objectives, such as protecting health and safety or the environment. Furthermore, regulations and standards may be perceived as technical barriers to trade and a burden on business operations, if formulated to protect local businesses, opaque or costly. On the other hand, standards have become a pre-requisite for gaining access to global value chains, diffusing innovation and upgrading fuel quality (see (Blind et al., 2018[3]; Swann, 2010[4]). Bringing the legislation of EaP countries in line with the international and European framework for technical regulations and standards therefore offers substantial trade benefits, such as simpler conformity assessment procedures, shorter time to market and lower total costs of trading.

The diffusion and implementation of technical regulations and standards cannot be ensured merely by adopting them. Relevant institutions are needed to evaluate and confirm compliance levels, through services such as certification, testing, conformity assessment, metrology and market surveillance. Given SMEs' limited capabilities and opportunities to export, special measures should be put in place to facilitate SME compliance with product's requirements, such as ensuring easy access to information on technical regulations, as well as opportunities to make use of reliable and efficient quality infrastructure.

Assessment framework

The assessment framework for this dimension captures whether countries have a well-functioning quality infrastructure system and how far it is approximated with the EU rules and standards. Compared to the 2016 assessment, a new sub-dimension has been included to gauge how governments are facilitating SMEs' access to EU standards. Moreover, *Overall co-ordination and general measures* – previously a building block – is now a sub-dimension, and other existing building blocks have been fully restructured into the new sub-dimension *Approximation with the EU Acquis*.[3] Thus, the analysis revolves around the following three sub-dimensions: 1) overall co-ordination and general measures to adopt EU product standards and regulations; 2) approximation of the NQI system with the EU *acquis*; and 3) SME access to standardisation (Figure 5.4).

Overall co-ordination and general measures

The first sub-dimension looks at general policies and tools for overall policy co-ordination and strategic approaches to adopting and implementing EU legislation. The assessment also evaluates the extent to which SMEs have access to all relevant information on requirements for exporting to the EU.

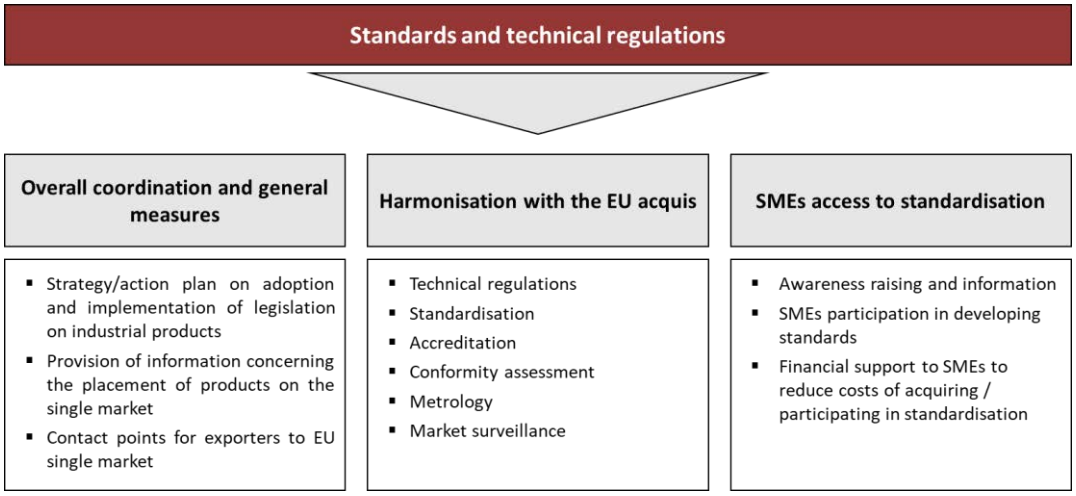
Approximation with the EU acquis

The second sub-dimension analyses the national quality infrastructure systems with respect to six thematic blocks – technical regulations, standardisation, accreditation, metrology, conformity assessment and market surveillance. More specifically, it analyses their institutional capacity, adoption and implementation of strategic documents and integration into international structures. It also examines whether the legislation and instruments are subject to regular monitoring and evaluation.

SME access to standardisation

The last sub-dimension evaluates government efforts to increase SMEs' awareness of standards and facilitate their participation in developing standards. It also considers the availability and scope of current financial support programmes aimed at enhancing implementation of standards in the SME population.

Figure 5.4. Assessment framework – Standards and technical regulations



Analysis

Although technical regulations and standards offer substantial trade benefits, when inadequate or excessively burdensome they can also represent severe barriers. This dimension evaluates the EaP countries' progress in eliminating technical barriers to trade for industrial products and aligning with international and EU norms.

Historically, the EU pioneered the transition from the so-called "old approach" to the "new approach" to product market regulation.[4,5] Under the old approach, technical regulations were drawn up in a top-down process by national authorities, went into great administrative and technical detail and certified product conformity themselves – a process that was usually motivated by mistrust and the intention to prevent abuse by strict control. Under the new approach, technical regulations formulate only "essential requirements", leave the details to technical committees of standardisation organisations (made up of private sector participants) and rely on private, notified bodies for conformity assessment (see Box 5.2. for more details).

Box 5.2. The new European approach to technical regulations and standards

- The EU adopts Directives that define "essential requirements" that should be satisfied by products being sold in the Single Market.
- The EU Commission requests the European Standardisation Organisations, to prepare technical standards that facilitate compliance with these essential requirements (currently, around 25% of all European Standards are Harmonized Standards – i.e. those that can be used to demonstrate that products comply with relevant EU legislation).
- Public authorities recognize that all products manufactured in accordance with harmonized standards benefit from a presumption of conformity.
- European Standards remain voluntary, but any producer is obliged to prove that their products conform to the essential requirements.

When businesses make use of harmonized EU standards, they can sell their products throughout the Single Market – reaching a potential 600 million consumers in at least 34 countries.

Source: CEN (2019[5]), *New Approach and other Directives*, https://www.cen.eu/work/supportLegislation/Directives/Pages/default.aspx.

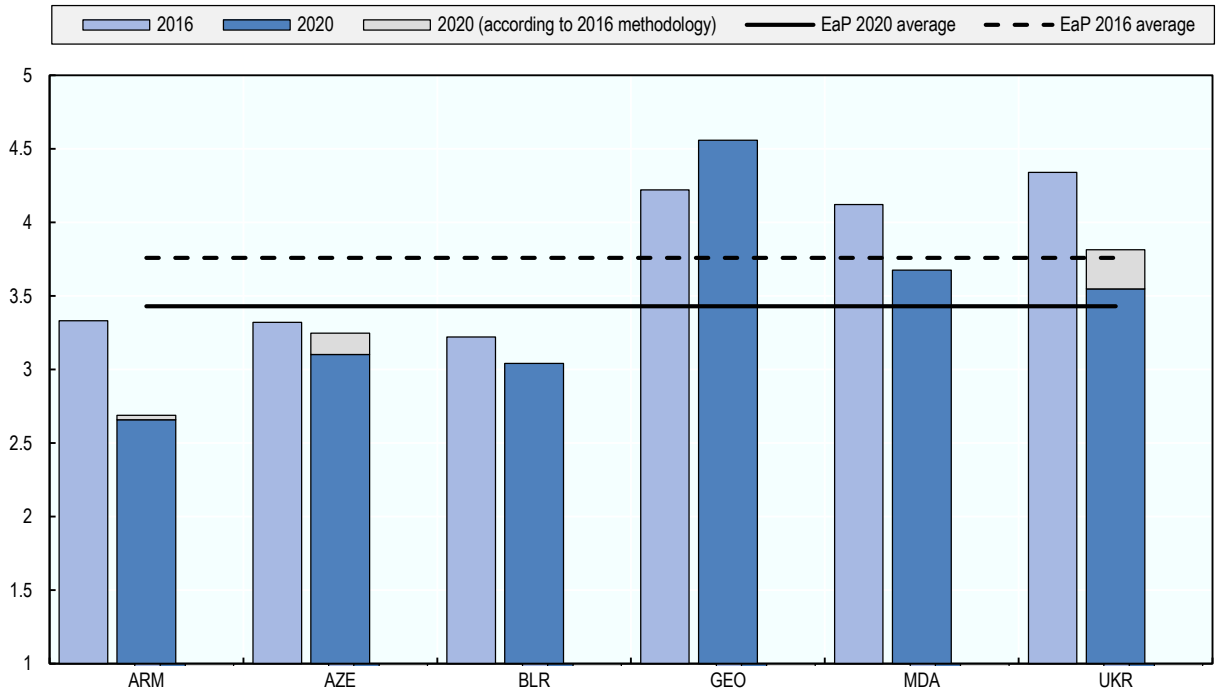
All the EaP countries have adopted measures to ensure technical regulations and standardisation laws converge towards EU principles, with AA/DCFTA countries leading the way. Moreover, since 2016, all EaP countries have applied for associate membership in the European co-operation for Accreditation (EA) and Belarus, Georgia, Moldova and Ukraine have signed bilateral recognition agreements with the EA. While Azerbaijan's legislation on conformity assessment (CA) is not yet totally in line with that of the EU, Georgia, Moldova and Ukraine have aligned their legislation with the EU acquis, and Armenia and Belarus follow the Eurasian Economic Union's approach to CA.

However, only about half of the EaP countries have specific measures in place to facilitate SME access to CA. Government bodies responsible for metrology exist in all EaP countries, but only in Belarus, Georgia, Moldova and Ukraine do they enjoy international recognition. While other EaP countries have market surveillance based on *ex ante* control, Georgia, Moldova and Ukraine have passed legislation to transition towards a system based on *ex post* control. Finally, to compensate for the lack of awareness of the benefits accruing from SMEs' participation in standardisation activities, all EaP countries have introduced awareness-raising measures, yet with overall limited degrees of outreach.

- Today, although all EaP countries and the European Union seek to harmonise their approaches to product market regulation to reduce technical barriers to trade, the extent of harmonisation varies:Georgia, Moldova and Ukraine have signed Association Agreements (AA) with the EU establishing Deep and Comprehensive Free Trade Areas (DCFTAs), and have expressed intent to conclude Agreements on Conformity Assessment and Acceptance of Industrial Products (Emerson and Kovziridze, 2016[6]; Emerson and Cenuşa, 2018[7]; Emerson and Movchan, 2018[8]).[6] These EaP countries have to undergo deep institutional and legislative changes to harmonise their NQIs with the EU *acquis* (i.e. the "new approach").
- Because Armenia and Belarus are members of the Eurasian Economic Union (EAEU), harmonisation in these countries occurs gradually at the level of the EAEU Economic Commission. The EAEU formulates its own technical regulations, which are developed "on the basis of" EU Directives and Regulations.[7] EAEU membership entails mutual recognition of conformity assessment certificates through the EAC mark for products that are listed on the so-called "Unified List". Thus, a Belarusian or Armenian SME that has certified a product for the Armenian market can use this certificate to export to Russia or any other member of the EAEU, but not to the EU Single Market.

The results of the SBA assessment (Figure 5.5) reveal a downward trend in this dimension across the EaP region since the 2016 assessment, albeit with stark differences between DCFTA and non-DCFTA countries. The average score for this dimension is 3.43, down from 3.76 in 2016. Such apparently disappointing performance is in reality driven exclusively by the introduction of the new sub-dimension on SMEs' access to standardisation, by far the area with the clearest margin for improvement for all countries except Georgia (4.09 with the 2016 methodology vs. 4.56 with the 2020 methodology).

Figure 5.5. Scores for the *Standards and technical regulations* dimension compared to 2016



Note: Methodological changes have been introduced to the 2020 assessment and should be taken into account when observing trends in SME Policy Index scores.

StatLink http://dx.doi.org/10.1787/888934087002

Progress on overall co-ordination and general measures varies across the region

This sub-dimension measures the scope of general policies and tools for facilitating SMEs access to the EU single market. These tools include a strategy or action plan for adopting technical regulations and providing information tailored to the needs of SMEs on product requirement for exports to the EU.

All EaP countries have a strategy for adopting EU legislation on industrial products and government bodies that are responsible for overall quality policy co-ordination. As mentioned previously, Georgia, Moldova and Ukraine have developed these through the AA and DCFTA; Armenia and Belarus are pursuing international harmonisation based on the WTO Technical Barriers to Trade Agreement and are EAEU members and Armenia signed a Comprehensive and Enhanced Partnership Agreement (CEPA) with the EU in 2018, which also foresees approximation with EU technical regulations and standards, including considering negotiating an Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA). Azerbaijan and the EU have also drafted a new trade agreement, which will replace their existing Partnership and Cooperation Agreement.

With the exception of Azerbaijan and Georgia,[8] the EaP countries lack a single website where SMEs can find information on product requirements to sell on the EU Single Market; and what online information does exist is limited. Most EaP countries have also no single contact point for exporters to the EU (except for Georgia and Ukraine) but rather have developed idiosyncratic approaches to providing information to SMEs interested in export, e.g. through Departments for Technical Regulation, SME agencies or export promotion

offices. In general, more progress in this area is needed throughout the region, with the exception of Georgia, whose score in this sub-dimension is 5 (see Table 5.3).

Table 5.3. Scores for the *Overall coordination and general measures* sub-dimension

	ARM	AZE	BLR	GEO	MDA	UKR	EaP average
Overall coordination and general measures	3.50	3.70	3.50	5.00	3.50	3.50	3.78

Note: see Annex A for information on the assessment methodology.

Approximation with the EU acquis is proceeding at different speeds, with AA/DCFTA countries leading the way

This sub-dimension assesses the policies and legislation in EaP countries in the field of technical regulations and standards in terms of approximation to the EU acquis. These harmonisations are crucial to allow SMEs to gain better access to the EU single market.

AA/DCFTA countries have progressed much faster than the other EaP countries in their process of approximation with EU acquis, especially when it comes to approximating technical regulations, developing accreditation bodies and upgrading metrology legislation:

- **Technical regulations** (TR) in EaP countries have converged towards the EU as Georgia, Moldova and Ukraine have ratified their AAs and the EAEU has oriented its NQI towards the EU system. All EaP countries have amended national legislation and adopted action plans to reflect EU sectoral legislation in priority sectors, developed websites where SMEs can find relevant information how to comply with TRs, and assessed and addressed the training needs of institutions that implement TR. Interestingly, Ukraine has developed a platform where SMEs can not only find information about new technical regulation but can also ask questions and provide feedback.[9]
- **Standardisation** is the area of quality infrastructure with the lowest performance and greater divergence between EaP countries. All countries have largely approximated their standardisation law with EU principles and have national standardisation bodies (NSBs) that are Companion Standardization Bodies of the European standardisation organizations CEN and CENELEC. Moldova serves as an example, as the country has inscribed several good practice principles into its NSB's articles, such as balanced representation of all stakeholders, and has fostered collaboration with the national SME agency.
- However, the depth and speed of approximation with international and European standards varies, and participation by SMEs is a common challenge across all EaP countries.[10] The three DCFTA countries, in particular, face the immense task of transposing (and translating) the EU corpus of harmonised standards. Nevertheless, they have made gradual progress in recent years and are, in two cases, close to full harmonisation: Moldova and Ukraine stand at 80-100%. Georgia's harmonisation rate (25%) was lower at the time of assessment.
- The international recognition of the **national accreditation bodies**, which has been proven to be important for export performance (Blind, Mangelsdorf and Pohlisch, 2018[9]), is a positive recent development. All EaP countries have applied for associate membership in the European co-operation for Accreditation (EA) association; and Belarus, Georgia, Moldova and Ukraine have signed bilateral

recognition agreements with the EA. Moreover, all EaP countries have approximated their accreditation legislation with the EU *Acquis* and have national accreditation bodies that are operational, adequately staffed and publish a register of accredited bodies online. Common remaining challenges in EaP countries are to achieve positive assessment through EA including peer organisations in all priority areas, conduct frequent monitoring and evaluation, and promote sufficient offer of competent conformity assessment bodies.

- Whereas Georgia, Moldova and Ukraine have approximated their legislation on **conformity assessment** (CA) with the EU *acquis*, Azerbaijan's legislation, albeit reviewed and amended, is not yet totally in line with the EU. Armenia and Belarus follow the EAEU's approach to CA. All EaP countries have designated websites that provide information on CA and an online register of CA bodies. Only about half of the EaP countries have specific measures in place to facilitate SMEs access to CA and most of these measures are also (co-) financed by international donors.
- Government bodies responsible for **metrology** exist in all EaP countries. The metrology bodies in Belarus, Georgia, Moldova and Ukraine all enjoy international recognition, participate in joint regional activities and have an institution that is responsible for their supervision at the ministerial level. Armenia and Azerbaijan lag somewhat behind their EaP peers, but both countries work with Georgia's national metrology institute for crucial metrology services. Room for improvement exists in the regularity of monitoring and evaluation of national metrology policies. However, the Ukrainian performance in this thematic block is remarkable and grants the country the top score of 5 (see Table 5.4).
- Georgia, Moldova and Ukraine have passed legislation to transition from a system of **market surveillance** based on (mostly) *ex ante* control (e.g. through mandatory certification before products are placed on the market) towards (mostly) *ex post* control in line with the EU *acquis* (e.g. control of random product samples, control upon suspicion). Belarus and Armenia, as EAEU members, still operate in a system based mostly on *ex ante* mandatory certification (even though the EAEU system also gravitates towards declaration of conformity, which is equivalent to self-declaration). Azerbaijan has prepared a proposal for legislation on market surveillance in line with the EU *acquis,* and it will be important to adopt this document without delay.

Table 5.4. Scores for the *Approximation with the EU Acquis* sub-dimension

	ARM	AZE	BLR	GEO	MDA	UKR	EaP average
Technical regulations	3.33	4.13	3.89	4.67	4.00	4.55	4.10
Standardisation	2.81	3.37	2.70	4.00	3.63	4.52	3.51
Accreditation	3.44	3.24	3.28	4.83	4.00	4.89	3.95
Conformity Assessment	2.17	3.25	2.86	4.94	2.97	3.97	3.36
Metrology	2.43	3.38	3.76	4.14	4.29	5.00	3.83
Market Surveillance	2.67	3.80	2.56	4.00	3.67	3.11	3.30
Weighted average	**2.81**	**3.53**	**3.18**	**4.44**	**3.76**	**4.35**	**3.68**

Note: see Annex A for information on the assessment methodology.

More effective measures should be taken to promote SME use of standards and participation in standardisation committees

SMEs' use of standards opens up new market opportunities, reduces production and transaction costs, and gives the SMEs a head start in adapting to market demand and new technologies. However, many SMEs are unaware of these manifold benefits, and thus the potential benefits of using standards as well as of participating in standards development process remain overshadowed by perceptions that both aspects are onerous burdens.

To compensate for this, all EaP countries have introduced awareness raising measures, yet with overall limited degrees of outreach. Georgia and Moldova are exceptions to an otherwise poor regional performance, with Georgia's NSB organising seminars also in remote areas.

Another important aspect in this sub-dimension is the need to increase SME participation in developing standards. For example, Georgia reported that, thanks to the awareness-raising measures of its NSB, SMEs have enriched the work of its technical committees.

Lastly, financial support allowing SMEs to participate in technical committees (TCs) or to deal with the costs of purchasing and implementing standards can be beneficial for resource-constrained SMEs, for instance to enable certification of compliance. However, with the exception of Georgia and Moldova (and of Belarus' SME discount for purchasing standards), the number of financial support measures for SMEs is very low in EaP countries (see Table 5.5). Box 5.3 provides examples of good practice in this area from Germany.

Table 5.5. Scores for the *SMEs Access to Standardisation* sub-dimension

	ARM	AZE	BLR	GEO	MDA	UKR	EaP average
Awareness raising and information	3.08	2.58	3.92	4.50	4.58	3.75	3.74
SMEs participation in developing standards	2.50	3.50	2.50	4.50	3.50	3.00	3.25
Financial support to SMEs	1.00	1.00	1.80	4.60	3.00	1.00	2.07
Weighted average	**2.08**	**2.23**	**2.65**	**4.54**	**3.63**	**2.43**	**2.92**

Note: see Annex A for information on the assessment methodology.

Box 5.3. Financial support for standardisation in Germany

WIPANO (funding organisation: Federal Ministry of Economic Affairs and Energy).

The WIPANO program aims to support knowledge transfer via patents and standards. It does this by translating the latest research findings into standards to make them directly available to the industry. Standards developed in the framework of WIPANO can also help to accelerate the market entry of new technologies, for example through test and inspection standards.

WIPANO funds research organizations and companies for their research towards the development of new standards. Co-operation projects with at least one publicly funded research partner are eligible for funding. The non-repayable grant is limited to EUR 200 000 per collaboration partner. The funding rate depends on the type of organization, with

maximum subsidy for companies equal to 50 percent of the eligible costs. The projects have a duration of between 6 and 36 months.

DIN-Connect (funding organisation: Germany's standardisation bodies DIN and DKE)

To promote innovation, DIN (the German Institute for Standardization) and DKE (the German Commission for Electrical, Electronic and Information Technologies) launched the DIN-Connect program in 2016. The program is comparable to WIPANO, but addresses smaller projects and does not require additional own investment by the project participants. In particular, DIN and DKE support projects that have the specific goal of standardization. Ideas from start-ups and SMEs are preferred and there are three levels of financial support. The maximum project duration is 12 months. Relevant topics include additive manufacturing processes, building information management, electrical safety, Industry 4.0, circular economy, and smart farming.

Source: https://www.innovation-beratung-foerderung.de/INNO/Navigation/DE/WIPANO/Normung-Standardisierung/normung-standardisierung.html, last accessed July 19, 2019

The way forward

The policy recommendations from the 2016 SBA assessment are still relevant. These include: 1) strengthening institutional and administrative capacities to implement quality infrastructure (e.g. product legislation); 2) accelerating the transposition of international and European standards into national contexts; 3) developing SME-tailored information on technical barriers to trade and conformity assessment; and 4) regular monitoring and evaluation of the development of quality infrastructure.

In addition, this assessment analysis leads to further, general recommendations that apply to all EaP countries, including in the new sub-dimension *SME access to standardisation*, as well as recommendations for particular countries:

- **All EaP countries could redefine the focus of institutional missions**[11] **from "control" to "industrial service provision"**. To facilitate approximation with the EU's New Approach, relevant EaP ministries should seek to reshape the perception of quality infrastructure, and to complement their activities to control firms' compliance (via standards and technical regulations) with an increased focus on communicating the potential of standards and conformity assessment to drive industrial upgrading, innovation and export. Further, a sense of partnership with the sector should be fostered – for instance, when defining the direction of NQI development.
- **All EaP countries could expand financial and non-financial measures to foster the use of standards and conformity assessment services.** SMEs can only benefit from the approximation with EU technical regulation and standards if they implement them in their day-to-day operations. This could be facilitated through 1) user-friendly online websites or information campaigns to reduce search costs and increase compliance for SMEs, 2) training to help entrepreneurs and employees harness their managerial and technical capacity and 3) co-financing to buy conformity assessment services or standards when SMEs are liquidity constrained to make the necessary investments.

- **Belarus, Moldova and Georgia should institutionalise regular feedback mechanisms as well as policy monitoring and evaluation** to accompany the introduction of financial and non-financial support measures. Formal feedback mechanisms, such as Ukraine's new "Communication Platform for Technical Regulation in Ukraine" (www.techreg.in.ua), can help policy makers assess the adequacy of existing legislative frameworks. Furthermore, specific measures, such as training programmes or co-financing, could be subject to robust evaluation, including *ex ante* randomisation of access to the program or *ex post* evaluation, e.g. through matching methods.[12]
- **Armenia and Azerbaijan should take further steps for their systems to be internationally recognised** – for example, by joining the International Laboratory Accreditation Cooperation (ILAC) or the International Accreditation Forum (IAF), or through a bilateral agreement (BLA) with European co-operation for Accreditation (EA).
- **Armenia, Azerbaijan, Belarus and Ukraine should foster co-operation between "technical" and "economic" government bodies.** Ministries responsible for economic affairs could consider increasing co-operation between their "technical" NQI institutions and their "economic" institutions, such as SME agencies or export promotion offices, in particular to improve the quality and export-related relevance of information and industrial business services provided to SMEs.[13]

SME Internationalisation

Given the relatively small size of most EaP countries' domestic markets, combined with pressure from international competition, access to foreign markets is crucial to SMEs' long-term viability. Besides opening new markets, the internationalisation of SMEs contributes to an increase in productivity, quality and innovation, by exposing SMEs to international competition and helping them to achieve economies of scale.

Global value chains (GVCs) and fragmentation of production have created opportunities for SMEs to fill niches in the supply chains of multinational or large domestic enterprises. Through these, they can access global markets at a lower cost, while benefitting from technology and skills transfer (OECD, 2019[10]). Integration into global value chains is central to raising growth and productivity (OECD, 2013[11]).

As digital transformation progresses, e-commerce opens new opportunities for SMEs to enter foreign markets at relatively low cost. Besides increased market reach, the benefits of e-commerce include lower marketing and distribution costs, improved business processes and reduced operational costs (Jones, 2013[12]).

However, SMEs tend to be under-represented in international trade because they face information asymmetries, financial barriers to entry in foreign markets, limited skills and know-how, high per-unit transport costs and lengthy trade procedures (OECD, 2019[10]). SMEs that wish to act as suppliers for multinational enterprises and better integrate into GVCs may have to upgrade technology and innovation capacity, find adequately skilled labour and meet international standards and certification requirements (UNCTAD, 2010[13]).

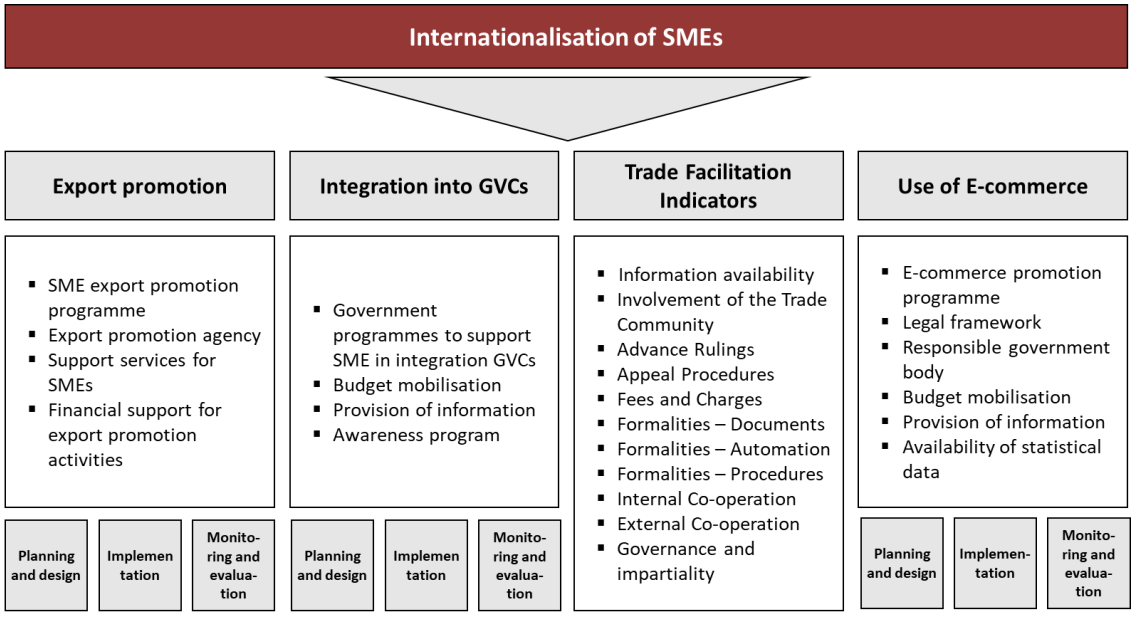
Allowing SMEs to access global markets – and to be competitive in them – requires removing barriers to trade and reducing the cost and complexity of trade procedures.

Furthermore, targeted government support for SMEs in export promotion, integration into global value chains and e-commerce can facilitate the internationalisation of SMEs and propel their integration into the global economy. This also includes financial services for exporting SMEs, and training and consultancy services to increase SME readiness for internationalisation.

Assessment framework

The assessment framework for this dimension has been updated since 2016 1) to reflect the growing relevance and complexity of international markets, in particular by incorporating the OECD's Trade Facilitation Indicators; and 2) to better capture the role of trade fragmentation and digitalisation in SME internationalisation, via a new e-commerce sub-dimension. As presented in Figure 5.6, four sub-dimensions have been considered in this round of SBA assessment: 1) SME export promotion, 2) integration of SMEs into global value chains, 3) OECD Trade Facilitation Indicators and 4) promoting SME use of e-commerce.

Figure 5.6. Assessment framework – SME internationalisation



SME Export promotion

The first sub-dimension looks at approaches to export support and promotion activities and government support services for SMEs with export potential. It focuses on the existence of export promotion strategies and the role and activities of export promotion agencies (such as the provision of export-related training, organisation of trade events, and financial support for exporting SMEs). The sub-dimension also examines the level of monitoring and evaluation of existing export promotion programmes.

Traditionally, export promotion activities have focused on organising trade events and supporting SME participation in trade fairs. As a response to growing international competition and the increasing complexity of international markets, a well-performing export promotion policy should address a broader range of challenges faced by SMEs when attempting to access foreign markets. Based on a strategic policy document (e.g. an export

promotion strategy), the export support and promotion activities should address information asymmetries faced by SMEs, their limited capacity to comply with international quality standards, challenges connecting with international buyers (and suppliers), and lack of financial resources to facilitate international trade.

Integration of SMEs into global value chains

The second sub-dimension assesses the extent to which governments support the integration of local SMEs into global value chains. In particular, this section examines the availability of government programmes supporting cluster development, the creation of supply chain linkages between SMEs and multinational enterprises (MNEs), and technology transfers from MNEs, and whether MNEs are incentivised to engage with smaller firms.

SMEs typically access GVCs through supply chain linkages, involving the purchase and sale of intermediate goods or services, often by supplying MNEs operating locally. Governments can play a key role in providing information and matchmaking services to fill the informational gap between SMEs and MNEs and encourage MNEs to engage with SMEs, e.g. through tax credits to investments providing tangible benefits to local suppliers, or through concessionary financing of strategic activities. They can also provide training and capacity building activities to increase the absorptive capacity of local SMEs.

International experience shows that the promotion of SME "clusters" – sectoral and geographical concentrations of enterprises that produce and sell a range of related or complementary products – can enhance the international competitiveness of its members and facilitate SME access to GVCs, capitalising on local opportunities and collective competitive advantage (UNIDO, 2001[14]).

OECD Trade facilitation indicators

The third sub-dimension, OECD Trade Facilitation Indicators (TFIs), has been added to the SBA assessment for the first time. The OECD TFIs –a tool implemented biannually since 2013 in 160 countries across different income levels, including all OECD member countries – covers the full spectrum of border procedures. The indicators are composed of several specific, fact-based variables related to existing trade-related policies and regulations and their implementation in practice. The approach taken to scoring in the TFIs is to transform qualitative regulatory information into a scheme where the top score (2) corresponds to the best performance. The indicators not only seek to reflect the regulatory framework in the concerned countries, but also delve into the state of implementation of trade facilitation measures (OECD, 2018[15]).

Complex GVCs have increased pressure on countries' national markets to connect rapidly and efficiently with the global economy. Transparent, predictable and straightforward border procedures are becoming increasingly important in an increasingly interconnected global economy. For example, harnessing the development of information technologies and introducing "single windows" for exporting can significantly contribute to faster trade procedures. Co-operation between internal and external border agencies can further reduce the burden on exporting companies and contribute to transparent and predictable custom procedures (OECD, 2019[10]).

SME use of e-commerce

A fourth sub-dimension, "SME use of e-commerce", has also been added to the SBA assessment for the first time. It assesses the policies encouraging a more widespread use of e-commerce as a sales channel by SMEs. In particular, the sub-dimension considers customer protection standards and the existence of a regulatory framework for e-payments. Besides the regulatory aspect of e-commerce, it also looks at government efforts to promote SMEs' access to digital platforms and the provision of support services to remove barriers that prevent SMEs from benefiting from growing trade digitalisation.

Experience shows that government support can be crucial for SMEs attempting to take advantage of the opportunities arising from e-commerce, whether by tapping new markets or accessing new global value chains. E-signature and e-contract law are needed to facilitate the establishment of online businesses (ITC, 2016[16]) Consumer protection also plays a crucial role, since security risks associated with online trading often prevent businesses from engaging in e-commerce, especially in emerging economies (OECD, 2019[17]). Training and awareness-raising activities complete the picture, since the often-cited barriers that prevent SMEs from tapping into the e-commerce potential include lack of knowledge, inadequate skills and outdated technology (OECD, 2018[18]).

Analysis

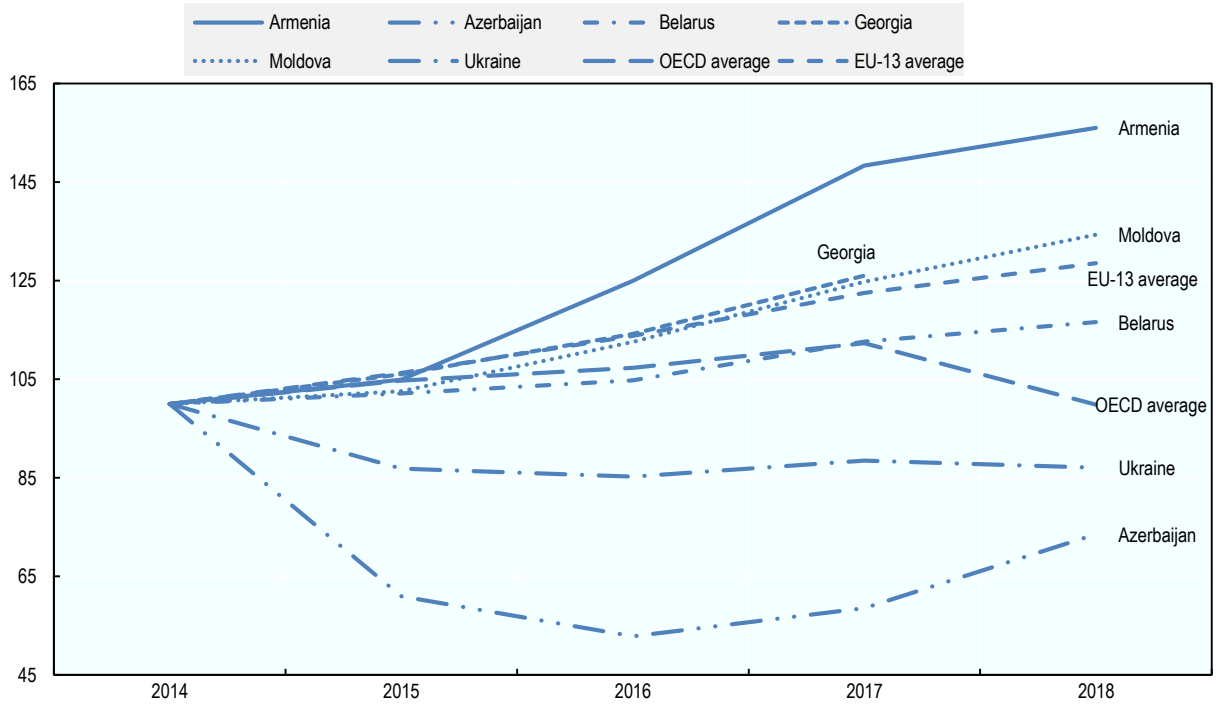
Access to foreign markets is crucial for SMEs' long-term viability. However, they tend to be under-represented in international trade due to many barriers, such as information asymmetries, financial barriers, and lack of skills and know-how. This dimension assesses the EaP governments' support for export-oriented SMEs.

The internationalisation of enterprises in the EaP region remains limited. Export growth averaged around 3% in volume terms in 2014-18 (Figure 5.7), close to the rate of growth of world trade overall and somewhat above the region's GDP growth. This average in any case masks huge differences, since Ukraine's exports contracted as a result of geopolitical conflicts and softer metals prices, while Azerbaijan's dropped and then recovered along with oil and gas prices. The other EaP economies recorded average annual export growth of close to 6% (World Bank, 2019[19]).

That said, the contribution of SMEs to total exports value remains, with the exception of Georgia, below the EU average of 60% (Armenia – 13%, Belarus – 47%, Georgia – 60%, Ukraine – 27%[14]), reflecting the limited ability of local SMEs to compete on an international scale. SMEs' continued difficulties in integrating into ever more globalised economy, combined with their limited ability to realise economies of scale and to exploit still untapped opportunities stemming from the DCFTA/AA agreements[15] with the EU signed in 2015, call for stepping up efforts to promote SME internationalisation.

Figure 5.7. Value of exports from the EaP countries (Index, 2014=100)

Constant 2010 USD

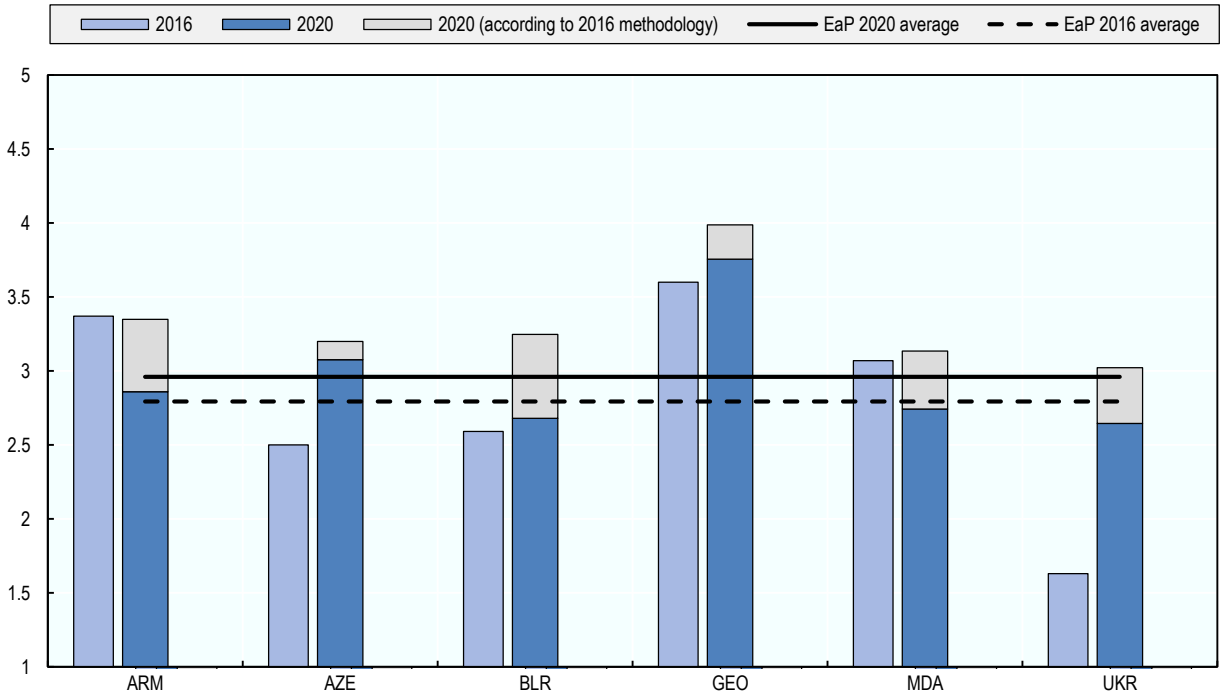


Note: In constant prices; 2018 data for Georgia is not available. EU-13 Member States = Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia.
Source: OECD calculations based on the World Bank (2019[19]) *Development Indicators Database*, accessed on February 2019.

StatLink http://dx.doi.org/10.1787/888934087021

The results of the SBA assessment show that all EaP countries recognise the increasing importance of SME internationalisation and have adopted a strategic approach to export promotion. However, many of them are struggling to ensure the successful implementation of their export strategies; this is reflected in the modest increase of their average score for the *SME internationalisation* dimension since the 2016 assessment (from 2.79 to 2.96) (Figure 5.8).

Figure 5.8. Scores for the *SME internationalisation* dimension compared to 2016



Note: Methodological changes have been introduced to the 2020 assessment and should be taken into account when observing trends in SME Policy Index scores.

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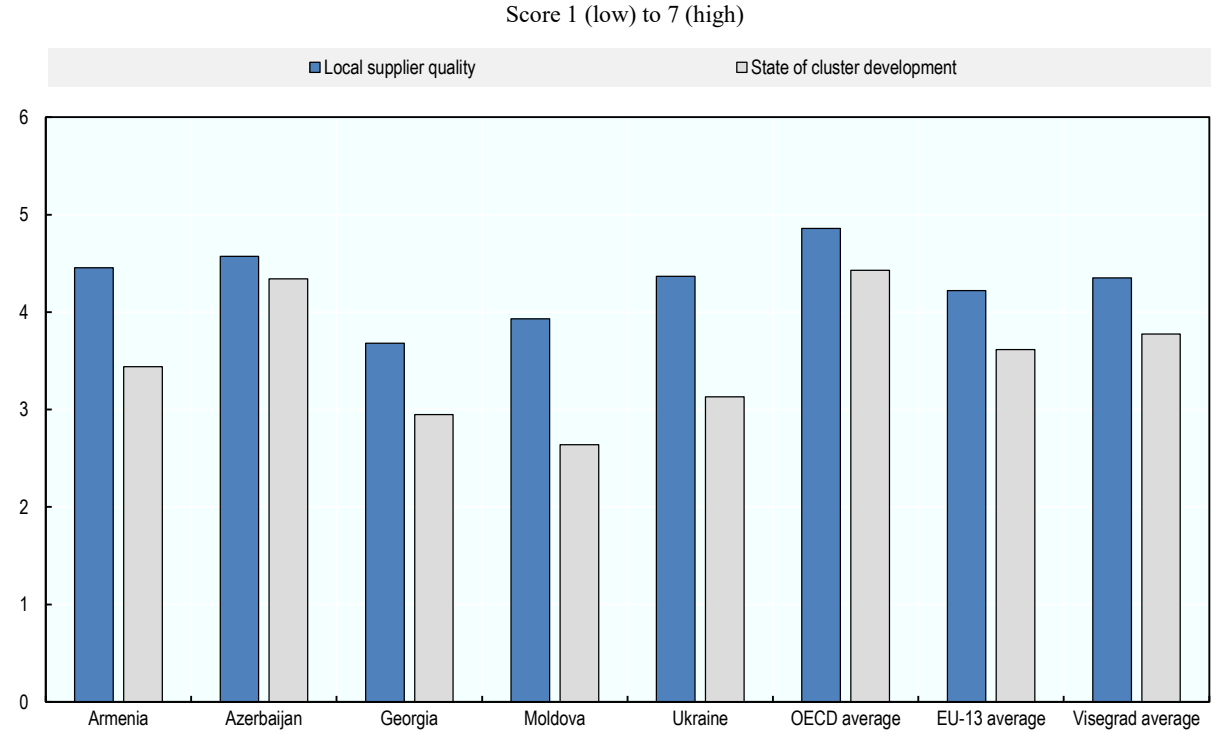
While institutional support for SME internationalisation is in general improving, countries often fail to ensure continuity and appropriate funding for their export promotion agencies. In addition, the range of provided support services does not always keep up with rapidly changing global markets, resulting in limited impact of the programmes on the capacity of local companies to supply MNEs (Figure 5.9) or tap into the growing potential of e-commerce.

Since 2016, all EaP countries have started implementing (or, in the case of Armenia, preparing) new strategies for SME internationalisation. Nearly all EaP countries have established a dedicated export promotion agency, albeit often under-funded and under-staffed. The Moldovan Investment Agency and Business Armenia were recently downsized. In Azerbaijan, AZPROMO only focuses on the organisation of promotional events, trade missions and supporting the participation of local companies in trade fairs. Ukraine established a new Export Promotion Office. Other public institutions also provide SMEs with support services to improve their internationalisation, and the EU and other donors financially support SMEs' access to foreign markets. Since 2016, only limited progress was made in implementing policies to foster SME integration into GVCs. Azerbaijan created a platform to connect local companies producing under the brand *Made in Azerbaijan* with foreign buyers and the Georgian online portal www.tradewithgeorgia.com also provides information on export-oriented Georgian companies. Cluster development is one of the priorities, especially for Moldova, Georgia and Azerbaijan.

Notwithstanding the implementation of all those measures, the 2017 OECD Trade Facilitation Indicators underline a significant performance gap between the EaP region and OECD countries (OECD, 2018[15]). In the relevant sub-dimension, Georgia is the best performer in the region, followed by Azerbaijan (see Table 5.1).

Basic legal frameworks for e-payments and consumer protection in e-commerce are in place in all EaP countries, but continuous efforts are needed to align with EU frameworks. Lack of IT skills is addressed by Azerbaijan and Georgia through the launch of the "Baku E-Commerce Academy" and targeted Enterprise Georgia and GITA programmes to increase SME readiness to use e-commerce as a sales channel, respectively.

Figure 5.9. Local supplier quality and state of cluster development, 2017



Note: Data for Belarus not available. Survey question: In your country, how available are high-quality, professional training services? [1 = not available at all; 7 = widely available]. (EC, 2018[20]) OECD, EU-13, and Visegrad averages calculated as simple averages. EU-13 Member States – Bulgaria, Croatia, Cyprus*, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia.
Source: World Economic Forum (2018), *Global Competitiveness Index Dataset 2017-2018*, http://reports.weforum.org/global-competitiveness-index-2017-2018/downloads.

StatLink http://dx.doi.org/10.1787/888934087059

Export promotion needs to be further embedded in policy frameworks

This sub-dimension assesses the EaP governments' efforts to promote SME exports while addressing the main barriers to SME internationalisation.

In general, countries from the EaP region have either embedded export promotion strategies into their policy frameworks or addressed SME internationalisation within equivalent documents, resulting in them scoring well in that sub-dimension (Table 5.6). Since 2016, Azerbaijan, Belarus, Georgia, Moldova and Ukraine have begun implementing new strategies to improve SME internationalisation. Armenia is currently preparing a new SME

strategy that envisages implementing policies to support SME access to foreign markets. It should be noted that all the countries improved their consultation processes with the private sector when preparing the strategies. However, public-private consultations could be further strengthened, especially in Armenia and Azerbaijan.

Table 5.6. Scores for the *Export promotion* sub-dimension

	ARM	AZE	BLR	GEO	MDA	UKR	EaP average
Planning & design	4.17	3.67	3.33	4.33	3.83	4.00	3.89
Implementation	3.35	4.15	4.15	4.57	3.55	2.98	3.79
Monitoring & evaluation	4.00	2.25	3.50	3.50	2.50	3.25	3.17
Weighted average	**3.77**	**3.60**	**3.73**	**4.27**	**3.44**	**3.39**	**3.70**

Note: see Annex A for information on the assessment methodology.

Typically, export promotion agencies play a central role in the export support ecosystem, and all the EaP countries, except Belarus, have established a dedicated agency with a mandate to promote access of local companies to foreign markets. However, limited staff and funding, as well as a narrow range of provided services, have hampered their positive impact on SME internationalisation. For example, the Moldovan Investment Agency and Business Armenia were recently restructured and basically ceased providing export promotion and support services. In Azerbaijan, AZPROMO focuses on organising promotional events and trade missions and supporting the participation of local companies in trade fairs, but does not provide services and training to increase the export readiness of local SMEs. Ukraine has made significant progress in developing its policy framework, including the establishment of a new Export Promotion Office; however, considering the size of the Ukrainian economy, the scope and territorial coverage of provided services could be extended.

Besides export promotion agencies, other public institutions provide SMEs with support services to improve their internationalisation. In Armenia, the SME DMC provides training and consultancy services in this area. In Azerbaijan, the SME Development Agency and a "Single Window" export promotion centre provide training as well as informational and consultancy support for SMEs that are interested in exporting. Moreover, chambers of commerce and industry are typically quite active in export support for SMEs (e.g. in Belarus, Georgia and Moldova). In addition, international donors (especially the European Union) have been active in supporting SMEs' access to foreign markets (Box 5.4).

Box 5.4. EU programmes to support internationalisation of SMEs in the EaP region

The DCFTA SME Direct Support Facility aims to provide support for SMEs in three EaP countries – Georgia, Moldova and Ukraine – that have signed EU Association Agreements incorporating the establishment of a Deep and Comprehensive Free Trade Area (DCFTA). Adherence to EU standards might be challenging for SMEs, which may need extra skills and more financial resources to adapt. Jointly implemented by the European Commission, the European Investment Bank and the European Bank for Reconstruction and Development, the facility helps small businesses to grow and prepare for the new market opportunities introduced by the DCFTA and helps national authorities to implement their Association Agreements.

Enterprise Europe Network

Launched in 2008, the Enterprise Europe Network (EEN) supports SMEs in improving their innovation and internationalisation processes. It operates under the EU Competitiveness of Small and Medium-sized Enterprises (COSME) programme and covers over 60 countries worldwide, including the six EaP countries, making it the largest support network for the internationalization of SMEs worldwide. EEN manages Europe's largest online database of business opportunities, which SMEs can access to look for business or academic partners abroad to manufacture, distribute, co-develop and supply ideas, goods and services. At the same time, they can take advantage of the European Innovation Council (EIC) "wizard" tool to identify which funding instrument is best suited to their needs. Part of the funding for the EIC is devoted to the SME Instrument, a tool available for SMEs with disrupting innovation ideas that are highly risky, potentially market-creating, internationally scalable and in need of additional investments. The SME Instrument provides full-cycle support, including coaching and mentoring for the entrepreneurs.

Ready to Trade project

The "Eastern Partnership: Ready to Trade" initiative falls under the umbrella of the EU4Business initiatives and is financed by the International Trade Centre (ITC). The project has a budget of EUR 6 million and covers the period 2017-20.

The initiative seeks to help SMEs from the EaP countries to access new markets, identify and comply with quality standards, and meet international requirements. It also links them with buyers along the value chain and provides cluster support.

Ready to Trade targets different sectors in different countries. It supports the agro-processing sector in Armenia, the agro-processed food and light-manufacturing sectors in Azerbaijan, the textile and clothing sector in Belarus, the agro-processing sector in Georgia (focusing on processed fruits and vegetables, non-alcoholic beverages, processed hazelnuts, dried fruits, spices (bay leaf) and tea), the apparel sector in Moldova, and finally the berries sector in Ukraine.

EaP Trade Helpdesk

Currently under development, the EaP Trade Helpdesk will introduce a tool based on the model of the Trade Helpdesk for the Euro-Mediterranean Partnership. The latter proved to be a valuable source of information on issues such as tariff and nontariff barriers on imports of goods into and from any EuroMed country to another or to the EU. It also covers trade statistics and facilitates online business contacts with potential trade partners. The EaP Trade Helpdesk, developed in co-operation with ITC, will play a relevant role in the pursuit of regional trade in goods, increased transparency in trade regimes between countries, and effective dispute-resolving processes.

Sources: European Commission (2018[21]), "Enterprise Europe Network", https://een.ec.europa.eu (accessed on 26 July 2019); European Commission (2019[22]), "*DCFTA (Deep and Comprehensive Free Trade Area) SME Direct Support Facility"*, https://ec.europa.eu/europeaid/blending/dcfta-deep-and-comprehensive-free-trade-area-sme-direct-support-facility_en (accessed on 26 July 2019); EIB (2019[23]), "European Investment Bank. Deep and Comprehensive Free Trade Area (DCFTA) Initiative East", https://www.eib.org/en/projects/regions/eastern-neighbours/instruments/dcfta/index.htm (accessed on 26 July 2019); EaP Civil Society Forum (2018[24]), *Position Paper on EU Trade Helpdesk,* http://eap-csf.eu/wp-content/uploads/EaP-CSF-position-paper-KAKHA-Help-Desk-1.pdf (accessed on 26 July 2019); EU4Business (2019[25]), "Eastern Partnership: Ready to Trade – an EU4Business initiative", http://www.eu4business.eu/programme/eastern-partnership-ready-trade-eu4business-initiative?destination=programmes%3Fpartner_list%3D1934%26partner1934%3Don

Financial mechanisms to support SME export, such as export credit insurance and export working capital, remain to be further developed in the EaP countries. Dedicated financial institutions are operational only in Armenia (Export Insurance Agency of Armenia) and Belarus (Eximgrant). The Ukrainian Export Credit Agency established in 2018 is not yet operational. In Azerbaijan, Georgia and Moldova, only few programmes offer export financing for SMEs (e.g. Women in Business in Moldova), but a more systematic approach is missing.

Tools for SME integration into global value chains need to be further developed

This sub-dimension assesses the extent to which EaP governments are undertaking measures to promote SME integration into GVCs, on both the demand side and the supply side.

Since the 2016 SBA assessment, the EaP countries have made limited progress in implementing policies to foster SME integration into GVCs, and activities in this area continue to focus mostly on the organisation of networking and promotional events. Scores are particularly low in the *Monitoring and evaluation* sub-dimension, where the EaP average is only 1.11 (see Table 5.7). However, countries are starting to develop online tools to connect local SMEs with international buyers. Azerbaijan, through the www.azexport.az portal, has created a platform to connect local companies producing under the brand *Made in Azerbaijan* with foreign buyers. The online portal www.tradewithgeorgia.com also provides information on export-oriented Georgian companies.

Table 5.7. Scores for the *Integration into GVCs* sub-dimension

	ARM	AZE	BLR	GEO	MDA	UKR	Eap average
Planning & design	2.17	2.00	1.58	3.00	2.33	2.33	2.24
Implementation	1.60	1.53	1.20	3.26	2.00	1.20	1.80
Monitoring & evaluation	1.00	1.00	1.00	1.67	1.00	1.00	1.11
Weighted average	**1.68**	**1.59**	**1.29**	**2.85**	**1.92**	**1.56**	**1.81**

Note: see Annex A for information on the assessment methodology.

Cluster development is one of the priorities of the governments from the EaP region, and all the countries, usually with support from the EU, are very active in promoting cluster development. For example, Moldova has launched two clusters focusing on the textile and creative sectors, and Georgia is promoting cluster development in the furniture, apparel and creative sectors. Azerbaijan's SME Roadmap 2016-2020 also identifies cluster development as one of its priorities, but policies are yet to be implemented.

In general, SMEs typically access GVCs through supply chain linkages with MNEs. Despite the high potential for the development of such linkages, however, EaP countries have not yet adopted a systematic approach to their development. Georgia, as the only country from the EaP region, initiated a pilot project funded by the UK Department for International Development aimed at fostering linkages between MNEs operating in Georgia and local SMEs in the hospitality sector. Moldova, with support from the OECD, is currently designing a pilot programme to support the creation of supply chain linkages between local food producers and food retail chains. Azerbaijan is also considering implementing such a programme. Box 5.5 provides an example of a supplier development programme implemented in the Czech Republic.

Box 5.5. The CzechInvest Supplier Development Programme

The ambition of CzechInvest – the Investment and Business Development Agency of Czech Republic – to attract foreign direct investment (FDI) was initially hampered by the limited competitiveness and low absorptive capacity of local SMEs.

In response, in 2000 the agency launched the Supplier Development programme with a focus on the electronics and automotive sectors – the two fastest growing sectors in the country. The programme included:

- Training and technical assistance for local SMEs to increase the quality of their production and improve their absorptive capacity;
- Organisation of match-making events between investors and selected local producers to facilitate business relations and assist during negotiations;
- Establishment of an online database to ease identification of potential suppliers;
- Financial intermediation for business expansion when the investor can guarantee the contract for suppliers.

Source: CzechInvest (2019[26]), https://www.czechinvest.org; OECD (2019[27]), *Azerbaijan : Linking Domestic Suppliers with Foreign Investor*, http://www.oecd.org/eurasia/competitiveness-programme/eastern-partners/Azerbaijan-Linking-Domestic-Suppliers-with-Foreign-Investors.pdf.

The EaP region performs poorly in trade facilitation compared to OECD countries

The OECD TFIs feed into this sub-dimension in order to measure the extent to which countries have introduced and implemented trade facilitation measures in absolute terms.

The 2017 OECD TFIs (Table 5.8) show that while the implementation of measures to ease companies' access to foreign markets is under way, there is a significant performance gap between the EaP region (average score 1.05 out of 2) and OECD countries (average score 1.67 out of 2). Compared to the 2015 OECD TFIs, all the EaP countries moderately improved their performance, signalling positive developments in trade facilitation performance. Out of the 6 EaP countries, Georgia is the best performer in the region, with an average score of 1.55, followed by Azerbaijan with a score of 1.12. Belarus has the lowest average score (0.57).

Table 5.8. OECD Trade Facilitation Indicators, scores by country (2017)

Score 0 (low) to 2 (high)

	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine	EaP average
Information availability	1.32	1.48	0.9	1.43	0.81	1.05	1.17
Involvement of the trade community	1.14	1	0.57	1.88	1.29	1.57	1.24
Advance rulings	1.14	1.14	1.14	1.27	1.67	1	1.23
Appeal procedures	1.11	1.22		1.23	1.22	1.44	1.24
Fees and charges	1.62	1.23	0.2	1.64	1.25	1.54	1.25
Formalities documents	0.56	0.88	0.33	1.78	0.63	0.89	0.85
Formalities automation	1.09	1.27	0.5	1.85	0.9	0.54	1.03

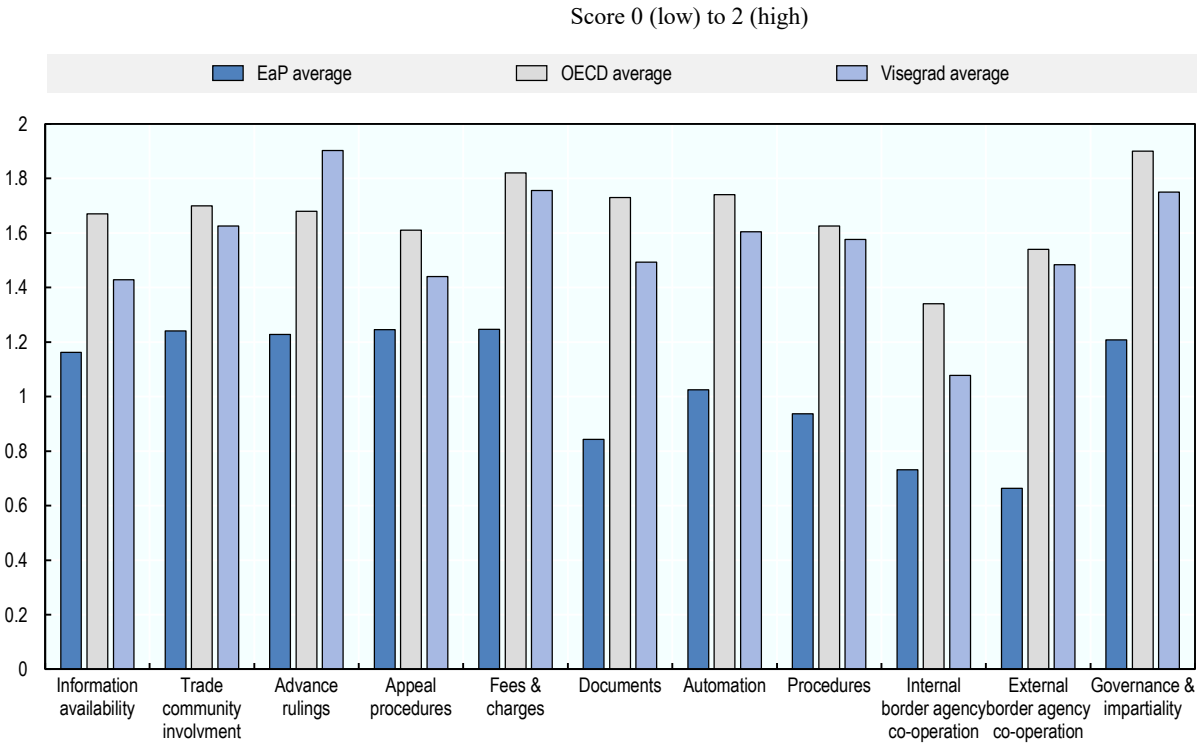
	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine	EaP average
Formalities procedures	0.86	0.93	0.61	1.56	1.04	0.62	0.94
Internal border agency co-operation	0.46	0.8	0.5	1.64	0.55	0.46	0.74
External border agency co-operation	0.70	0.8	0.6	0.91	0.33	0.64	0.66
Governance and impartiality	1.00	1.56	0.33	1.89	1.25	1.22	1.21
Country Average	1.00	1.12	0.57	1.55	0.99	1.00	1.04

Source: OECD, Trade Facilitation Indicators Database, https://oe.cd/tfi.

The biggest performance gap between the EaP region and OECD countries is in the area of formalities measured by indicators on "Documents", "Automation" and "Procedures" (see Figure 5.10). These indicators assess the extent to which the documentation and trade procedures are simplified, automated and harmonised with international standards.

Low scores on the indicators measuring border agency co-operation (both internal and external) suggest limited co-ordination among domestic border agencies, hampering efficiency of trade controls by requiring duplicative documentation and sequential controls, but also weak co-operation with border agencies from neighbouring and third countries, making cross-border trade more expensive and time-consuming.

Figure 5.10. OECD Trade Facilitation Indicators, EaP, OECD and Visegrad averages (2017)



Source: OECD, Trade Facilitation Indicators Database. See:
http://www.oecd.org/trade/topics/trade-facilitation,
http://www.compareyourcountry.org/trade-facilitation?cr=oecd&lg=en

StatLink http://dx.doi.org/10.1787/888934087078

Policies to support e-commerce adoption by SMEs are still taking shape

This sub-dimension assesses the policies implemented by the government to encourage a more widespread use of e-commerce as a sales channel by SMEs.

Basic legal frameworks for e-payments and consumer protection in e-commerce are in place in all the EaP countries. Although this is positive, continued efforts will be needed to align the frameworks with EU frameworks and keep up with a constantly evolving international online environment. The OECD Recommendation of the Council on Consumer Protection in E-commerce[16] can provide a good reference for future actions in this area. However, the lack of reliable and official data on the use of e-commerce among SMEs in the EaP countries may hamper the development of appropriate regulatory measures. All countries should improve their performance in this sub-dimension, particularly regarding implementation and monitoring and evaluation procedures (see Table 5.9).

Table 5.9. Scores for the *Use of e-commerce* sub-dimension

	ARM	AZE	BLR	GEO	MDA	UKR	EaP average
Planning & design	3.00	3.50	3.00	3.25	3.00	3.00	3.13
Implementation	1.00	3.65	1.00	3.25	1.00	1.00	1.82
Monitoring & evaluation	1.00	1.50	1.00	3.00	1.00	1.00	1.42
Weighted average	**1.70**	**3.17**	**1.70**	**3.20**	**1.70**	**1.70**	**2.19**

Note: see Annex A for information on the assessment methodology.

Lack of IT skills, outdated technology and SMEs' reluctance to digitalise their business are very common barriers that prevent uptake of e-commerce among SMEs. However, institutions providing SME and export support services in the EaP countries often do not provide any programmes or consultancy services to address these barriers.

In Azerbaijan, the Centre for Analysis of Economic Reform and Communication launched the "Baku E- Commerce Academy" in November 2018 to provide training for SMEs, which includes information on the registration and business principles of the major e-commerce platforms such as Amazon and Alibaba. And in Georgia, Enterprise Georgia and GITA offer targeted programmes to increase SME readiness to use e-commerce as a sales channel.

However, Armenia, Belarus, Moldova and Ukraine do not have any programmes to build SME awareness of the benefits of e-commerce, or to build SMEs' capacity to take advantage of the opportunities stemming from e-commerce.

The way forward

SME internationalisation in the EaP region continues to be limited. Governments could step up their efforts to systematically address problems that prevent local SMEs from entering global markets by considering the following recommendations:

- **Strengthen the capacities of export promotion agencies** by ensuring that they are adequately resourced and attract (and retain) qualified staff. This is especially true for the DCFTA countries, which have recently restructured their export promotion agencies, but it also applies to Armenia. Belarus is still lagging behind, as a dedicated SME and export promotion agency has yet to be established there.

- All EaP countries should **expand the range of provided export support services** by including training and targeted programmes with three objectives: 1) improving the export readiness of local SMEs; 2) integrating local SMEs into GVCs, in particular through supply chain linkages with large domestic and foreign companies (e.g. supplier development programmes); and 3) increase their awareness of opportunities stemming from e-commerce and improve SMEs' abilities to access major e-commerce platforms. This should be done in co-ordination with other institutions providing SME support services, such as SME development agencies and innovation agencies.[17]
- The whole region, and particularly Armenia and Belarus, should **continue reducing regulatory and administrative barriers to trade**, particular by 1) streamlining formalities and improving their digitalisation, 2) increasing the transparency of trade procedures, and 3) improving co-operation between internal and external border agencies (this particularly applies to Armenia and Belarus).
- Belarus, Georgia and Moldova should **introduce or expand the provision of trade finance tools for exporting SMEs** – tools such as export credit guarantees, export credit insurance and export working capital. Provided by specialised government agencies, these support programmes should address market failures and could be coupled with technical assistance. Transparency is crucial for the long-term viability of such programmes.
- Armenia, Belarus, Moldova and Ukraine should **improve information and data collection on SME internationalisation, their integration into GVCs and usage of e-commerce.** Better availability of quantitative and qualitative data would facilitate evidence-based policy making and contribute to the demand-driven provision of export support services.

Policy instruments – Access to markets

Table 5.10. Dimension challenges and policy instruments – Pillar D

Dimension	Challenges / Opportunities	Policy instruments
Public Procurement	**Limited participation of SMEs.** Overwhelming formal requirements, often unfair competition and late payments discourage smaller or financially less stable SMEs from participating in the public bids.	**Improve the quality of regulations with a focus on SMEs.** An enhanced regulatory framework would facilitate SMEs' participation and ensure fair competition without distorting the markets. On the contrary, it would promote innovation and lower prices for public purchasers. **Redefine e-procurement.** Improve the sequencing of the steps, introduce other criteria beyond prices and ensure that qualification requirements are not disproportionately at disadvantage of SMEs to ensure their participation and fair competition.
Standards and technical regulations	**Lack of awareness of compliance benefits**. Many SMEs still ignore the economic and innovation advantages of complying with international and European standards; thus their perception of the standards as "onerous" burden still remains popular	**Act as an "industrial service provider".** Reshape the perception of quality infrastructure and communicate effectively the potential benefits of standards and conformity assessments in driving scale, innovation and export. **Foster co-operation**. Co-operation between technical (e.g. national quality infrastructure [NQI] institution) and economic (e.g. export promotion agency) governmental

		bodies promotes the quality and relevance of the information and industrial business services provided to SMEs.
	Limited implementation of international standards. Simply increasing awareness and adopting standards is not enough to ensure their broad implementation and access to GVCs, innovation and quality upgrading.	**Provide financial and non-financial support.** Expand financial (e.g. co-financing of conformity assessment services) and non-financial (e.g. training) measures to foster the use of standards and conformity assessment services, and ensure their implementation during day-to-day operations. **Back the introduction of financial and non-financial support.** Institutionalise regular feedback mechanisms as well as policy monitoring and evaluation, to improve existing legislative frameworks and the quality of the infrastructure.
SME Internationalisation	**Lack of adequate skills and information asymmetries**. Inadequate resources and limited staff of export promotion agencies hamper the agencies' ability to properly support the internationalisation of SMEs. The narrow range of services offered is insufficient to cope with the rapidly changing global markets.	**Increase institutional capacity to provide export support services for SMEs**. Equip agencies with adequate resources, and attract and retain qualified staff. **Expand the range of provided export support services**. Introduce training programmes and targeted initiatives to improve export readiness of SMEs, integrate them into GVCs, and increase their awareness of e-commerce opportunities.
	High regulatory and administrative barriers to trade. Low border internal and external co-operation and lack of sound internationalisation policies result in high efficiency costs and poor support for SMEs' specific needs.	**Reduce regulatory and administrative barriers to trade.** Streamline and digitise required formalities, increase transparency of trade procedures, and enhance co-operation between border agents. **Improve information and data collection** for evidence-based policy making, contribute to demand-driven export support services.

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Notes

[1] See, for instance, (OECD, 2016[28]) for a discussion on public procurement as a driver of "lead" low-carbon markets and an important tool in the low-carbon innovation chain.

[2] For a definition and illustration of quality infrastructure see: https://www.unido.org/news/unido-partners-technical-institutions-quality-infrastructure-achieve-sustainable-development-goals-sdgs.

[3] The scores of the *Standards and regulations* dimension have fallen respect to 2016 for all the countries, except for Georgia. This is partly due to the restructuring of the dimension and does not necessarily represent a poor performance of the country.

[4] For information on the historical evolution of NQI systems in the EaP countries, see Emerson and Kofner (2018[29]) and Racine (2011[30]).

[5] For information on the transition from "old" to "new" approach, see European Commission (2016), "The 'Blue Guide' on the implementation of EU products rules 2016" (Regulation No 765/2008, Regulation No 339/93 and Decision No 768/2008/EC of the EU Parliament and the Council), *Official Journal of the European Union* (2016/C 272/01), https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52016XC0726(02)&from=BG.

[6] These agreements establish lists of industrial products in the annexes that may be placed on the market of the other country without additional testing and conformity assessment.

[7] For further information see EAEU Treaty Section X "Technical Regulation" and Annexes 9, 10 and 11 or Emerson and Kofner (2018) p.10-11.

[8] See https://dth.azexport.az/cross-border-services.html and www.dcfta.gov.ge.

[9] https://techreg.in.ua.

[10] Translation of standards into local language is likely to be beneficial for dissemination of standards among SMEs but remains a challenge given the complexity and length of (many) standard documents.

[11] See Mazzucato's concept of "mission-orientation (and innovation) for public organisations" (Mazzucato, 2017[31]): https://marianamazzucato.com/research/mission-oriented-innovation-policy/.

[12] For example, Moldova has developed a co-financing scheme for businesses to get certification, including evaluation with the World Bank. Results will help policy-makers assess whether revenue from the program, e.g. through increased tax returns from firms that tapped export markets, cover costs of information, awareness and financial measures.

[13] Good examples are 1) the co-operation agreement between the Moldovan national standardisation body and the country's SME agency and 2) Georgia's DCFTA website, which includes links to websites for technical regulation and conformity assessment, see http://www.dcfta.gov.ge/ as well as Georgia's DCFTA Toolkit, see http://gip.ge/wp-content/uploads/2018/09/DCFTA%20toolkit_final_June26-edited2.pdf.

[14] 2017 data, based on 2020 SBA assessment questionnaire. Data for Azerbaijan and Republic of Moldova are unavailable. EU data are from Eurostat.

[15] DCFTA applicable to Georgia, Republic of Moldova and Ukraine.

[16] OECD, *Consumer Protection in E-commerce: OECD Recommendation* (2016), https://www.oecd.org/sti/consumer/ECommerce-Recommendation-2016.pdf.

[17] For more information on co-ordination processes, see the section on business development services (BDS) in the Pillar E chapter.

Chapter 6. Pillar E – Innovation and Business Support

Substantial productivity gaps persist between SMEs and large companies in the Eastern Partner region. Targeted policies should therefore be implemented to foster a productive, innovative, and green SME sector. Pillar E assesses the reforms implemented by governments to support SMEs in overcoming challenges to productivity and promoting innovation.

All EaP countries have made progress in the Business development services dimension as all governments have incorporated BDS provision into relevant strategic frameworks. They have also advanced in the Innovation policy dimension with dedicated national strategies adopted, awaiting governmental approval, or underway. However, the focus on SMEs is still limited and monitoring tools remain underutilised. The EaP countries have also made some progress in the Green economy dimension, as policies that support the greening of SMEs have been introduced, albeit with varying degrees of detail.

Further challenges involve the development of incentives for private BDS expansion, the promotion of formal and informal channels for science-industry interactions, and the strengthening of green SME policies by linking them to concrete action plans with measurable targets and timeframes, as well as raising awareness among SMEs of the benefits of adopting green practices.

Introduction

Support to SMEs and incentives to innovation are fundamental elements to enhance competitiveness and boost productivity. Productivity growth is a key driver of economic growth and convergence. It is also the channel through which countries generate the resources needed to lift standards of living and reduce inequality.

Small and medium-sized enterprises (SMEs) are generally less productive than large companies, although this difference varies across sectors and countries. Productivity gaps between firms of different sizes are particularly evident in the manufacturing sector, where production tends to be more capital-intensive and larger firms can exploit increasing returns to scale. A recent analysis of a subset of OECD countries shows that the labour productivity levels of micro, small and medium enterprises in manufacturing are 37%, 62% and 75% those of large companies, respectively. By contrast, productivity gaps are less stark in the services sector, and narrowest in retail trade, which tends to display low labour productivity overall. (Marchese et al., 2019[1]; OECD, 2019[2])

At the macro level, determinants of productivity include framework conditions such as the quality of the competitive environment, the efficiency of the judiciary, the extent of financial market development, and the extent to which economic institutions are facilitating access to inputs and allocation of capital and labour to their best use. At the firm level, drivers of productivity performance relate mainly to managerial/workforce skills and the rate of adoption of innovations.

If skills and innovation are critical for firms of all sizes, the challenge is particularly evident for SMEs, which confront specific obstacles in accessing information, advanced training and consulting, and innovation inputs (such as new technologies, R&D, skilled labour, and knowledge-based capital). Governments can support innovation in SMEs by helping them to develop and use their internal resources effectively, and by building innovation systems that are effective in the commercialisation of research, the absorption of and experimentation with new ideas more broadly, and the inclusion of a large range of SMEs. (OECD, 2019[3]).

From the perspective of the entrepreneur, increasing productivity and introducing innovation-oriented practices are crucial to competitiveness, entry into new markets, and growth. In this respect, the green transformation of SMEs and the need to respond to environmental challenges offer significant business opportunities and could be sources of competitive advantage.

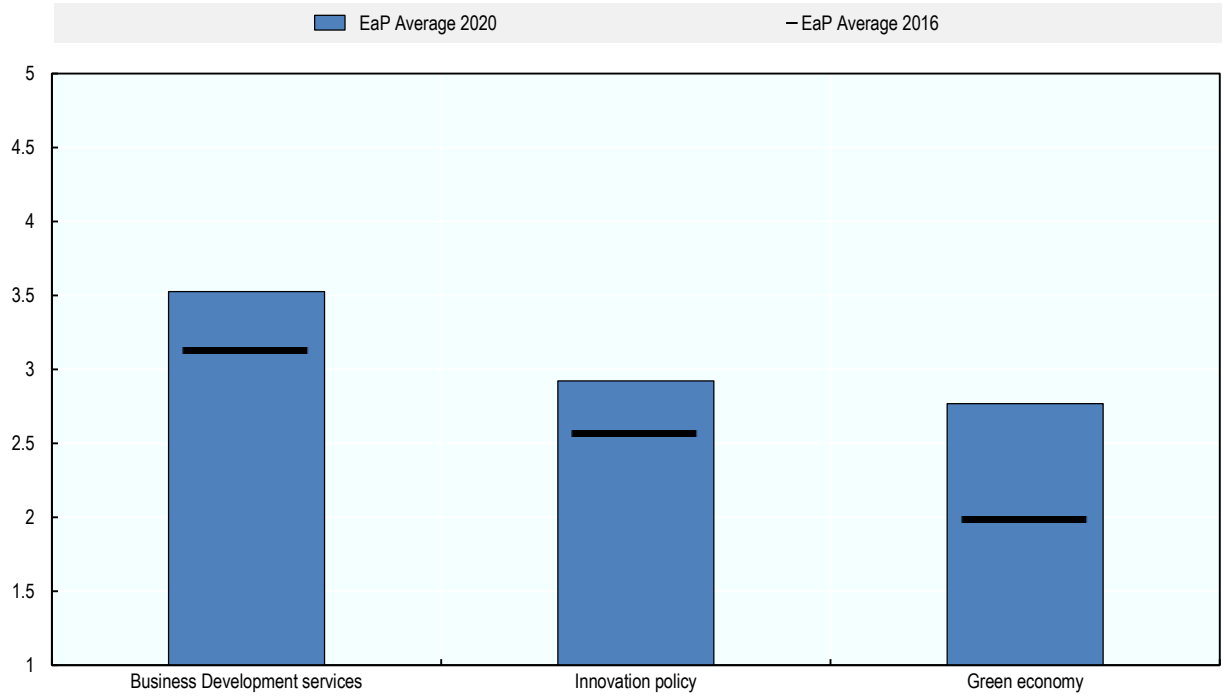
This pillar brings together three dimensions of the assessment, which look closer at the policies in place to foster a productive, innovative, and green SME sector: 1) business development services, 2) innovation policy for SMEs, and 3) green economy policy for SMEs. As such, it is highly connected to other dimensions analysed in the other pillars. Investments in entrepreneurial learning and human capital can directly raise productivity and increase SMEs' ability to develop and adopt new technologies. Enterprise skills, obtained and developed by SME staff and managers through training, are an important means of enabling businesses to make effective use of their full potential. Furthermore, an increase in productivity, quality and innovation can be achieved thanks to SMEs' internationalisation, which exposes firms to international competition, new knowledge and helps them achieve economies of scale. Lastly, productivity gains and innovation-oriented practices can arise only in an effective institutional and regulatory environment that 1) reduces the transaction costs of economic activities and 2) ensures that economic gains

from starting and growing businesses are not expropriated and can be devoted to the generation and diffusion of innovations.

As presented in Figure 6.1, the regional average score for each one of the dimensions in pillar E has increased respect to the previous assessment. Particularly noteworthy is the progress achieved in the *Green economy* dimension, whose average score increased by 39%.

Figure 6.1. SME Policy Index scores for Pillar E: Innovation and Business Support

Regional scores, 2020 vs. 2016



StatLink http://dx.doi.org/10.1787/888934087097

Table 6.1. Country scores by dimension and sub-dimension, 2020

	ARM	AZE	BLR	GEO	MDA	UKR	EaP average 2020	*EaP average 2016*
Business Development Services	**4.00**	**3.27**	**3.11**	**4.39**	**3.47**	**2.90**	**3.53**	***3.13***
Services provided by government	*4.12*	*3.47*	*3.27*	*4.64*	*3.86*	*2.76*	**3.69**	*3.54*
Initiatives to stimulate private BDS	*3.89*	*2.87*	*2.96*	*4.15*	*3.08*	*3.05*	**3.33**	*2.72*
Innovation policy	**2.96**	**2.83**	**3.21**	**3.27**	**2.99**	**2.28**	**2.92**	***2.57***
Policy framework for innovation	*2.99*	*2.88*	*3.92*	*3.10*	*3.29*	*2.50*	**3.11**	*2.36*
Government institutional support services	*2.53*	*2.50*	*2.95*	*3.58*	*2.52*	*2.63*	**2.78**	*2.87*
Government financial support	*3.03*	*2.96*	*2.83*	*3.39*	*2.83*	*1.63*	**2.78**	*2.89*
Non-technological innovation and diffusion*	*3.29*	*2.92*	*2.42*	*3.18*	*3.04*	*2.12*	**2.83**	-

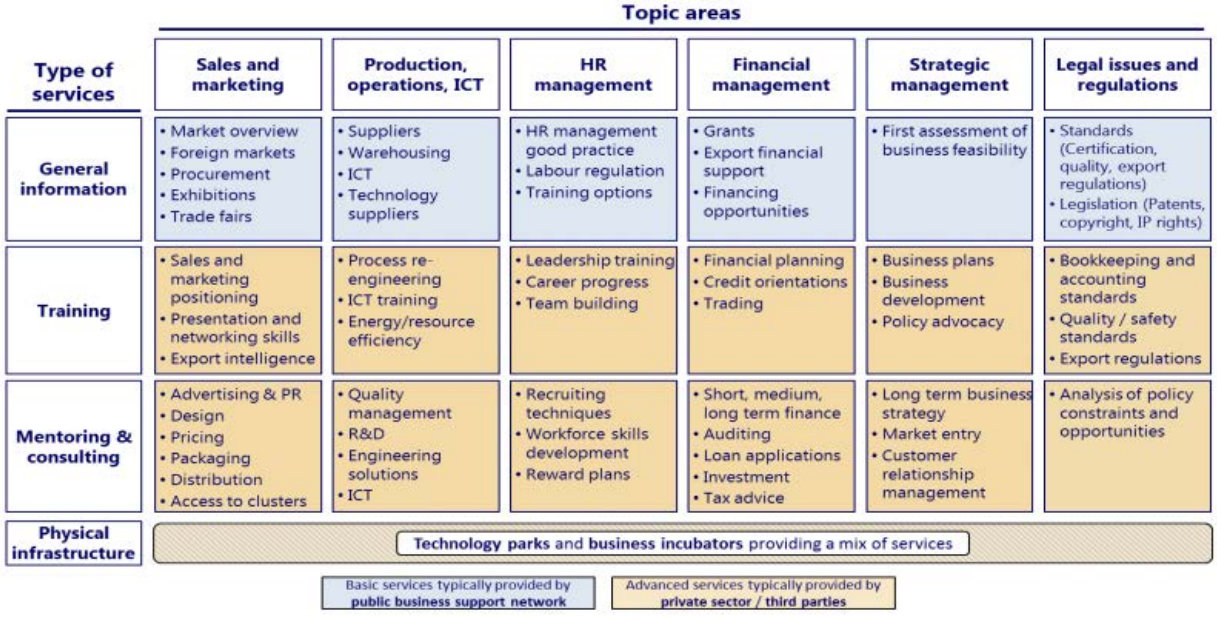
	ARM	AZE	BLR	GEO	MDA	UKR	EaP average 2020	*EaP average 2016*
Green economy policies	**2.40**	**2.31**	**3.41**	**3.05**	**2.92**	**2.54**	**2.77**	***1.99***
Environmental policies	*2.56*	*3.04*	*3.27*	*3.85*	*2.53*	*3.52*	**3.13**	*2.65*
Incentives and instruments	*2.28*	*1.81*	*3.50*	*2.51*	*3.18*	*1.89*	**2.53**	*1.55*

Note: The dimension score is the weighted average of the sub-dimension scores. The following methodological changes have been introduced in the 2020 assessment, which should be taken into account when observing trends in SME Policy Index scores: Under the *Innovation policy* dimension there is a new sub-dimension: *Non-technological innovation and diffusion*.
* This sub-dimension has been introduced in 2020 and was not covered in previous assessments.

Business Development Services

Business development services (BDS) enhance the performance of individual businesses, allowing them to compete more effectively, operate more efficiently and become more profitable (Committee of Donor Agencies for Small Enterprise Development, 2001[4]). Such services include information provision, training, consulting and mentoring on a wide range of topics, from sales and marketing to strategic management and legal issues (Figure 6.2). Entrepreneurs with limited skills and knowledge in the area of starting and operating a business can benefit significantly from BDS, which save time and resources, help to evaluate potential business opportunities, and encourage SMEs to enter and explore new markets. Ultimately, BDS allow firms to focus on their core competencies, while outsourcing non-core tasks to specialised advisors and reducing search costs for relevant information. More-advanced BDS can also provide firms with the knowledge and resources required to innovate, grow and internationalise.

Figure 6.2. Business development services: topic areas and types of services



Source: (OECD, 2017[5]).

However, BDS markets generally suffer certain gaps and information-related failures regarding both the demand and supply of BDS, which disproportionately affect SMEs:

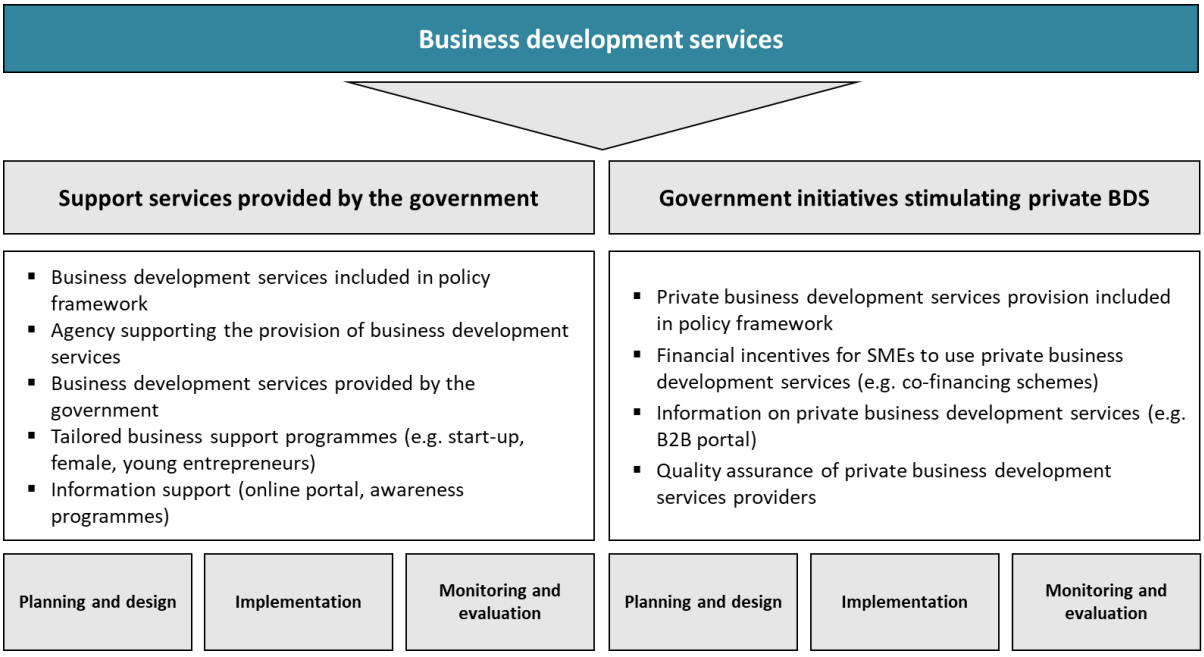
- On the demand side, due to the fact that BDS are "experience goods"[1], SMEs often have minimal *ex-ante* knowledge about the effectiveness and potential impact on firm performance, which limits their expenditure on such services. They also lack information on the availability of BDS and the type of support required, which may vary depending on the type of activity of the firm and its stage of development.
- On the supply side, BDS providers often lack adequate and up-to-date information on the SME training needs required to be able to provide tailored and timely business support. Private BDS providers may also lack the needed skills and face insecurities regarding compensation from SMEs and would therefore prefer working with larger companies due to more substantial contracts, longer engagement and less-risky payments.

Identifying market failures – which are typically the result of information asymmetries, lack of trust between parties, and financial gaps – should be a first step in designing sound policy frameworks regarding the provision of BDS to SMEs. Governments should intervene only to address these market failures, while taking care not to crowd out private initiatives. Policy interventions are then required to ensure that SMEs are informed about the benefits and availability of support services (e.g. information campaigns, awareness raising) and, if needed, incentivised (e.g. co-financing mechanisms) to make use of these. This approach would encourage the development of a sustainable market in BDS provision, shaped by demand and based on a clear understanding of company needs and expectations.

Assessment framework

This dimension considers the availability, accessibility and effective implementation of targeted institutional support services for SMEs. It also assesses the role of governments in identifying and addressing market failures in BDS delivery through public policy tools, such as government-led business support infrastructure and initiatives to promote the development of private BDS markets.

Figure 6.3. Assessment framework – Business Development Services



SME support services provided by the government

The first sub-dimension assesses the recognition of business development services in the overall SME policy framework, including the national SME strategy or equivalent document, to ensure a co-ordinated and strategic approach to providing such services.

Further, this dimension looks at the extent to which public institutions provide targeted BDS to address market failures. In particular, information on starting and operating a business can be provided through a dedicated web portal as well as directly through the relevant institutions. Services should be tailored to the specific needs of each SME segment (e.g. start-ups, exporting firms, high-growth SMEs) and may cover different areas, from market access and infrastructure to access to financial resources or policy advocacy. These services can be delivered through a dedicated SME agency (or equivalent, e.g. a business incubator), often through outsourcing to private providers. Systematic monitoring and evaluation of the services provided (e.g. through feedback surveys) are required to ensure quality control and tailor the existing programmes to the entrepreneurs' specific needs. To raise awareness of SMEs about existing support services and their benefits, information sessions and outreach events for entrepreneurs can be organised. The provision of free services should be considered with care in order to avoid distorting the market and/or reinforcing SMEs' misperceptions about the value and expected benefits of those services.

In general, government interventions should be carefully designed so as to avoid hindering the development of private markets, as well as to ensure that the support programmes are sustainable over time.

Government initiatives stimulating private business development services

The second sub-dimension assesses the mechanisms in place to promote the development of private markets for business development services and stimulate the use of private BDS by SMEs. These include both financial and non-financial incentives.

The development of a private market for BDS is crucial. The expansion of such a market, brings an increase of competition among private providers on the prices and the quality of the services provided. The reduction in the prices makes the services more accessible to SMEs, who are often financially constrained. The increase of the quality ultimately brings higher demand for BDS. However, the effect of competition on quality depends on the extent to which consumers are aware of the services offered and perceive their quality.

Lack of awareness among SMEs about BDS and their providers often results in demand for such services falling below its potential. The government can play a matchmaking role between the private BDS providers and SMEs by offering relevant information on a dedicated website/portal (e.g. a list of private BDS providers) or through information campaigns. Likewise, governments may want to intervene to upgrade the capacity of private BDS providers to respond to the evolving needs of SMEs (OECD et al., 2015[6]). Finally, governments also operate as regulators of BDS markets and may encourage the development of private operators by removing regulatory barriers or introducing quality standards and clear frameworks in key BDS areas (e.g. accounting, legal services).

The limited financial resources of SMEs, coupled with misperceptions about the value and benefits of BDS, often prevent SMEs from contracting private consultancies. To correct for this, governments, on local, regional and national levels, can consider targeted financial incentives (e.g. co-financing mechanisms, vouchers for the purchase of private services). These instruments need to be designed to avoid any market distortions and should take into account the capacity of entrepreneurs to pay. The potential benefits of simple, well-designed co-financing mechanisms (e.g. for first-time use) are clear: SMEs find a way to test advisory services for which they would be willing to pay in the future, and providers of BDS increase their knowledge about the needs of a new segment of clientele. A peer-to-peer effect might also take place wherever a successful recipient of the incentives transfers knowledge to other SMEs.

Analysis

Business development services allow SMEs to compete more effectively, operate more efficiently and become more profitable. This dimension considers the availability, accessibility and effective implementation of targeted support services for SMEs provided by the government, and the role of governments in encouraging and stimulating private BDS provision.

All EaP countries have made incremental progress in this dimension since 2016. Although all governments have now included BDS provision into relevant strategic frameworks, the top performers are Georgia, Armenia and Moldova, where dedicated SME agencies provide a wide palette of services to entrepreneurs. In Belarus, the Ministry of Economy is currently developing a concept note for the establishment of an SME agency, which should improve BDS provision; while Azerbaijan's newly established Small and Medium Business Development Agency (SMBDA) is undergoing a major restructuring of the highly fragmented business-support infrastructure. In Ukraine, the establishment of the SME Development Office co-ordinating the provision of BDS has led to the most significant improvement among the EaP countries since the 2016 assessment. However, the newly established agency still lacks a basic information portal to provide learning and awareness-raising opportunities to remotely located SMEs.

Private BDS markets need further development incentives in the region. In fact, competition between private providers would bring quality and ultimately higher demand for BDS. Only a few countries list private consultancy companies on governmental / SME

agency websites or online portals (Armenia and Moldova), outsource some of the training and consultancy services (Armenia, Georgia, Moldova and Ukraine), and make use of co-financing mechanisms or voucher schemes, which would allow SMEs to choose their preferred private service providers and cover part of their expenses for BDS (Georgia, Moldova; Ukraine for the agribusiness sector only).

In 2017, SMEs in Armenia, Belarus, Moldova, Ukraine and, to a greater extent, in Georgia benefitted from publicly funded or co-funded support in the form of general information (on legislation relevant to starting a business, developing a business plan, etc.), training, mentoring and consulting (Table 6.2).

Table 6.2. Provision of publicly (co-)funded business development services to SMEs (2017)

Number of SMEs/entrepreneurs benefitting, by service category

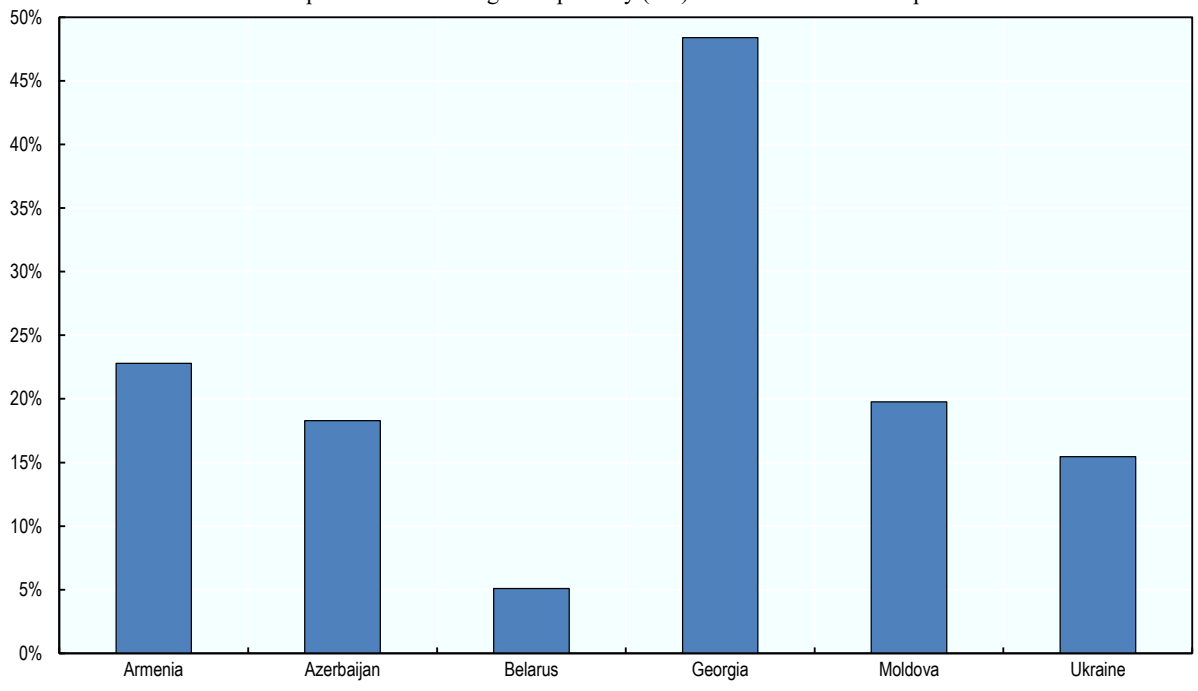
	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine
General information	9 990	-	2 070	34 790	3 751	-
Training	2 808	-	1 321	25 144	2 467	-
Mentoring and consulting	500	-	2 223	385	412	-
Total	**13 298**	**31 000**	**5 614**	**60 319**	**6 630**	**242 745**

Note: Disaggregated data not available; 2018 data for Belarus.
Source: Statistical offices, ministries and SME agencies of EaP countries.

Figure 6.4 shows the variation in SMEs' uptake (the number of benefitting SMEs versus the total number of SMEs) of publicly funded and co-funded BDS across the EaP region, with Georgia representing a much larger share than the others. While around half of all SMEs in Georgia benefitted from publicly supported BDS in 2017, only a sixth of SMEs did so in the EaP countries on average.

Figure 6.4. SMEs' uptake of BDS (2017)

% of SMEs/entrepreneurs benefitting from publicly (co-)funded business development services



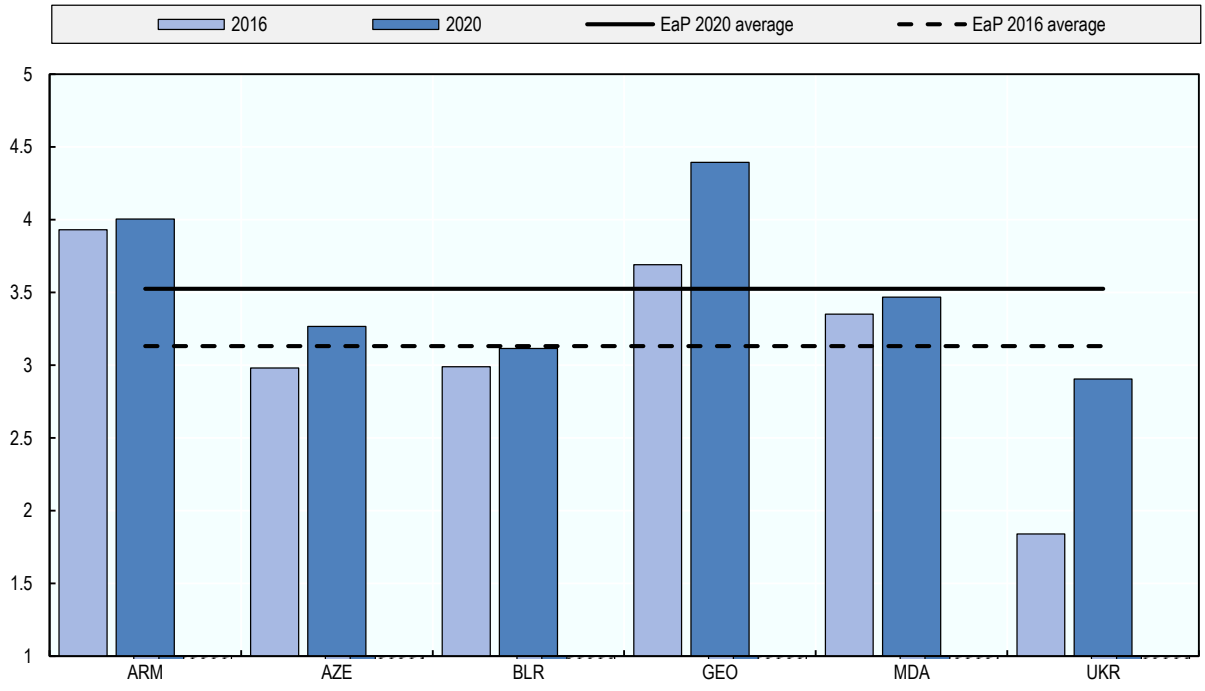
Note: 2018 data for Belarus.
Source: Statistical offices, ministries and SME agencies of EaP countries.

StatLink http://dx.doi.org/10.1787/888934087116

The results of the SBA assessment show that all EaP countries have made progress in the business development services dimension since 2016, with modest score increases for all countries starting from an already strong base and a noteworthy improvement by Ukraine (Figure 6.5). As a result, this dimension is the fifth best-scored in this assessment round, with an average score of 3.53.

All EaP governments have now included BDS provision into relevant strategic frameworks and expanded the direct provision of services to SMEs. However, the provision is rarely based on SME needs analysis and market research; result-oriented monitoring and evaluation beyond the number of conducted activities and number of companies benefiting from support is not available yet. The top three performers in the region – Armenia, Georgia and Moldova – provide a wide range of services to entrepreneurs through their dedicated SME agencies (Enterprise Georgia, SME DNC and ODIMM), ranging from general information sessions on how to start a business to targeted support services for specific firm-segments (e.g. start-ups, high-growth enterprises). The lack of a dedicated institution for the provision of SME support programmes and/or limited co-ordination among existing bodies render the provision of BDS to SMEs more difficult, as is demonstrated by Belarus's and Azerbaijan's performance, respectively.

Figure 6.5. Scores for the *Business Development Services* dimension compared to 2016



StatLink http://dx.doi.org/10.1787/888934087135

More remains to be done in all six countries to take a move towards a market-based provision of business development services. Co-financing mechanisms, easily linking SMEs and private providers, are available only for selected programmes in certain countries (e.g. Georgia, Moldova and Armenia, and only starting in Ukraine); indirect instruments, such as sub-contracting private training providers, remain the governments' preferred option. No quality-assurance or reputational mechanisms, which could help spur competition, quality and ultimately the demand for privately provided services, are yet in

place (with the exception of Moldova, where ODIMM's website offers firms the option to rate their experience with private BDS providers). Finally, digital business diagnostics and self-assessment tools could make initial advice more accessible and ensuing BDS provision more efficient by highlighting challenges and priorities at an early stage (see Box 6.1 for an example of successful IT platform for business diagnostics).

Box 6.1. French Chambers of Commerce – IT platform for business diagnostics

Online business diagnostic tools represent a low-cost approach to encouraging and supporting SMEs to benchmark their business performance and to identify potential areas for improvement. However, they mostly require relatively codified information for their operation and produce generic advice. The impacts are also likely to be low unless combined with additional face-to-face diagnostic support and advice. Although digital business diagnostic tools may appear in the private market, public agencies can have a significant role to play in their development because of the importance of firm-level benchmarking data from official sources and the need for data protection.

An important use of digital diagnostic tools can therefore be as an entry point to other business advice services, through self-referral by SME managers. Upon completion of the digital diagnostic, the tools can point the managers and entrepreneurs to further information, advice and resources that they can use to help improve their firm's performance in priority areas identified.

In France, the Permanent Assembly of Chambers of Commerce and Industry has developed an IT platform that automatically draws up a summary report on the situation of any given SME, based on its answers to a questionnaire. The SME can then use the results of this diagnostic to revise its priorities and areas requiring further support or allocate additional resources, in one or more of the following domains: 1) administrative and financial management; 2) commercial and marketing aspects; 3) production, purchasing and supplies; 4) human resources management; and 5) the future of the business. The success of this initiative derives from its ease of use, the fact that it can be adapted to the requirements of very small businesses, and the "bottom-up" approach adopted.

To date, it has been expanded to cover more than half of the 104 Chambers of Commerce and Industry in France in 26 regions. So far, more than 10 000 diagnostics have already been carried out, but it is expected that, once this approach expands and becomes increasingly available and better known across France, this digital diagnostic tool will support the assessment of an additional 10 000 SMEs every year.

Source: (OECD, 2018[7]).

Government provision of BDS would benefit from regular SME needs analysis and market research, as well as result-oriented monitoring tools

The first sub-dimension assesses whether BDS are recognised in the overall SME policy framework.

All EaP countries have made considerable progress in including and recognising the importance of BDS provision in relevant strategic documents (e.g. SME strategies, action plans, roadmaps). However, in all EaP countries, the setting of priority actions has been undertaken without prior SME skills/training needs analysis or research on BDS supply and demand – and thus without an analysis of market gaps and failures.

Table 6.3. Scores for the *Support services provided by the government* sub-dimension

	ARM	AZE	BLR	GEO	MDA	UKR	EaP average
Planning & design	3.83	3.92	2.83	4.83	3.17	3.17	3.63
Implementation	4.78	3.60	3.61	4.89	4.72	3.17	4.13
Monitoring & evaluation	3.13	3.38	3.25	3.75	3.13	1.13	2.96
Weighted average	**4.12**	**3.67**	**3.27**	**4.64**	**3.86**	**2.76**	**3.72**

Note: see Annex A for information on the assessment methodology.

Armenia, Georgia, Moldova and Ukraine rely on their SME agencies to co-ordinate the business support infrastructure and/or provide SME support. As for Belarus, which only recently adopted its SME Strategy 2030, the Ministry of Economy is currently developing a concept note for the establishment of an SME agency, which should improve BDS provision by restructuring the entire business support infrastructure. Azerbaijan, which has recently established its Small and Medium Business Development Agency (SMBDA), is currently undergoing a major restructuring of its highly fragmented business support infrastructure, and the results of this undertaking are yet to be determined.

At the implementation level, basic business-related information is available on dedicated SME agency or ministry websites and online portals in all EaP countries with the exception of Ukraine. However, although government SME support programmes and services have been growing in the past few years, they remain limited in size and uptake (Figure 6.4). The countries with established SME agencies, such as Enterprise Georgia, Armenia's SME DNC and Moldova's ODIMM, have by now accumulated substantial experience in providing entrepreneurs with a wide array of services, many of which are offered free of charge. Georgia, the top performer in this dimension, offers targeted SME support programmes, designed in close co-operation with the private sector and delivered through strong institutional channels, including Enterprise Georgia, GITA (targeted at innovative SMEs) and the Agricultural Projects Management Agency (targeted at the agriculture sector). All three agencies have well-established connections with donors and manage donor-funded BDS programmes (e.g. a full-cycle Start-up Business Support programme in Armenia).

In this assessment round, Ukraine showed the most notable progress, thanks to its newly established SME Development Office (SMEDO) co-ordinating the provision of BDS in the country. It oversees the Ukrainian business-support infrastructure, which comprises around 500 business support centres, incubators and technology parks that offered around 25 000 training events and seminars in 2018. In addition, SMEDO launched an entrepreneurship support network jointly with several municipalities. The network, active in Ternopol, Cherkasy, Chernigov and Zaporozhe, provides access to information on microbusinesses, available state support and local BDS providers, as well as offering business regulation consulting.

Provision of BDS could be improved in Belarus and Azerbaijan. Since 2016, the number of certified business-support entities in Belarus that are eligible for government support grew by 50% (incubators) and 10% (business support centres). However, the limited co-ordination and lack of monitoring and evaluation, paired with unclear benefits and criteria for obtaining the status of business support entity, hamper the efficient provision of BDS to SMEs. In Azerbaijan, the Baku Business Training Centre has traditionally been a key player in this dimension: until 2018, it provided BDS to SMEs free of charge based on SME needs analysis. However, the large-scale institutional redesign and the establishment

of SMBDA have put into question the continuity of service provision, which is yet to be determined.

Overall, formal result-oriented monitoring and evaluation of the existing business development measures and infrastructure occurs on an ad hoc basis, leaving missing evidence about the effectiveness of SME support programmes and services. Criteria including quality, efficiency and client satisfaction could be adopted to measure the impact of BDS on SMEs' revenue, productivity or other performance criteria to improve government provision of BDS.

Uneven stages of development of private BDS markets in the EaP countries require further incentives to ensure sustainability of private BDS provision

This sub-dimension measures government mechanisms to promote the development of private markets for BDS provision and to stimulate the use of private BDS by SMEs.

BDS provision in EaP countries is still far from market-based – with a few exceptions including Armenia, Georgia and Moldova, which are starting to involve more and more private providers in the provision of BDS. In the three countries, private sector involvement in BDS provision has been ensured through a co-financing mechanism implemented by the national SME development agencies. Moreover, the agencies' websites list private sector BDS providers. Because basic government services are often free of charge (and as such mostly reliant on state or donor budgets), these services might also distort market competition and inhibit the development of a private sustainable BDS market by discouraging entrepreneurs from paying for such services. Limited financial resources, coupled with low awareness rate of BDS availability and benefits, could explain the relatively low uptake of private BDS in EaP countries, except for Georgia.

Table 6.4. Scores for the *Government support for private BDS* sub-dimension

	ARM	AZE	BLR	GEO	MDA	UKR	EaP average
Planning & design	4.00	2.75	3.75	3.50	2.50	4.00	3.42
Implementation	4.43	3.34	3.00	4.71	4.00	3.00	3.75
Monitoring & evaluation	2.50	2.00	1.50	4.00	2.00	1.50	2.25
Weighted average	**3.89**	**2.87**	**2.96**	**4.15**	**3.08**	**3.05**	**3.33**

Note: see Annex A for information on the assessment methodology.

To bridge those gaps and stimulate the use of private BDS, EaP governments can make use of several tools and incentives, which could be expanded in the near future:

- First and foremost, governments can list private consultancy companies on governmental or SME agency websites or online portals (Armenia and Moldova), ideally including an option to rate the company and service received (e.g. Moldova's ODIMM).
- A second step consists of outsourcing some of the training and consultancy services provided as part of a technical assistance component of comprehensive SME support programmes to private providers (Armenia, Georgia, Moldova, Ukraine).
- Finally, some EaP countries make use of co-financing mechanisms or voucher schemes, which would allow SMEs to choose their preferred private service providers and cover part of their expenses for BDS (Georgia, Moldova; Ukraine for agribusiness sector only).

Certification programmes and quality-assurance or reputational mechanisms for private providers are in in their infancy. Moldova has paved the way with ODIMM's online portal enabling SMEs that have benefitted from training to rate their experience and make it visible to other firms. Ukraine and Belarus have made a first step in the direction of certification programmes with their plans to offer support to private consultancies in order to increase their professional standards and enhance their offer towards higher-value-added services.

The EBRD's Advice for Small Business Programme, which operates in all EaP countries, is also worth mentioning, given its support to enable SMEs to access local consulting services and to develop a sustainable infrastructure of business advisory services. The programme provides co-financing for SMEs to retain local and international consultants, as well as capacity building for consultants in EBRD's countries of operation. The programme has strong demonstration effects and has acquired a solid track record as well as in-depth knowledge of domestic BDS markets.[2] Since 2010, 1919 SMEs in the EaP countries have received advisory assistance, 72% of SMEs increased their turnover within a year of project completion, 60% of SMEs increased their number of employees, and €194.8 million in financed was accessed by beneficiary SMEs from the EBRD and other financial institutions.[3]

Overall, private BDS markets need further development incentives in EaP countries. The three above-mentioned steps could be implemented in all countries and co-financing schemes expanded to various sectors, thus stimulating BDS uptake and firms' initiative.

Box 6.2. Developing a sustainable market for business development services: *Produce in Georgia*

In Georgia, a co-financing mechanism implemented by Enterprise Georgia within the framework of the *Produce in Georgia* programme covers part of the costs of participating SMEs that contract private consultants.

Produce in Georgia programmes are designed after extensive formal and informal consultations with stakeholders, as well as research on market failures and SME needs. Data on programme implementation is systematically collected by the implementing organisations and presented in regular progress reports.

The programmes comprise various sub-programmes such as the industrial component "Host in Georgia" or the Micro and Small Business Support component. Sub-programmes include financial support and a mandatory technical assistance component, which facilitates entrepreneurs' access to BDS related to the introduction of technologies, training and consultation on management, productivity, sales and marketing, financial accounting, and the introduction of technical standards.

Companies co-finance up to 20% of the consultancy/training costs, while the state pays up to GEL 10 000 (~ EUR 3 000*) directly to BDS providers. To obtain state support, a firm must provide a written analysis of its current operations combined with the rationale for its interest in consulting services, a detailed description of the project, projected results, and the credentials of the selected consultants. Hence, SMEs are free in their choice of BDS providers, representing a best practice among the EaP countries.

Source: (Enterprise Georgia, 2018[8]).
Note: Exchange rates as of October 2019, https://www1.oanda.com/lang/it/currency/converter/

The way forward

Despite the above-mentioned efforts, more could be done to help countries move towards a more market-based and sustainable provision of BDS:

- All EaP countries could **establish a solid co-ordination mechanism among all bodies involved in BDS provision**, as a prerequisite to ensuring effective and targeted delivery of services to SMEs. This is especially true for Azerbaijan and Belarus, which, respectively, are undergoing a major restructuring (with the recent establishment of SMBDA and a multitude of substructures, with at times overlapping mandates and activities) and starting to establish an SME agency as co-ordinating body for BDS.
- All EaP countries could **improve their monitoring and evaluation of the current business support infrastructure and services provided**, including measuring the effectiveness and impact on SME performance via quantitative measures, annual reviews. This should go hand in hand with regular SME skills-needs analysis and research on demand and supply of BDS to offer the most needed and relevant services for firms.
- Belarus, Georgia, and Ukraine should **develop single information portals** that 1) contain information on all institutions and bodies offering support programmes which include BDS components and 2) list private quality-assured BDS providers, to bridge the information gap among SMEs on the value and benefits of such services. These information portals could also have digital business diagnostic tools embedded into their websites.
- All EaP countries should **consider establishing quality assurance mechanisms for private providers**, such as certification programmes, upscale training organised and funded by the government, and/or reputational mechanisms with online reviews and ratings from SMEs (this is already established in Moldova).
- In general, there is a need to **move towards a more market-based provision of quality BDS to SMEs in the EaP region**. Governments should move away from being direct providers of BDS to becoming regulators and promoters of private services. To this end it is important to offer simple co-financing mechanisms for first-time use of BDS, enabling firms to choose their preferred private providers and thus stimulating BDS uptake and individual initiative. Where such mechanisms are already in place, they can be scaled up, moving away from dependency on donor support, and expanded to further support programmes.

Innovation policy for SMEs

The OECD/Eurostat *Oslo Manual* (4th edition) defines a business innovation as "a new or improved product or business process (or combination thereof) that differs significantly from the firm's previous products or business processes, and that has been introduced on the market or brought into use by the firm" (OECD/Eurostat, 2018[9]).[4]

The manual also distinguishes between three types of innovation, based on their degree of novelty: an innovation can be new to the firm, new to the market or new to the world. The first type refers to the diffusion of an existing innovation (the innovation may have already been adopted elsewhere, but it is new to the firm). Innovations are new to the market when the firm is the first to introduce the innovation to its market (based on product or

geography). An innovation is new to the world when the firm is the first to introduce the innovation for all markets and industries.

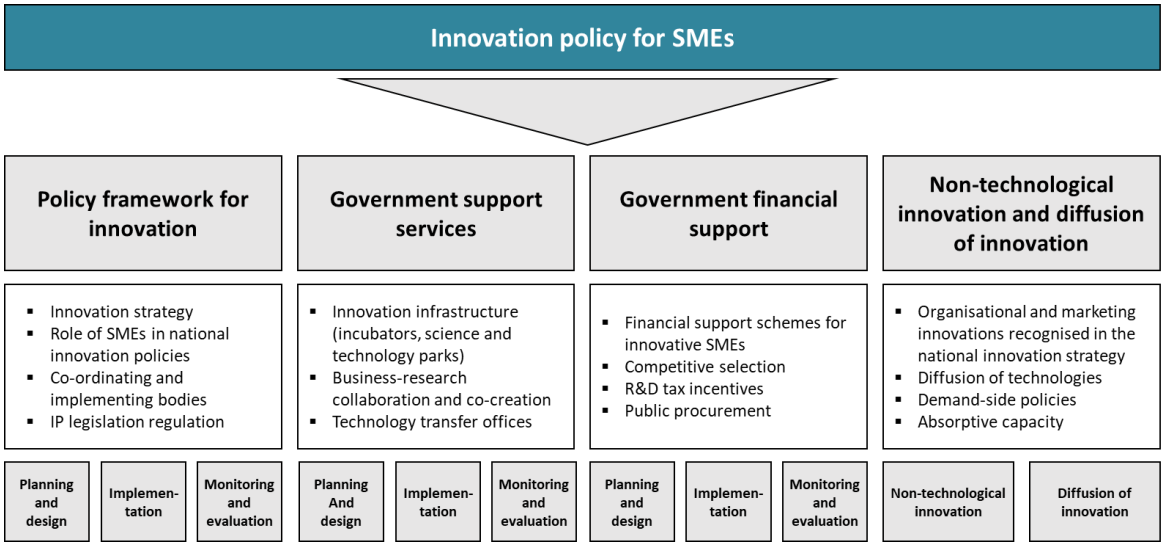
SMEs play a central role in the generation and diffusion of innovations. However, due to their limited size and limited financial and staff capacity, SMEs often face difficulties in developing and scaling up innovative activities over a long time. Although SMEs cover a wide spectrum of firms, with many of them being innovation leaders in their field, evidence suggests that SMEs tend to introduce fewer new products and technologies than large, more established firms, but also that they are fast and flexible in developing and commercialising higher-quality and "breakthrough"-style innovations (OECD, 2010[10]). Many SMEs with innovative ideas and competitive products face challenges in developing prototypes, going to market, and scaling up their operations. These can often only be overcome through co-operation with large enterprises (which have greater purchasing power and easier access to diverse markets) or investors. As both clients of and suppliers to large enterprises, SMEs also contribute to the innovation activities of these larger entities.

Government support for innovation often takes the form of public investment in science and R&D. While such a role is key to sustaining basic research and developing general-purpose technologies (Mazzucato and Perez, 2014[11]), policy makers should also foster innovation at the enterprise level – by building an ecosystem conducive to co-operation among firms and with research centres, facilitating access to technology, protecting intellectual property, and introducing financial incentives for firms to engage in innovative activities.

Assessment framework

The assessment framework for this dimension has been slightly updated since 2016, with the inclusion of a set of questions to capture policies supporting non-technological innovation and diffusion of innovation in the economy. Four sub-dimensions have thus been considered in this round of SBA assessment: 1) the strength of the policy framework for innovation (with particular reference to SME innovation); 2) government support services for innovative SMEs; 3) government financial support for innovative activities; and 4) policies designed to spur non-technological innovation and diffusion of innovation (Figure 6.6).

Figure 6.6. Assessment framework – Innovation policy for SMEs



Policy framework for innovation

This sub-dimension looks at the level of development of the overarching policy framework for supporting innovation in the business sector, with a specific emphasis on SMEs. In particular, the assessment focuses on the existence and quality of innovation strategies, the adoption of well-resourced action plans with SME-specific initiatives, the presence of a co-ordinating body tasked with developing innovation policy in consultation with the private sector, IP legislation regulation, and the regular monitoring of the impact of various policy measures.

Well-performing policy frameworks can pivot around a single strategic document presenting a medium-term vision for the country's innovation ecosystem, and/or rely on other strategic policy documents (e.g. national strategies for entrepreneurship, education and science, industrial policy). They should keep a close focus on the core objectives of innovation policy, i.e. fostering investment in R&D and innovation activities inside the firm, facilitating prototyping and commercialisation, and promoting research-industry technology transfer and co-creation. Moreover, the strategic documents should be underpinned by capacity to develop and implement innovation policy instruments and by the governments' ability to ensure effective co-ordination among relevant stakeholders.

Government support services for innovative SMEs

The second sub-dimension captures the availability and quality of institutional measures to support innovation in the SME sector, with a focus on innovation infrastructure – incubators, science and technology parks, innovation centres, and technology transfer offices.

Best practices in this area recognise the need to support both "breakthrough" and "incremental" innovators. While the former include highly innovative firms often experiencing high-growth, the latter consist of those SMEs that usually outsource R&D and prefer to obtain a license for patents or adopt existing technologies and use them to introduce new products or processes to their operations. In both cases, governments can facilitate SMEs' access to knowledge, skilled personnel and laboratories by directly establishing innovation support organisations (science parks, technology transfer offices), clarifying the legal framework for licensing and intellectual property, setting up incentives for commercialisation of publicly-funded research, and increasing SMEs' awareness of the research capabilities available in the country.

Government financial support

The third sub-dimension examines the availability of direct and indirect financial support measures to encourage SMEs to innovate. These can take the form of grants, soft loans, guarantees, and even equity investment (direct support), as well as broad-based fiscal incentives such as tax breaks and credits on R&D expenditures or investment in innovative equipment (indirect support). The role of demand-side policies such as public procurement of innovation is also considered here.

Small, knowledge-intensive companies can face additional obstacles to obtaining financing due to the relative intangible nature of the assets they might be considering posting as collateral and the risk inherent in innovation, which makes future cash flow projections uncertain. Governments can help SMEs overcome such obstacles by making it easier for firms to engage in innovation activities and reducing the financial risk of investing in innovative projects. Well-designed financial support aims at "crowding-in" private

investment in R&D, typically requiring a matching component from the beneficiaries in the case of direct support, and letting businesses decide on the nature of their innovative activities in the case of indirect fiscal incentives. Furthermore, effective financial support measures acknowledge the complexity of engaging in innovation activities and accompany firms along the entire innovation cycle (development, engineering, production and commercialisation).

Non-technological innovation and diffusion of innovation

The fourth and final sub-dimension is introduced with this round of SBA assessment and looks at policy interventions to strengthen non-technological innovation (organisational or marketing processes) as a complement to more conventional support for science and technology. It also captures whether institutional measures are in place to facilitate the diffusion of innovation in the business sector.

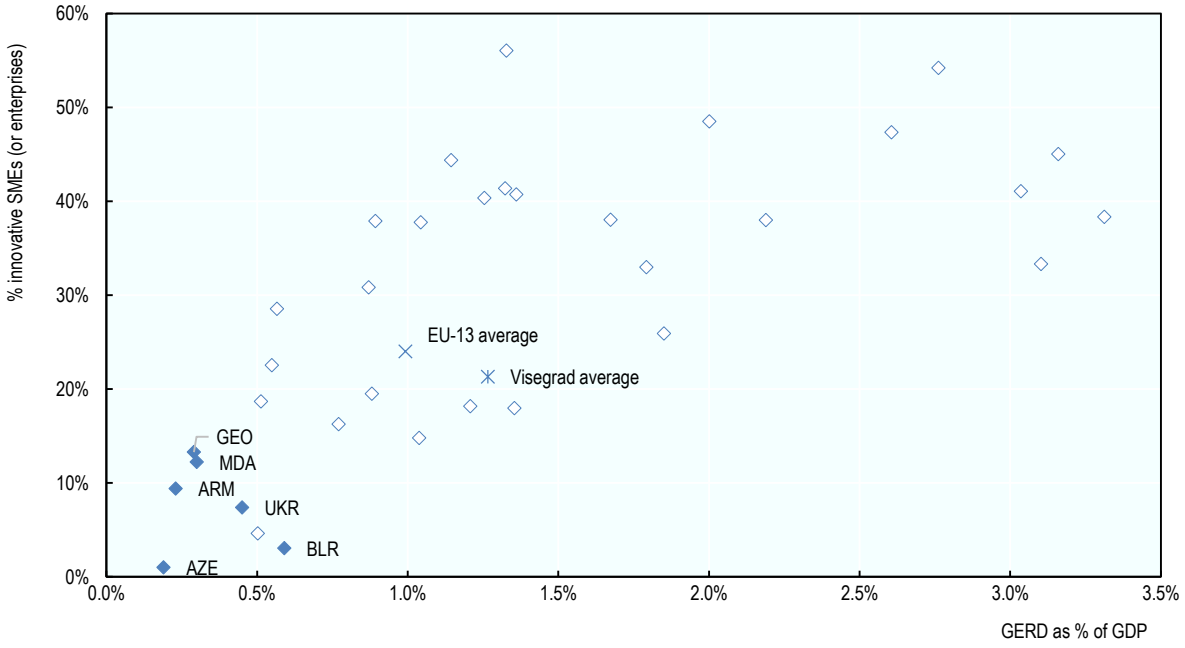
Policy settings acknowledging that innovation has both technological and non-technological aspects perform well in this sub-dimension. The commercialisation of new products often requires new marketing methods, and a new production technique will increase productivity only if it is supported by changes in the organisation of the firm. Governments can also perform an important role to promote diffusion of innovation by increasing enterprises' ability to absorb existing technologies, i.e. through skills development and mentoring programmes.

Analysis

SMEs can play a central role in the generation and diffusion of innovation. However, due to their limited size and capacity, they often face difficulties in developing and sustaining innovative activities over a long time period. This dimension provides a framework for assessing support for innovation activities in SMEs.

The performance of innovation systems in the EaP region lags that of EU members. A quick comparison of key indicators reveals how EaP countries allocate a smaller share of their national income to financing research and development – a core input to developing and absorbing new technologies – than their European neighbours, and how this contributes to a less innovative private sector, as measured by the share of enterprises introducing innovations (Figure 6.7).

Figure 6.7. Innovation performance in EaP countries, EU-13 and Visegrad, 2017



Note: Data shown are for 2017 or latest available year. Data address SMEs with product or process innovation. GERD = gross expenditure on research and development. EU-13 Member States = Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia. Comparison should be made with caution, due to different sources.
Source: (UNESCO Institute for Statistics, 2019[12]) European Innovation Scoreboard for EU countries and Ukraine; SBA assessment for Belarus, Georgia and Moldova, (GIZ, 2018[13]) for Armenia (all innovative enterprises) and OECD et al. (2015[6]) *SME Policy Index: Eastern Partner Countries 2016* for Azerbaijan.

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Despite a legacy of strong technical and scientific education systems and research institutions inherited from the Soviet Union, and a relatively better standing than central Asian countries on several measures of innovation,[5] EaP countries have a long way to go to build performing innovation systems.

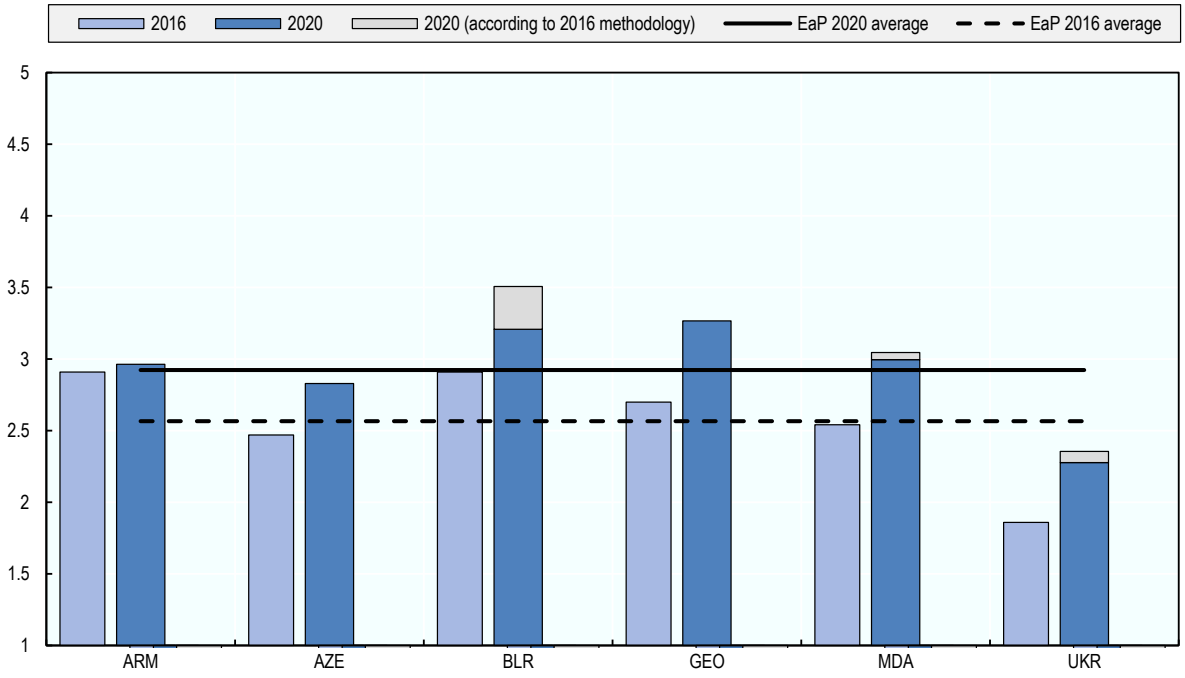
The results of the SBA assessment confirm these trends and shed some light on the reasons for the region's lukewarm performance in innovation. "Innovation policy for SMEs" appears as the dimension with the third-lowest average score across the EaP region (2.92), albeit improving since the 2016 assessment (2.57). Countries' scores range between 2.28 and 3.27, which suggests that at least some of the fundamental building blocks of solid legal and policy frameworks for innovation or evidence of effective policy implementation are still missing in the countries assessed. (Figure 6.8).

Overall, since the 2016 assessment, all EaP countries have further developed their policy frameworks for innovation, with dedicated national strategies adopted (Belarus, Moldova and Ukraine), awaiting government's approval (Azerbaijan, Georgia), or still being developed (Armenia) and a strengthened role for state bodies in charge of policy co-ordination. However, the focus on SMEs is still limited and monitoring tools remain underutilised. Government support services are expanding at different speeds, with Georgia and Belarus leading the way in setting up the innovation infrastructure (techno-parks, innovation centres), but with initiatives to support business-science collaboration still at an

infant stage. Financial support instruments for innovative businesses are available in the form of grants and fiscal incentives, but in several cases, they are mostly donor-driven (Georgia) and lacking risk-sharing mechanisms with beneficiaries (Azerbaijan). Lastly, while non-technological innovation has begun to be recognised in the policy and legal frameworks, active measures to promote it remain isolated.

As an example of good practice in this regard, Box 6.3 discusses Horizon 2020, the biggest EU research and innovation programme.

Figure 6.8. Scores for the *Innovation policy* dimension compared to 2016



Note: Methodological changes have been introduced to the 2020 assessment and should be taken into account when observing trends in SME Policy Index scores.

StatLink http://dx.doi.org/10.1787/888934087173

Box 6.3. Horizon 2020: EU support for research and innovation

Horizon 2020 is the biggest EU research and innovation programme. Almost EUR 80 billion of funding has been made available over seven years (2014 to 2020) – in addition to the private and national public investment that these resources can attract – to help achieve smart, sustainable and inclusive economic growth. The goal of the programme is to support the generation of world-class science and technology, remove barriers to innovation, and make it easier for the public and private sectors to work together to deliver solutions to major societal challenges. In particular, Horizon 2020 provides grants to research and innovation projects through open and competitive calls for proposals.

The 2018-20 Horizon 2020 work programme focuses its efforts in four areas with a combined budget of over EUR 7.6 billion: 1) building a low-carbon, climate resilient future, 2) connecting economic and environmental gains (the Circular Economy), 3) digitising and transforming European industry and services, and 4) boosting the effectiveness of the EU's Security Union.

EaP countries participate in Horizon 2020 with different degrees of involvement. Moldova and Ukraine are the two countries that have benefitted the most until now, with the highest amounts of contributions received, largest size of average grant awarded, and greatest degree of SME participation.

Table 6.5. Horizon 2020 – Participation of EaP countries

Country	Net EU Contribution (EUR)	Participating entities (number)	Average grant (EUR)	SME share of EU contribution	Rank contribution per inhabitant
Armenia	1,576,090	31	65,670	12.90%	4
Azerbaijan	488,263	10	54,251	0%	6
Belarus	2,261,885	46	53,854	0%	5
Georgia	3,023,065	35	100,769	8.57%	2
Moldova	5,276,257	59	114,701	15.25%	1
Ukraine	24,706,564	207	164,710	23.67%	3

Note: OECD analysis on selected indicators since the beginning of the programme (January 2014-July 2019); Armenia, Georgia, Moldova and Ukraine are H2020 "associated countries" and as such enjoy equal participation rights in H2020 as EU member states. Azerbaijan and Belarus' status as "third countries" does not grant participation rights in the "SME instrument", H2020's main tool to channel direct financing to SMEs.
Source: https://ec.europa.eu/info/funding-tenders/opportunities/portal/screen/opportunities/horizon-dashboard

Policy frameworks for innovation are improving, but focus on SMEs still limited

This sub-dimension measures the level of development of the innovation policy framework and its main building blocks, including the availability of a comprehensive innovation strategy (national and/or regional), a co-ordinating body in charge of innovation policy development, and legislation on intellectual property (IP) rights.

The EaP countries have made substantial progress in developing their policy frameworks for innovation, albeit at different rates. Policy design is moving away from a patchwork of innovation policies scattered among a multitude of independent documents and towards the development of dedicated national strategies for innovation. These are now in full implementation phase (Belarus and Moldova), awaiting government approval (Georgia, Azerbaijan) or still being developed (Armenia, Ukraine). Belarus is the regional leader in

this sub-dimension with its "National Programme of Innovation Development 2016-2020", setting out a vision for the country's direction of innovation, well-defined actions and substantial resources allocated to it (see Table 6.6).

The policy co-ordination and implementation functions have also become clearer since the latest SBA assessment. An interesting trend across the region is the emergence of dedicated government bodies in charge of promoting innovation in the business sector, alongside more traditional institutions providing support for fundamental research. The former group appears to be taking an increasingly important role in ensuring coherence with overall government action impacting innovation (i.e. education, industrial, and SME policy). Examples of such agencies include Georgia's Innovation and Technology Agency, or the recently created National Innovation Agency in Azerbaijan and National Agency for Research and Development in Moldova.

While the above are welcome developments with respect to the policy frameworks for innovation, SMEs as such are still rarely identified as a target group of national innovation strategies, and monitoring of innovation policies could be further enhanced. From this lack of focus on the SME sector and absence of regular impact monitoring derives a region-wide scarcity of performance indicators that examine at the extent to which small and medium sized enterprises are benefitting from the diversity of measures put in place by governments. One exception here is Georgia, which has introduced simple results-oriented key performance indicators[6] as part of its monitoring of the SME Development Strategy.

Table 6.6. Scores for the *Policy framework for innovation* sub-dimension

	ARM	AZE	BLR	GEO	MDA	UKR	EaP average
Planning & design	3.25	3.06	4.27	3.55	3.79	3.46	3.57
Implementation	3.66	3.57	4.05	3.23	3.47	1.76	3.29
Monitoring & Evaluation	1.00	1.00	3.00	2.00	2.00	2.50	1.92
Weighted average	**2.99**	**2.88**	**3.92**	**3.10**	**3.29**	**2.50**	**3.11**

Note: see Annex A for information on the assessment methodology.

Although the network of innovation infrastructure is expanding, science-industry collaboration remains underexploited

This sub-dimension assesses the availability and implementation of institutional support measures for innovative SMEs, including innovation infrastructure such as incubators, science and technology parks, technology transfer offices, innovation centres and others.

Government in-kind support services for innovative companies have steadily expanded in the EaP region since 2016. The progress is particularly pronounced in Belarus – where 16 technology parks and 9 technology transfer offices (all publicly funded) providing favourable conditions in which to do business, invest in R&D, and facilitate innovations from the development phase through to the practical application stage – and Georgia, where 28 "Fablabs"[7] and three techno-parks offer space and equipment to develop prototypes. Georgia and Moldova have also recently introduced new laws that bring clarity to the legal framework for the innovation infrastructure (e.g. incubators, techno-parks, accelerators) by specifying objectives, technical requirements and criteria for selecting resident companies. Even though Ukraine has made some progress in this area, technology incubators and accelerators are not clearly defined in the legal and institutional framework.

In contrast with these positive developments, policy measures and physical facilities to promote science-industry interactions, technology transfer and co-creation of knowledge are generally underdeveloped across the EaP region. Research and development resources have traditionally been directed to basic research, public universities and research organisations with few incentives available to respond to enterprise needs. This is particularly evident in some countries, where, despite a legacy of research excellence (Ukraine, Belarus) and a widespread network of scientific laboratories (Azerbaijan), technology transfer offices are rarely involved in the commercialisation of research through licensing or the formation of academic spin-offs, and information about R&D facilities remains largely unavailable to the business community.

To overcome such shortcomings, the EaP countries have announced initiatives to bridge gaps in industry-science co-operation, although their results are yet to be observed. These include Georgia's plans to create a network of business accelerators hosted by universities, Ukraine's recently-launched Technology and Innovation Support Centres (which offer advanced IPR management services to universities and research institutions), or Moldova's plans to increase public knowledge of scientific resources. More needs to be done in terms of monitoring and evaluation, especially in Armenia and Belarus (see Table 6.7).

Table 6.7. Scores for the *Government support services* sub-dimension

	ARM	AZE	BLR	GEO	MDA	UKR	EaP average
Planning & design	3.43	2.47	2.80	4.33	2.80	2.63	3.08
Implementation	2.50	2.60	3.64	2.95	2.18	2.16	2.67
Monitoring & evaluation	1.00	2.33	1.67	3.67	2.77	3.67	2.52
Weighted average	**2.53**	**2.50**	**2.95**	**3.58**	**2.52**	**2.63**	**2.78**

Note: see Annex A for information on the assessment methodology.

Financial support for innovative SMEs is generally available, but its design and scope could be improved

The third sub-dimension analyses the financial incentives and services EaP governments are providing to encourage SMEs to innovate.

Lack of access to finance is traditionally one of the main constraints on SME innovation. The problem can be worse for small, innovation-oriented companies in EaP countries, where the angel investment, private equity and financial markets are less developed than in the EU.[8]

Since 2016, the EaP governments have expanded direct and indirect financial incentives for firms to engage in innovative activities. Direct measures include grants and vouchers that are generally awarded on a competitive basis at each phase of the innovation project, from research and design to production and commercialisation.

Table 6.8. Scores for the *Government financial support* sub-dimension

	ARM	AZE	BLR	GEO	MDA	UKR	EaP average
Planning & design	3.25	3.07	3.47	3.60	3.80	2.47	3.28
Implementation	2.86	2.86	2.26	3.40	2.60	1.26	2.54
Monitoring & evaluation	3.00	3.00	3.00	3.00	1.66	1.00	2.44
Weighted average	**3.03**	**2.96**	**2.83**	**3.39**	**2.83**	**1.63**	**2.78**

Note: see Annex A for information on the assessment methodology.

While all countries have introduced some form of direct financial support, the design, size and take-up of such instruments vary widely. On the one hand, Georgia and Belarus offer substantial grants in the range of USD 50-200 000 for innovative activities without specific sectoral targeting; these have proved very popular. On the other hand, companies' participation in such schemes in Azerbaijan and Moldova is lower, involves smaller amounts, and is limited to the narrow segment of ICT projects. The extent to which risk-sharing mechanisms are considered when designing grants and vouchers for innovation also differs from country to country, with Georgia's Innovation Matching Grants requiring 50% of eligible project costs to be secured from beneficiaries, and Azerbaijan's grants, issued by the ICT Fund, not requiring a matching component.

Indirect financial incentives for innovative firms exist, but are still a rare feature in the EaP region. Only Armenia, Belarus and Moldova have introduced VAT and tax exemptions for investment in R&D, with expenditure-based provisions in Belarus echoing some EU good practices and making it possible to deduct R&D expenses from a company's profits with a multiplier of up to 1.5 (see Box 6.4). Lack of monitoring and evaluation of the impact of such tools makes it hard to evaluate the extent to which SMEs, rather than large companies, are benefitting from such broad-based incentives and increasing their innovation activities.

Lastly, demand-side policies such as public procurement of innovation remain the exception rather than the rule and there are concerns about the low transparency of the process. Of all the EaP countries, only Moldova appears to have integrated innovation as a policy objective of its public procurement framework. This has been formalised with the introduction of "innovation partnerships" in the Law on Public Procurement, whereby contracting authorities effectively create incentives to invest in innovation by committing to acquire a good or service that is not available in the market at any given moment.

Box 6.4. Indirect financial incentives for innovation in Italy's Impresa 4.0 National Plan

Impresa 4.0 is Italy's ambitious strategy to support industrial change through measures seeking to promote investments in innovation and technology. The Italian government earmarked EUR 18 billion for the period 2017-2020 to implement the programme, which has three components: tax incentives, easier access to finance, and skills development.

The first group of measures, in particular, includes 'hyper' and 'super' depreciation schemes, which introduce incentives for companies to invest in their technological and digital transformation processes. With hyper-depreciation, investment costs in technological equipment and intangible assets are increased (for the purposes of reducing corporate profit tax) by 150% of their value; for super-depreciation this is 40%.* A third measure introduces a tax credit corresponding to 50% of incremental expenditures in R&D – such as labour costs for hiring highly-skilled and technical employees or research

contracts with universities – with respect to a baseline set by the firm's average annual investment in R&D in the previous three years. These benefits are automatically accessible when preparing the financial statements through self-certifications.

Results from business surveys show that super- and hyper-depreciations played a "very" or "enough" important role in around 60% of manufacturing companies' decisions to invest in 2017. Moreover, an independent assessment of Enterprise 4.0 performed by Italy's National Statistical Office reveals how companies benefitting from the R&D tax credit hired an average of six extra employees in R&D when compared with non-beneficiaries, and two extra employees when compared to a sub-sample of companies with the same characteristics and *ex ante* history of investment in R&D.

*. The incentive applied depends on the specific kind of investment good purchased by the firm.
Source: (European Commission, 2017[14]); (Ministero dello Sviluppo Economico, 2019[15])

Support for non-technological innovation and diffusion of innovation is only sporadic

This sub-dimension assesses the policy instruments in place to strengthen non-technological innovation (organisational or marketing processes) and analyses whether institutional measures have been established to facilitate the diffusion of innovation in the business sector.

Non-technological innovation is not the object of dedicated policy frameworks in the EaP region. Some countries, however, recognise the potential of organisational and marketing upgrades to increase firms' performance and therefore include them among the projects eligible for public support. This is the case in Armenia, Azerbaijan and Georgia, while other EaP countries remain focused on an understanding of innovation which is primarily tangible and technology-oriented.

Table 6.9. Scores for the *Policy framework for non-technical innovation* sub-dimension

	ARM	AZE	BLR	GEO	MDA	UKR	EaP average
Non-technological innovation	4.17	3.33	1.67	4.20	3.42	2.67	3.24
Diffusion of innovation	2.42	2.50	3.17	2.15	2.67	1.57	2.41
Weighted average	**3.29**	**2.92**	**2.42**	**3.18**	**3.04**	**2.12**	**2.83**

Note: see Annex A for information on the assessment methodology.

Public support for the diffusion of innovation is not developed across the EaP region. In addition to isolated examples of demand-side policies that could create a market for new technologies mentioned in the previous section, only Georgia seems to have introduced some measures (i.e. "Innovation Agents") that explicitly aim at performing a firm's gap analysis and assessing its readiness for a technological upgrade.

The way forward

The EaP countries have ample room for improving their policies to build a more innovative SME sector. Reform priorities in this area should focus on the following:

- All EaP countries should consider **increasing the role of SMEs in the national strategic frameworks for innovation**. The EaP governments can improve their

innovation strategies by establishing specific baselines for SMEs' innovation performance, and engaging SMEs in the definition of realistic policy targets.

- All countries should improve the **monitoring of the uptake and impact of financial and non-financial instruments for innovation (**with a breakdown by enterprise size class). This will help them understand the extent to which innovation policies are effectively reaching the desired beneficiaries.
- All EaP countries, and especially Armenia, Georgia, and Ukraine should **strengthen formal and informal channels for science-industry knowledge transfer and co-creation**, which can be achieved through a number of policy tools. Formal channels include collaborative research (projects carried out jointly by public researchers and private firms, with at least partial funding by the industrial partner), intellectual property transactions (licensing of IP generated by public research to industry), and academic spin-offs (direct commercialisation of knowledge and technology developed by universities). Informal channels are particularly relevant for SMEs; these include increasing the private sector's knowledge of the R&D resources available in the country, as well as the sharing of facilities/laboratories between industry and public research bodies (OECD, 2019[16]).
- All countries should **better design financial instruments to support innovation activities among SMEs.** Direct financial support should aim at crowding-in private investment. EaP governments, and especially Azerbaijan, should therefore ensure that a matching component is required when awarding grants/soft loans in order to share risk with the beneficiaries of financial instruments for both technological and non-technological innovation. To increase science-industry linkages, financial support could also be made available *conditional* on SMEs collaborating with public research institutions.
- All countries should **leverage the market-creating power of demand-side policies to spur innovation diffusion**. Beyond achieving the "best value for money", all EaP countries could consider the use of public procurement as a channel for raising innovation and SME development as secondary policy objectives. The support for SMEs to participate in procurement for innovation can be a direct financial incentive, a guarantee or an indirect measure like an SME participation quote, administrative assistance, training offers or other access-facilitating measures for public tenders (OECD, 2017[17]). By linking innovation activities to mission-oriented funding (e.g. grand social or environmental challenges), governments can help to increase the social returns of innovation investment – while also making SME innovation more relevant and potentially competitive in global markets.

SMEs in a green economy

SMEs play a central role in the economies of every EaP country, making up the vast majority of all enterprises and contributing to employment and economic growth. They also have the potential to be key drivers in the shift towards a greener economy, and to be engines of competitiveness and innovation in the process. Improving the environmental performance of SMEs is also essential given the underappreciated responsibility of SMEs for industrial emissions. Although figures are not available on the extent of pollution that SMEs are responsible for in EaP countries, research shows that SMEs cause 60-70% of all

industrial emissions in the EU (Constantinos et al., 2010[18]). Implementing policies to support SME greening can enhance their competitiveness by lowering operational costs, improving market access, supporting participation in green supply chains, and incentivising the deployment of new technology. Last but certainly not least, such policy can also contribute to a cleaner environment (OECD, 2018[19]).

Green SMEs can be broadly divided into two groups: green innovators and green performers. Green innovators are SMEs that are part of the green economy, introducing eco-innovative technologies and practices and providing green goods and services. Green performers consist of conventional SMEs that adopt greener business practices in order to enhance the efficiency of resource use, lower their costs, and shrink their environmental footprint (UNEP, 2017[20]).

While green innovators are important, they may already be supported by innovation policies, and already motivated to "go green". On the other hand, shifting conventional SMEs to green performers requires active policies to support them, and to ensure that there is a strong business case for them to adopt greener practices. SMEs, especially small and microenterprises, tend to be cost-conscious and focussed on short-term profitability rather than long-term investments or compliance with environmental regulation (Lynch-Wood and Williamson, 2013[21]). In addition, SMEs are often unaware of the benefits of adopting green practices and lack knowledge on availability and implementation, meaning that they have more difficulty making the business case for their use (Blundel, Monaghan and Thomas, 2013[22]).

Governments have a range of different tools at their disposal for supporting SMEs in adopting greener practices. These can be roughly divided into regulatory, financial, and informational tools. *Regulatory* tools involve using the regulatory system to incentivise better environmental performance, including by providing incentives for firms that exceed environmental standards or self-report issues. *Financial* tools include ensuring that SMEs are able to access financial resources to implement green practices, as well as helping to create markets, for example by implementing green public procurement policies. *Informational* tools include providing SMEs with the information they need to adopt green practices, as well as providing recognition and certification for those that do. Good policies can help shift the conversation about greening SMEs into a discussion about the business benefits that greening can bring, rather than the costs (OECD, 2018[19]).

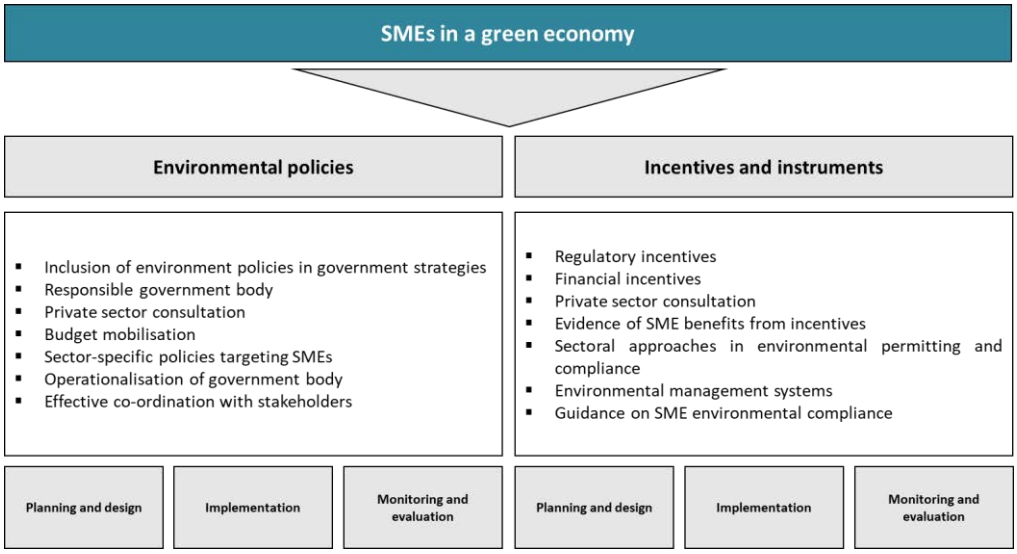
A key issue for SMEs is understanding the benefits of adopting more resource-efficient practices, and the positive impact that these practices can have on their bottom line. While businesses may be aware that they can reduce their costs by using less energy, water, and material inputs and by cutting their waste levels, they may not be aware of how to do it, or whether they are able to fund it (OECD, 2018[19]). Addressing this issue includes supporting access to finance, as well as providing direct support to SMEs in terms of what measures they can take to improve their performance. Governments also have a role in improving the business case for SMEs, by developing new markets through green public procurement, and by recognizing green achievement through awards and ecolabels and communicating it to the public (OECD, 2018[19]).

Assessment framework

The assessment framework for greening SMEs has two sub-dimensions. The first focuses on the existence of *environmental policies* to support green SMEs, the depth and breadth of those policies, and structures to operationalise them. The second looks at the existence

and implementation of regulatory, financial and informational *incentives and instruments* to support green SMEs.

Figure 6.9. Assessment framework – SMEs in a green economy



Environmental policies

The first sub-dimension examines whether policies are in place to support the greening of SMEs, whether or not they are developed, and whether there are clear plans developed to support policy implementation. This is measured directly and indirectly through a number of indicators, including whether there is budget mobilised to support policy implementation, whether there is a specific government body tasked with implementation and to what extent stakeholders consulted in the development of the plans.

The first factor in this sub-dimension is the most fundamental: whether or not environmental policies targeting SMEs are integrated into government strategies at the national level. The rest of the first thematic block, *planning and design*, looks at the extent to which those policies are developed – including whether an action plan exists, and whether there are measurable targets, a timeframe, and an expected impact. Taken together, these indicators help paint a picture of how fleshed-out a given approach is – and whether or not the intention to support green SMEs is paired with realistic and actionable plans. In keeping with this focus, the first thematic block also considers whether the policies cover both eco products and services as well as innovation, and to what extent stakeholders in the private sector were consulted.

The second thematic block, *implementation*, gets into the nuts and bolts of how environmental policies are turned into concrete action. This includes questions about budget allocation, outreach to business groups and local government, and whether there is an operational government agency assisting SMEs with adopting greener practices.

Finally, the third thematic block, *monitoring and evaluation*, measures the extent to which implementation and impact are being assessed, and whether there is a body responsible for assessment.

Answering these questions helps paint a full picture of how developed each country's plans and actions are for supporting SMEs in adopting greener practices.

Incentives and instruments for greening SMEs operations

The second sub-dimension explores the existence of different instruments and how they have been implemented. It measures whether the government provides regulatory and financial incentives to SMEs, whether there is any evidence that SMEs benefit from those incentives, and how those incentives and support schemes are structured and delivered. This sub-dimension also looks at how governments recognise sustainability actions taken by SMEs.

In the short term, activity in this sub-dimension can help kick-start the greening of SMEs and provide data about which approaches work best for different sectors and different types of enterprises. In the longer term, the measures tracked in this sub-dimension allow governments to apply incentives and support schemes that help SMEs become greener in the most impactful and cost-effective manner. How governments set and enforce environmental regulation, and incentivise compliance, can help support the greening of SMEs. Rules-based regulatory regimes for SMEs (rather than complex permit systems) are important, as are policies to promote good practices (such as reduced environmental compliance inspections for SMEs that have implemented Environmental Management Systems (EMS), and reduced compliance costs for self-reporting of incidents). Support schemes and financial incentives may include preferential tax treatment for investments in more environmentally sustainable equipment; financial support for efficiency audits; or the implementation of green procurement strategies for the public sector.

These aspects are further measured through questions about what kind of incentives are in place, whether evidence is gathered on their effectiveness, whether the government provides assistance with compliance, and whether programmes exist to provide official recognition to SMEs that are implementing greening projects.

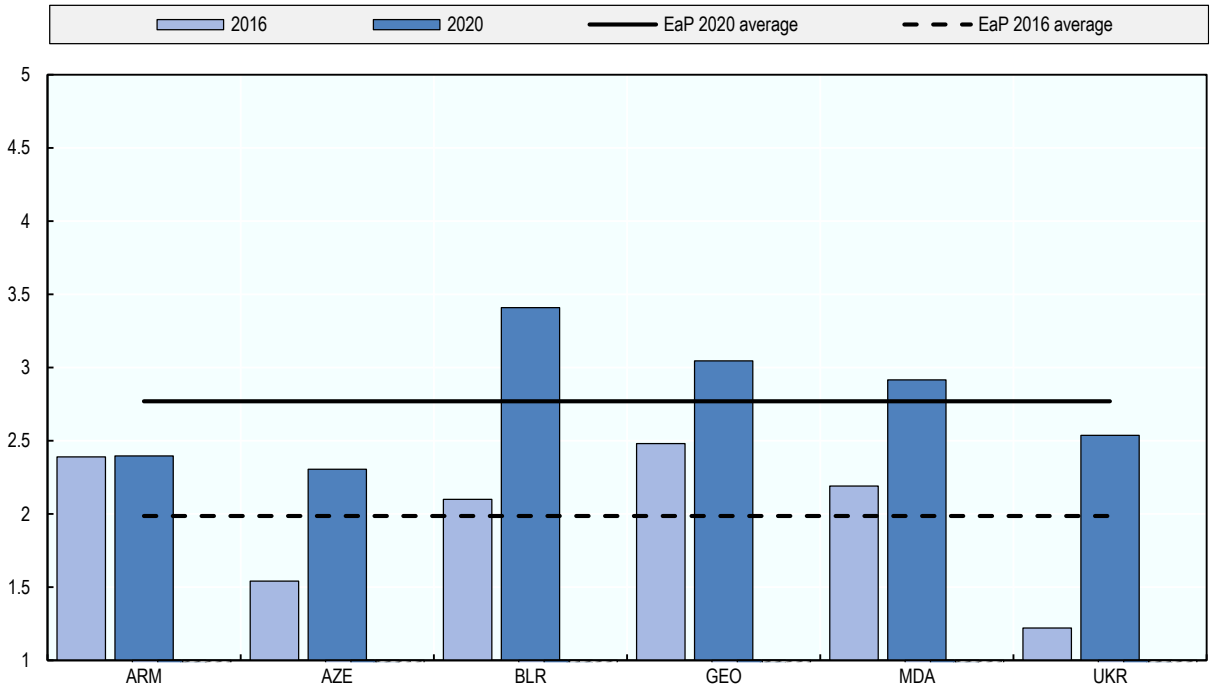
Analysis

In all EaP countries, SMEs represent the vast majority of all enterprises, which makes them responsible for a considerable portion of industrial emissions. Moreover, implementing policies to support green SMEs can enhance their competitiveness by lowering operational costs, improving market access, supporting participation in green supply chains, and incentivising the deployment of new technology. This dimension assesses government support for SMEs in adopting greener practices through regulatory, financial and informational tools.

Since the 2016 assessment, all the EaP countries have introduced policies that support the greening of SMEs, albeit with varying degrees of detail in terms of both planned activities (e.g. in Georgia) and concrete targets (as in Belarus and Azerbaijan). Moldova is the standout exception in having a clear target: its Green Economy Promotion Programme for 2018-2020 sets a target of 30% of SMEs implementing green economy principles by 2020, including resource efficiency and cleaner production techniques. Most countries in the region (Belarus, Georgia, Moldova and Ukraine) reported consultations with stakeholders in the development of green policies. Environmental legislation is also being updated to recognise the capacity and risk differences inherent in small firms compared to larger ones. A series of encouraging initiatives on risk-based environmental impact assessments have been adopted in Armenia and Belarus. Most countries are now experimenting with different forms of support or building on existing programs. Even though there are pilot projects on green procurement (Ukraine) and there is growing interest in supporting environmental management systems, those projects are not subject to monitoring or impact evaluation. Belarus, Moldova and Ukraine are in the process of establishing green requirements for

public procurement, while Armenia and Georgia showed a growing interest in supporting environmental management systems. However, the scale and reach of these projects remain in question, as there is little to no monitoring and evaluation of their impact. Longevity is also an issue, as donor funds remain a key source of support for SME greening.

Figure 6.10. Scores for the *Green economy* dimension compared to 2016



StatLink http://dx.doi.org/10.1787/888934087192

Policy frameworks for greening SMEs continue to develop, but concrete action plans and measurable indicators are needed

The first sub-dimension, *environmental policies*, evaluates the degree of introduction of greening policies into the policy framework for SMEs, industry and innovation. It examines whether strategic enterprise and innovation policy documents cover eco-efficiency and eco-innovation, and assesses the extent to which these concepts are embedded into national policy frameworks.

There has been progress across this sub-dimension at the most fundamental level: all countries in the EaP region include some form of environmental policies applicable to SMEs in their planning, either in specific SME policy documents or broader green economy policy documents. This is important, as it sets the stage for everything else that follows, including the tools, incentives and instruments covered in the subsequent sub-dimension.

Table 6.10. Scores for the *Environmental policies* sub-dimension

	ARM	AZE	BLR	GEO	MDA	UKR	EaP average
Planning & design	3.13	2.95	4.40	4.90	3.30	3.90	3.76
Implementation	2.60	3.80	3.40	3.40	2.60	3.00	3.13
Monitoring & evaluation	1.50	1.50	1.00	3.00	1.00	4.00	2.00
Weighted average	**2.56**	**3.04**	**3.27**	**3.85**	**2.53**	**3.52**	**3.13**

Note: see Annex A for information on the assessment methodology.

However, a closer look reveals a huge amount of variability in the level of detail and planning involved in those policies. While it is a positive sign that SME greening is included in high level strategies, in many cases they lack expected impacts or measurable targets. As mentioned earlier, Moldova stands out in this regard in that its Green Economy Promotion Programme for 2018-2020 sets a target of 30% of SMEs implementing green economy principles by 2020, including resource efficiency and cleaner production techniques. While all countries in the region, excluding Azerbaijan, do have action plans linked to policies for greening SMEs, in many cases the lack of detail in them exacerbates challenges around implementation and measuring success. Armenia's SME State Support Annual Program 2018 calls for enhanced support for energy efficiency and involvement of SMEs in the green economy, but does not link to clear policies to achieve those goals.

As a counter-example, Georgia's SME Development Strategy 2016-2020 and its associated Action Plan supports the development of a training manual for resource efficiency and clean production (RECP), RECP assessments for enterprises, workshops and training events, as well as training in waste management for management-level employees at SMEs. These are clearly described actions that can be implemented and scaled up, and can work in harmony with other Georgian policies such as the Waste Management Strategy 2016-2030, which introduces an Extended Producer Responsibility Strategy for SMEs.

Ensuring that policies to support greening SMEs are coordinated with each other can strengthen synergies between them and extend their reach. A good example of this is the European Commission's Green Action Plan for SMEs, which combines actions across a range of different areas related to greening SMEs, and also includes the collection of data to help inform decision making (Box 6.5).

Box 6.5. The European Commission's Green Action Plan for SMEs

The European Commission's Green Action Plan (GAP) for SMEs is a significant, multipronged approach that aims to support SMEs to improve productivity, reduce costs, greening entrepreneurship, and developing European leadership in green processes and technologies. It has two overall objectives: raising SMEs' awareness of the benefits of resource efficiency improvements and business opportunities related to the circular economy, and informing SMEs about programs for supporting greener performance.

Actions under the GAP are broken up into four sections: 1) greening SMEs for competitiveness and sustainability, 2) green entrepreneurship for the companies of the future, 3) opportunities for SMEs in a greener value chains, and 4) access to markets for green SMEs.

An important component of the GAP is the gathering of information through surveys conducted directly with SMEs, to better understand the challenges they face in adopting

greener practices. These "Eurobarometer" surveys provide vital information on drivers and obstacles that SMEs face, thus helping to design better policies. GAP also includes actions on vocational education and training to tackle sector-specific skills gaps around environmental technologies and eco-innovation. In doing so, it also fosters co-operation between industry and vocational education, to ensure that the skills developed match with market needs.

In its breadth and organization, the GAP is a good example of how action plans for greening SMEs can encompass a variety of areas ranging from technology development to business communication and training.

Source: European Commission, "Green Action Plan for SMEs", https://ec.europa.eu/growth/smes/business-friendly-environment/green-action-plan.

It is worth noting that in some cases, countries (e.g. Belarus and Azerbaijan) have green economy policies that will affect SMEs but do not specifically target SMEs. While still a positive development, the policies are neutral regarding enterprise size and do not reflect the specific challenges that SMEs face. For instance, Belarus' National Action Plan for Green Economy Development (2016-2020) includes measures targeting specific sectors of the economy, such as the energy sector, construction, transportation, and agriculture. SMEs operate in all those sectors, but are not specifically targeted by the National Action Plan, which may mean they have challenges accessing programs.

Developing policies in consultation with affected stakeholders is always a good idea. Most countries in the region (Belarus, Georgia, Ukraine, and Moldova) reported consultations with sectoral representative and business groups in the development of green policies. Consulting with business groups helps ensure that policies meet the needs of the business community, while also helping to convey information to the business community on their introduction.

Another way that uptake can be supported is by direct outreach from the government body responsible for providing support to SMEs on implementing green practices. While all countries in the region have designated a responsible body, in most cases that body remains the ministry responsible for environmental issues, and they do not conduct specific outreach to SMEs. Although some have websites, passive information provision is not a substitute for direct outreach to the business community.

A related challenge is in countries that have shared responsibility for SME greening policies across multiple government agencies. For instance, in Ukraine, both the Ministry of Ecology and Natural Resources and the Ministry of Economic Development, Trade and Agriculture (MEDTA) are deemed responsible in the SME Strategy for assisting firms seeking support for greening. This is confusing for the SMEs themselves, and may arise co-ordination challenge, as well as hinder the effectiveness of policy development and implementation, as the leadership structure is unclear.

Monitoring and evaluation remain an underdeveloped area for all countries in the region, except for Ukraine and Georgia, which show promising steps (see Table 6.10). In most cases, there are no clear plans for monitoring or evaluating the impact of policies. This is true even in the case of Moldova, which as noted clearly defines some targets for SME greening, but does not have a clear definition of what "implementing green economy principles" would entail for an SME. Monitoring is essential to ensure that policies are effective – and if they are not, they can be improved. This is especially important in cases where policies are not targeted specifically at SMEs, such as Belarus. Having proper

monitoring and evaluation in place can provide a clearer idea of how much SMEs are actually benefiting.

SMEs need greater information and resources about why and how they can benefit from green practices

The second sub-dimension looks at the provision of institutional and financial incentives for SME greening. It evaluates the availability of environment-related information, expertise and funding targeted at SMEs. It also measures governments' efforts to promote environmental management systems and standards, as well as compliance with environmental regulations.

While the planning discussed in the previous sub-dimension is vital to ensuring the implementation of effective policies, this sub-dimension looks at the specific policies to green SMEs that each country has deployed, including regulatory, financial, and information tools.

Table 6.11. Scores for the *Incentives and instruments* sub-dimension

	ARM	AZE	BLR	GEO	MDA	UKR	EaP average
Planning & design	3.34	2.04	4.63	2.38	3.79	1.63	2.97
Implementation	1.59	2.00	2.41	2.70	2.33	2.48	2.25
Monitoring & evaluation	2.00	1.00	4.00	2.33	4.00	1.00	2.39
Weighted average	**2.28**	**1.81**	**3.50**	**2.51**	**3.18**	**1.89**	**2.53**

Note: see Annex A for information on the assessment methodology.

Environmental regulation remains one of the key means by which governments can directly improve the environmental performance of SMEs. However, under existing regulatory systems in the region, the focus is on larger polluters, often leaving SMEs de facto un-regulated. Shifting to a risk-based approach to environmental permitting and regulation lowers the burden on most SMEs while ensuring that SMEs that do pose a potential environmental impact are regulated. It also provides a window for enhancing interactions between companies and regulators. In the region, there have been a series of encouraging initiatives on risk-based environmental impact assessments (EIAs). For instance, Armenia is shifting to a risk-based approach for EIAs that will have a positive benefit for SMEs. Belarus and Georgia are also adopting a simplified EIA process for small enterprises. The next step will be expanding that risk-based approach from the EIA process to regulation as a whole (OECD, 2018[19]).

Access to green finance for smaller SMEs continues to be an issue in the region. Growing amounts of green finance are becoming available through retail banks, generally backed by international finance institutions (IFIs), but high borrowing costs and relatively short repayment periods make it difficult for small SMEs to access them. For example, in Georgia, banks that collaborate on green credit lines with IFIs often use international standards to assess borrowers, with funds tending to flow to larger enterprises. For example, the Bank of Georgia makes loans to SMEs for energy efficiency, backed by lines of credit with EBRD, EIB, and KfW, among other IFIs. However, the average loan size is often in excess of USD 1 million, which is significantly larger than most small enterprises require. The situation is similar for other EaP countries (OECD, 2019[23]). Although a number of countries, including Ukraine, have included access to green finance for SMEs in their SME strategies, the level of implementation to date remains unclear. Integrated solutions (like

Resource Efficient Scotland, discussed in Box 6.6) provide both loans and technical assistance to SMEs, with a wide range of loan sizes available that is more accessible for small firms.

Box 6.6. Resource Efficient Scotland: A case study in access to green finance for SMEs

Although SMEs may be aware of the business opportunities afforded by adopting more efficient practices, and the improvement they can have on their bottom line, they often lack financing that has long enough terms, low enough interest rates, or is available in small enough amounts. Resource Efficient Scotland (RSE) attempts to address that by providing accessible finance to SMEs that want to invest in greener practices.

RSE is an initiative jointly funded by the Scottish Government and Zero Waste Scotland, a publicly funded agency that works to implement sustainability initiatives in Scotland. Through it, SMEs can apply for financing of up to GBP 100 000, although loans can also be significantly smaller. Loans are interest free, with the exception of renewable energy projects, for which there is a 5% interest rate.

Access to finance is also paired with a free consultation service from RSE to ensure that businesses are able to effectively undertake efficiency measures. A specialist visits the enterprise and provides a report with recommendations on what approaches will help reduce the enterprise's resource use. The specialist will also provide support on an ongoing basis, helping with everything from completing the loan application to determining how to install new equipment.

In the past, SME resource efficiency support from Zero Waste Scotland supported around 4 000 businesses with one-on-one support and financing for resource efficiency, with total program savings of GBP 36 million on energy bills over a five-year period, with average savings of 24% or GBP 8 000 on their annual energy bills.

Source: Zero Waste Scotland (2019), "Scottish Government SME Loan", https://www.zerowastescotland.org.uk/content/resource-efficient-scotland-sme-loan-scottish-government; Resource Efficient Scotland website, https://www.resourceefficientscotland.com; Sarah George (2018), "Scottish Government launches 'cashback' scheme to help SMEs bolster energy efficiency", *edie*, https://www.edie.net/news/6/Scottish-Government-launches--cashback--scheme-to-help-businesses-bolster-energy-efficiency--.

Size considerations are vital in this context. For instance, Azerbaijan has tried to incentivise participation in the green economy through the creation of special economic zones and tax incentives for specific sectors (including renewable energy), but they are not targeted at SMEs and it remains to be seen if they are accessible to them. The same holds true for environmental management systems (EMSs). Belarus, for example, in 2017 introduced STB ISO 14001-2017, an EMS standard based on ISO 14001. While Belarus reports strong uptake so far, with more than 270 enterprises gaining certification, the ISO 14001 standard can be complex for smaller enterprises to implement without support, and there is no information available on the number of SMEs that have actually implemented it. Developing a simplified environmental management system with gradated complexity makes more sense for SMEs, as it allows them to progressively advance their environmental performance in an understandable format.

Three countries (Belarus, Moldova and Ukraine) are currently establishing green requirements for public procurement, with Ukraine already piloting green procurement

requirements in a number of regions. This is a very positive move, as it creates a market incentive for SMEs to reach standards. For instance, Moldova has set the goal of at least 15% of total public procurement to be "sustainable" by 2020. Public procurement can be a powerful tool for sending market signals and making the business case for greening. However, clearly defined qualifications for what constitutes "sustainable" need to be in place, and SMEs need to be supported to ensure that they are aware of the opportunity, and that they have the tools available to meet the qualifications.

The way forward

- All the EaP countries could **further strengthen green SME policies by ensuring that they are linked to concrete action plans with measurable targets and timeframes**. This helps show progress overtime, and gives policy makers valuable information about what works and what doesn't.
- Although there is support from IFIs in the region to provide access to green finance, it is aimed at larger enterprises, with the collateral requirements, loan amounts, and terms not appropriate for small enterprises. It is important for all EaP countries to **develop green loan programs that are accessible to SMEs**, including for relatively small loans for resource efficiency measures.
- Armenia, Azerbaijan, Georgia and Moldova could **strengthen communication to SMEs on how and why to "go green".** SMEs often need support in understanding what technologies and practices to adopt and what financing options are available to them. There should be a single, accessible government agency to ensure that SMEs are clear about where they can go for information and support. Integrating support for SME greening into SME development agencies (e.g. Enterprise Georgia) is a viable approach.
- **Belarus and Ukraine could take further steps to link green public procurement with simplified EMS/eco-certification**. Greening public procurement can create a powerful market motivation for SMEs to improve their environmental performance. However, the requirements to participate in green public procurement must be clear, straightforward and accessible for SMEs. Environmental management systems that are adapted to the capacity of SMEs can help small firms improve their environmental performance. This also provides a way for them to achieve eco-certifications, which in turn can be criteria for participation in green public-procurement policies.

Policy instruments – Innovation and Business Support

Table 6.12. Dimension challenges and policy instruments – Pillar E

Dimension	Challenges / Opportunities	Policy instruments
Business Development Services	**Market failures due to informational asymmetries.** Although SMEs have limited knowledge of the benefits of BDS, BDS also do not cater to the specific needs of SMEs and might lack the insurance mechanisms necessary to help them deal with SMEs, which are riskier engagements than large companies.	**Inform SMEs about the benefits and availability of BDS**. Develop single information portals providing details on all BDS programmes and list of quality BDS providers. **Help BDS providers navigate the SME sector.** Introduce quality assurance mechanisms (e.g. certification programmes) to enhance trust among the parties, while enhancing the monitoring and evaluation of the current infrastructure.

Dimension	Challenges / Opportunities	Policy instruments
	BDS provision is not shaped by market-driven demand. The efficiency of BDS provision is severely hampered by a lack of coordination among providers, the reliance on state/donor budgets, and low awareness of the availability and benefits of BDS.	**Improve the efficiency of BDS provision.** Establish co-ordination mechanisms among private and public BDS providers to ensure effective and target delivery of BDS services. **Promote private initiative.** Intervene to address market gaps, coordination failures and absence of implementing bodies without hampering private initiative. In particular, focus on BDS regulation and promotion of such services, and allow firms to choose their preferred private providers.
Innovation policies for SMEs	**Lack of policy focus on SME sector.** SMEs are seldom identified as a specific category of the business sector with its own peculiar challenges. This translates into a poor availability of data on performance indicators, lack of granular M&E, and weak performance of SME support policies.	**Highlight the role of SMEs in national innovation strategies.** Establish baselines for SMEs' innovation performance, introduce *ad hoc* indicators for SME performance to enhance M&E, define attainable policy targets.
	Lack of financial support or poor access to finance. Financial instruments to support innovation are available but often only in the form of grants; missing risk-sharing mechanisms prevent innovative SMEs from realizing their full potential.	**Better design financial instruments to support innovative activities among SMEs.** Introduce financial instruments to provide state economic support for innovation, conditional on collaboration between the parties. Introduce risk-sharing mechanisms between the innovators and the funding parties. Lastly, provide direct financial support to promote private investments.
	Poor diffusion of innovation. Transfer of knowledge and co-creation are concentrated in public institutions distant from the incentives of the private sector. Public procurement is rare across the region, with damaging consequences for the strength of incentives for SMEs.	**Reinforce formal and informal channels for knowledge transfer and co-creation.** Promote collaborative research, intellectual property transactions, and academic spin-offs. At the same time, stimulate the private sector by supporting research-industry relationships and expanding awareness of the availability of R&D resources. **Stimulate the market with demand-side policies.** Introduce direct measures (e.g. financial incentives and guarantees) and indirect measures (e.g. SME participation quota and training) for public tenders on different levels to bolster innovation and make it globally competitive.
SMEs in a green economy	**Lack of a strong business case.** Lack of awareness of the benefits of greener practices translates into a weak incentive for SMEs to switch to more sustainable models, with significant efficiency and environmental costs.	**Improve knowledge.** Reach out to SMEs to advise them regarding what measures they can take and which economic and environmental benefits they might enjoy. **Design demand-driven, green policies**. Develop green schemes in collaboration with business representatives to ensure wide adoption of green practices. **Introduce stronger incentives.** Establish green requirements for public procurement and introduce eco-awards and eco-labels for compliance.
	Lack of resources to meet the requirements. Despite positive progress in the EaP region, SMEs need to be supported with clear definitions of sustainability and the tools necessary to achieve the national green objectives.	**Introduce a simplified environmental management system (EMSs) targeted specifically at SMEs.** Systems adapted to SMEs' needs can promote wider adoption, improve firms' environmental performance, and help firms achieve eco-certifications.

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Notes

[1] An "experience good" is a product or a service that can be only evaluated after it has been purchased and experienced.

[2] https://www.ebrd.com/work-with-us/advice-for-businesses/business-advice-in-your-country.html.

[3] http://www.eu4business.eu/programme/advice-small-businesses?destination=programmes%3Ffield_related_community_tid%5B0%5D%3D1%26community1%3Don%26partner_list%3D&_ga=2.159786174.288675495.1571831769-336436535.1568706339

[4] The taxonomy of business functions adopted in the latest edition of the *Oslo Manual* maps well onto the previous edition's categories of process, marketing and organisational innovations. Hence, the "non-technological" innovations referred to in this *SME Policy Index* can be considered a subset of the broader "business process" innovations considered by the latest *Oslo Manual*.

[5] See, for instance, the position of EaP countries in the Global Innovation Index, which ranks countries based on the quality and performance of the "inputs" (e.g. human capital, infrastructure, market sophistication) and "outputs" (e.g. patents, hi-tech exports, IP receipts) of national innovation ecosystems (Dutta, Lanvin and Wunsch-Vin, 2018[24])

[6] Share of SMEs introducing product innovations and ICT usage for commercial purposes by SMEs (share of SMEs using e-invoicing, e-procurement, e-sales).

[7] *Fablabs*, or digital fabrication laboratories, are set up to inspire entrepreneurs to turn their ideas into new products and prototypes by giving them access to a range of advanced digital manufacturing. For more information see https://www.fablabs.io/

[8] See for instance the IMF's Financial Development Index database: https://data.world/imf/financial-development-fd.

Part II. Small Business Act assessment: Eastern Partner country profiles

Chapter 7. Armenia: Small Business Act country profile

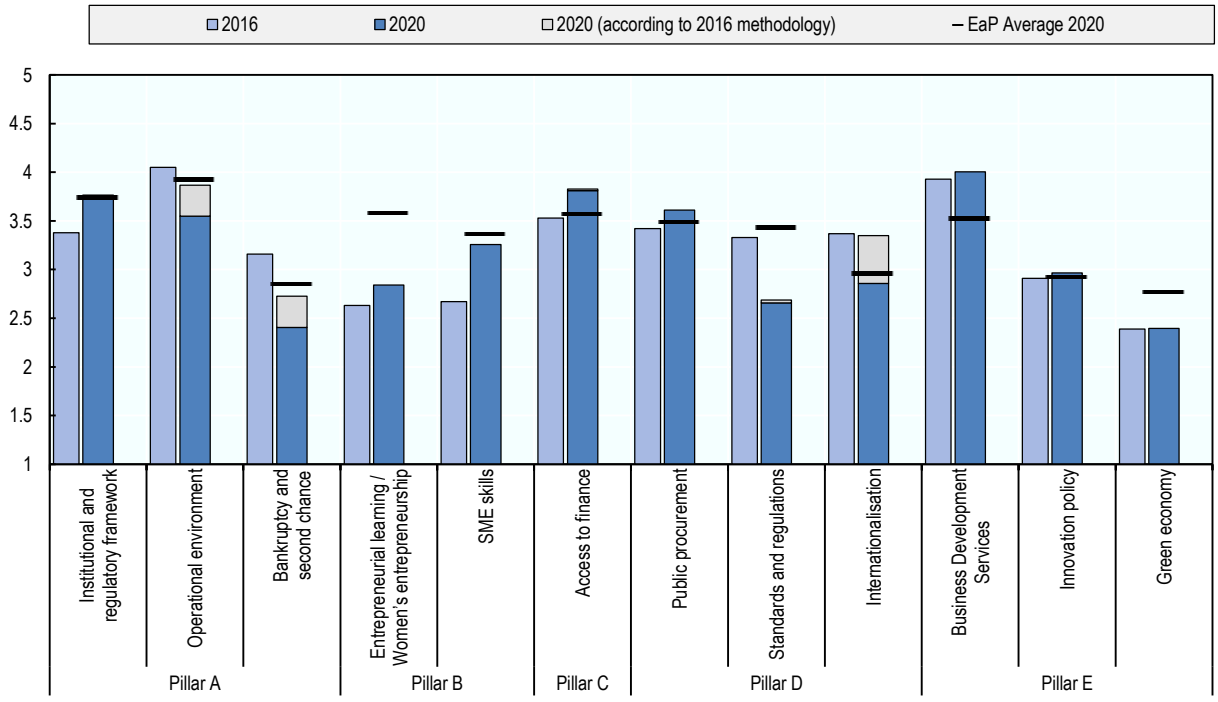
In 2018, Armenia underwent significant political changes leading to the election of a new parliament and the formation of a new government. The new government has embarked on an ambitious reform agenda that includes SME development as a priority. Due to the political changes and persistent economic challenges, Armenia has achieved only limited progress since the 2016 SBA assessment. Nevertheless, despite the lack of a comprehensive medium-term SME strategy, the institutional and regulatory framework for SME policy has further improved as the SME DNC (the SME agency) has extended the scope of services provided to SMEs, and a revised e-procurement system was introduced in 2018. There has been also a growing focus at the policy level on the importance of entrepreneurial human capital for national competitiveness, and the government's efforts in this area should be recognised and further supported.

Going forward, Armenia should finalise and adopt its SME Development Strategy 2020-2024 and establish an efficient monitoring and evaluation system. Priority actions should focus on enhancing e-government services, improving bankruptcy procedures, offering better services to exporters, and creating a competition-friendly business environment.

Key findings

Figure 7.1. SME Policy Index scores for Armenia

Country scores by dimension, 2020 vs. 2016



StatLink http://dx.doi.org/10.1787/888934087211

Table 7.1. SME Policy Index scores for Armenia, 2020 vs. 2016

Pillar	Dimension	ARM 2020	ARM 2016	EaP average 2020	*ARM 2020 (2016 methodology)*
A	Institutional and regulatory framework	**3.76**	3.38	3.74	3.76
	Operational environment	**3.55**	4.05	3.92	3.87
	Bankruptcy and second chance	**2.40**	3.16	2.85	2.73
B	Entrepreneurial learning / Women's entrepreneurship	**2.84**	2.63	3.58	n.a.
	SME skills	**3.26**	2.67	3.36	n.a.
C	Access to finance	**3.81**	3.53	3.57	3.83
D	Public procurement	**3.61**	3.42	3.49	3.61
	Standards and regulations	**2.66**	3.33	3.43	2.69
	Internationalisation	**2.86**	3.37	2.96	3.35
E	Business development services	**4.00**	3.93	3.53	4.00
	Innovation policy	**2.96**	2.91	2.92	2.90
	Green economy	**2.40**	2.39	2.77	2.40

Table 7.2. Implementation progress on SME Policy Index 2016 priority reforms – Armenia

Priority reforms outlined in SME Policy Index 2016	Key reforms implemented so far
Pillar A – Responsive government	
Adopt a comprehensive, longer-term SME strategy. Improve statistics collection (availability, methodologies, alignment with new definition).	A mid-term SME strategy for 2016-2018 was adopted; a new longer-term strategy covering 2020-2024 is under development; National Statistical Office started producing regular SME statistics with the first Statistical Bulletin on SME in line with Eurostat-OECD methodology published in 2018; Regulatory guillotine process covered 75% of existing laws and regulations; Special tax simplification system for microenterprises and family businesses introduced.
Pillar B – Entrepreneurial human capital	
Integrate the entrepreneurship key competence into curricula and teacher training across all levels of education. Embed lifelong entrepreneurial learning into government documents; introduce a graduate tracking system in vocational education and training (VET). Improve systematic data collection. Systematically promote and support the exchange of good practice.	Introduced an entrepreneurship module ensuring gradual competence development from primary to upper secondary schools including VET by 2020; Initial teacher training in entrepreneurial learning at primary level in place, planned for secondary level; Good practice in entrepreneurial learning and women's entrepreneurship promoted and shared;
Pillar C – Access to finance	
Strengthen creditor rights – including through a reform of the insolvency legislation. Establish an online registry for security interests over movable assets (following 2014 law).	Breadth of credit information coverage has increased making it easier for individuals and businesses to build a credit history; The registry for security interests over movable assets established and its accessibility improved through online registration and searchabillity; Financial education in secondary schools is being piloted with a view of full-scale roll-out by 2021.
Pillar D – Access to markets	
Develop and implement targeted support measures for exporting SMEs, including an enabling environment for trade finance. Increase compliance of national technical regulations and standards with international and EU standards. Strengthen public procurement legislation and promote SME participation.	Co-financing mechanism for participation in international trade fairs introduced; New public procurement law adopted in line with the EU Directives; introduction of the revised e-procurement system in 2018; Export Insurance Agency of Armenia provides financial services for exporters.
Pillar E – Innovation and Business Support	
Introduce specific measures to promote the private business development service (BDS) market.	A co-financing mechanism involving private sector service providers was implemented by Business Armenia for export activities; Expansion of innovation infrastructure with focus remaining on IT sector; SME strategy contains provisions for development of SME greening.

Context

Economic snapshot and reform priorities

Following near stagnation in 2016, mainly due to the slowdown of economic activity in major trading partners, Armenia has experienced a strong recovery. A supportive external environment and improved domestic economic fundamentals have boosted private

consumption, investment and exports. Real GDP growth reached 7.5% and 5.2% in 2017 and 2018, respectively. The positive economic outlook continues despite a slightly lower GDP growth rate of 5.2% in 2018 due to a fiscal tightening and slower inflows of remittances and FDI (Table 7.3). Nevertheless, Armenia still faces major socio-economic challenges with substantial unemployment (17.7% in 2018) (Asian Development Bank, 2019[1]) and one-fourth of the population still living below the national poverty line, contributing to sizable emigration (Economist Intelligence Unit, 2019[2]).

The economy is driven mainly by industry and agriculture, which in 2017 accounted for 25.3% and 14.9% of GDP, respectively (World Bank, 2019[3]). Exports are concentrated in terms of both products (ores and metal accounted for nearly 40% of exports in 2017) and destination markets (nearly one-fourth of exports went to Russia in 2017) (Statistical Committee of the Republic of Armenia (Armstat), 2019[4]). The country is also highly reliant on remittances, which amounted to 13% of GDP in 2017, with nearly 64% coming from Russia (World Bank, 2019[3]; World Bank, 2019[5]). This dependence exposes Armenia to external shocks, such as volatility in commodity prices and economic downturns in Russia. Furthermore, the economy is highly dollarised: rising international rates and dollar appreciation create a risk of capital outflows.

Since 2014, exports of goods and services have grown steadily, reaching 37.3% of GDP in 2017 (as compared to 28.6% in 2014) with some trends in the diversification of the export basket, i.e. textile exports increased from 3% in 2014 to 6% as a share of total exports in 2017 (WITS, 2019[6]; UN Comtrade, 2019[7]). Despite a decreasing trend observed since 2009, Armenia still runs a negative current account. After a sharp fall driven by the 2009 world economic crisis, net FDI inflows are still declining, limiting further opportunities for economic growth. Net FDI inflows stood at USD 2% of GDP in 2018, well below the 8.1% recorded in 2009 (Table 7.3).

Table 7.3. Armenia: Main macroeconomic indicators, 2013-18

Indicator	Unit of measurement	2013	2014	2015	2016	2017	2018
GDP growth*	Percentage, y-o-y	3.3	3.6	3.2	0.2	7.5	5.2
Inflation**	Percentage, average	5.8	3.0	3.7	-1.4	1.0	2.5
Government balance[1]**	Percentage of GDP	-1.6	-1.9	-4.8	-5.6	-4.8	-1.8
Current account balance*	Percentage of GDP	-7.3	-7.8	-2.7	-2.1	-3.0	-9.4
Exports of goods and services*	Percentage of GDP	28.4	28.6	29.7	33.1	37.3	37.5
Imports of goods and services*	Percentage of GDP	48.2	47.0	41.9	42.8	49.5	52.9
FDI net inflows*	Percentage of GDP	3.1	3.5	1.7	3.2	2.2	2.0
General government gross debt**	Percentage of GDP	36.3	39.4	44.1	51.9	53.7	51.3
Domestic credit to private sector*	Percentage of GDP	42.4	48.9	45.6	48.9	51.5	55.6
Unemployment[2]*	Percentage of total active population	16.2	17.5	18.3	17.6	17.8	17.7
Nominal GDP*	USD billion	11.1	11.6	10.6	10.5	11.5	12.4

[1] General government net lending/borrowing.
[2] Modeled ILO estimates.
Source: *World Bank (2019[3]), *World Development indicators;* **IMF (2019[8]), *World Economic Outlook*, both accessed in December 2019.

Following the 2014 economic slowdown, the government took significant steps to pursue fiscal consolidation, closely monitoring its monetary policy and implementing structural reforms. In 2018, a new tax regime and renewed efforts to improve tax administration helped narrow the fiscal deficit to 1.6%. The Central Bank of Armenia has gradually lowered its refinancing rate, which has supported domestic credit to the private sector (Table 7.1). In February 2019, the Parliament adopted a five-year programme on economic development that gives priority to fighting corruption and improving the business environment, notably through FDI attraction and export promotion. Given the strong support provided by international organisations, the authorities reached a staff-level agreement with the IMF on a USD 250 million three-year precautionary Stand-By-Arrangement (SBA) to support the implementation of the governments' reform plans (EBRD, 2019[9]).

Business environment trends

Since 2016, Armenia has fallen back in the World Bank's *Doing Business* ranking, slipping from 35th place to 47th (World Bank, 2019[10]). Though this outcome largely reflects reform activism elsewhere rather than a deterioration of conditions inside Armenia, the Bank's indicators show no progress on getting credit, and only incremental changes have been implemented on paying taxes and resolving insolvency. However, the country still ranks high on starting a business (10th) and registering property (13th).

Building on the findings and recommendations of the SME Policy Index 2016, the government has taken steps to improve the policy environment for SMEs. An initial effort in this direction led to the adoption of an SME strategy covering the period 2016-18. A subsequent external evaluation of the strategy highlighted the main achievements and challenges of SME policy. The government is now drafting a new medium-term SME strategy for 2020-25, engaging with all stakeholders including the private sector.

In 2018, Armenia experienced significant political changes that led to the election of a new parliament and the formation of the new government. The new government put forward an ambitious reform agenda that aims, among other things, to combat corruption, improve the efficiency and independence of judiciary, and enhance the overall business climate to attract investment and boost entrepreneurship. The turbulent political transition and the ongoing process of restructuring ministries and state agencies have had a negative impact on Armenia's performance in this round of the SBA assessment, but if the government successfully follows through on its reform commitments, the coming years will see considerable progress. Even in the difficult context of the recent past, Armenia has managed to broaden the scope of the support services it provides to SMEs by establishing a dedicated SME agency (the SME DNC[1]), advanced in the development of the new SME strategy, and revised its e-procurement system to enable greater SME participation.

SME sector

The SME definition in place in Armenia since 2011 is in line with the EU definition, as it is based on three criteria covering employment, turnover and balance sheet (Table 7.4).

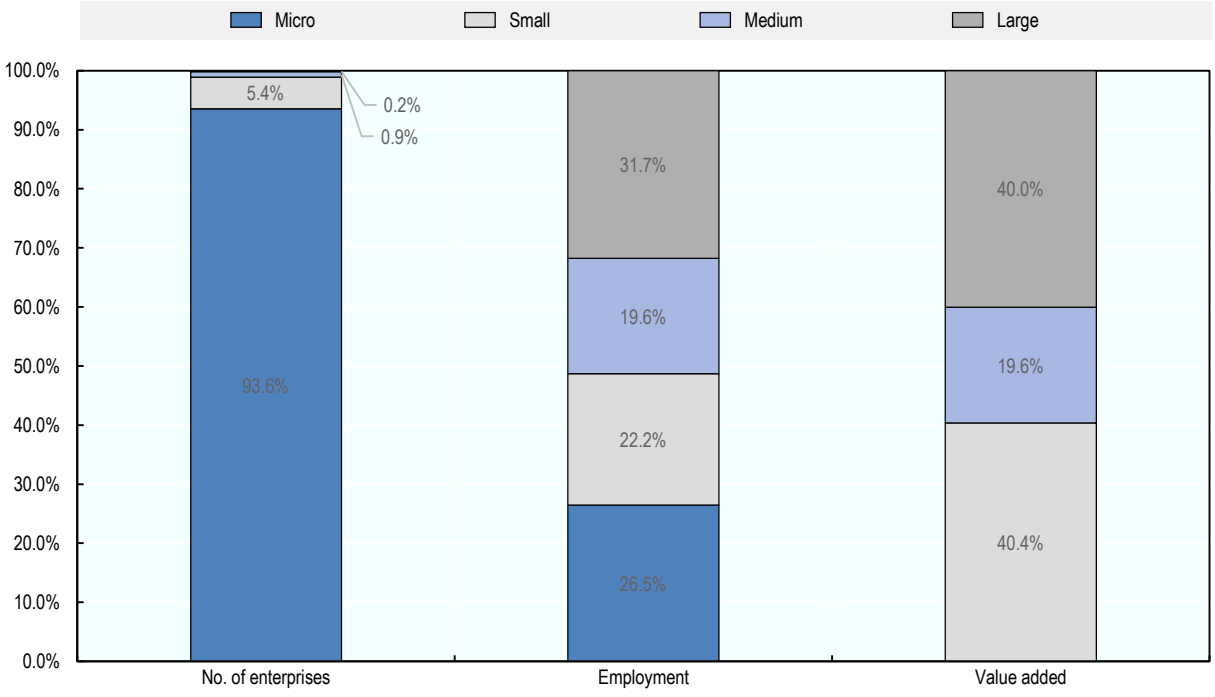
Table 7.4. Definition of micro, small and medium enterprises in Armenia

	Micro	Small	Medium
Employment	< 10 employees	< 50 employees	< 250 employees
Annual turnover	≤ AMD 100 million (EUR 185 580)	≤ AMD 500 million (EUR 927 900)	≤ AMD 1 500 million (EUR 2 783 700)
Balance sheet	≤ AMD 100 million (EUR 185 580)	≤ AMD 500 million (EUR 927 900)	≤ AMD 1 000 million (EUR 2 041 380)

Note: Exchange rate as of October 2019, https://www1.oanda.com/lang/it/currency/converter/
Source: Amendments to the Law on State Support of Small and Medium Entrepreneurship (2011)

According to the 2018 data, SMEs comprise more than 99.8% of all enterprises in the business economy,[2] with microenterprises constituting 93.6% of them. SMEs account for 68% of total business employment and generate up to 60% of value added in the business sector, which is broadly comparable with the SME performance in the EU.

Figure 7.2. Business demography indicators in Armenia, by company size, 2018

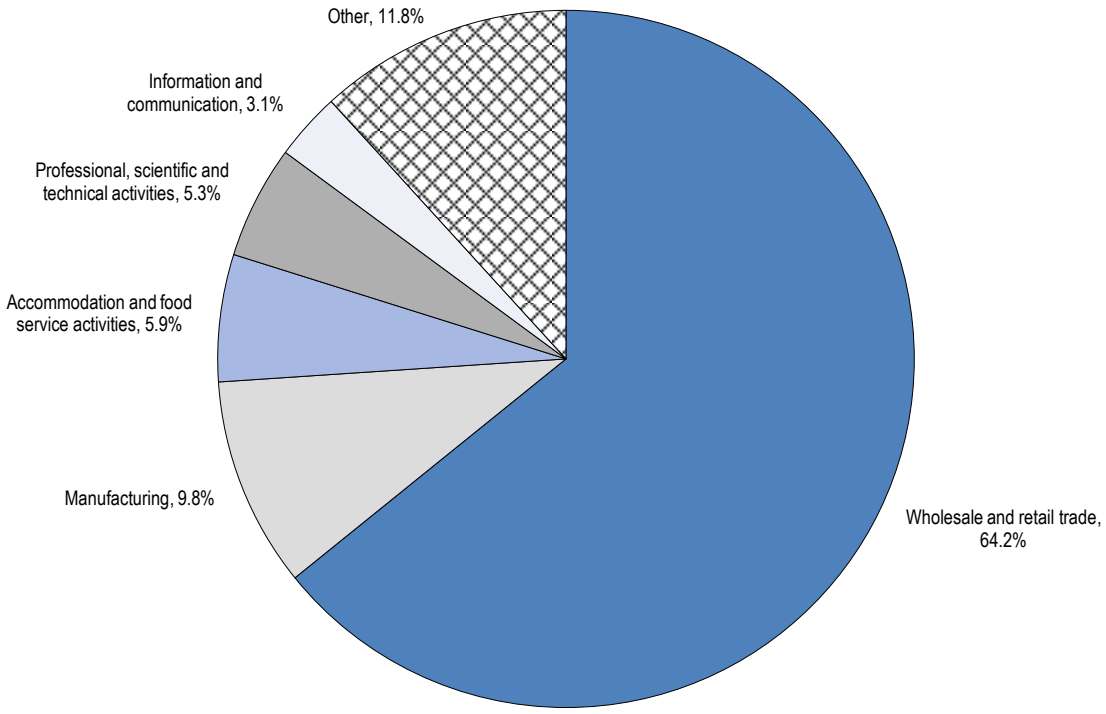


Note: Micro-enterprises are included in small enterprises category for value added.
Source: Armstat, (2019[11]), *Small and Medium Entrepreneurship in the Republic of Armenia, 2019.*

StatLink http://dx.doi.org/10.1787/888934087230

Most SMEs in Armenia are concentrated in relatively low value added activities, such as wholesale and retail trade (64%) and manufacturing (10%).

Figure 7.3. Sectoral distribution of SMEs in Armenia, 2018



Note: Sectors include section B to N, the sector S95, excluding sector K (financial intermediation services) of ISIC rev.4. "Other" includes Administrative and support service activities, Real estate activities, Transport and storage, Construction, Repair of computers, Mining, Energy, and Water supply.
Source: Armstat, (2019[11]), *Small and Medium Entrepreneurship in the Republic of Armenia, 2019*.

StatLink http://dx.doi.org/10.1787/888934087249

SBA assessment by pillar

Level playing field pillar

Competition

Armenia's legal framework for competition incorporates most of the basic building blocks necessary for an effective competition law regime. The enforcement body, the State Commission for the Protection of Economic Competition (SCPEC), is an independent institution, and has most of the required powers and instruments at its disposal, but some important enforcement tools are missing. SCPEC actively reviews laws and regulations and, within its mandate, advocates the lowering of barriers to entry and competition. All of SCPEC's recent recommendations have led to the necessary changes in draft laws and regulations. In addition to competition rules, SCPEC enforces rules against unfair competition and on consumer protection.

SCPEC's actual competition enforcement activity is limited to merger control and abuse-of-dominance investigations. It investigated 65 mergers in 2017-18 and imposed fines on a few companies for an abuse of dominance. Although anticompetitive agreements are prohibited, there was no enforcement against cartels in 2014-18. This is certainly related to

the lack of effective "dawn raid" powers.[3] SCPEC is required by law to notify undertakings three days in advance of a planned inspection. This requirement severely hampers investigations into illegal cartels, as it ensures that incriminating direct evidence can be destroyed or hidden by the time the inspection actually takes place. The competition authority has not yet developed any guidelines for businesses on the interpretation and implementation of the competition law, with the exception of those on prevention and detection of anticompetitive agreements in public procurement processes.

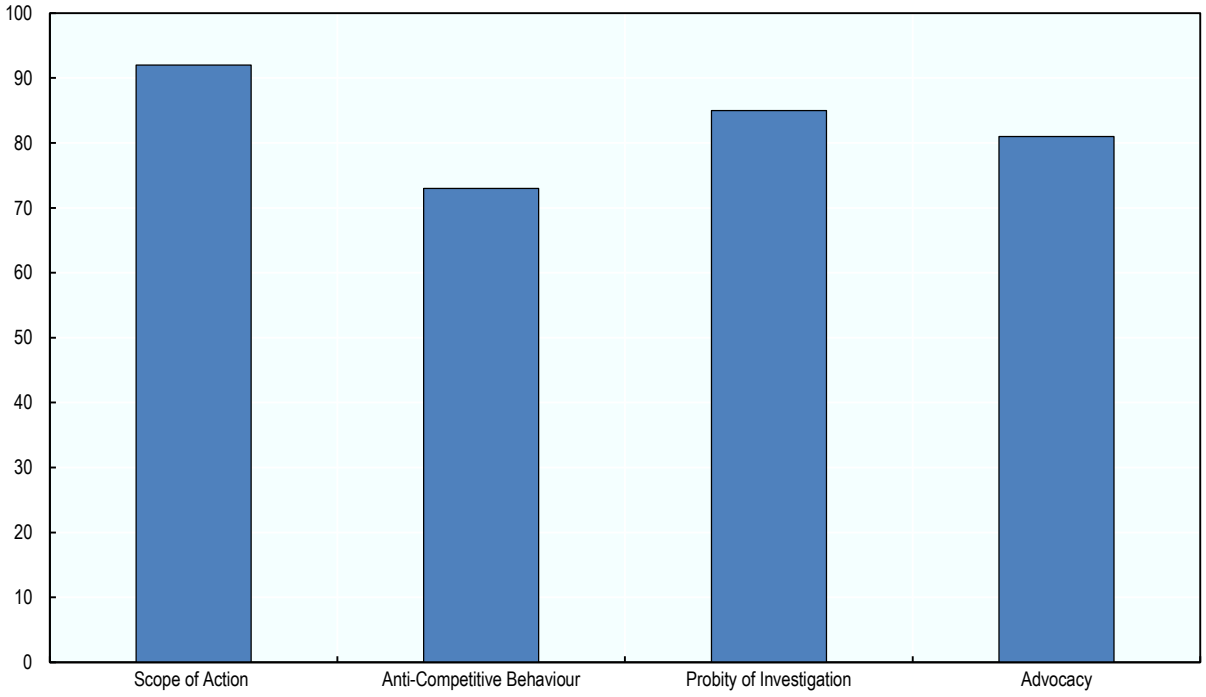
Changes to competition law in 2018 introduced a margin of discretion for imposing fines and personal liability of state officials and managers for competition violations, as well as clarification of the definition of an abuse of dominance.

However, important challenges remain:

- Compared to enforcement against unfair business practices and in consumer protection matters, competition enforcement is seriously underdeveloped. The emphasis, however, needs to be reversed. Competition enforcement is designed to tackle long-term obstacles to competition and the root causes of market distortions. Unfair business practices and unfair terms vis-à-vis consumers are often symptoms of underlying competition problems that are not addressed by current enforcement practices.
- Effective enforcement requires functioning tools and procedures. In terms of tools, "dawn raid" powers are recognised as an indispensable tool for uncovering illegal cartels. Cartel agreements cannot be established based on parallel conduct of observations or other indirect evidence alone. They require direct proof of communication or agreement. Moreover, cartels are a pervasive problem in small economies, like Armenia's, where a small number of players dominate many sectors. As a result, taxpayers or consumers pay from 10–20% higher prices for goods and services, including when it comes to public procurement. All enforcement instruments would benefit from legal deadlines that are more flexible and, when necessary, longer. Currently, an investigation cannot last longer than 90 days, which is relatively short by international standards. When necessary, longer timelines would enable better enforcement cases based on international best practice.
- Highly qualified enforcers are needed to act in an institutional environment that guarantees independence from political or private stakeholder interventions. SCPEC needs to establish a reputation for impartial and neutral enforcement against public and private restrictions to competition. In order to attract and retain highly qualified lawyers and economists, the salaries would need to increase significantly, and with it the overall budget of SCPEC, including for office equipment.
- In order to promote an overall positive attitude to competition, SCPEC needs to increase its efforts to explain its benefits to the general public, policy makers, government officials, the media, private practitioners and the business community.

Figure 7.4. Competition Policy in Armenia

Percentage of formally adopted competition policy criteria, as of June 2019



Note: The chart above refers to the percentage of competition policy criteria formally adopted in the legal framework. It gives equal weight to all criteria. This does not illustrate actual enforcement activity in terms of relevance or quantity or indicate the relevance or suitability of the criteria.
Source: SBA questionnaire, interviews with Competition Authority of Armenia and business associations.

StatLink http://dx.doi.org/10.1787/888934087268

Contract enforcement and alternative dispute resolution

In Armenia, commercial disputes are heard by civil courts of first instance, and a simplified procedure for small claims allows for faster and less-costly dispute resolution. Only a few court procedures are automated, including random case assignment to judges,[4] e-payment of court fees, and publication of court judgements on a dedicated website (www.datalex.am). A platform for e-filing of court claims is being tested and e-service of process is not yet available, but the establishment of a full-fledged e-justice system is foreseen in the 2018-2023 Strategy for Judicial and Legal Reforms. In recent years, Armenia has not made progress in the *Doing Business* ranking when it comes to enforcing contracts, as it move from a score of 70.46 (28th) in 2016 to 69.7 (30th) in 2019. The authorities still need to do more to increase the overall efficiency and quality of the judicial process when enforcing contracts (e.g. ensuring implementation of the e-justice reform).

The protection of property rights in Armenia has strengthened, and the country now ranks 46th in the World Economic Forum's Global Competitiveness Index (GCI) (World Economic Forum, 2019[12]). Armenian legislation provides for administrative and criminal liability for violation of intellectual property rights (IPR), and IPR-related disputes are normally resolved by specialised judges within courts of first instance. The government can do more to ensure proper enforcement of the IPR protection system, including by providing judges treating IP cases with sufficient training and knowledge. Although the

mechanism for appealing administrative decisions is in place, the government should also ensure efficient private-to-public litigation (in cases where the decisions of public authorities affect the property rights of SMEs) by establishing an institution in charge of protecting business rights against administrative decisions.

Alternative dispute resolution (ADR) mechanisms are embedded in the law, but their usage by businesses remains limited. While arbitration is a well-known practice, mediation, which is less costly for SMEs, was legally introduced only in 2015. The government has taken several initiatives to increase adoption of ADR, such as the creation of a list of licensed mediators, training for judges, and public awareness campaigns. Still, the government could step up its efforts to promote ADR by raising awareness among businesses, especially SMEs, on the benefits of ADR and building up the trust of the private sector in ADR, including by creating incentives for their usage by businesses (e.g. requirement for pre-filing mediation in certain type of litigation).

Business integrity

Armenia put in place an Anti-Corruption Strategy for 2015-18 to tackle corruption in both public and private sectors. Despite its importance, the strategy did not directly address business integrity issues and no study of corruption risks in the private sector was carried out by the government to identify the main risks for businesses and to design relevant measures to address them through tailored compliance mechanisms (ACN, OECD, 2018[13]). The only study of corruption risks in the business sector in Armenia was carried out by the Armenian Lawyers' Association with the support of EU and OSCE (Armenian Lawyers' Association, 2017[14]). At the same time, the 2018 changes in the government were driven by, among other things, a strong anti-corruption agenda, and the new government plans to address business integrity through a new strategy for 2019-2021 that is pending for approval by the Parliament. Going forward, Armenia could conduct a study of corruption risks in the private sector (in close co-operation with companies and business associations) to underpin the design of integrity measures under the upcoming Action Plan.

Armenia has recently stepped up its efforts to prevent corruption in the private sector. In March 2019, Amendments to the Law on State Registration of Legal Entities providing for disclosure of beneficiary owners of companies were adopted.[5] The Law on Whistle-blowing,[6] which provides for protection of whistle-blowers' rights, entered into force in January 2018. The anonymous unified electronic platform for reporting corruption (www.azdararir.am) that was envisaged by the law became operational in May 2019. In addition, businesses can report corruption through the Bizprotect[7] whistle-blowing platform that was launched with support from the EU's Support for SME Development in Armenia (SMEDA) programme in January 2019 (80 reports recorded so far). In 2017, the parliament's Standing Committee on Financial and Economic Affairs discussed the new draft Criminal Code providing for criminal liability of legal persons for corruption-related offences, but the draft is still pending approval. In this regard, the government should continue working towards criminalisation of corruption for legal entities to ensure more-transparent operations in the business sector.

Although the government has co-operated with business associations in the area of corruption prevention (anti-corruption measures in tax and customs were developed by the State Revenue Committee in co-operation with NGOs), the scope of this co-operation remains limited and could be further enhanced. The government could envisage introducing financial and other incentives for companies to adopt business integrity measures (i.e. tax reductions, benefits when participating in public procurement/getting loans, whitelists,

integrity awards, etc.) and support business associations that promote compliance principles among their members and adopt codes of conduct (i.e. support in organisation of meetings, training events, awareness-raising campaigns).

Pillar A – Responsive government

Institutional and regulatory framework for SME policy

Armenia has conducted a proactive SME policy since the early 2000s and over the years it has established a relatively advanced institutional policy framework, in spite of the lack of a clearly defined SME development strategy. The mandate to design and co-ordinate SME policy has been assigned to the Ministry of Economy. The SME Development National Centre (SME DNC), established in 2002, is in charge of policy implementation, offering a wide range of support programmes through its headquarters in Yerevan and its network of ten regional offices.

Budget support has been secured through the government's Medium-Term Expenditure Programme and donor funding. SME support activities are organised on the basis of the Annual State Programme for SMEs and Entrepreneurship Support. State financial allocations to the SME sector have been limited and donor support remains crucial. For several years, Armenia lacked a comprehensive SME strategy. A first mid-term (2016-2018) SME Development Strategy was elaborated and approved only in 2015. However, the strategy failed to introduce clear policy guidelines and define mid-term objectives, while it remained disconnected from the design and implementation of the annual support plans. The way forward thus contemplates the introduction of clearly defined objectives, reasonable quantitative targets, key performance indicators and priority actions.

Armenia's new government has expressed its determination to strengthen the institutional framework and fill the mid-term strategic gaps. The SME policy mandate is assigned to the Ministry of Economy with an expanded portfolio covering economic development, investment, agriculture and tourism, while the SME DNC is expected to take over some of the functions previously performed by Business Armenia, the country's investment and export promotion agency, which was reorganised in 2018.

A new SME development strategy covering 2020-24 was being prepared at the time of writing (mid-2019) and it has been structured in line with the objectives of the country's medium-term development plan. The new strategy will focus on improving the regulatory framework and the business environment, raising SME productivity, increasing SME export orientation and technological upgrading, and supporting entrepreneurship in the least-developed regions.

The Statistical Committee of the Republic of Armenia (ArmStat) has made efforts to improve the quality and the availability of SME statistics. In 2018 the Committee produced, in co-operation with the OECD, a Compendium of Enterprise Statistics (2019[15]) that provides for structural and business demography indicators on SMEs (Box 7.1).

Box 7.1. SME statistics production and dissemination in Armenia

The need to enhance the quality of SME statistics in Armenia was highlighted by the 2016 SBA assessment in EaP countries as a main priority to improve monitoring and evaluation of SME policies in the country. Throughout 2017-18, the State Statistical Committee of Armenia (Armstat) worked with international partners, including OECD, to improve its capacity to collect, analyse, disseminate and harmonise official business statistics. As a result, Armstat implemented a methodology to harmonise the development and collection of entrepreneurship indicators in line with the international standards, i.e. the OECD-Eurostat Entrepreneurship Indicators Programme and, in particular, the *Eurostat-OECD Manual on Business Demography Statistics*.

In 2018, Armstat produced the first *Statistical Bulletin on Small and Medium Entrepreneurship in the Republic of Armenia, 2018*, which presents comprehensive and detailed information about the role played by the SME sector in Armenia's economy. The publication has adopted the suggested OECD template for the dissemination of statistics, which includes the use of various figures and tables and covers such indicators as number of enterprises (by size class and economic activity), turnover, persons employed, average salaries, gross value-added of SMEs, and information on the birth and death of enterprises (by age, economic activity and geographical region).

Source: Armstat (2018[16])

The level of labour and enterprise informality in Armenia stood at 35.96% of GDP in 2018 (Medina and Schneider, 2018[17]) and has been declining over the last ten years, while the number of enterprises reporting having to deal with unfair competition from informal enterprises is relatively contained (12.8% according to the 2013 World Bank/EBRD Enterprise Survey[8]). Although a comprehensive strategy for reducing informality is not in place, actions have been taken to reduce the regulatory burden on small enterprises, reduce tax rate and simplify tax administration procedures.

Regulatory reform has been a long-term government priority. A multi-year "guillotine programme" started in 2012 has substantially reduced the number of redundant laws and regulations governing business activities. As a result, Armenia ranks high in a number of World Bank 2020 *Doing Business* indicators, such as starting a business (10/190) and registering a property (13/190) (World Bank, 2019[10]). However, the overall country performance shows a great variability over the indicator range, implying that the regulatory reform process is still not completed. Armenia has also taken steps to introduce regulatory impact analysis (RIA) as part of the legislative and regulatory process. The Normative Legal Order defines the criteria for RIA application, and RIA is expected to be applied systematically by the end of 2019.

Armenia has a long practice of conducting frequent public-private consultations, and a Business Support Office established by the EBRD and chaired by the Prime Minister has been in operation since 2007. The Ministry of Economy has also conducted frequent consultations involving the main SME and sectorial organisations, although the consultative process has not been formalised and there are no obligations to publish the minutes of the consultation sessions. Private sector representatives also sit on the governing board of the SME DNC. Although the political changes that took place in 2018 partially disrupted the consultative process, the government is committed to conducting a series of consultations as part of the final process of approval of the new SME strategy.

Operational environment for SMEs

Compared with the 2016 assessment, Armenia's overall score in this dimension has moderately decreased. While incremental progress has been observed in a number of areas (especially in company registration), government action has recently lost momentum in the area of e-government services and no progress has been made with respect to open data. The introduction of two new sub-dimensions, tax administration and business licencing, is also capturing policy aspects of relative under-performance.

Armenia adopted a Strategic Programme for Digital Governance in 2014 and since then has been expanding the range of e-government services and their accessibility. The range of services currently available for all enterprises registered in Armenia is quite comprehensive and includes online filing of tax returns and social security contributions, an e-pension platform, e-cadastre services, e-procurement services, and e-company registration. Access is granted through a bi-lingual portal (www.egov.am) that re-directs users to the relevant website. The "Armenia Digital Agenda – 2030", an updated e-government strategy covering all areas of public administration, was drafted in 2017, but its adoption and implementation is currently on hold, pending a review by the new government established after the 2018 general elections, while the Armenia Digital Foundation, previously in charge of the strategy co-ordination, has been dissolved.

More tangible progress has been made in the area of business licencing and in particular on company registration. As a result of the regulatory guillotine, the number of required business licences and permits, including building permits, has been considerably reduced. A full set of information, including licence applications, is available online (www.e-gov.am/licenses), while the Ministry of Finance and the National Chamber of Auditors regularly review and monitor the licencing procedures.

Company registration procedures have become simpler since the launch in 2011 of a Business Entry One-stop Shop operating as a single-window facility, with 33 locations across the country. A parallel online registration facility is also available. According to the 2020 *Doing Business* report, the entire procedure for registering a limited liability company currently takes 4 days, requires three procedures, and costs an amount equal to 0.8% of the per capita income. In 2020, Armenia ranked 10th in the *Doing Business* indicator for starting a business, while its distance from the frontier was set at 96.1/100, the third highest performance in the EaP region after Georgia and Azerbaijan (World Bank, 2019[10]).

Armenia has introduced a special tax regime for microenterprises and family businesses. Currently small enterprises with a turnover up to ADM 9 million (~ EUR 16 702[9]), family business with a turnover up to AMD 18 million (~ EUR 33 404[10]) and individual entrepreneurs are exempted from the payment of all state taxes. The threshold for VAT registration is set at AMD 115 million (~ EUR 213 417[11]). Tax administration is relatively simplified and tax declarations can be filed online. However, according to the 2020 *Doing Business* report, the number of tax payments per year (15) and the time required to fulfil tax obligations (264 hours per year) are relatively high. The post-filing index, which measures the efficiency of VAT reimbursement and the complexity of tax auditing, used to be relatively low in past assessments. It has recently increased, reaching a score of 74.9/100. The combination of a generous tax regime for microenterprises and family businesses, combined with simplified tax administration and the application of a threshold for VAT, may have helped to contain enterprise informality, but at the same time may have also introduced perverse incentives against the scaling-up of enterprise turnover. To this extent, the next necessary step consists in the assessment of the impact of the special tax

regime and other tax incentives applied to microenterprises and family businesses in order to reveal possible impediments to enterprise growth.

Bankruptcy and second chance

Since 2015, Armenia's position in resolving insolvency in *Doing Business* has slipped (95th in 2020, compared to 69th in 2015), due to the lack of recent improvements in its insolvency framework and progress achieved by other economies (World Bank, 2019[10]).

The Law on Bankruptcy (2006, revised in 2007), continues to define the insolvency framework. The legislation formally provides with restructuring procedures, protection of creditors' rights and discharge procedure. Specialised commercial and insolvency courts were also introduced in January 2019.

However, the legislation could be further improved to reach international standards, while remaining implementation issues hamper its efficiency. The management of debtor's assets is a strong weakness of the framework. Even though restructuring proceedings are available, the large majority of cases are liquidations, denoting a credit-driven preference for resolving financial distress. In addition, the avoidance of pre-insolvency transactions is poorly framed and lacks guidance for courts and practitioners. The low participation of the creditors in the decision-making process is another issue, despite the fact that the creditors are paid first out of the proceeds of liquidation.

Moreover, prevention measures have yet to be introduced and implemented in Armenia to support financially distressed entrepreneurs. Pre-insolvency tools and training, early-warning systems and insolvency-related proceedings at the early stage of financial distress are key practices that Armenia could introduce into its insolvency framework. The introduction of a new sub-dimension on bankruptcy prevention measures associated with the poor performance of Armenia in this area, caused a drop in the overall score for the bankruptcy and second chance dimension. In addition, although there are no discriminatory provisions limiting access to public support and public tenders by entrepreneurs seeking a fresh start, Armenia should consider implementing a dedicated policy strategy or information campaign to promote second chance.

Pillar B – Entrepreneurial human capital

This section focuses on the human capital dimensions of the Small Business Act for Europe. First, it examines how entrepreneurial learning is addressed in the education system and particularly focuses on entrepreneurship as a key competence – a factor in Armenia's wider drive for competitiveness, growth and employment. Second, the discussion focuses on developments in women's entrepreneurship. Finally, both policies and support for SME training are addressed.

Human capital development is recognized as leverage for sustainable economic growth and job creation in any country. Armenia's progress in this regard since 2016 is particularly noticeable in entrepreneurial learning, as it was integrated into curricula of primary up to higher education levels and vocational education and training (VET). Teaching, practical entrepreneurial experience and career guidance take place. However, among the key areas recommended for improvement are policy coordination and strategy. As for support for SMEs, it is provided in the areas of youth, women, start-ups, family businesses, SME internationalization, SME growth, and participation in the digital economy. Monitoring and evaluation of training on SME performance are well developed, but a systematic approach

to the collection and analysis of SME skills intelligence, including training needs analysis, is still lacking.

Entrepreneurial learning

In Armenia, the education level of the active adult population is high, while high level of qualification mismatch and youth unemployment (38.4% in 2017) (Statistical Committee of the Republic of Armenia (Armstat), 2018[18]) are complemented by educated youth being predominantly over-qualified (Palmer, 2017[19]). Therefore, entrepreneurial learning is an important measure with regard to increasing youth employability. Since 2016, Armenia has established elements of a structured national partnership on entrepreneurial learning that has extended beyond VET (although the most developed partnership structures continue to exist in the area of VET).

In 2017, the Ministry of Education and Science signed a Memorandum of Understanding with Junior Achievement Armenia to implement a mandatory entrepreneurship module for grades 2-11 until 2020 to ensure gradual competence development between education levels. In primary schools, entrepreneurial learning has been integrated as a component of the "Technology" subject. For VET, a specific entrepreneurship module for business planning skills was introduced. Knowledge, skills and attitudes that VET learners acquire are now regarded as learning outcomes within the education standards and curricula for 56 VET specializations.

As recommended in 2016, initial teacher training on entrepreneurial learning for primary schools is now provided, with government plans to extend it to secondary schools in the near future. In addition, teaching and learning materials have been developed. Thus, teacher manuals for the new entrepreneurship module cover, at grade 2, an overview of entrepreneurship, idea generation and activity planning; at grade 3, information on innovation, creativity, business ideas, product presentation and advertising; and at grade 4, market research and business planning. Under the EU budget-support program Better Qualification for Better Jobs (2017-2020), entrepreneurship was also integrated as a career option in VET career guidance.

Going forward, the government should move beyond its financial and economic literacy focus towards developing an entrepreneurial mindset. To do this, it would be essential to complement the separate subject approach with developing attitudes and transversal competences in all subjects, introducing active teaching and learning methods, pre- and in-service teacher and school/university manager training. Aligning pedagogical institutes and universities to the reform agenda by adapting teacher qualification standards would be of high importance as well. Further, a strategy and action plan for key competence development for formal and higher education, VET and non-formal learning is required. An existing body, e.g. SME DNC, could systematically monitor progress on implementation. The government could further ensure a comprehensive approach to SME support and national policy partnerships through, inter alia, widening the SME Development Council's scope, introducing a working group on education and involving national education stakeholders.

In addition, working to improve co-operation between education institutions and businesses through private sector involvement in skills-intelligence collection and analysis, and by offering mandatory practical experience to all learners, could be an important step forward. Further, using practical experience as a systematic approach to competence development, for instance, as part of the new entrepreneurship module in secondary schools or as part of

the work-based learning opportunities in VET, would help reduce unemployment rates in the long term and ensure a skilled labour force for the internal market and beyond.

Women's entrepreneurship

According to the State Statistical Committee of Armenia, women are more likely than men to pursue university studies (32.0%, versus 27.6% of men, aged 15-75 in 2017) and firms with female top managers are more likely to introduce new products or services on the market. Still, men are slightly more likely to be self-employed and only 20.3% of employers were women in 2017 (Statistical Committee of the Republic of Armenia (Armstat), 2018[18]). Women's entrepreneurship support therefore has great potential. In Armenia, the law on "State Support for Small and Medium Enterprises" identifies main directions of state support for SMEs that include support for women's entrepreneurship. The dedicated Women's Entrepreneurship Strategy developed in 2014 aims to increase women's participation in economic development and women's entrepreneurship and the latter was also set as a strategic goal by the SME Development Strategy 2016-2018. At implementation level, SME state support annual programs include a dedicated section on women's entrepreneurship.

Throughout 2016-2018, government carried out training and provided consulting services for enterprises with little or no experience, conducted capacity-building activities, and organised the Prime Minister's "Best Women Entrepreneur" Award. Funds for these activities were ensured with donor support, e.g. a SME DNC and Asian Development Bank program provided one-off financial support, training and consulting for start-ups.

An action and an indicator on awareness creation and role models were included in the women's entrepreneurship strategy, and the SME Development Strategy 2016-2018 includes "supporting women's entrepreneurship" as a priority. However, support at national level is very limited and takes place mostly in the capital. NGOs are often the main promoters of women's entrepreneurship. Overall, since the last SBA assessment, support for women's entrepreneurship has remained stable but there is significant room for improvement.

Going forward, Armenia should enhance its stakeholder coordination on women's entrepreneurship through a structured national partnership, e.g. through the SME Development Council. This partnership should involve all key stakeholders and lead policy design in this area. Thus, the action plan could include promotion activities, such as dissemination of success stories of female entrepreneurs, as well as envisage capacity-building activities – for instance, training to increase women's leadership and management competences. Furthermore, attributing the functions of progress and results monitoring and impact evaluation to an institution, e.g. to the SME DNC, would be an important step toward ensuring the efficiency of measures provided by the strategy and needed flexibility for strategic adjustments. Another key area for improvement would be ensuring the systematic collection of business statistics, including sex-disaggregated data.

Enterprise skills

Although SMEs account for the vast majority of active businesses in Armenia (99.8% in 2017), Armenia's education system remains unable to meet the needs of SMEs, thus creating constraints in terms of SMEs' ability to innovate and increase their competitiveness (Armenia Business Coalition, 2018[20]). Knowledge of the current and future skills needs of SMEs and financial support for SME training are hence essential to efforts to tap into SME potential.

The SME State Support Annual Program offers assistance in the areas of youth entrepreneurship development, women's entrepreneurship and SME internationalization. SME DNC's membership in the Enterprise Europe Network provides opportunities for enterprise growth and development. In order to strengthen state support for SME participation in the digital economy, the Enterprise Incubator Foundation (EIF) was established (www.eif.am).[12] It is responsible for implementing the State Program on Development of Information Technologies by carrying out a range of activities, from ICT training for SMEs, schools and adults to the organization of coding sessions, competitions and tech talks. In the scope of the "Support for the raising of IT sector competitiveness in Armenia" and "Support for the activities of technological centres" programs, training was offered in digital skills and in operating in the EU Digital Single Market. SME DNC is the body charged with monitoring the effectiveness of state SME support programmes.

Continuous co-ordination at the national level of the collection and analysis of SME skills intelligence is needed to bring together the various information sources from a wide variety of stakeholders. The established Armenian Business Coalition, which has been tasked with providing research that will feed into the development of the new SME strategy, is already a good start in this direction. It is recommended to maintain such efforts, but at the same time to build on the SME Development Council's potential to co-ordinate the wide variety of organizations involving state and non-state stakeholders by economic sector.

Armenia could also ensure the quality of, and expand, its e-training offer through 1) e-training courses that allow for flexible participation (e.g. on-demand online courses) and 2) offline virtual training for rural areas where internet access is limited. Further focus on knowledge acquisition in all fields, from management to entering online markets, is needed to address SME knowledge gaps and boost their competitiveness.

Publishing all available training events for SMEs on the SME DNC website would facilitate access to knowledge, while establishing the SME training quality assurance framework would ensure high quality capacity-building services. Moreover, putting in place regular implementation and impact monitoring of government programmes to improve SME skills would contribute to better resource allocation.

Going forward, three issues appear to be a priority for Armenia. First, integrating the entrepreneurship key competence into the curriculum would help Armenia to consolidate and focus all entrepreneurial learning policies, as well as ensure support at the system level. Second, updating the women's entrepreneurship support strategy and setting up a structured policy partnership would move women's entrepreneurship support to the next level. Finally, in order to support the relevance and quality of training provision, the government could consider establishing a system for collecting and analysing SME skills intelligence.

Pillar C – Access to finance

SMEs' external finance in Armenia is dominated by bank lending, while non-bank alternatives are experiencing a relatively low uptake and could benefit from a strengthening of the legal framework underpinning them. Steps are being taken to support SME financing through a range of government programmes, but monitoring and evaluation of such programmes is not prevalent. Positive steps have been taken to improve financial literacy, and increased efforts to target entrepreneurs specifically could help address some of the access-to-finance issues SMEs face.

Legal and regulatory framework

As is the case in most economies, a pledge over immovable property is the most frequent form of security for banks. The use of pledges of movable assets as a security interest is also common, partly supported by the updated legal framework for collateralised lending put in place shortly after the publication of the last report and the ensuing improvements in the registry for security interests over movable assets. A new online database now allows for the registration and search of pledges, a clear improvement over the assessment in 2016. However, a score of 6 out of 12 possible points in the "Strengths of Legal Rights" index in the World Bank's *Doing Business 2020* report suggests further room for improvement when it comes to Armenia's secured transactions framework (World Bank, 2019[10]). Creditors lack rights to direct the insolvency process, e.g. when it comes to the appointment of an insolvency practitioner and their right to information as well as their approval in the case of a sale of substantial assets of the debtor. In addition, issues have been identified by the EBRD with regard to the regulatory framework for insolvency practitioners, due to lack of proper regulatory oversight by the existing self-regulatory organisation (SRO) of insolvency practitioners and sanctioning of professional misconduct. The existing automated appointment system is proposed to be improved by transferring management of the system from the SRO to the Ministry of Justice. At the same time a greater focus should be placed on improving practitioner skills in the area of recovery and reorganisation rather than liquidation. A draft law to address these issues is awaiting parliamentary approval.

Credit information coverage has further improved from 65.8% during the last assessment to 82.5% through a private credit bureau (World Bank, 2019[10]). This is partly due to a wider range of information sources. For instance, Armenia is one of the only countries in the region to collect data from utilities. Individuals are entitled to one free copy of their credit report per year. Banking supervision has been strengthened with the adoption of a risk-based supervision framework in 2017, and higher capital requirements have led to recapitalisation and consolidation in the sector. The implementation of Basel III requirements is under way. In addition, foreign currency lending to unhedged borrowers is discouraged by applying higher risk ratings and provisioning requirements on foreign exchange lending compared to loans in local currency.

Sources of external finance for SMEs (bank financing, non-bank financing, venture capital)

Bank intermediation has increased since the last assessment, with bank credit to GDP standing at around 52% as of December 2018, compared to 42% in December 2015.[13] Looking at both banks and credit organisations, year-on-year credit growth has been in double digits since late 2016. However, more disaggregated data suggests that apart from some stronger growth in business loans throughout 2018, the increase has been largely driven by lending to households. As such, the share of business loans in total lending has declined to 43% as of June 2019 compared to the time of the last assessment, when it stood at around 50%.[14] Furthermore, a high number of banks and credit organisations exist and while some consolidation has taken place in recent years, further consolidation could help more effective and efficient credit allocation in the economy. In this environment, access to finance for SMEs remains an issue even though the extent is difficult to pinpoint due to a lack of SME specific data. Given the substandard quality of financial reporting by many corporates, banks rely heavily on collateral, which exacerbates the access-to-credit problem for SMEs.

There are public programmes in place to facilitate SME access to bank financing, and others are currently in the planning and design stage. Existing programmes focus on sub-sets of SMEs such as, for example, young firms and agricultural producers. Loan guarantees for up to 70% of the principal loan amount are available to eligible SMEs through the Small and Medium Entrepreneurship Development National Centre Fund (SME DNC). Financial support is also available through several programmes managed by the German-Armenian Fund (GAF). Different IFI-funded programmes aimed at improving access to finance for SMEs exist, including for female-owned or -managed enterprises as well as firms active in agriculture and tourism. Finally, the Ministry of Agriculture (now a part of Ministry of Economy) has several programmes in place to support agricultural producers, many of which are SMEs. This includes interest rate subsidies and other support measures. Plans are in place to expand interest rate subsidy programmes, targeting SME finance and the provision of micro-credit. Monitoring and evaluation of the various government programmes is rarely carried out and results are not publicly available.

Access to non-bank financing instruments more generally is underdeveloped. Microfinance is mainly provided through credit organisations. Activities are regulated by the Law on Credit Organizations, but a specific definition of microfinance is missing, which presents operational challenges in the sector. There are plans for reform by drafting a law on microfinance, but this process is at an early stage. Leasing and factoring activities are regulated by provisions in the Civil Code, rather than through a specific law. A law on leasing activities was drafted in recent years to establish a clear legal framework, but it has not been adopted yet. To support the development of the sector, the establishment of a specific support scheme is being discussed, but its details are still to be confirmed. Uptake is low for both instruments at 1% or less of GDP (World Bank, 2019[3]).

Private equity more generally is not very well developed as a market, and scarce investment opportunities as well as limited exit opportunities have constrained investor appetite. The full implementation of the pension reform could allow a local institutional investor base to contribute to the development of the market. In 2013, Armenia's first venture fund, Granatus Ventures, was launched to invest in start-ups with an IT focus. With a current portfolio of 14 companies and one successful exit, more time will be needed to evaluate the success of the fund. In 2019, the EU and EBRD have provided EUR 16 million to support the launch of the Amber Capital EU-Armenia SME Fund that seeks to raise EUR 70 million for equity investments in Armenian SMEs. Recently, the Business Angel Network of Armenia (BANA, www.bana.am) has been established to bring together investors from Armenia and the Armenian diaspora abroad to support start-ups in the country. This can be an important conduit for providing potential investors with a platform. Beyond that, the government launched a programme in 2018, Neruzh (www.neruzh.am), to support Armenians living abroad who want to return to establish a business in Armenia in their endeavour. Finally, Armenia is enacting legal reforms to allow investment-based crowdfunding platforms to operate in the country. The Central Bank of Armenia, together with the EBRD, is developing secondary legislation to that effect. This could develop into another alternative financing source for small businesses and start-ups.

Financial literacy

Since 2014, no new assessment of the population's financial literacy has taken place. However, the Central Bank of Armenia is planning to conduct a "Financial Capability Barometer" in 2019. A National Strategy on Financial Education is in place and the Central Bank of Armenia carries out training events and workshops; so far these have been targeted at the general population, however. The Central Bank has also put in place a website called

"finInfo" (www.fininfo.am), which provides information on different financial products. These products are mainly targeted at consumers, but agricultural loans are also included. The SME DNC offers financial literacy training targeted at small and microenterprises, with around 400 participants annually.

The introduction of financial education into the secondary school curriculum is underway, with a pilot launched in the 2017-18 academic year. The plan is to roll out mandatory financial education in secondary schools by 2021, including training courses for teachers.

Pillar D – Access to markets

Public procurement

Public procurement is currently regulated by the Public Procurement Law (PPL) of 16 December 2016, Government Decree No. 526-N of 4 May 2017, and several other pieces of secondary legislation. Although a number of the PPL's provisions reflect obligations under the Treaty on the Eurasian Economic Union, it broadly corresponds to international practice, with the organisation of the review system being one important exception. However, there is no overall strategy for developing the public procurement system, nor for supporting SME participation in it.

A department of the Ministry of Finance has been designated as the authorised body in charge of the regulation and co-ordination of public procurement. Its functions also cover training for contracting authorities and enterprises, as well as administrative support for the two persons reviewing complaints. Complaints can be lodged for a small fee, but the set-up is not considered to fully meet the Government Procurement Agreement (GPA) standards.

Apart from the possibility of dividing tenders into lots, there are no specific provisions in the PPL to facilitate participation by SMEs. Nevertheless, they benefit from a general requirement for proportionality and from the possibility, at the time of tendering, to simply state their compliance with qualification and exclusion criteria, with supporting documentation to be provided only later, if required at all. On the other hand, the obligation to provide a tender security – and the requirement for suppliers to provide evidence of having properly performed at least one similar contract within the year of submission of the bid and three years prior to it – have the effect of restricting participation by many SMEs.

A new electronic procurement system that became operational in 2018 has the potential to facilitate SME participation, but it is limited by its exclusive reliance on price as the only award criterion and by its application exclusively to a specific list of items adopted by the government. In addition, the Ministry of Finance website contains a wide variety of public procurement notices and information; however, many contracts are still concluded without publication of a notice, meaning that the share of non-competitive procedures is fairly high. Website access is open, but several types of notices do not contain full information and refer to .pdf files, meaning that access to more granular data is limited. The annual reports do not detail SME participation.

- With respect to SME participation in public procurement, there has been little progress since 2016, except for the increased potential of the revised e-procurement system – the use of which should however be better promoted; the share of competitive procedures is also improving, but from a very low level. The legal and institutional framework for public procurement and current practices thus still have

room for improvement in several important respects: The requirements for past experience should be simplified, harmonised and made more proportionate.

- The reliance on price as the only award criterion should be decreased.
- Efforts should be made to raise the share of competitive procedures.
- Access to data should be improved in order to better analyse barriers faced by SMEs in public procurement, so that they can be addressed by e.g. preparing more comprehensive guidelines and offering adequate training for both contracting authorities and prospective tenderers.

Standards and technical regulations

Armenia pursues a dual approximation strategy in terms of its quality infrastructure policy. On the one hand, Armenia joined the Eurasian Economic Union (EAEU) in 2014, which entailed both 1) adopting the EAEU's system of standards, conformity assessment and technical regulation and 2) ending previously held negotiations with the EU on a possible Association Agreement (AA). On the other hand, the country had already re-designed its institutional and legislative framework, which remains in place, during the EU AA negotiations.[15] Moreover, Armenia signed a Comprehensive and Enhanced Partnership Agreement (CEPA) with the EU in 2018, which also foresees approximation with EU technical regulations and standards.[16] including considering negotiating an Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA). In this context, Armenia is aiming at effectively combine the benefits of its participation in EAEU and EU trading blocks.

In recent years, the development of Armenia's national quality infrastructure has somewhat lost momentum. For example, the country has lost ground to other EaP members in terms of the international recognition of the accreditation system, e.g. through lack of a membership in the International Laboratory Accreditation Cooperation (ILAC) or the International Accreditation Forum (IAF) or a Bilateral Agreement (BLA) with the European co-operation for Accreditation (EA). In terms of metrology, the institution and legislative framework are in place, yet the current national strategy developed in 2010 lacks an update and investment into metrology laboratories would help develop industrial services. The faltering dynamic seems to be connected to the political uncertainty and the halt of the approximation process with the EU, which meant putting on hold regular evaluations and capacity building programs that resumed only recently.

This policy approach translates into the following situation in practice for SMEs. Access to markets in other EAEU member states is generally not a problem thanks to common standards, technical regulation and mutual recognition of conformity assessments. Trade with the rest of the world, in particular the EU and the US, requires information about other countries' systems of standards and technical regulation, as well as internationally recognized conformity assessment from accredited laboratories. While different sources of information exist (SME DNC, Enterprise Europe Network, Chambers of Commerce etc.), incomplete international recognition of the country's accreditation system and insufficient domestic supply of conformity assessment services (e.g. de facto monopolies for organic certification, much lower number of conformity assessment bodies than e.g. in Georgia or Moldova) make domestic conformity assessment for international markets expensive, time-consuming and complex.

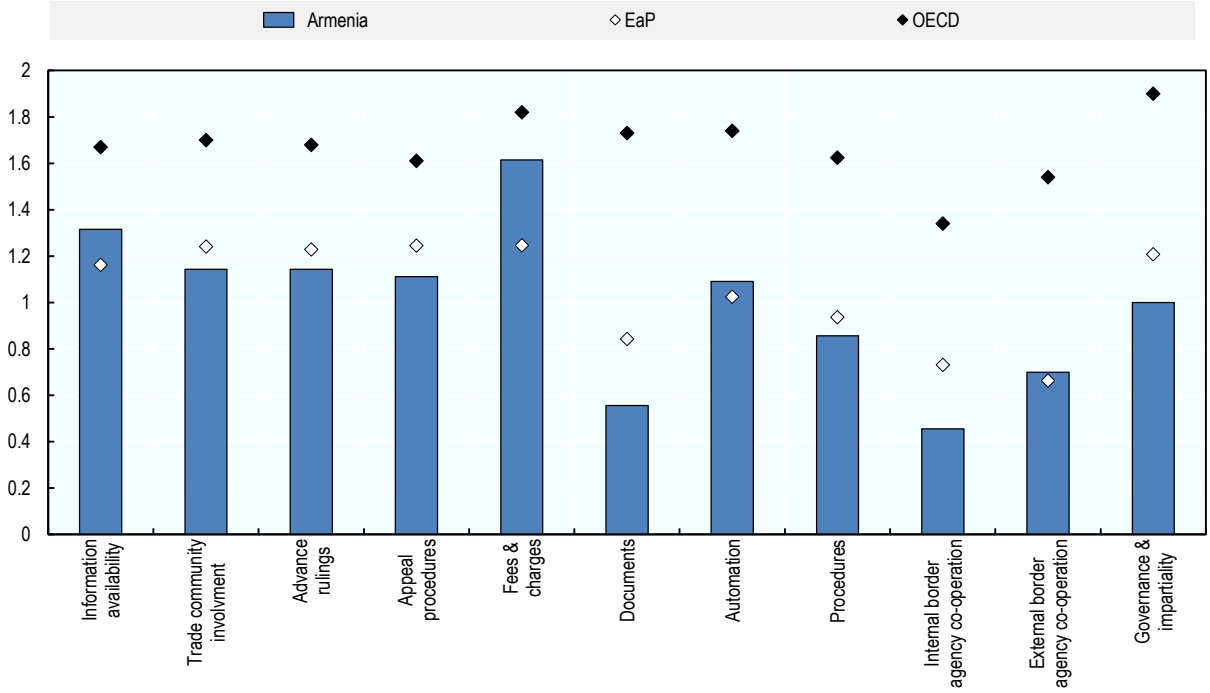
The Ministry of Economy is currently working on a new Quality Infrastructure Strategy for 2020-2025, which should tackle key issues such as creating more competition and offering

conformity assessment services. It also envisages deepening the existing co-operation between the National Institute for Standardisation and the SME DNC for a better and more effective integration of information and consultancy services on quality infrastructure into the SME DNC business services.

SME internationalisation

Although Armenia's total exports increased by 50% from 2014 to 2017 (in real terms), this export growth benefited mostly large companies, with the value of SME exports representing only 13% of total exports in 2017, well below the EU average of 50%. According to the 2020 World Bank *Doing Business* report, Armenia ranks 43rd on trading across borders (up from 110th in 2015), with border compliance still taking 27 hours, more than two times longer than the OECD average (12.8 hours) (World Bank, 2019[10]). According to the 2017 OECD Trade Facilitation Indicators, Armenia performs slightly below the EaP regional average; moving forward it could, for example, improve both the provision of adequate and timely information on regulatory changes and the capacity of IT systems to exchange documents electronically (OECD, 2017[21]). Armenia's modest performance in the TFIs, newly added in the scoring of the *SME internationalisation* dimension, contributes to the drop of the score respect to the previous assessment.

Figure 7.5. OECD Trade Facilitation Indicators for Armenia, 2017



Note: TFIs take values from 0 to 2, where 2 designates the best performance that can be achieved.
Source: OECD, Trade Facilitation Indicators Database, https://oe.cd/tfi.

StatLink http://dx.doi.org/10.1787/888934087287

The Export-led Industrial Development Strategy adopted in 2011 continues to be the main strategic document guiding policy developments in the area of SME internationalisation. However, its implementation has been limited, with many foreseen programmes still not

operational. Prior to its reorganisation in 2019, Business Armenia was responsible for export promotion activities, such as facilitation of trade missions, SME participation in trade fairs, and informational support and consultancy services. It is not clear which institution will take over the export support and promotion services that were previously provided by Business Armenia. Ensuring that the institutional knowledge of Business Armenia is preserved and effectively transferred to its successor should be a short-term priority for the government.

The SME DNC, with the support of the Enterprise Europe Network, provides mostly information services to SMEs that are interested in export or co-operation with international suppliers. In the area of SME–FDI linkages, Armenia does not provide any support to encourage and facilitate the creation of supply chain linkages between local SMEs and large investors. There is also limited support to enhance the usage of e-commerce as a sales channel for SMEs. Moving forward, Armenia could start providing training and consultation services to improve the export readiness of SMEs and facilitate their integration into global value chains.

The Export Insurance Agency of Armenia (EIA), which has been operational since 2015, is a state-owned institution that provides exporters with export insurance services. In 2018, the total portfolio value of the EIA was USD 16.5 million, with 50 companies benefiting from its services (up from 15 companies in 2015). Moving forward, Armenia could raise awareness among SMEs of the services provided by the EIA and ensure transparency and monitoring of its activities.

Pillar E – Innovation and Business Support

Business Development Services

SME DNC acts as the main public organisation for providing business development services (BDS), including financial support services, to SMEs in Armenia. It operates based on annual action plans containing a list of planned initiatives and corresponding budgets and timeframes.

The government-provided BDS feature a donor-funded, full-cycle support programme for start-ups, including training in marketing, organisation and financial planning, followed by the provision of loans to the best-rated business plans through SME DNC's partner banks and an accompaniment of the start-ups during the following six months. Other services include promotion and branding for goods and services, export assistance and support in the introduction of new technologies, as well as provision of general business information through SME DNC's website (www.smednc.am), which could benefit from regular updates.

In 2018, SME DNC provided 8010 information and consulting services to 4000 start-ups and SMEs and held 314 training sessions, with 96% of beneficiaries operating outside the capital. It had wide geographical coverage through its 10 regional offices; however, at this stage it is unclear if those offices will remain open. As a member of the Enterprise Europe Network (EEN) and in co-operation with EEN partner organisations, SME DNC also offers free consultations and training courses (229 internationalisation training events were held in 2018) as well as providing information on market conditions, European legislation and policies. Start-up support is complemented by Armenia's Enterprise Incubator Foundation, which provides a range of advisory and business services along with incubation facilities, targeting particularly the ICT sector. In addition, the innovation hub Hero House (www.herohouse.am), co-funded by the EU and GIZ, hosts the Armenian StartUp

Academy (www.startupacademy.am) that provides a 12-weeks flagship pre-acceleration program. In general, efforts could be undertaken to offer more targeted support to businesses, based on skills-needs assessments and an analysis of demand and supply of BDS in the country, which have not been carried out in recent years.

Private sector involvement in BDS provision has been ensured through a co-financing mechanism implemented by Business Armenia in the framework of the Export-led Industrial Development Policy. Business Armenia's website lists private sector BDS providers that offer their services at a discounted rate for beneficiaries of the agency (up to 30% of co-financing by Business Armenia), including, among other things, services for certification of products, market information, workforce development and introduction of innovations. However, given the recent reorganisation of Business Armenia it is currently unclear how its functions will be redistributed to ensure the continuity of the services it provides.

While there is no independent impact evaluation of government-provided BDS, there are annual progress reports on the SME strategy published by the Ministry of Economy as well as implementation results presented in SME DNC's annual activity reports. Monitoring could be further improved by complementing programme implementation indicators (number of training events conducted, budget spent, materials distributed) with key performance indicators to better capture programme impact on SME performance.

Innovation policy

The policy framework for innovation in Armenia has not evolved substantially since the 2016 SBA assessment. The "Concept Jump-start Strategy for Designing Innovation Economy", which dates back to 2011, remains the main document outlining the government's vision for increasing the competitiveness of the national economy. Elements of innovation policy and guidelines for supporting SMEs in this direction can be found scattered among other programmatic documents, including the 2015 "Export-led Industrial Strategy". Against this background, a new innovation strategy is expected to be adopted and it should systematise policies and clarify the institutional actors responsible for promoting innovation in Armenia.

The above has not prevented Armenia from continuing and expanding its initiatives to support innovation, which nevertheless remain mostly limited to the IT sector. The Enterprise Incubator Foundation (EIF) is the main actor behind most of Armenia's innovation infrastructure: it has established techno parks in the country's three largest cities (with the support of the World Bank), provides business incubation services and training, and supports SMEs in developing and marketing technical innovations. More recently, two initiatives expected to increase activity in high-value manufacturing and applied sciences have been announced: 1) the "Engineering City", a USD 20 million investment to build a physical environment with research and prototyping laboratories for companies in the automotive, semiconductor, electronics and material science sectors; and 2) the "EU-TUMO Convergence Centre for Engineering and Applied Science",[17] a EUR 25 million EU-sponsored project providing industry-led project-based STEM education along with research facilities for applied sciences and services for start-ups and small technology companies.

Direct financial instruments for innovative SMEs are also available, though they are predominantly donor-driven and somewhat limited in scale. In particular, the EU-funded "Innovation Matching Grant" and the "Science and Technology Entrepreneurship Program" provide SMEs with grants of up to EUR 50 000 with the objective of stimulating

the rate of technology absorption, the commercialisation of research ideas, and collaboration between science and the private sector.

Overall, Armenia's support for innovation for SMEs is available through isolated initiatives, implemented by seemingly unco-ordinated actors, and directed mostly at companies in the IT sector. With the upcoming innovation strategy, the government should build on some of its successful IT-oriented projects to 1) broaden the palette of its policy tools to encompass other sectors of the economy, 2) further develop linkages between research institutions and the business sector, and 3) increase policy co-ordination among the different actors in the innovation ecosystem. Close monitoring to assess the impact of the strategy and of specific policy tools, which is still very limited, should also become a regular exercise performed by the different institutions in charge of innovation policy.

SMEs in green economy

Armenia continues to move forward on improving its approach to greening SMEs, albeit inconsistently across the board. The SME State Support Annual Program 2018 includes "enhancing energy efficiency activities and supply of products and services by SMEs aimed at developing green economy" as a pillar. However, this is not supported by an action plan for implementation, measurable targets, or an expected impact. This limits the government's ability to implement effective policies related to SME greening.

In terms of its environmental regulatory approach for SMEs, Armenia is shifting to a risk-based approach for environmental impact assessments (draft law "On environmental impact assessment and expertise") as well as for compliance monitoring (2011 amendments to the Law on "Organising and carrying out inspections in the Republic of Armenia"). However, these have yet to be implemented in full.

While the Ministry of Environment and the Ministry of Territorial Administration and Infrastructure are both available to provide guidance to SMEs on an ad-hoc basis, more clearly tasking an agency with outreach to SMEs on greening would be more effective. The SME DNC, for example, may make a better "one-window" approach for SMEs to get information on available green initiatives. It would also increase the potential for outreach to SMEs about the business case for enhanced efficiency, as currently there does not appear to be a high level of awareness among SMEs. Armenia would also benefit from green SME policies that target specific sectors; these are currently limited to supporting small hydroelectric power producers.

Sectoral analysis: SME perspectives on the agribusiness sector in Armenia

Agribusiness is a fast-growing industry in Armenia. The agricultural sector remains essential for the economy of the country as it is the main source of economic activity in rural areas and a significant contributor to GDP. It produces 14.9 % of GDP (as of 2017) and employs about 36.6 % (2017) of the working population (FAO, 2019[22]). The sector accounts for 14.7% of total exports, with potential for growth (Growth Lab, Harvard University, 2019[23]). Production is diversified – including fruits and vegetables, dairy, tobacco, and beverages – but the capacities are not sufficient to process the potential production of the agricultural sector.

Evidence collected during the private sector focus group meetings provided important insights on the main barriers faced by SMEs operating in the agribusiness sector in Armenia:

- Despite subsidised interest rates for bank loans for specific projects (e.g. leasing of agriculture machinery, investments in drip irrigation or anti-hail protection systems), SMEs report difficulties in accessing finance due to stringent collateral requirements. In addition, entrepreneurs often have to provide banks with personal properties as additional guarantees.
- The poor conditions of the irrigation infrastructure in rural areas – water loss reaches 80% in some areas – as well as low availability of fertilisers and pesticides significantly affect the productivity of food producers.
- Limited logistics and transport infrastructure are a major problem faced by food producers willing to reach international markets. For some destinations (e.g. UAE), there is no alternative to shipment by air, which limits capacity, volume and weight.
- The costs of certification are high due to an oligopoly of conformity assessment bodies (e.g. for organic certification). In addition, SMEs often have to contract with foreign-based certification bodies to export to the US or the EU, with extra costs attached.
- Although labelling and marketing regulation is in place, in practice it is rarely applied. This hampers innovative SMEs' access to the domestic market – especially organic food producers facing unfair competition with fake products labelled as organic. Retailers reinforce the competition by paying little attention to the origin or the specificities of products.

Given the aforementioned challenges, the government could consider the following next steps:

- Developing agribusiness is a precondition for an export-based agriculture sector in Armenia. The government could enhance the provision of targeted support programmes or expand the existing ones. For instance, promoting alternative sources of financing for small food processors would allow them to modernise their equipment and pay for certification.
- Promoting the creation of supply chain linkages between food retailers and small food producers would also allow the latter to upgrade their packaging and marketing practices and better promote their products – and would encourage them to engage in larger markets despite the tax threshold.

The way forward

Armenia has experienced modest progress since 2016, and the government has embarked on an ambitious reform journey that includes SME development among its priorities. The following measures could be considered by the government to further strengthen the system:

- Armenia could step up its efforts to create a level playing field for all firms through actions in the area of competition, contract enforcement and business integrity. To stimulate competition, Armenia could prioritise effective enforcement against illegal cartels; this will require functioning tools and procedures, including highly qualified staff in the competition authority and the extension of legal deadlines for cartel investigations. In addition, in order to attract and retain highly qualified lawyers and economists, SCPEC's budget should be increased to allow for higher staff salaries and office equipment. To provide for efficient enforcement of

contracts, Armenia should continue its court automation efforts and reforms in the justice sector. In addition, promoting ADR use by SMEs through awareness-raising activities and the introduction of specific incentives could help build ADR culture within the Armenian business community. Furthermore, when elaborating anti-corruption policy, conducting a study of corruption risks in the private sector with a focus on SMEs (in close co-operation with companies and business associations) would be an important step towards an evidence-based business integrity policy. In order to effectively prevent and prosecute corruption, Armenia might also consider establishing a mechanism for criminal liability of legal persons for corruption.

- The Armenian government has conducted a proactive SME policy since the early 2000s. To further develop the institutional and regulatory framework, Armenia should finalise and adopt its draft SME Development Strategy 2020-2024. Its effectiveness as a policy tool would depend on the introduction of clearly defined objectives, reasonable quantitative targets, results-based key performance indicators and a detailed action plan containing priority actions and a full costing of measures. Moreover, the SME operational environment would benefit from an assessment of the impact of the current simplified tax regimes and incentives that apply to microenterprises and family business, to ensure that they are not hindering enterprises' growth through possible hidden incentives. Finally, Armenia should strengthen its bankruptcy prevention measures by introducing into its insolvency framework pre-insolvency tools and training, early-warning systems and insolvency-related proceedings at the early stage of financial distress.
- As regards the way forward for the area of entrepreneurial human capital, in *entrepreneurial learning*, Armenia should move beyond a financial and economic literacy focus towards the development of entrepreneurship key competence. This includes integration of entrepreneurial learning outcomes in education curricula across various subjects, introduction of active teaching and learning methods, offering practical entrepreneurship experience to all learners and support to pre- and in-service training for teachers and school/university managers – to prepare them for competence-based approach in education. It is also important to improve cooperation between education institutions and businesses in the area of entrepreneurial learning and ensure the development of entrepreneurship key competence when designing work-based learning in VET and higher education. Such reform steps should be reflected in the government strategies and action plans and supported by the national policy partnership.

  For *women's entrepreneurship* support, Armenia should enhance stakeholder coordination through a structured national partnership, and agree on a new action plan including: promotion activities (such as dissemination of success stories of female entrepreneurs), as well as capacity building actions (for instance, training to increase women's leadership and management competences).

  On *SME skills* support, Armenia needs to focus on the collection and analysis of skills intelligence, as well as on progress monitoring and impact evaluation of the skills support measures. Extending the SME Development Council's scope and introducing working groups on entrepreneurial learning and women's entrepreneurship could be considered. It is important to build the Council's potential to co-ordinate a wide variety of stakeholders across all policy areas of human capital development. SME DNC's role in the evaluation of effectiveness and

efficiency of support measures is critical, and its capacity for systematic collection of business statistics, including sex-disaggregated data, should be supported.

- Further steps should be taken to improve SME access to finance, in particular by strengthening the legal framework for secured creditors and improving creditor involvement in insolvency proceedings. This would bring regulation more in line with international best practice and could help stimulate SME lending by reducing associated risks. A range of financing support programmes is in place and new ones are being developed; however, monitoring and evaluation is not regularly part of programme design and, even when it is carried out, the results are not available to the public. Putting in place a process to evaluate public programmes is an important step in determining effectiveness and drawing lessons for the design of future programmes. Adopting specific legal frameworks, for microfinance and leasing in particular, could help provide certainty for those sectors and transactions. This could support the supply of related services and open up the possibility of developing more-sophisticated products. It would be an important step in diversifying sources of funding for SMEs and allowing for the tailoring of financial products to different needs. Finally, expanding information sources and financial education awareness-raising campaigns to target entrepreneurs specifically would help provide SME owners and managers with the skills necessary to improve their accounting and business planning and enable them to take advantage of different financing products. For example, an online platform with explanations of different business relevant financial products and information about their availability can help close information gaps. Having a credible and reliable platform can go a long way in supporting the diversification of funding sources, by raising the awareness of small business owners who tend to have fewer resources to shop around. This could be done through a new portal or added to existing resources, such as the information website FinInfo.am.

- In order to further facilitate SME access to markets, the government should consider additional actions in the area of public procurement, standards and technical regulations, as well as export promotion. With regard to public procurement, the use of e-procurement could be better promoted; the requirements for past experience should be simplified, harmonised and made more proportional; and additional award criteria (other than price) could be considered for awarding contracts. Moreover, the share of competitive procedures could be raised, and the generation and accessibility of data on SME participation enhanced. Finally, the capacity of contracting authorities and prospective tenderers could be strengthened through adequate training. Even though access to markets in other EAEU member states is generally not a problem, Armenia could seek international recognition of the country's accreditation system – for example, by joining the International Laboratory Accreditation Cooperation (ILAC) or the International Accreditation Forum (IAF) or by concluding a Bilateral Agreement (BLA) with the European co-operation for Accreditation (EA). In terms of metrology, Armenia could invest more in metrology laboratories, which need to be modernised to better help develop industrial services. SME internationalisation can be further improved through the provision of adequate and timely information on regulatory changes as well as through the possibility of IT systems for exchanging documents electronically. The government should also ensure that the institutional knowledge of Business Armenia is preserved and effectively transferred to its successor. Once established, the new agency could consider providing training and consultation on the export

readiness of SMEs, raising awareness for the services provided by the EIA, and ensuring transparency and monitoring of its activities.

- To further improve the performance in Innovation and Business Support, actions could be taken to offer more targeted support to businesses, based on skills needs assessments and an analysis of demand and supply of BDS in the country. Better monitoring and evaluation systems could help assess the impact of support programmes on SME performance. To support innovation, Armenia could expand its initiatives to promote innovative companies beyond the IT sector, further develop linkages between research institutions and the business sector, and increase policy co-ordination among the different actors in the innovation ecosystem. Finally, in order to move forward on improving its approach to greening SMEs, Armenia should develop a clear implementation plan on support for SME greening, including measurable targets and expected impact, so as to allow for the enforcement of effective policies. In addition, the government should provide a single point of access for SMEs to obtain information on green practices (i.e. through SME DNC).

Conclusion

Table 7.5. Roadmap for policy reforms – Armenia

Promoting a level playing field for all enterprises
• Enable and prioritise enforcement against hard-core cartels by giving SCPEC effective investigation tools.
• Increase budget of SCPEC to allow for recruitment of highly qualified staff and to ward off corruption risks.
• Conduct a study of corruption risks in the private sector in close co-operation with companies and business associations to underpin the design of integrity measures under the new Anti-Corruption Strategy.
• Introduce criminal liability of legal persons for corruption, including providing for an efficient enforcement mechanism.
• Promote business integrity measures adoption by SMEs through awareness-raising activities.
• Continue implementing the e-justice system to ensure effective automation of planned court procedures.
• Ensure that judges treating IPR-related cases have sufficient knowledge in IP law and experience for quality dispute resolution.
• Promote ADR use by SMEs for commercial dispute resolution through awareness-raising campaigns and leveraging legal incentives for ADR use by businesses.
Strengthening the institutional and regulatory framework and operational environment for SMEs
• Ensure participatory process in the finalisation and adoption of the new SME development strategy, setting clearly defined objectives, reasonable quantitative targets, key performance indicators and priority actions.
• Assess the impact of the special tax regime and other tax incentives applied to microenterprises and family business to determine possible hidden incentives discouraging enterprise growth.
• Upgrade the e-government strategy, elaborate an implementation action plan and mobilise the necessary resources.
• Take action to adopt an open-data approach in the framework of e-governance.
• Streamline the insolvency legislation, in particular on creditors' participation in the decision-making process, avoidance of pre-insolvency transactions or access to restructuring procedures for SMEs.
• Introduce insolvency prevention measures (information tools and early-warning system).
• Implement a comprehensive and proactive second-chance strategy.
Promoting skills and entrepreneurship development
• Consolidate and focus all entrepreneurial learning policies and support at the system level by integrating the entrepreneurship key competence into the curriculum.
• Move women's entrepreneurship support to the next level by agreeing on the update of the women's entrepreneurship support strategy and setting up a structured policy partnership.
• Establish a system for collection and analysis of SME skills intelligence as a way to support relevance and quality of training provision.
Facilitating SME access to finance
• Complete reforms to the insolvency and restructuring legal framework to strengthen creditor rights, improve the insolvency framework and promote corporate recovery.
• To improve awareness, establish an information platform containing details about financial products relevant to business owners.

Supporting SME access to markets
• Ensure transfer of institutional knowledge and capacity to Business Armenia's successor.
• Increase awareness and enhance the provision of export support and promotion services, including training and consultancy services to SMEs.
• Promote expansion of conformity assessment services and ensure competition between domestic conformity assessment (CA) bodies.
• Work towards full international recognition for the national accreditation body.
• Increase the use of e-procurement, while promoting the use of award criteria other than price only.
• Build the capacity of the contracting authorities to ensure wider competition, with greater transparency.
• Improve access to data, analyse issues SMEs face in public procurement and address them through more-comprehensive guidelines and adequate training for both contracting authorities and prospective tenderers.
Enhancing SME competitiveness
• Broaden the palette of policy tools available to support innovative companies beyond IT sector.
• Further develop linkages between research institutions and the business sector.
• Increase policy co-ordination among the different actors in the innovation ecosystem with an Innovation Strategy and action plans.
• Improve monitoring and evaluation of current support programmes, measuring the impact of support programmes (particularly BDS) on SME performance.
• Provide a single point of access for SMEs to get information on green practices (i.e. through SME DNC).
• Develop a clear implementation plan on support for SME greening, including measurable targets and expected impact.

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Notes

[1] The SME Development National Centre of Armenia, http://www.smednc.am.

[2] Sectors include section B to N, the sector S95, excluding the sector K - financial intermediation services of ISIC rev. 4.

[3] So-called "dawn raids" are surprise onsite inspections conducted by competition authorities. They can be a critically important tool for anti-cartel enforcement, in particular.

[4] As foreseen by Judicial Code of Armenia, Art 42, para 4,5, cases requiring a certain type of expertise are assigned to the judge specialized in the matter within the general competence court.

[5] Applicability of sanctions in case of failure to disclose the final owners of the company to be seen following February 20, 2020, as indicated by the Law.

[6] Law No. HO-97-N of June 9, 2017.

[7] https://bizprotect.am/en/

[8] https://www.enterprisesurveys.org/data/exploreeconomies/2013/armenia

[9] As of October 2019, https://www1.oanda.com/lang/it/currency/converter/

[10] Idem.

[11] Idem.

[12] Other programmes providing training in ICT sector are Microsoft Innovation Centre Armenia (jointly established by USAID, Microsoft Corporation and EIF in 2011) and ISTC Foundation (jointly founded by IBM, USAID, Armenian Government and Enterprise Incubator Foundation in 2015).

[13] Loans provided by banks only; excludes other financial service providers such as credit organisations.

[14] Own calculations based on data by Central Bank of Armenia (Monetary and Financial / Real Sector statistics).

[15] Quality Infrastructure Policy 2010-2020 (2010), e.g. Law on Technical Regulations (2012),

Law on Standardization (2012).

[16] see CEPA, Art. 130:
https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52017JC0037.

[17] https://www.convergence.center/

Chapter 8. Azerbaijan: Small Business Act country profile

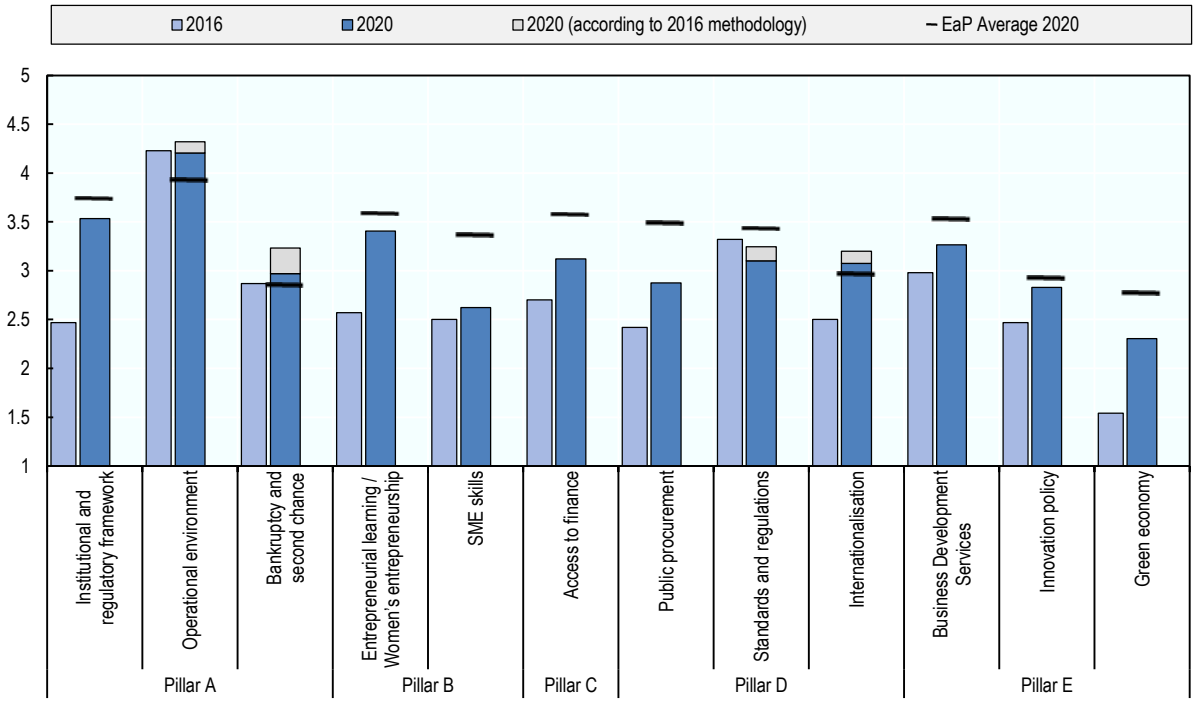
Following a global drop in commodity prices, Azerbaijan underwent a sharp recession in 2015-16. As part of its response to the downturn, the government launched an ambitious plan to implement reforms in 12 strategic sectors, including the SME sector, with the objective of diversifying the economy and improving the business environment. Under the umbrella of the "Strategic Roadmap for the Production of Consumer Goods at the Level of Small and Medium Entrepreneurship", the main guiding document for SME development, the government launched a number of programmes and initiatives – from setting up a dedicated SME development agency and a credit guarantee fund, to measures supporting entrepreneurial learning and women's entrepreneurship. Since the previous assessment in 2016, significant progress has also been made in improving the operational environment for SMEs and in expanding the provision of export support and promotion services.

Going forward, Azerbaijan could take further steps to ensure a level playing field for both SMEs and large enterprises by promoting a more competitive business environment, strengthening the rule of law and improving business integrity. Building on the revitalised SME support infrastructure, future priorities would be to ensure effective co-ordination of newly created entities and initiatives and to build capacities in key institutions, such as Azerbaijan's new SME development agency, to help them effectively deliver on their mandate. Limited access to finance continues to be a significant barrier for SMEs, and it is important to ensure that recently adopted reforms are fully and effectively implemented.

Key findings

Figure 8.1. SME Policy Index scores for Azerbaijan

Country scores by dimension, 2020 vs. 2016



StatLink http://dx.doi.org/10.1787/888934087306

Table 8.1. SME Policy Index scores for Azerbaijan, 2020 vs. 2016

Pillar	Dimension	AZE 2020	AZE 2016	EaP average 2020	*AZE 2020 (2016 methodology)*
A	Institutional and regulatory framework	**3.53**	2.47	3.74	3.53
	Operational environment	**4.20**	4.23	3.92	4.32
	Bankruptcy and second chance	**2.97**	2.87	2.85	3.23
B	Entrepreneurial learning / Women's entrepreneurship	**3.41**	2.59	3.58	*n.a.*
	SME skills	**2.62**	2.94	3.36	*n.a.*
C	Access to finance	**3.12**	2.70	3.57	3.08
D	Public procurement	**2.87**	2.42	3.49	2.87
	Standards and regulations	**3.10**	3.32	3.43	3.25
	Internationalisation	**3.08**	2.50	2.96	3.20
E	Business development services	**3.27**	2.98	3.53	3.27
	Innovation policy	**2.83**	2.47	2.92	2.82
	Green economy	**2.31**	1.54	2.77	2.31

Table 8.2. Implementation progress on SME Policy Index 2016 priority reforms – Azerbaijan

Priority reforms outlined in SME Policy Index 2016	Key reforms implemented so far
Pillar A – Responsive government	
Consider adopting a comprehensive SME strategy (potentially including an SME implementation agency) Finalise the development of an RIA framework and improve the frameworks for licenses and permits	2016-2020 SME strategy adopted and under implementation SME Development Agency established in 2017 Licencing processes streamlined E-government services improved
Pillar B – Entrepreneurial human capital	
Establish a dedicated working group to develop the entrepreneurship key competence (across all levels of formal education) and a monitoring and evaluation framework Increase training and mentoring for high-potential women entrepreneurs	Well-functioning formal policy partnership in the area of women's entrepreneurship Policy partnership on entrepreneurial learning established, led by the SME Agency's Lifelong Learning Commission The country's SME agency mandated with co-ordinating stakeholders involved in skills intelligence collection and analysis
Pillar C – Access to finance	
Complete ongoing work on the draft legal frameworks for a private credit bureau, movable collateral registry and secured transactions; consider regulation on leasing Continue capital market development under current state programme	Private credit bureau and movable collateral registry in place Credit guarantee fund established Public-sector Entrepreneurship Development Fund and Credit Guarantee Fund established (will help ease access to finance) National Financial Literacy Strategy launched (under the auspices of the Central Bank of Azerbaijan)
Pillar D – Access to markets	
Develop and implement targeted support measures for exporting SMEs, including an enabling environment for trade finance Increase compliance of national technical regulations and standards with international and EU standards	Export Promotion Centre established and information support and e-services for exporting SMEs expanded Law on public procurement amended Standardisation and accreditation infrastructure strengthened
Pillar E – Innovation and Business Support	
Develop a comprehensive innovation strategy that encourages ICT uptake in all sectors of the economy (relying on locally developed ICT skills) and offer targeted SME support measures Improve support for growing a business development support market	National Innovation Agency established Three technology parks established SME agency tasked with designing and implementing a wide range of business development programmes

Context

Economic snapshot and reform priorities

Following an extended period of strong growth in 2001-14, Azerbaijan was hit hard by a drop in oil prices, coupled with an economic slowdown in regional trade partners, that resulted in a contraction of GDP in 2016-17. A modest recovery began in mid-2017, with growth reaching 1.4% the following year, supported by an increase in oil prices and more favourable economic conditions in the region.

Economic instability and depreciation of the local currency, which led to a sharp increase in inflation in 2016 and 2017 (12.4% and 12.8%, respectively), triggered a banking crisis. Twelve banks exited the market and credit to the private sector fell from 38.5% of GDP in 2015 to 20.8% in 2018, well below the respective EaP and OECD averages of 38.3% and 93.9% (World Bank, 2019[1]).

The stock of foreign direct investment (FDI) has grown over the past two decades, reaching 70% of GDP in 2017 (UNCTAD, 2018[2]). The oil and gas sector has received most FDI, while manufacturing has received only about 10% of total greenfield investment since 2003. The oil and gas sector accounted for 38% of GDP in 2018, and crude oil, petroleum

gas and refined petroleum continue to represent more than 90% of total exports (The State Statistical Committe of the Republic of Azerbaijan, 2019[3]). As the authorities have long recognised, this leaves the economy vulnerable to commodity price shocks. The diversification of economic activity, employment and exports has thus become an important policy priority.

Agriculture is the largest sector in terms of employment (34% of the total active population and 5.6% of GDP in 2017) but suffers from low productivity and investment, in part owing to the fragmentation of the sector. In 2017, manufacturing accounted for just 5.2% of total employment and 4.7% of GDP and remains to be further developed (The State Statistical Committe of the Republic of Azerbaijan, 2019[3]).

Table 8.3. Azerbaijan: Main macroeconomic indicators, 2013-18

Indicator	Unit of measurement	2013	2014	2015	2016	2017	2018
GDP growth*	Percentage, y-o-y	5.8	2.8	1.1	-3.1	-0.3	1.4
Inflation**	Percentage, average	2.4	1.4	4.0	12.4	12.8	2.3
Government balance[1]**	Percentage of GDP	1.6	2.7	-4.8	-1.1	-1.4	5.6
Current account balance*	Percentage of GDP	16.5	13.6	-0.4	-3.6	4.1	12.9
Exports of goods and services*	Percentage of GDP	48.4	43.3	37.8	46.4	48.5	54.3
Imports of goods and services*	Percentage of GDP	26.3	26.2	34.8	43.6	41.9	37.7
FDI net inflows*	Percentage of GDP	3.5	5.9	7.6	11.9	7.0	3.0
General government gross debt**	Percentage of GDP	6.2	8.5	18.0	20.6	22.5	18.8
Domestic credit to private sector*	Percentage of GDP	25.2	30.6	38.5	32.9	22.1	20.8
Unemployment[2]*	Percent of total active population	5.0	4.9	5.0	5.0	5.0	5.2
Nominal GDP*	USD billion	74.2	75.2	53.1	37.9	40.9	46.9

[1] General government net lending/borrowing.
[2] Modelled ILO estimates.
Source: *World Bank (2019[1]), *World Development indicators;* **IMF (2019[4]), *World Economic Outlook*, both accessed on December 2019

As a response to the diversification challenge, the government has launched an ambitious reform agenda to modernise the economy and enable a transition to a new economic model. In December 2016, the government adopted 12 "Strategic roadmaps for the national economy and main economic sectors", detailing short- and medium-term goals for such sectors as oil and gas, agriculture, tourism, financial services and SMEs. The Center for Analysis of Economic Reforms and Communication (CAERC) has a mandate to oversee the implementation and monitoring of these roadmaps.

Business environment trends

In pursuit of the objectives outlined in the SME Roadmap, the government has streamlined administrative requirements, expanded e-government services and launched a number of policy initiatives aimed at stimulating private. As a result, the country ranked 34th in the 2020 World Bank *Doing Business* assessment. The most notable improvements have been recorded in the *getting credit* and *protecting minority investors* indicators (World Bank, 2019[5]).

Azerbaijan ranks 58th out of 141 countries analysed by the 2019 World Economic Forum's Global Competitiveness Index (GCI), showing considerable progress compared to 2018

(World Economic Forum, 2019[6]). While GCI ratings confirm Azerbaijan's strength on a number of dimensions, such as inclusion and infrastructure, as well as business dynamism and the regulation of labour and product markets (areas of overlap with *Doing Business*), it also points to potentially serious constraints with respect to skills, and the financial system.

Business perceptions of the implemented reforms have been positive, with over 50% of businesses that participated in a 2018 OECD Enterprise Survey of Azerbaijan considering most reforms "good" or "very good" (OECD, 2019[7]). The findings of the 2019 *EU Business Climate Report* for Azerbaijan suggest that while there is an overall satisfaction with the reforms implemented since 2016, more can be done in the areas of tax, judicial transparency and competition (AHK Azerbaijan, 2018[8]). Interviews with local and international companies also indicate that the lack of a skilled labour force is a growing issue and the government could increase its efforts to match the outcomes of higher and vocational education with labour market needs.

SME sector

A new definition of SMEs was introduced in December 2018 with the objective of eliminating differences in the methodologies applied by the State Statistical Committee and the Ministry of Taxes. The new definition distinguishes between micro, small, medium and large enterprises, and is partially aligned with the EU definition, synchronising the criteria related to the number of employees.

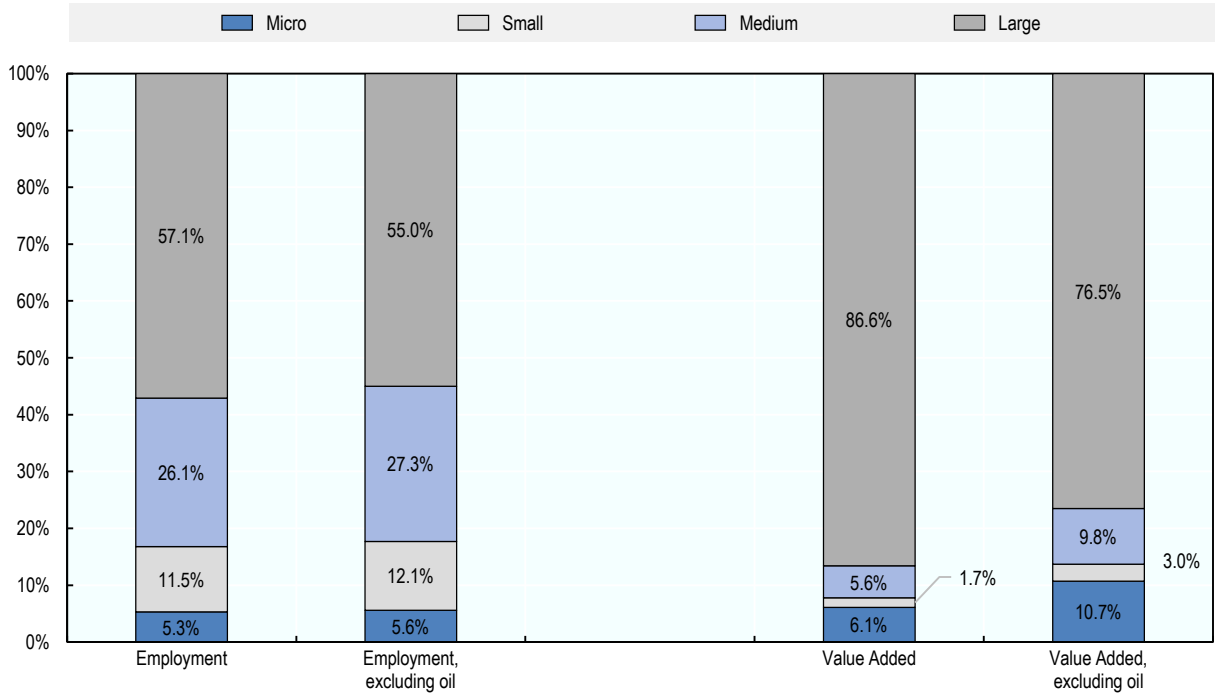
Table 8.4. Definitions of SMEs in Azerbaijan

	Micro	Small	Medium
Number of employees	< 10 employees	< 50 employees	< 250 employees
Turnover	< AZN 200 000 (EUR 104 000)	< AZN 3 000 000 (EUR 1 056 000)	< AZN 30 000 000 (EUR 15 690 000)

Note: Exchange rates as of October 2019, https://www1.oanda.com/lang/it/currency/converter/
Source: Cabinet of Ministers of the Republic of Azerbaijan, https://cabmin.gov.az/az/document/3251/

The economic potential of SMEs in Azerbaijan remains largely untapped. SMEs generated 13.4%of value added and 42.9% of total employment in 2018, compared to 60% of value added and 60-70% of employment in OECD countries. Regarding the non-oil economy of Azerbaijan, SMEs generated 23.5% of value added and 45% of employment.

Figure 8.2. Business demography indicators in Azerbaijan, by company size, 2018

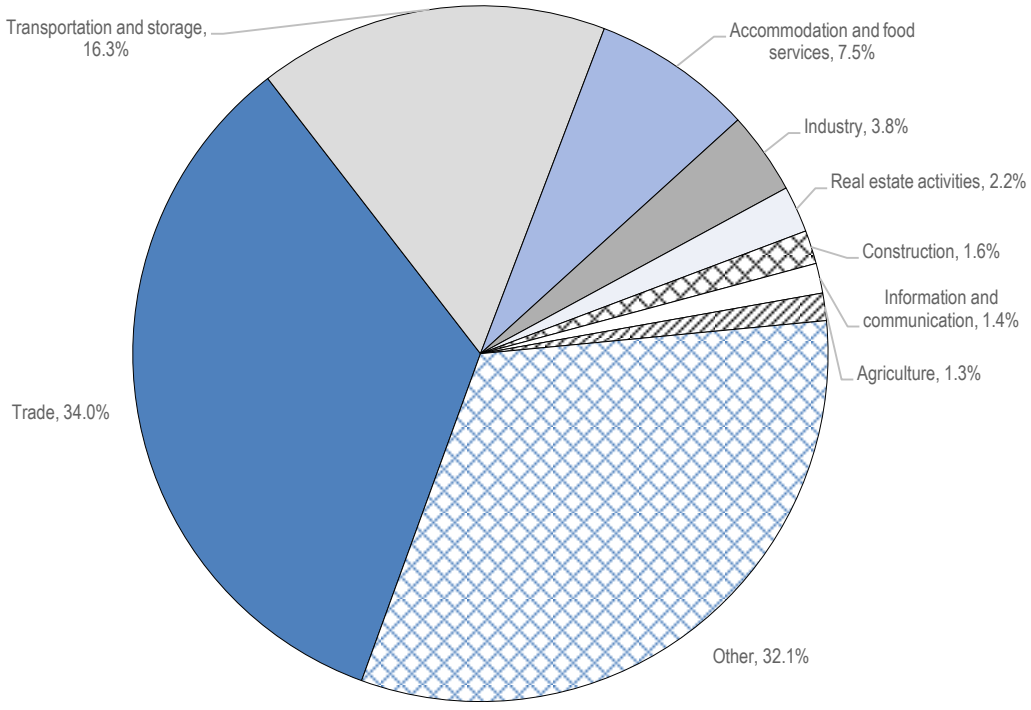


Source: Azerbaijan State Statistical Committee.

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Most Azerbaijani SMEs are concentrated in relatively low value added activities, such as trade and repair of vehicles, transport and storage, and accommodation and food service activities (Figure 8.3).

Figure 8.3. Sectoral distribution of SMEs in Azerbaijan, 2018



Note: "Other" includes the mining industry, electricity gas and steam production, distribution and supply, water supply, wastes treatment and disposal, financial and insurance activites, education, information and communication, public administration, human health and social work, arts and entertainment.
Source: OECD calculation based on data from Azerbaijan State Statistical Committee.

StatLink http://dx.doi.org/10.1787/888934087344

SBA assessment by pillar

Level playing field pillar

Competition

Azerbaijan has adopted a full set of competition provisions that should provide the basic building blocks for an effective competition law regime. The law prohibits anti-competitive agreements and abuses of dominant positions, and provides for merger control Figure 8.4. It also seems to provide all the necessary investigatory tools to request and compel information, and to sanction non-compliance with agency requests and interventions. All rules have been in place since the 1990s. The competition authority is the State Service for Antimonopoly Policy and Consumer Rights Protection (SSAPCRP), operating under the Ministry of Economy.[1] In addition to competition enforcement, the SSAPCRP is in charge of consumer rights protection and public procurement. Most, if not all, of SSAPCRP's efforts seem to focus on consumer protection. Application of competition law provisions remains limited.

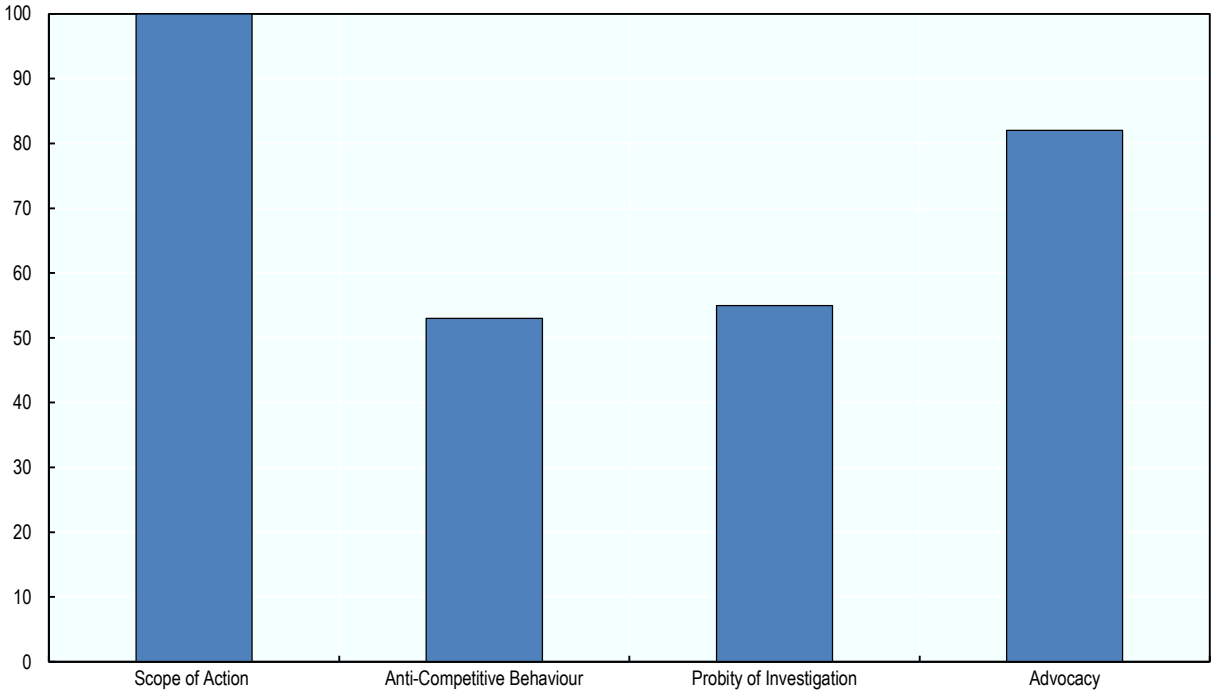
SSAPCRP has never intervened in a merger, and the total number of notified concentrations is low compared to the size of the economy. During 2016-18, the competition authority did not identify any signs of cartels and, hence, imposed no sanctions. While the law allows

for surprise on-site inspections (so-called "dawn raids"), this instrument has rarely been used, possibly because of the law on suspension of enterprise inspections.

SSAPCRP's activity is comparatively opaque: its decisions are not publicly available, and SSAPCRP does not publish any procedural or substantive guidelines.

Figure 8.4. Competition policy in Azerbaijan

Percentage of formally adopted competition criteria, as of June 2019



Note: The chart above refers to the percentage of competition policy criteria formally adopted in the legal framework. It gives equal weight to all criteria. This does not illustrate actual enforcement activity in terms of relevance or quantity, and about the relevance of the criteria lacking or met.
Source: SBA questionnaire, interviews with SSAPCRP and business associations.

StatLink http://dx.doi.org/10.1787/888934087363

Pending changes to the Competition Code are meant to address some of these issues. The anticipated new Competition Code will provide for a leniency programme, introduce a procedure for unannounced inspections, and provide a new method for calculating fines based on the annual revenue of the offenders. Moreover, the creation of a more independent competition authority is planned.

These changes will be most welcome and will bring Azerbaijan more into line with international practice. SSAPCRP's almost exclusive focus on consumer protection will not address structural problems in markets that can enable some firms to exercise unfair business practices. The instruments that can address these problems, and help to prevent or remedy concentrated or collusive market structures, are merger control and a determined fight against cartels. Lack of enforcement comes at a high cost to the society and benefits the powerful few. Consumers pay higher prices, SMEs are discouraged from entering markets, and investment, innovation, productivity and growth suffer. Rigorous application of the new amendments to the Competition Code will be critical to realising their potential.

Serious competition enforcement requires an independent enforcement body endowed with sufficient resources to carry out its mandate. Businesses will only trust in an independent enforcer if they are confident of its political independence and its integrity. Apart from structural independence, this requires the agency to be able to attract and retain highly qualified staff, and to have adequate IT and other resources.

The creation of a competition culture is an enduring task in all jurisdictions, regardless of their experience and enforcement level. In order to generate widespread support and respect for competition law rules, the SSAPCRP needs to make society aware of both the existence of the rules and the benefits of their implementation. This requires constant communication with all layers of society, and both transparency and enforcement of the rules.

Contract enforcement and alternative dispute resolution

Contract enforcement in Azerbaijan has been recently reinforced through establishment in 2019 of specialised courts to treat cases related to entrepreneurship disputes. In addition, the government has made significant efforts to improve the efficiency and transparency of contract enforcement procedures by introducing court automation. Following the Presidential Decree "On establishment of the Electronic Judicial Information System" in 2014, the automated random distribution of cases to judges was put in place and is now operational in 60% of courts across the country. Court infrastructure has undergone modernisation since 2015 to welcome the new electronic judicial information system (AZEMIS). Other important developments have been introduced with amendments to the Code of Civil Procedure, such as simplified procedures for small claims, e-court proceedings for commercial disputes, e-payment of court fees and electronic document flow within the courts. The challenge now is to ensure that these very welcome measures are fully implemented and that a monitoring system is put in place to address the potential vulnerabilities of the e-case assignment system. In addition, the implementation of the 2019 President's Decree on deepening the reforms in judicial system is expected to contribute to a more conducive environment for entrepreneurs.

Intellectual property rights (IPR) protection in Azerbaijan remains weak – the WEF Executive Opinion Survey (part of the Global Competitiveness Report) shows an average score of 5.2 out of a possible 7 in 2019, ranking the country 30rd of 141 (World Economic Forum, 2019[6]). IPR-related cases are treated within the general court system. Specialised courts, or arrangements for ensuring judges with strong IP experience and expertise, could do much to strengthen such protection.

Private-to-public litigation needs to be strengthened when it comes to ensuring protection of SME property rights. Evidence shows that in cases when a business appeals administrative decisions affecting its property rights and wins a court decision in its favour, the enforcement of such a decision, against public authorities, tends to be long and insufficiently supervised by the judge; often, such judgements are simply not enforced (Council of Europe, 2016[9]). In this regard, the establishment of an efficient mechanism (e.g., a business ombudsman) for protecting legitimate business interests against the actions of public authorities could significantly strengthen property-rights protection for SMEs.

Alternative dispute resolution (ADR) mechanisms are relatively new to Azerbaijan. The 2019 Law on Mediation regulates the status of mediators in commercial and administrative dispute resolution, and will enter into force in 2020. In order to improve the effectiveness of international commercial arbitration procedures and ensure proper training of judges treating administrative disputes in the area of taxes, customs and social insurance, the Ministry of Justice has requested an EU support that would be provided through a dedicated

EU technical assistance project. Furthermore, the recent establishment of the Office of Tax Ombudsman[2] helps taxpayers resolve issues that arise when dealing with the tax authorities without going to court. The institution is also responsible for supporting the dialogue between taxpayers and the tax administration. This is a welcome development that can be seen as a first step towards the establishment of a more evolved institution in charge of representing private sector interests in case of unlawful action or inaction of the public authorities.

Business integrity

Although Azerbaijan does not yet have a risk-based business integrity policy,[3] business integrity was indirectly addressed by the National Action Plan on the Promotion of Open Government (2016-2018) through measures directed at preventing corruption and promoting transparency and accountability in the private sector. Overall, the government's efforts to improve the business environment and promote public sector transparency have had a positive effect on reducing corruption (ACN, OECD, 2016[10]). Going forward, the government could work closely with business associations to conduct surveys or studies to assess corruption risks in the business sector and to measure the impact of existing business integrity measures (ACN, OECD, 2019[11]).

The recent introduction of criminal liability of legal persons for corruption offences is an important step towards stronger corruption prevention in the private sector. At the same time, disclosure of beneficial owners of companies – another important element for greater private sector transparency – is obligatory only for companies operating in the financial sector. Other businesses, including SMEs, are not currently obliged to disclose their final beneficiaries.

When it comes to reporting corruption, despite rising demand from civil society and business associations, the government has not yet adopted whistle-blower protection legislation. The existing channels for reporting corruption seem to be rarely used by the private sector and the statistics on the number of corruption reports by businesses are not available.

Azerbaijan has conducted several awareness-raising activities on corruption prevention in the public sector (e.g. the development of its National Corruption Barometer), namely through co-operation between the Azerbaijan Anti-Corruption Academy and the Commission on Combating Corruption. However, little has yet been done to promote business integrity measures, including through collective action involving companies, business associations and government (ACN, OECD, 2019[11]). The government could consider expanding the scope of awareness-raising activities on business integrity, including through introduction of dedicated sessions on SME-related issues, introducing financial and other incentives for adoption of compliance mechanisms by companies (i.e. tax reductions, integrity awards, use of compliance programmes as mitigating defence, etc.) and working more closely with business associations to support business integrity initiatives.

Pillar A – Responsive government

Institutional and regulatory framework

Since the 2016 SBA assessment, Azerbaijan has made major progress in putting in place the main building blocks of a proactive SME policy and in mobilising the necessary human

and financial resources to support it. Such major improvements are reflected in a substantial increase of the score for this dimension (+ 1.06 points).

A comprehensive Strategic Road Map for the Production of Consumer Goods at the Level of SMEs (the "SME Roadmap") addresses five strategic targets for SME development: 1) improving the business environment and regulatory framework for SMEs, 2) ensuring access to finance for SMEs, 3) increasing internationalisation of SMEs, 4) increasing SME skills, and 5) promoting SME innovation. The SME Roadmap includes a set of time-bound (2020) quantitative targets for the SME sector, such as a higher share of SME contribution to GDP (15%), employment (20%) and non-oil exports (10%), complemented by key performance indicators. The document comes close to being a medium-term SME strategy and is an essential component of the country's economic diversification strategy.

The establishment of a dedicated Small and Medium-Sized Business Development Agency (SMBDA) in 2017 represents a major milestone in shaping the SME support infrastructure. The Agency has a mandate to provide its services along five strategic directions: 1) promoting entrepreneurship, 2) protecting entrepreneurs, 3) facilitating SME financing, 4) providing training and consultancy services and 5) serving as a one-stop shop. Currently in an early operational phase, the agency is expected to have a staff of 240 and to operate through its headquarters in Baku and a network of regional offices called, respectively, SME House in the capital and SME Friends in the regions. However, it is now important to make sure that the newly established agency has appropriate resources to fulfil its mission. Additionally, a demand-driven, collaborative approach to designing support programmes should be adopted to ensure a better fit between public action and SME needs. Finally, the agency could consider leveraging the private sector for the delivery of support programmes which could boost the efficiency of the SME support ecosystem.

The establishment of the CAERC, which reports directly to the Presidential Administration, was another important institutional development. The CAERC is in charge of conducting economic analysis and elaborating proposals for economic reforms supporting the implementation of the country's 12 Strategic Road Maps and transformation strategy.

Box 8.1. Monitoring of the SME Roadmap

To monitor the implementation of the 2016-2020 SME Roadmap, Azerbaijan has established a dedicated Working Group under the Ministry of Economy that meets on a quarterly basis to discuss the implementation of the SME Roadmap and agree on the next implementation priorities. The CAERC has been entrusted with conducting detailed monitoring of the SME Roadmap's implementation. Since 2017, the Centre has published three monitoring reports, which provide detailed information on progress made in each reform action, assess the performance of all institutions involved, and recommend ways to further accelerate implementation. These reports are comprehensive, well-structured and accessible to the general public.

While much has been done to simplify existing regulations and reduce the administrative burden, Azerbaijan can do more to ensure that new laws and regulations do not reverse the progress achieved. Azerbaijan is at a very early stage with respect to the introduction of RIA for new laws and regulations. The CAERC is working on this and has conducted a series of workshops on the subject, but no formal government decision has been taken in this direction. The CAERC may in due course be tasked with a particular RIA function,

since this would ensure that impact analysis is conducted at arm's length from the ministries and other bodies responsible for adopting new rules and regulations.

To date, the reform process in Azerbaijan has largely been driven from the top, with modest involvement of private sector organisations in policy making. This is partly due to the relative weakness of private sector organisations (particularly those representing SMEs) and partly due to the country's economic structure, in which a number of large conglomerates playing a leading role. It also reflects relatively underdeveloped formal channels for public-private dialogue. However, individual ministries have started to conduct informal consultations with the business community – as in the case of the Ministry of Taxation, following extensive changes to the Tax Code and the Ministry of Economy, through the "Open Door Day" initiative. Such developments are promising and should be built on.

Operational environment for SMEs

Since the previous SBA Assessment was completed in 2016, Azerbaijan has advanced in the dimension related to the operational environment for SMEs, despite having started from a relatively high base.

Due to considerable investments in its IT infrastructure, Azerbaijan has built an advanced e-government system with many open government practices, following the implementation of a National Action Plan for the Open Government Initiative, which was completed in 2018. Currently over 450 e-government services are available through a new web portal (www.digital.gov.az), including those closely related to enterprise activity (tax filing, property registration, company registration, etc.). Both e-signature and m-signature systems are in place and data show that usage by enterprises and individuals is growing. To better co-ordinate the provision of e-government services by the different branches of the public administration, the government has established the E-Government Development Centre, operating under the State Agency for Public Service and Social Innovations and reporting to the Presidency.

Company registration procedures are becoming simpler and are now mostly conducted online. According to the 2020 *Doing Business* report, it takes three procedures and 3.5 days to complete the process of starting a business, at a cost equivalent to 1.2% of the country's income per capita (World Bank, 2019[5]). Applications are channelled through a single-window/one-stop shop and each newly established company receives a unique identification number. The system for issuing licences has been simplified and a full set of information on licensing requirements and application procedures has been placed on a single web portal (https://lisenziya.gov.az/az).

Azerbaijan has also achieved considerable progress in the area of tax compliance procedures. The government has significantly curtailed the rights of the tax authority to directly withdraw payments for tax liabilities from company accounts without a court order, a practice severely criticized by private sector organisations. It has also introduced a number of amendments to the Tax Code, which entered into force on 1 January 2019, aimed at supporting entrepreneurship, innovative companies and activities in the non-oil and gas sectors, while enlarging the tax base and reducing informality. All of this is reflected in the 2020 *Doing Business* indicator on paying taxes. The number of yearly tax payments is nine, while the number of hours required to fulfil tax administration procedures per year is 159, well below the regional average of 220 hours. The post-filing index, covering VAT reimbursement and tax auditing procedures, is also slightly higher than the regional average at 83.8/100.

Bankruptcy and second chance

The Law on Insolvency and Bankruptcy (1997), the Civil Code (2001) and the Civil Procedure Code (1999) continue to be the main legislative documents regulating insolvency and bankruptcy procedures. Since the previous SBA assessment, major improvements have been introduced to the insolvency framework (51 amendments since 2015; new Law on Secured Transaction with Movable Property in 2017), notably enhancing the protection of creditors' rights, extending the scope for restructuring of financially distressed businesses and strengthening the obligations for bankruptcy administrators. Such legislative changes are reflected in *Doing Business 2020*, in which Azerbaijan significantly improved: it now holds the 47th rank in resolving insolvency – compared to the 94th rank in 2015 (World Bank, 2019[5]). Nevertheless, it is not yet clear whether the insolvency framework is efficiently used in practice, as bankruptcy cases remain very rare. Most owners sell all their assets or reach an amicable agreement with the creditors before the initiation of bankruptcy. Of course, that does not mean the reforms have had no effect, since such sales and negotiations are shaped from the outset by the parties' awareness of their expected returns in the event of liquidation. It does, however, make it harder to assess the impact of the new framework.

In addition, the law continues to focus on liquidation procedures while placing little emphasis on restructuring or mediation procedures. This might explain entrepreneurs' continuing reluctance to engage in formal procedures. Although out-of-court settlements (mediation) were recently introduced in the legislation, the Ministry of Justice reports that the procedures are not yet applied. The absence of simplified or pre-packaged in-court proceedings specifically targeting SMEs also prevents small businesses from engaging in costly formal insolvency proceedings. Moreover, bankruptcy administrators are not yet properly overseen – the legislation contains no registration or licensing requirements and no provisions on ethics or work standards for administrators. Finally, the lack of specialised courts for insolvency cases, and the suboptimal nature of the credit reporting institutions, add to the structural weaknesses of the insolvency framework. Further improvements to the insolvency framework in the areas outlined above would do much to bring it fully into line with international standards.

Prevention measures to support financially distressed entrepreneurs, an area assessed by the SBA assessment for the first time, have yet to be introduced and implemented in Azerbaijan. Although SMBDA provide financially distressed companies with consulting advice and information, systematic pre-insolvency tools (websites/call centres), training and early-warning systems are key practices that Azerbaijan could consider adopting, together with a dedicated policy strategy or information campaign to promote second chance for entrepreneurs seeking a fresh start.

Pillar B – Entrepreneurial human capital

This section focuses on the human capital dimensions of the Small Business Act for Europe. First, it examines how entrepreneurial learning is addressed in the education system, with an emphasis on entrepreneurship as a key competence – a factor in Azerbaijan's wider drive for competitiveness, growth and employment. It then describes recent developments in women's entrepreneurship. Finally, both policies and support for SME training are addressed.

Since 2016, progress has been made, but impact is yet to be seen as reforms only started in 2018. A structured national partnership for entrepreneurial learning has been set up, strategic roadmaps and state programs ensure guidance, education-business co-operation

in VET and Higher Education remains intact, and practical entrepreneurial experience is compulsory in selected VET and higher education specialities. Still, the narrow focus on financial and economic literacy remains, not covering all aspects of the entrepreneurship key competence. A structured partnership in women's entrepreneurship has been established and policies developed. Support has been mainstreamed into national action plans, but co-operation with NGOs and communication actions are to be improved. SME skills intelligence is weak, and no evidence of systematic training-needs analysis has been identified. The SME agency should build on the policy measures that worked well in the past.

Entrepreneurial Learning

Entrepreneurial learning is important to efforts to tackle youth unemployment, which is higher than for the whole population (12.9% in contrast to 5% for the age group of 15+ in 2017) – especially in VET because secondary vocational education graduates underperform those from secondary general education in finding work. Also, high levels of self-employment driven by family businesses show the potential of entrepreneurial learning. The SME Agency's Lifelong Learning Commission leads a structured policy partnership, coordinating the activities of government and non-government actors. Official documents like strategic roadmaps create a transparent and supportive policy background.

However, the learning module, materials, guidebooks, and online sources for VET and higher education cover only parts of the key competence, like financial and economic literacy, planning, idea creation, market analysis or legal aspects. Primary, lower and upper secondary education are not involved. Practical entrepreneurial experience is compulsory in selected VET and higher education specialities, e.g. through student companies, company visits, participation in fairs and events or, for higher-education students, in factories and techno-parks. Secondary education is excluded. Bachelor programs like Commerce, Business Management and Economy or secondary vocational schools in some specialties include 14 weeks of practice.

Self-employment is a career option in career guidance in initial and secondary vocational education and higher education, according to the State Standards of Initial Technical Vocational Education and the Career Guidance Action Plan for Initial Technical Vocational Education Schools. Education-business co-operation supports this; e.g. Memoranda of Understanding between the VET agency and about 100 enterprises facilitate company visits, practical training and exchange. Co-operation between higher education and business is based on bilateral agreements to establish techno-parks, incubators, innovation centres or labs within universities or branches in companies. Co-operation between SMEs and general secondary education is reduced to ad hoc actions like "open door" days.

National action plans implementing strategic roadmaps have clear allocated funds and include the promotion of formal and non-formal entrepreneurial learning in VET. Monitoring and evaluation are part of roadmaps clarifying responsibilities, reporting, monitoring, deadlines and budget sources. VET students (school level) and general secondary students (national level) are tracked, as school management reports to the Ministry of Education annually about graduates' employment.

Looking forward, in the short term, there is a need to introduce annual work plans for the Lifelong Learning Commission and to develop an agreed understanding of what the entrepreneurship key competence means for Azerbaijan – considering, for example, the 2018 Recommendation of the European Parliament and of the Council on key competences for lifelong learning. Subsequently, a dedicated strategy defining the key competence and

reform path should be created. In the medium term, entrepreneurship as key competence should be developed at all education levels, through the use of active teaching and learning methods and training for pre- and in-service teachers as well as school and university managers. Teacher-qualification standards to introduce a key competence approach are required. Also in the medium term, a system-level approach to education-business co-operation also for general secondary schools is needed, e.g. by extending the Career Guidance action plan and introducing incentives for businesses, e.g. on taxes (ETF, 2016[12]). Monitoring and evaluation should be enhanced by focusing on progress and performance in implementing entrepreneurial learning, by involving non-government organisations and by sharing the results of reforms with the public. Finally, student tracking should be extended to at least two years to determine impact on employability.

Women's entrepreneurship

The share of women among self-employed is more than 50%, whereas only 39.4% of women are employers, showing potential for creating employment opportunities and contributing to growth. The social commission of the SME agency leads a structured policy partnership and involves all stakeholders in the country – like the Women Entrepreneurship Development Association, a non-government organization uniting companies owned and managed by women. Official policy documents like strategic roadmaps for the production of consumer goods at the level of small and medium entrepreneurship (2016), and for the production and processing of agricultural products (2016) as well as the state program for socio-economic development of regions (2019-2023) provide clear orientation on management, coordination and monitoring and evaluation.

The roadmaps include actions like developing incentive mechanisms for lending, taxation and other privileges for women entrepreneurs with the focus on women in rural areas, or, the establishment of women's business incubators, or, providing consulting services for young people including young women (self-employment and family business) in rural areas.

Box 8.2. Promoting women's entrepreneurship in Azerbaijan

Azerbaijan's strategic roadmaps are ensuring the continuation of the country's well-developed support for women's entrepreneurship, which was already evident in the previous SBA assessment. They clearly define key and co-implementers, frequency of meetings, deadlines and resources. The key responsible body establishes a working group with relevant government and non-government organizations in charge of implementation. Roadmaps ensure cross-linking between ministries and the three human capital development dimensions and set the basis for progress monitoring, whereas evaluation of specific women's entrepreneurship support policies and government programmes needs yet to be ensured.

Support for women's entrepreneurship is mainstreamed into the action plans of ministries of economy, labour and social protection, youth and sport as well as business associations. It covers actions like sharing the good practices of successful women entrepreneurs through international and national events, e.g. the "SHE Congress" or the "New Opportunities on the Horizon: Green Light for Women Entrepreneurs" conference. A strong monitoring and evaluation system is in place. The working group on women's entrepreneurship monitors

progress and CAERC evaluates, analyses and provides recommendations. Each Ministry also has a gender focal point.

Looking forward, there is a need to develop a dedicated communication plan for women's entrepreneurship and to integrate it in action plans of roadmaps. In the short-term, annual work plans for the Social Commission should be introduced, also to facilitate information sharing, especially with non-government organisations. Female role models from regions should be identified in a multi-stakeholder approach based on predefined selection criteria (good practice). Capacity building for NGOs and business associations is required to improve their performance in supporting women's entrepreneurship and to participate in monitoring and evaluation exercises of the Centre of Analysis of Economic Reforms and Communication. Support for NGOs should be extended to services like the provision of equipment and offices.

SME skills

The majority of businesses are SMEs, and most SMEs are individual entrepreneurs who lack the resources necessary to be involved in skills intelligence collection and analysis. But although the SME sector's contribution to the economy is small, it offers important employment opportunities. A big step ahead to support SMEs in improving the quality of human capital was the foundation of the SME agency, which coordinates stakeholders involved in skills intelligence collection and analysis, including training-needs analysis surveys. However, the agency has been active only since June 2018. Currently, the training centres of various ministries follow their own approaches, and training offers are driven more by supply than demand.

On the other hand, the government already financially supports relevant training for SMEs. Also, SME participation in international fairs, study visits and events to facilitate business to business and people to people contacts is supported by the SME agency, the Export and Investment Promotion Foundation, the Ministry of Economy, the Council on state support for NGOs, NGOs, and international donors. The support efforts reach out to family businesses, youth, women, start-ups and SMEs with potential for growth, internationalisation and participation in global supply chains. Special emphasis is given to helping SMEs participate in the evolving digital economy. At an initial stage, training for SMEs in the green economy and online training for SMEs are also offered.

Roadmaps, state programs and their action plans clearly define the monitoring and evaluation approach; they clarify reporting and monitoring against objectives as well as deadlines and available budget sources. An SME Registry is currently being formed to record statistical data on SME training, including data on training participation disaggregated by sex.

There is a need to build on the skills intelligence approach used in previous years, which included training needs assessment and stakeholder coordination, e.g. by the Baku Business Training Centre (BBTC) and its regional offices. Data collection instruments should target the needs of specific groups, like women entrepreneurs or specific sectors, and be complemented with other instruments, like focus groups. Information on SME training could be provided on the SME agency website, and training offered for SME support institutions on objective setting, service provision to SMEs and resource efficiency. The agency should monitor government-financed training courses, and the CAERC should evaluate the effectiveness of SME training programs and the impact of training on SME performance. Measures to improve coordination of actions and to facilitate communication

with the policy partners, wider public and non-government organisations are needed to ensure co-operation in the provision of high-quality support for SMEs.

Pillar C – Access to finance

Azerbaijan has made good progress in facilitating SME finance. Significant legal and regulatory reforms have been implemented in recent years that will help ease access to finance and improve public confidence in the banking sector. Nevertheless, financial inclusion for SMEs remains limited, as public sector financial programmes are fragmented and un-targeted. The new strategy for financial literacy, if well co-ordinated, could help to increase low levels of financial awareness in the medium-to-long term.

Legal and regulatory framework

Azerbaijan has made significant progress in strengthening the legal and regulatory framework facilitating access to finance for SMEs and several recommendations of the 2016 assessment have been addressed. In 2017, a new secured-transactions law established a functional transactions system in line with the practices of the United Nations Commission on International Trade Law (UNCITRAL). In addition, amendments to the bankruptcy law provide secured creditors with grounds for relief and time limits during an automatic stay, and exempt them from insolvency proceedings (see further dimension on bankruptcy). The rights of minority shareholders have also been strengthened.

Several measures have been adopted to broaden the availability and scope of credit information; this is expected to ease access to finance, particularly for SMEs with typically limited credit histories. A modern, centralised and digital database for property registration, as well as a State Registry for Movable Assets, have both been established. In addition, Azerbaijan's first private credit bureau was created in 2018 upon the initiative of several banks, following legal changes in 2016. Although its services are still limited, the new credit bureau already covers around 44.6% of the adult population (compared to 28.7% covered by the public credit registry in 2014) and includes data from insurance providers, leasing companies and utilities (World Bank, 2019[5]).

Finally, although capital market finance was somewhat strengthened with the establishment of a centralised trading system (CETA) at the Baku Stock Exchange in 2016, capital-market finance remains underutilised and does not provide a genuine financing alternative for SMEs.

Sources of external finance for SMEs (bank financing, non-bank financing and venture capital)

The economic downturn and currency devaluation hit the financial sector hard. Lending contracted but has since rebounded somewhat. As of the first quarter of 2018, private sector lending was significantly below regional peers, at just above 20% of GDP (World Bank, 2018[13]). Lending is dominated by conventional bank finance, which mainly services medium-to-large enterprises and those located in Baku. Though somewhat eased since the last assessment, interest rates remain high, and, given the lack of tailored financing options to address their needs, smaller enterprises continue to rely chiefly on internal funding or personal loans. To tackle high levels of dollarization, the regulator has limited foreign currency lending to companies without hard currency income; however, in particular deposit dollarisation remains high at around 60%, posing significant foreign exchange risks.

In 2016 the Financial Market Supervisory Authority (FISMA) was established to strengthen financial sector supervision. Following amendments to the banking law in 2017, the industry was consolidated, with several banks merging or ceasing operations. The adoption of a decree on non-performing loans in early 2019 is expected to further strengthen the performance of the financial sector. While the establishment of FISMA is an encouraging step to ensure sound banking and a level playing field within the industry, further efforts should be made to ensure its independence and enforcement capacity.[4] Transition to Basel II regulation is currently ongoing, with plans to adopt Basel III regulation in the future.

The Entrepreneurship Development Fund, established in 2018 as a successor to the National Fund for Entrepreneurship Support, offers loans to SMEs, small farmers and agricultural companies at preferential rates. It does not, however, have an exclusive focus on SMEs and its size and outreach remain unclear. Farmers and small agricultural companies additionally benefit from subsidised financing through the newly restructured Agrarian Credit and Development Agency (AKIA). Following the merger of the Azerbaijan Mortgage Fund and Credit Guarantee Fund in 2017, a new credit guarantee fund was established with the primary aim of providing collateral support. It is expected that the newly created SME Agency will facilitate access to public financial support schemes, which may provide more efficiency and an increased focus on SMEs.

Non-bank finance remains underdeveloped, with a legal framework dating back to 2009. Reliable statistical data on non-bank financial activity are unavailable, limiting a full assessment of the industry. Microfinance appears to be the most important source of such finance, but the sector suffered significantly during the economic slowdown and remains largely focused on consumer lending. A sector strategy for the microfinance industry is currently under preparation (with support from the Asian Development Bank), which may help generate more uptake going forward. Leasing and factoring is offered by some banks, but these services are not sufficiently used. A new law on leasing was drafted in 2018 and however, is pending adoption. A review of factoring activity has also been conducted, though conclusions and concrete follow-up actions are yet to be seen.

Amid a missing dedicated legal framework, venture capital (VC) remains nascent, but a working group has been established to review the existing legal framework and identify bottlenecks to VC. Despite some efforts to build a conducive ecosystem (see further Innovation dimension), innovation financing is limited to a number of locally-owned venture funds which provide seed funding. The public "Start-up" project continues to be operative and invested in 12 companies; however, there is no evidence of a successful exit to date.

Financial literacy

Improving financial literacy is a key element of the government's strategic roadmap. In 2016 the Central Bank launched a National Financial Literacy Strategy (NFLS), and it continues to offer training programmes to the broader population. Under the auspices of the Azerbaijan Banks Association (ABA), the Azerbaijan Bank Education Centre (ABEC) also provides financial training to entrepreneurs. Financial education has also been included in the school curriculum as part of a general initiative to broaden the skill-set of pupils. In early 2019, the ABA called for the creation of a Financial Literacy Council; if established, the Council could help to better co-ordinate public-private sector initiatives and monitor implementation of the NFLS.

Pillar D – Access to Markets

Public procurement

Public procurement in Azerbaijan is regulated by the public procurement law (PPL) adopted on 27 December 2001. There is no overarching strategy for public procurement and the SME Roadmap hardly mentions it. Originally intended to align with the UNCITRAL Model Law of 1994, the PPL largely remained unchanged until 28 December 2018, when general regulations for e-procurement, provisions for improving the level of integrity and measures intended to favour SMEs were added.[5] The European Union has pushed for alignment of the PPL with international practice, as represented by e.g. the GPA, but negotiations of the public procurement chapter of a new co-operation agreement with the EU have not made any progress.

The PPL applies only to entities financed from the state budget or owned by the state (thus, also to state owned enterprises but not to e.g. local authorities). Below AZN 50 000, contracts may be concluded by requests for quotations from at least three suppliers.

All central public procurement functions, including the review of complaints, fall under the responsibility of the State Procurement Office (SPO), which is part of the State Service for Antimonopoly Policy and Consumer Protection under the Ministry of Economy (MoE). However, the low status and the very modest resources (only ten staff in total) of the SPO limit its ability to promote and enforce good procurement practice, including with respect to SMEs.

The recent amendments to the PPL include a requirement[6] to reserve up to 20% of the contract value for local SME subcontractors, if it is decided to allow any subcontracting at all, and an obligation[7] to use e-procurement with participation restricted to SMEs for all contracts below USD 3 000 000, unless fewer than three tenders are received and the procedure must be relaunched.[8] There is also a new, general obligation for timely payment of contractors. There are no other PPL provisions to encourage or facilitate SME participation.

Reports from the Azerbaijan Chamber of Accounts[9] indicate that a considerable share of the state budget is spent on goods, works and services procured without the application of the principles and procedures prescribed in the PPL, thus limiting the access of SMEs to these contracts.

The PPL amendments mentioned constitute the main progress since 2016, and their effectiveness remains to be demonstrated. The introduction of e-procurement has the potential to improve SMEs' access to the public procurement market, but development of the new system is still ongoing by 30 June 2019. As of that date, data availability and access regarding public procurement in general and SME participation in particular remained limited, even if the new e-procurement system was starting to generate data.

In this situation, the legal and institutional framework and current practices for public procurement would benefit from the following improvements with respect to the scope for SME participation:

- raise the degree of application of the PPL, and revise its coverage to include regional and local authorities – while excluding SOEs operating independently in competitive markets and subject to bankruptcy;
- create an independent, adequately resourced and recognised review body.

- review the appropriateness and effectiveness of the new PPL provisions intended to support SMEs, and revise them accordingly;
- add explicit requirements and corresponding guidance for other measures, like division into lots and requirements for proportionality, and train contracting authorities accordingly;
- strengthen the SPO as required for the above, and raise its status and independence;
- finalise the development and introduction of the e-procurement system, including proper testing and user training; and
- include measures for facilitating data access and analysis.

Standards and technical regulation

An important foundation for the developments in Azerbaijan's quality infrastructure is the 2017 decree "On additional measures regarding the improvement of management in the fields of standardisation, metrology, accreditation and protection of the patent right objects". Based on this document, various strategic measures were initiated and new institutions were established, improving the country's quality infrastructure significantly. In addition, several European support (TWINNING) projects were implemented to further develop Azerbaijan's quality infrastructure.

Various current action items refer to legislation and the introduction of a national strategy to implement (EU) legislation on industrial products. Specific issues include the specification of key sectors for technical regulations, amendments of legislation to reflect EU legislation in priority sectors, as well as updates of standardisation law and legislation on accreditation, conformity assessment and market surveillance in line with the EU *acquis*. The draft of Azerbaijan's State Programme until 2025 makes among other goals the provision for an update of the standardisation law and the adoption of 45 EU regulations.

With regard to standardisation, the timely translation of updated international (conformity assessment) standards is currently an issue. To improve this situation, Azerbaijan's new standards body, AZSTAND (www.azstand.gov.az/en), recently announced the release of translated versions of five key standards by July 2019.

A highlight is that the Azerbaijan Accreditation Centre (AzAK, www.accreditation.gov.az), established in 2017, became a European co-operation for Accreditation (EA) associate member in the same year. As regards the accreditation of conformity assessment providers, Azerbaijan's bodies still use foreign services from the Turkish Accreditation Agency (TÜRKAK), an EA multilateral agreement (MLA) signatory, based on state-of-the-art conformity assessment standards. Strengthening AzAK so that it can fulfil the needs of Azerbaijan's conformity assessment bodies and making it fit for entering into a bilateral agreement (BLA) with EA are important action items.

To address the need for strategies on metrology and market surveillance, analysing good practices from other countries seems to be useful. The relationship with Georgia, which currently serves Azerbaijan with metrology services, could provide helpful framework conditions in this regard. Starting the work of the newly established national metrology organisation (AZSTAND) is another important action item in this context.

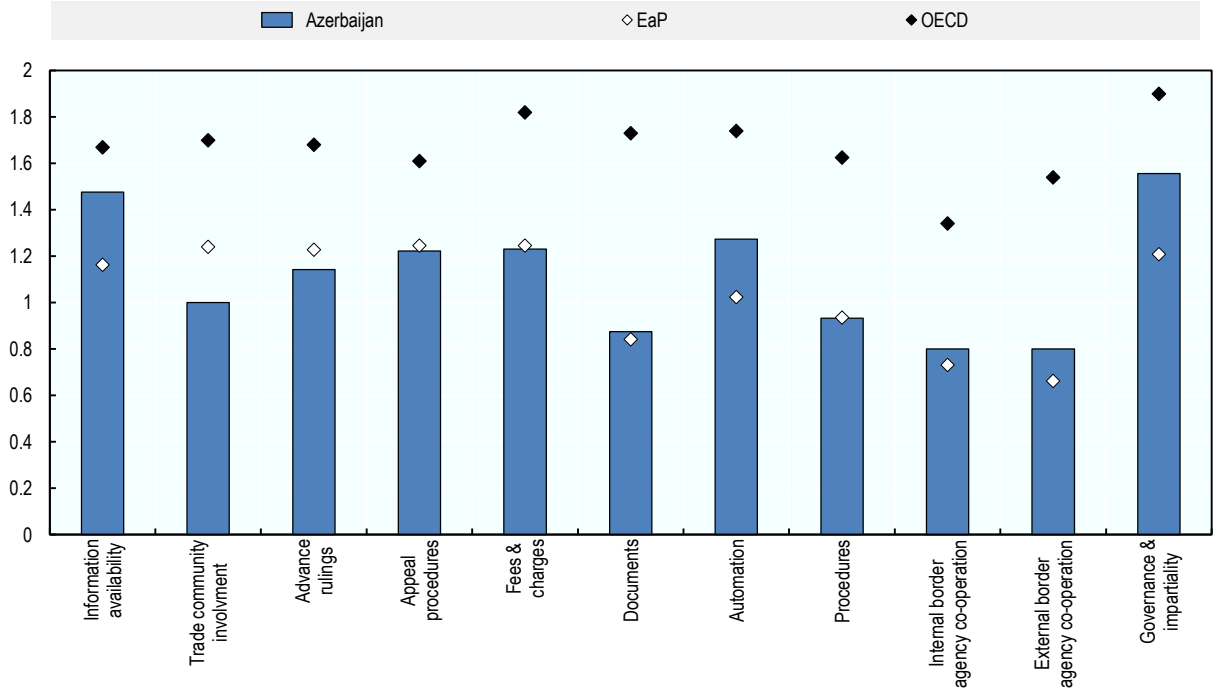
A specific challenge is SMEs' motivation to buy standards and to participate in standardisation. Therefore, it will be important that Azerbaijan implements targeted activities regarding SME education about standardisation and its benefits, and provides

financial support for SMEs' standardisation activities as well as a website in Azeri where SMEs can find information on standards applicable to Azerbaijan's key sectors.

SME Internationalisation

Despite the modest increase in non-oil exports from 2014 to 2017, international trade in Azerbaijan has continued to be dominated by large enterprises operating mostly in the hydrocarbons sector, with only a small fraction of SMEs being engaged in international trade. Azerbaijan ranks 83rd on *trading across borders* in the 2020 World Bank *Doing Business*, up from 166th in 015 (World Bank, 2019[5]), with costs to export and import still considerably higher than the OECD average. According to the 2017 OECD Trade Facilitation Indicators, Azerbaijan performs slightly above the EaP regional average; nonetheless, moving forward, it could improve its involvement of the trade community, and reduce the number and diversity of fees and charges collected (OECD, 2017[14]).

Figure 8.5. OECD Trade Facilitation Indicators for Azerbaijan, 2017



Note: TFIs take values from 0 to 2, where 2 designates the best performance that can be achieved.
Source: OECD, Trade Facilitation Indicators Database, https://oe.cd/tfi.

StatLink http://dx.doi.org/10.1787/888934087382

Increasing the internationalisation of SMEs is one of the five strategic targets of Azerbaijan's SME Roadmap. AZPROMO continues to be the main institution responsible for export promotion services. However, its services mostly focus on facilitating companies' participation in international trade fairs and the organisation of trade missions. The "Single Window" Export Promotion Centre, created in 2016 under the CAERC, aims to support SME internationalisation by connecting local companies producing under the brand "Made in Azerbaijan" with international buyers. The services provided by the Export Promotion Centre include information support, customs clearance services and the issuance

of so-called Free Sales Certificates – documents confirming the quality and origin of products. SME Houses that will operate under the SME Development Agency are expected to provide training and consultancy services to increase the export readiness of SMEs, although detailed plans for their development remain to be seen. Moreover, the Ministry of Economy has created 15 export associations with the objective of increasing exports in a number of sectors such as textile, agriculture and tourism; however, the associations lack sufficient capacity and know-how to attract membership and provide effective advocacy and support services. In addition to the government programmes, ITC is currently implementing the EU4Business initiative "Ready to Trade", which supports the internationalisation of Azerbaijan's agribusiness sector and light manufacturing. Moving forward, Azerbaijan could ensure a co-ordinated approach to the provision of export support programmes provided by the public institutions and ensure that the SME Development Agency and its regional branches have sufficient capacity to effectively implement their support programmes based on SME demand.

With regard to trade finance, the government has begun to provide export subsidies for certain groups of products of Azerbaijani origin such as agricultural products, leather and textiles. However, there is no financial support mechanism available that systematically supports exporting SMEs across the sectors or provide trade insurance services.

Similarly, no programme is in place to support the integration of non-oil producers into global value chains and better connect local suppliers with large foreign investors operating in Azerbaijan. Initial steps to design such a programme have been taken, however, and, moving forward, Azerbaijan could focus on its operationalisation. In parallel, the Baku E-Commerce Academy, a programme implemented by the CAERC, provides training and consultancy services for SMEs to increase their capacity to access global e-commerce platforms such as Amazon or Alibaba.

Pillar E – Innovation and Business Support

Business Development Services

The recent adoption of the SME Roadmap[10] is a major breakthrough for the provision of business development services to SMEs in Azerbaijan. It went hand in hand with a large-scale institutional redesign and the establishment of the Small and Medium Business Development Agency (SMBDA) in late 2017. The SMBDA, with a founding capital of approximately EUR 2.5 million, consists of several substructures, many of which will be involved in BDS provision to SMEs and start-ups in the future:

- The SME Development Centres will provide an array of BDS support measures to SMEs in the regions. This includes setting up regional hubs for business incubators, supporting the implementation of business ideas, and providing training programmes for entrepreneurs, as well as improving access to finance.
- An SME Friends network of regional centres will carry out business surveys to analyse the demand and supply gaps on the BDS market and serve as a platform for co-operation and dialogue between the local business communities and the government.
- Future regional SME Houses will not only function as one-stop shops providing access to more than 100 governmental services (e.g. business registration and certification), but will also provide business-to-business (B2B) services through banks and consulting companies.

- In addition to attracting external funding for local businesses, the SME Development Fund will also ensure provision of training and consulting to SMEs, as well as support to start-ups, youth, women and disabled persons' entrepreneurship. The Fund can also participate with a 20% share in SME projects.
- The Baku Business Training Centre (BBTC) became part of SMBDA in October 2018. At that time, it had seven representative offices in the regions and operated two incubators. Between 2007 and 2017, it conducted 1 035 trainings and seminars on starting a business, investment planning, logistics, export markets and marketing, with at least 31 000 beneficiaries. The BBTC has used surveys to determine the needs of the entrepreneurs and to plan future training courses. However, this mechanism has not been used ever since. At this stage, it is still unclear whether and how services of the BBTC are going to be sustained.

The SMBDA website (http://smb.gov.az/) provides an overview of the different sub-structures and services. There is also an e-trade business portal (http://www.enterpriseazerbaijan.com), which connects businesses with potential buyers through a catalogue of firms. The site of the Ministry of Economy also provides information on support programmes and starting a business among other things.

While not yet fully implemented, the envisioned institutional framework for BDS provision is highly fragmented. Several bodies (SME Development Fund vs. Entrepreneurship Development Fund; SME Houses vs. ABAD 'support to family business' centres) seem to perform overlapping tasks. The sharing of responsibility should be reconsidered in order to avoid duplication of effort. It would also be important to maintain the expertise and range of services previously provided by the BBTC and further build the capacity of the SMBDA staff in advising businesses.

To date, the government support the development of a private BDS market remains limited, and private providers are not involved in SMBDA programme implementation (BDS are rendered by agency staff). In the future, the outsourcing of services to private providers and/or the provision of voucher schemes or matching grants, valid for the purchase of private BDS, could help Azerbaijan develop a private market. A first step would also be enabling the access of private BDS providers to SME houses or the creation of a B2B portal listing private quality-assured consultants.

Innovation policy

A single national innovation strategy is currently being developed, and as of this writing (late-2019), government actions in this area remains scattered across several programmes and policy documents, such as the "National Strategy for the Development of Information Society for 2014-2020" or the "State Programme on Industry Development 2015-2020". Nevertheless, the concept of innovation as an essential feature of developing a competitive economy is taking more prominence in the most recent "Strategic Road Map on National Economy and Key Sectors of the Economy" approved in 2016 and in the "Law on Science", which highlights the integration of science, education and economy to contribute to technological development in the country.

The creation of the National Innovation Agency has been a welcome step in this direction. Established in 2019 under the Ministry of Transport, Communications and High Technologies, the agency will assist local business entities in adopting modern technologies, support innovation-oriented scientific research, and encourage innovative projects. It will do so through grants, concessional loans and equity investments. While

around EUR 430 000 have been allocated to the agency from the state budget for 2019, it is still premature to provide an assessment of its operations and impact. The Azerbaijan National Academy of Sciences (ANAS) should also be mentioned as the main scientific institution in the country, with a leading role in R&D, directing the research of activities of higher education institutions and hosting 360 laboratories.

With regard to the physical infrastructure for innovation, three technology parks are operating in Azerbaijan: the Chemical Industrial Park, the High Tech Park, and the ANAS High Tech Park, the latter in operation since 2017. These sites offer to their residents exemptions from real estate tax, land tax and VAT on all imported technological goods and services for up to seven years. The growing presence of business incubators is another important development since 2016, including some launched by state universities. While such initiatives bring entrepreneurship closer to academia, information about R&D infrastructure remains largely unavailable to the business community, and technology transfer offices (TTOs) are still at a very nascent stage in their ability to allocate IP rights and guide scientists towards commercially relevant research (World Bank, 2018[15]).

Financial instruments to support innovative entrepreneurship in Azerbaijan have been stable since 2016. The State Fund for the Development of Information Technologies (ICT Fund) aims to support innovative entrepreneurship with a mix of concessional loans, grants and equity investments for the development of software, adoption of new technologies and e-services. While its tools seem well designed for the needs of SMEs and start-ups, the potential beneficiaries of the Fund are limited to the narrow segment of ICT projects. Also, its impact so far remains small in scale: in 2017, there were 21 grant recipients for a total of EUR 125 000, and EUR 1.3 million in loans were issued in partnership with seven banks (ICT Fund, 2018[16]). The new tax code in force as of 2019 will introduce new tax incentives for investment in R&D. This is a welcome development which could expand the number of SMEs benefitting from fiscal efforts to support innovation in Azerbaijan.

Moving forward, Azerbaijan could focus on 1) completing the organisation of innovation policies under one single national strategy and 2) extending eligibility of grants for innovation beyond the IT sector.

Green economy

Azerbaijan has a variety of different strategic and sectoral planning documents which call for making the economy greener, but most do not target SMEs. The Strategic Roadmap for the Production of Consumer Goods in Azerbaijan at the Level of SMEs, adopted in December 2016, includes a call for policies, a legal framework, and funding initiatives to help SMEs transition to renewable energy and the green economy. However, there have not been policies implemented specifically to support SMEs in this goal. Policies that support the development of renewable energy, such as the State Strategy on the Use of Alternative and Renewable Energy Sources (2012-2020) or the Ministry of Energy's Strategic Road Map (introduced in 2016) do not have provisions for SMEs. A draft law on renewable and alternative energy production will be introduced by the Ministry of Energy in 2019, but as it is based on the Strategic Roadmap, it is not foreseen that it will include specific provisions for SMEs.

Although Azerbaijan has introduced legislation to improve environmental protection and support green economy development, there is a need to implement programmes specifically targeted at SMEs. This includes the tax and customs benefits that are currently available for green businesses operating in designated Special Economic Zones – providing support for SMEs specifically to access those benefits would contribute to SME greening by

improving the business case for it. The same is true for the deployment of renewable energy: the longer payback period for renewable energy installations makes it challenging for SMEs to participate, due to finance constraints. Making finance for SME green projects more accessible would help support uptake.

Sectoral analysis: SME perspectives on the agribusiness sector in Azerbaijan

Although the hydrocarbons industry is a highly strategic sector given its overall contribution to GDP, agriculture is also of strategic importance in terms of employment. In addition, food processing is the biggest manufacturing sector in Azerbaijan, accounting for over 30% of total manufacturing production. Dairy is the largest agribusiness segment, followed by meat production and juices (The State Statistical Committe of the Republic of Azerbaijan, 2019[3]).

Evidence collected through the 2018 OECD Enterprise Survey of Azerbaijan, private-sector focus group meetings, and interviews with selected food processors and business associations provides some insights into the major constraints faced by companies operating in the agribusiness sector:

- Limited access to finance is the barrier most often cited by SMEs. Banks' reluctance to provide long-term financing, together with high collateral requirements and high interest rates, prevent SMEs from modernising their equipment. Although the government support provided through the Entrepreneurship Development Fund and the Agroleasing is well perceived, the programmes support only a small share of the total business population.
- Outdated farming practices, high land fragmentation (small, parcelled land plots) and inadequate irrigation systems result in a low quality and consistency of agricultural production. In addition, the agribusiness sector in Azerbaijan is dominated by a few large conglomerates (e.g. Azersun, Gilan Holding) that control most of the inputs and food production. Given these constraints, it is very difficult for SMEs to compete with large producers.
- Limited access to markets, both domestic and foreign, continues to be an issue for small food processors. The EU, Turkey and other major trading partners do not recognise local certificates, which prevents local producers from exporting. The existing certification system works relatively well for the domestic market. However, supply chain linkages between small food producers and food retail chains remain limited.

Given the aforementioned challenges, the government could consider the following next steps:

- Besides measures to improve the overall business environment, such as enforcement of competition rules and rule of law, the government could enhance the provision of targeted support programmes. For example, improving food processors' access to alternative sources of finance and increasing their financial literacy might increase their ability to modernise their equipment and upgrade their packaging and marketing practices.
- Increase the government's its co-operation with international certification institutions and increase the capacity of local producers to acquire international quality certificates.

- The implementation of a targeted programme to support the creation of supply chain linkages between small producers and food retail chains could scale up the operations of SMEs and increase their chances of entering foreign markets.

The way forward

Since 2016, Azerbaijan has made significant progress in promoting policies for SME development. The following measures could be considered by the government to further strengthen the system:

- Azerbaijan could prioritise the creation of level-playing-field conditions for all enterprises by ensuring effective enforcement of competition rules. In this context, the government could strengthen the capacity of the SSAPCRP and ensure its political independence and integrity. Regarding contract enforcement, Azerbaijan has made significant efforts to improve its efficiency and transparency, but more could be done to promote alternative dispute resolution and strengthen private-to-public litigation. In the area of business integrity, introducing a risk-based business integrity policy (with active engagement from the private sector) and making disclosure of beneficiary owners mandatory for all companies would be important steps towards preventing corruption in the private sector.
- Azerbaijan has significantly improved its institutional and regulatory framework for SME policy and reformed its operational environment for SMEs. However, further efforts are needed to ensure that the newly created SME Development Agency has appropriate resources and provides demand driven services for SMEs. In addition, the agency could consider leveraging the private sector for the delivery of support programmes which could boost the efficiency of the SME support ecosystem. However, the biggest challenge going forward is the systematic application of regulatory impact analysis (RIA). Finally, the government could consider implementing measures to support financially distressed companies by implementing systematic pre-insolvency tools and warning systems.
- As regards the way forward for the area of entrepreneurial human capital, in *entrepreneurial learning,* Azerbaijan should consider emphasizing the entrepreneurship key competence at all education levels, and ensuring the availability of practical entrepreneurship experience at system level as part of education-business cooperation, e.g. by extending the Career Guidance action plan and introducing incentives for businesses. In teacher training, the use of active teaching and learning methods is recommended both in pre- and in-service teachers' and school managers' training, and teacher qualification standards could be adapted to introduce a key competence approach. Annual work plans for the Lifelong Learning Commission should be developed with an agreed understanding of what *entrepreneurship key competence* means for Azerbaijan.
- For *women's entrepreneurship*, a dedicated communication plan should be integrated in action plans of roadmaps and the annual work plans for the Social Commission, to facilitate information sharing, especially with non-government organisations. Women entrepreneurs from the regions should be identified as role models and promoted with the support of a multi-stakeholder approach, and good-practice sharing should be based on predefined selection criteria. It is important to strengthen the capacity of NGOs and business associations so they can better support women's entrepreneurship, and to engage their participation in monitoring

and evaluation exercises of the Centre of Analysis of Economic Reforms and Communication.

- In the area of *SME skills*, there is a need to build on the skills intelligence approach used in previous years, which included training needs assessment and stakeholder coordination, e.g. by Baku Business Training Centre (BBTC) and its regional offices. Data collection instruments should target specific groups' needs, like women entrepreneurs or specific sectors. Monitoring and evaluation requires special attention, e.g. the SME agency should monitor government-financed training programmes, and the Centre for Analysis of Economic Reforms and Communication should evaluate the effectiveness of SME training programmes and the impact of training on SME performance.
- Additional efforts will be needed in the coming years to improve SME access to finance and ensure reform efforts are fully implemented and progress is monitored. The limited level of financial intermediation remains a key challenge. More effort is needed to extend financial services to smaller enterprises and those located outside of the capital. A co-ordinated and targeted focus of public financial support programmes would help alleviate the current lack of SME finance, while deepened credit information will ease SME access to finance in the long term. A focus on developing non-bank financial services would further broaden access to credit. The law on leasing should be adopted swiftly, and concrete actions to develop a legal framework should be taken. Effective implementation of the National Financial Literacy Strategy (NFLS), including a concrete action plan and co-ordination body, will help raise awareness of these products and support uptake. Lastly, the scope and granularity of statistical data for the financial sector could be improved, which would allow for a comprehensive assessment of market size and better segregation of borrowers. This would help financial service providers develop products that are better tailored to the various market segments.
- Building on a number of well-established institutions, Azerbaijan could consider further improving SME access to domestic and international markets by expanding the services provided by AZPROMO, the SME Development Agency and the Azerbaijan Export Promotion Centre to better connect local suppliers with foreign investors. Tailored services, such as training and mentorship programmes, could be provided to enhance the export readiness of local SMEs. The government could also consider establishing mechanism to provide export finance for SMEs. Regarding SME access to public procurement, the government should prioritise the finalisation of the e-procurement system, collect data on SME participation in public procurement and raise the level of its application. With regard to standardisation, the government could enhance the capacity of AzAK and implement programmes to raise SME awareness of the role and benefits of standardisation.
- To support the performance in Innovation and Business Support, the government could adopt an innovation strategy, which would set the overall targets and ambitions of the government in this area. The strategy and policy actions stemming from the strategy should go beyond the IT sector to support a broad range of private sector innovation. While the business support ecosystem has improved rapidly in Azerbaijan, it is important to ensure that newly established institutions, in particular the SME development agency, provide services that are mostly needed by the SMEs and support the uptake of private providers of business support services. A first step

in this direction could be the creation of a B2B portal listing private quality-assured consultants. With regard to SME greening, Azerbaijan should implement SME-targeted programmes to support the uptake of renewable energy use and introduce financial and regulatory incentives.

Conclusion

Table 8.5. Roadmap for policy reforms – Azerbaijan

Promoting a level playing field for all enterprises
• Grant institutional and budgetary independence to the State Service for Antimonopoly Policy and Consumer Rights Protection (SSAPCRP)
• Enable effective enforcement of competition rules, in particular against hard-core cartels
• Develop and put in place a risk-based business integrity policy with active engagement from the private sector
• Introduce the disclosure of final shareholders for all companies, including an efficient system of verification of provided information and enforcement of sanctions in case of violations
• Ensure the efficient functioning of the e-court system and monitoring mechanism to address its deficiencies
• Consider establishing a dedicated IP chamber within the general court system, with judges possessing both training in IP law and the experience necessary to provide for high-quality IP dispute resolution
• Ensure adequate enforcement of the mediation mechanism introduced in April 2019 and promote ADR use by SMEs
Strengthening the institutional and operation framework environment
• Upgrade and expand the "Roadmap for the Promotion of the Production of Consumer Goods by SMEs in Azerbaijan" in order to include the service sector and guide the development of the entire SME sector, in the absence of a specific SME development strategy
• Establish effective channels of consultations with organisations representing the entire SME sector and build partnerships for project development; make sure that the newly established SMBDA plays an active advocacy role in the representation of small business with the government structure
• Make a plan for the systemic application of RIA and take steps to define the RIA guidelines and methodology, identify a central body in charge of the RIA introduction (and the monitoring of its application), and train the public officials in charge of conducting RIA applications
• Introduce measures to upgrade the IT skills of small entrepreneurs, in parallel with the extension of the range and sophistication of e-government services, in order to ensure an optimal utilisation of the e-government service platforms
• Promote the use of restructuring and out-of-court-mediation procedures; introduce simplified or pre-packaged in-court proceedings specifically targeting SMEs
• Adopt a comprehensive and proactive second-chance strategy for bankrupt entrepreneurs
Promoting skills and entrepreneurship development
• Introduce the entrepreneurship key competence at system level across all education levels as part of the lifelong learning strategy.
• Make independent evaluation of women's entrepreneurship support programmes an important feature of policy design, building in engagement and feedback by non-government policy partners
• Focus on the availability and quality of data for policy making and ensuring highly relevant and effective provision of SME training services for different target groups
Facilitating SME access to finance
• Enhance financial inclusion by supporting the development of non-bank financial services and deepening credit information; adoption of the new law on leasing would be an important first step
• Improve the availability of statistical data on the financial sector. A more granular market assessment would allow financial service providers to develop adequate products tailored to the needs of borrowers
Supporting SME access to markets
• Ensure a co-ordinated approach to the provision of export support services and built capacity in the SMBDA and its regional branches to support SME internationalisation
• Enhance SME access to trade financing and implement the support programme to create supply chain linkages between SMEs and large investors
• Strengthen AzAK and make it fit for entering into a bilateral agreement (BLA) with EA

• Implement targeted SME training in standardisation and its benefits; provide financial support for SMEs to obtain and implement technical standards
• Ensure that e-procurement can be used in a wider range of award procedures, without limitation to any particular categories of tenderers or contract amounts
• Raise the status, authority, independence and capacity of the central public procurement institutions
Enhancing SME competitiveness
• Complete the organisation of innovation policies under a single national strategy
• Extend eligibility of grants for innovation beyond the IT sector
• Establish proper co-ordination mechanisms among all bodies involved in BDS provision, particularly between SMBDA and the Baku Business Training Centre; build the capacity of SMBDA and sub-structures' staff in advising businesses
• Start outsourcing support services to private BDS providers and/or offer a simple co-financing mechanism to SMEs for first-time BDS use, enabling firms to choose their preferred providers
• Target specific green-economy policies, including renewable energy uptake as well as financial and regulatory incentives, towards the capacities and needs of SMEs

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Notes

[1] By a presidential decree of 23 October 2019, the Ministry of Taxes, the State Property Committee, the Antimonopoly Agency for Supervision of Consumer Markets are transferred to the Ministry of Economy.

[2] https://www.azernews.az/business/150120.html

[3] A study of corruption risks for the integrity of businesses, carried out by the government in co-operation with the business associations and civil society, is the basis for the risk-based integrity policy.

[4] In accordance with the Presidential Decree dated 28 November 2019, the Financial Markets Supervisory Authority (FIMSA) was abolished. However, this recent development did not influence the assessment as implemented after the cut-off date for the analysis.

[5] Consolidated text of the amended PPL: see www.e-qanun.az/framework/1029

[6] PPL, Art. 40.7.

[7] PPL, Art. 50-1

[8] The threshold is surprisingly high, compared with the stated focus on SMEs, and its application might be found cumbersome and a cause of delays, to the point of inciting contracting authorities to get around it.

[9] Available at http://sai.gov.az/2/hesabatlar.

[10] Strategic Roadmap for the Production of Consumer Goods in Azerbaijan at the Level of Small and Medium Entrepreneurship.

Chapter 9. Belarus: Small Business Act country profile

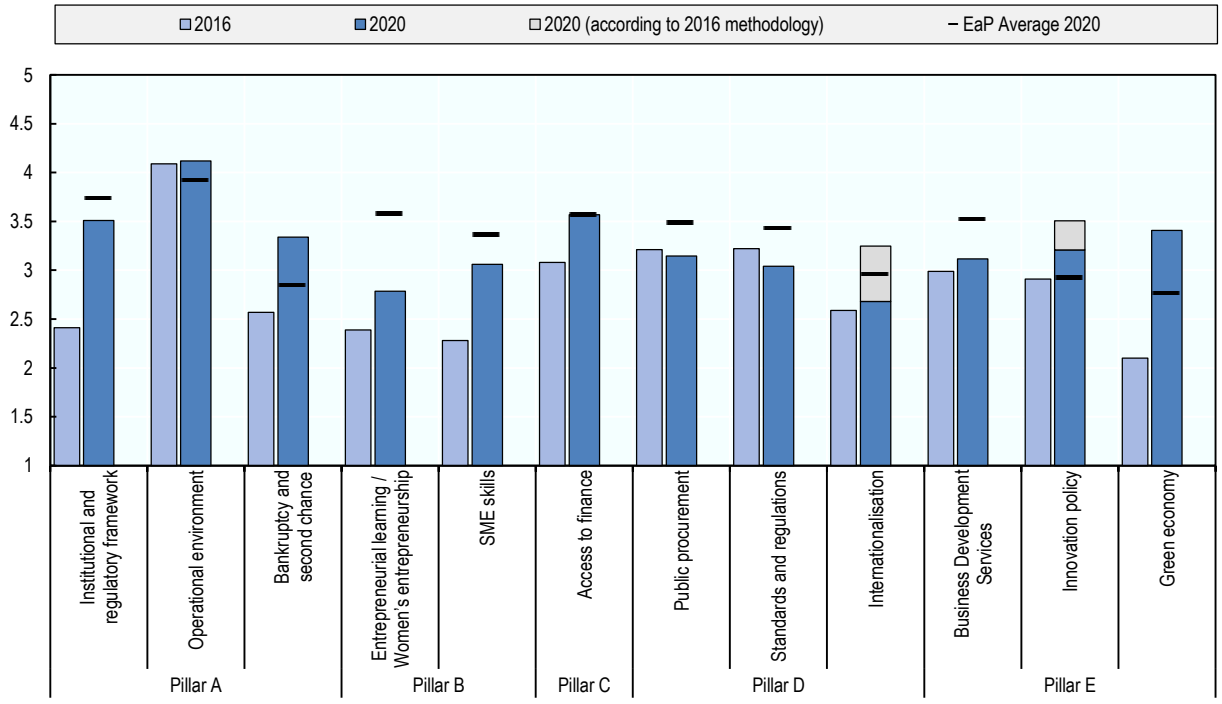
In recent years, the Government of Belarus has been increasing its efforts to promote private-sector development, strengthen the position of SMEs and sustain growth, employment and resilience. Noteworthy achievements since the previous SBA assessment include the recent adoption of an SME Development Strategy 2030 and the elaboration of provisions for the establishment of an SME agency. In addition, the adoption of Presidential Decree No. 7 "On the Development of Entrepreneurship" substantially simplified regulations for doing business as it includes provisions for minimising state interference in business operations, presuming the good faith of enterprises, and banning the introduction of new taxes until 2020.

However, SMEs' contribution to value added and employment in the business sector remains limited and state-owned enterprises continue to play a disproportionate role in the economy. To increase the competitiveness of Belarusian SMEs, the authorities could reinforce their efforts to create level-playing-field conditions for all firms regardless of size and ownership status, establish a healthy competition culture in the economy and support the development of entrepreneurial human capital.

Key findings

Figure 9.1. SME Policy Index scores for Belarus

Country scores by dimension, 2020 vs. 2016



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Table 9.1. SME Policy Index scores for Belarus, 2020 vs. 2016

Pillar	Dimension	BLR 2020	BLR 2016	EaP average 2020	*BLR 2020 (2016 methodology)*
A	Institutional and regulatory framework	**3.51**	2.41	3.74	3.51
	Operational environment	**4.12**	4.09	3.92	4.11
	Bankruptcy and second chance	**3.34**	2.57	2.85	3.21
B	Entrepreneurial learning / Women's entrepreneurship	**2.79**	2.39	3.58	n.a.
	SME skills	**3.06**	2.28	3.36	n.a.
C	Access to finance	**3.57**	3.08	3.57	3.49
D	Public procurement	**3.15**	3.21	3.49	3.15
	Standards and regulations	**3.04**	3.22	3.43	2.96
	Internationalisation	**2.68**	2.59	2.96	3.25
E	Business development services	**3.11**	2.99	3.53	3.11
	Innovation policy	**3.21**	2.91	2.92	3.51
	Green economy	**3.41**	2.10	2.77	3.41

Table 9.2. Implementation progress on SME Policy Index 2016 priority reforms – Belarus

Priority reforms outlined in SME Policy Index 2016	Key reforms implemented so far
Pillar A – Responsive government	
Finalise new SME strategy, including new institutional arrangements, public-private dialogue structure and M&E systems. Review the insolvency legislation in line with international best practices; remove discrimination against failed entrepreneurs.	Adopted an SME strategy, including provisions for the establishment of an SME agency; Reinforced the mandate of the Council for Entrepreneurship Development (public-private dialogue); New draft law on Insolvency and Bankruptcy submitted for Government approval in 2019.
Pillar B – Entrepreneurial human capital	
Integrate the entrepreneurship key competence and 'learning outcomes' into the education system. Improve SME training statistics to capture each target group, including sex disaggregation.	Integration of the entrepreneurship key competence in primary and secondary education as a behavioural model and a life strategy; State program for SME support (2016-2020) contains actions to develop student mini-companies at the level of general secondary education.
Pillar C – Access to finance	
Improve the legislative and regulatory framework, in particular by strengthening creditors' rights, improving access to the credit information registry and adopting legislation on a registry for securities over movable assets. Enhance the competitiveness of the banking sector.	Banking regulations have been strengthened, with full adoption of Basel II standards and a view of complete Basel III implementation by the end of 2020; Launch of an online registration system for movable assets, allowing SMEs to provide alternative securities when accessing finance; Operationalisation of the Credit Guarantee Fund, reducing the perceived risk for banks to lend to SMEs with lower collateral.
Pillar D – Access to markets	
Consider establishing an adequate institutional framework for export promotion and offer a broader menu of services. Improve quality infrastructure and market surveillance.	Concept note for the establishment of an export promotion agency (under the new SME agency) submitted to the Government.
Pillar E – Innovation and Business Support	
Undertake a needs assessment for information, training and consulting services; develop a programme to encourage the emergence of a private business development service market. Promote SME participation in public procurement.	Survey carried out on demand and supply of BDS in Belarus in 2016; Expanding innovation infrastructure.

Context

Economic snapshot and reform priorities

The Belarusian economy remains largely state-controlled and its economic model is heavily oriented towards maintaining full employment. Although there are fewer state-owned companies than private businesses, fully and partially state-owned enterprises (SOEs) account for about one third of total employment and gross value-added (IMF, 2019[1]; Belstat, 2019[2]). According to the World Bank's Enterprise Surveys, the percentage of firms with at least 10% of government/state ownership is 8.7%, considerably higher than the Europe and Central Asia average (1.2%) (World Bank, 2018[3]). In addition, increasing inefficiencies in the SOE sector, which dominates key industries such as machinery and chemicals, are limiting the growth potential of the country by causing a suboptimal allocation of capital, labour and resources, distorting competition and price mechanisms. The government has shown increasing commitment to the development of the private sector and is planning to implement gradual structural reforms, including SOE reforms and further relaxation of price controls. A flourishing IT sector is a good example of a quickly emerging industry in Belarus, in which private businesses are thriving thanks to the strong human capital available in the country, coupled with the strategic choice to introduce a highly preferential tax and regulatory regime for the sector (IMF, 2019[1]).

Belarus displays high trade openness, with exports and imports representing 139% of GDP in 2018 (Table 9.3). Efforts have been made to diversify export markets, with exports to the EU rising from 26.8% in 2017 to 30.2% of GDP in 2018. Since 2015, Belarus has been a part of the Eurasian Economic Union (EAEU), which still accounts for almost half of exports. Russia remains the main export destination, accounting for 39% of Belarus's exports in 2018, followed by Ukraine (12%) and the United Kingdom (9%) (The Economist Intelligence Unit, 2019[4]). Additionally, exports are undiversified in terms of goods sold (mainly oil and oil products), which is largely due to limited export competitiveness of Belarusian goods (IMF, 2019[1]). Foreign direct investment (FDI) inflows could improve product quality and export competitiveness, but FDI inflows are very low, at 2.3% of GDP in 2017, and they have been on a downward trend since 2015 (a small recovery occurred in 2018, when they reached 2.5%). As reported in the World Bank's Enterprise Surveys, the percentage of firms using material inputs and/or supplies of foreign origin and the proportion of total inputs that are of foreign origin in the manufacturing sector are 81.7% and 51.5% respectively, substantially higher than the averages in Europe and Central Asia (65.6% and 39.4%) (World Bank, 2018[3]).

Table 9.3. Belarus: Main macroeconomic indicators, 2013-18

Indicator	Unit of measurement	2013	2014	2015	2016	2017	2018
GDP growth*	Percentage, y-o-y	1.0	1.7	-3.8	-2.5	2.5	3.0
Inflation**	Percentage, y-o-y	18.3	18.1	13.5	11.8	6.0	4.9
Government balance[1]**	Percentage of GDP	-1.0	0.1	-3.0	-1.7	-0.3	2.4
Current account balance*	Percentage of GDP	-10.0	-6.6	-3.2	-3.4	-1.7	-0.4
Exports of goods and services*	Percentage of GDP	58.3	54.9	58.0	62.5	66.8	70.2
Imports of goods and services*	Percentage of GDP	61.5	55.7	57.9	62.7	66.6	69.1
FDI net inflows*	Percentage of GDP	3.0	2.4	2.9	2.6	2.3	2.5
General government gross debt**	Percentage of GDP	36.9	38.8	53.0	53.5	53.2	47.8
Domestic credit to private sector*	Percentage of GDP	22.9	23.6	27.9	25.7	26.2	27.8
Unemployment[2]*	Percentage of total active population	5.9	5.9	5.9	5.8	5.7	5.7
Nominal GDP*	USD billion	75.5	78.8	56.5	47.7	54.7	59.7

[1] General government net lending/borrowing.
[2] Modelled ILO estimates.
Source: *World Bank (2019[5]), *World Development indicators;* **IMF (2019[6]), *World Economic Outlook*, both accessed on December 2019

In recent years, the macroeconomic environment has improved. The joint efforts of the government and the National Bank have been instrumental in delivering greater exchange rate stability, as well as bringing down inflation rates to the historically low level of 4.9% at the end of 2018 (vs. 13.5% in 2015) (IMF, 2019[1]).

Following a sharp recession in 2014-16, real GDP growth resumed in 2017-18, supported by higher oil prices,[1] robust external demand and domestic demand fuelled by double-digit wage growth (The Economist Intelligence Unit, 2019[4]).

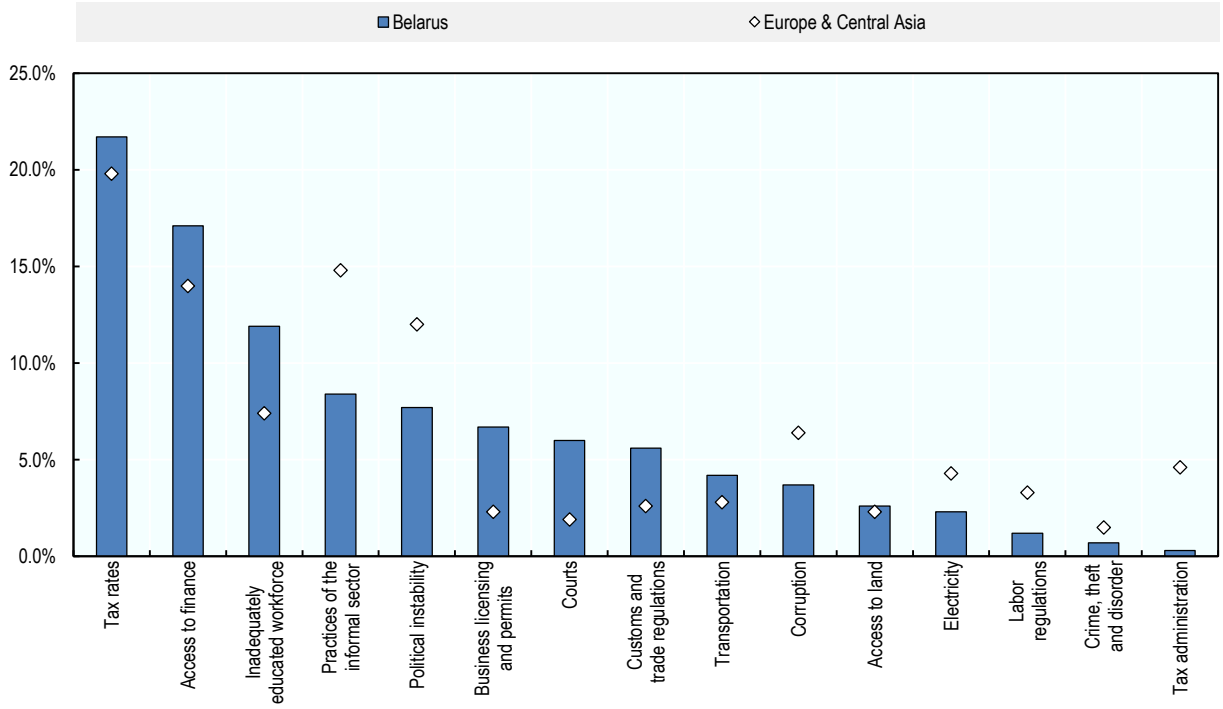
However, risks to growth and fiscal balance are significant due to the impact of Russia's gradual introduction of a new oil-taxation regime since early 2019, which will abolish duty-free imports of Russian oil. Less-than-full compensation for the ensuing losses would reduce medium-term growth and increase the fiscal and current account balances via the reduction of customs duties on oil exports refined in Belarus and higher import costs for Russian crude (The Economist Intelligence Unit, 2019[4]).

Business environment trends

The preferential regime that SOEs enjoy in terms of financial resources, raw materials, lower energy prices and softer attitude of regulatory authorities is a constraint on the development of a vibrant private sector. Moreover, some additional elements are perceived by the entrepreneurs as obstacles to their businesses' development. As presented in Figure 9.2, the constraint perceived by the majority of entrepreneur in Belarus as the principal obstacle are high tax rates, followed by difficult access to finance and inadequately educated workforce (World Bank, 2018[3]).

Figure 9.2. Business environment constraints in Belarus

Percentage of surveyed firms that consider a specific business environment obstacle as the most important one.



Source: World Bank (2020), *Enterprise Survey: Belarus*.

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However, since 2010, the government has taken important steps to improve the policy environment for private enterprises and especially SMEs. Presidential Decree No. 4 "On the Development of Entrepreneurship and Stimulation of Business Activity in Belarus", adopted in 2010, remains the core document that focuses on improving the business climate and maintaining an open dialogue between the private sector and the government. It has been complemented by Presidential Decree No. 7 (2017) "On the Development of Entrepreneurship", which substantially simplifies regulations for doing business in Belarus, bans the introduction of new taxes until 2020 and minimises state interference in business operations with the assumption of "good faith" of enterprises. The latter radically changes government-business relations: firms can now conduct business operations in a more

independent way, without being subject to frequent and unjustified scrutiny from state authorities.

Furthermore, the Belarusian government is committed to introducing reforms that will also improve the country's position in the World Bank *Doing Business* rankings. An action plan to improve the rating of the country is an integral part of Belarus's five-year SME state support programme for 2016-20. The plan includes time-frames for every activity, responsible bodies and expected impact. Since 2015, Belarus has risen 8 places, ranking 49th in 2020, with considerable improvements in the *getting credit*, *resolving insolvency* and *getting electricity* indicators (World Bank, 2019[7]).

In the Economic Freedom Index, Belarus in 2016 ranked 157th, with a total score of 48.8. The country rose to 104th in 2019, with a score of 57.9, due to the progress in investment freedom, monetary freedom, property rights and government integrity. In Transparency International's Corruption Perception Index, Belarus has risen by nine positions since 2015, ranking 70th in 2018.

SME sector

The country's SME definition has remained unchanged since 2010: SMEs are exclusively defined by the number of employees and are divided into individual entrepreneurs, micro (up to 15 employees), small (16-100 employees) and medium enterprises (101-250 employees) (Table 9.4). This definition is not used consistently in legislation; for example, turnover determines eligibility for some tax advantages.

Table 9.4. The SME definition in Belarus

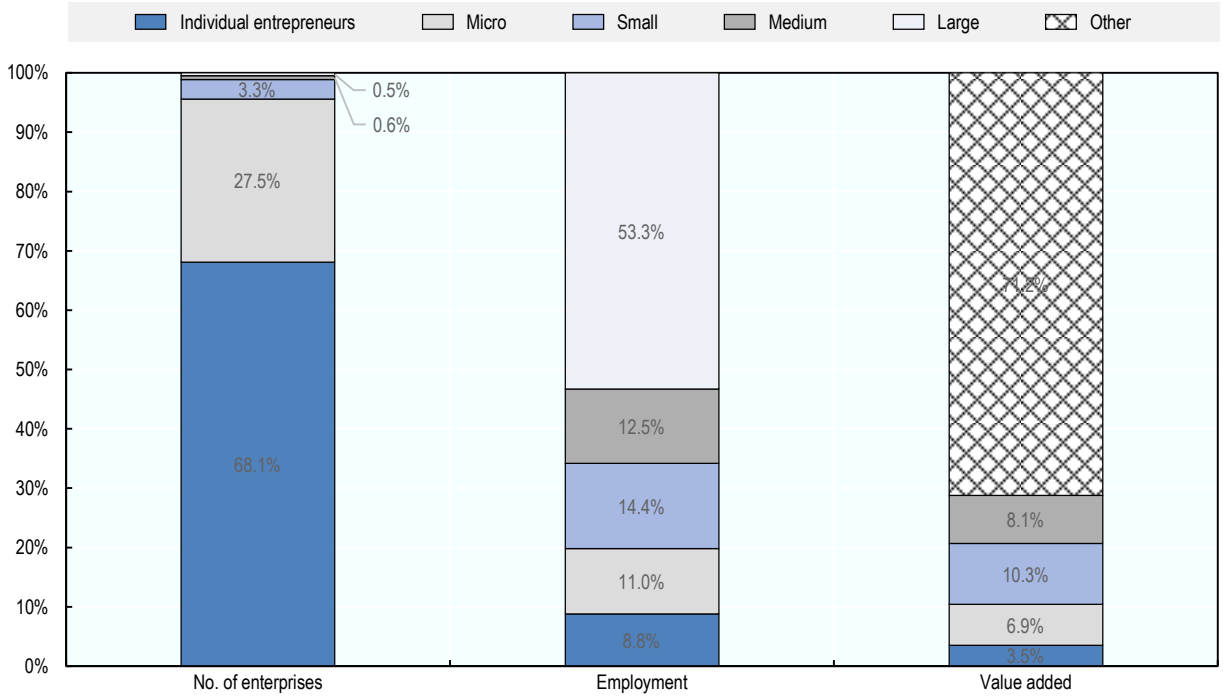
	Individual entrepreneurs	Micro	Small	Medium
Average number of employees	1-4 employees	≤ 15 employees	≤100 employees	< 250 employees

Source: Law of the Republic of Belarus of 1 July 2010, No. 148-31, "On State Support for Small and Medium Entrepreneurship"; EU4Business Country Report Belarus 2018.

The economic role of SMEs in Belarus remains limited. In 2018, the share of SMEs, including individual entrepreneurs, in the total business population was 99.5% (Figure 9.3Figure 9.2.). The number of individual entrepreneurs, micro, small and medium-sized enterprises has declined to 346 109 in 2017 from 363 160 in 2014, which can to some extent be attributed to the macroeconomic slowdown. In 2018, individual enterprises represented 68.1% of all business entities; microenterprises 27.5%; small enterprises 3.3%; medium enterprises 0.6% and large enterprises 0.5%. All size categories of business entities, including large ones, displayed a decrease of registered companies.

In 2018, SMEs accounted for 28.8% of gross value added , up from 27.6% three years earlier. Most of the growth stems from micro and medium-sized enterprises. The share of SMEs in Belarusian exports of goods has fluctuated over the last four years. The 2017 level of 47.2% remains clearly above the 42.1% observed in 2014. At the same time, the number of employees working for SMEs (including individual entrepreneurs) declined from 1 477 300 in 2014 to 1 278 011 in 2018. This corresponds to 46.7% of the total number of employees in Belarus, up from 43% in 2014. Most of this increase is due to the relative stability of employment in microenterprises and individual entrepreneurs while total employment declined.

Figure 9.3. Business demography indicators in Belarus by company size, 2018



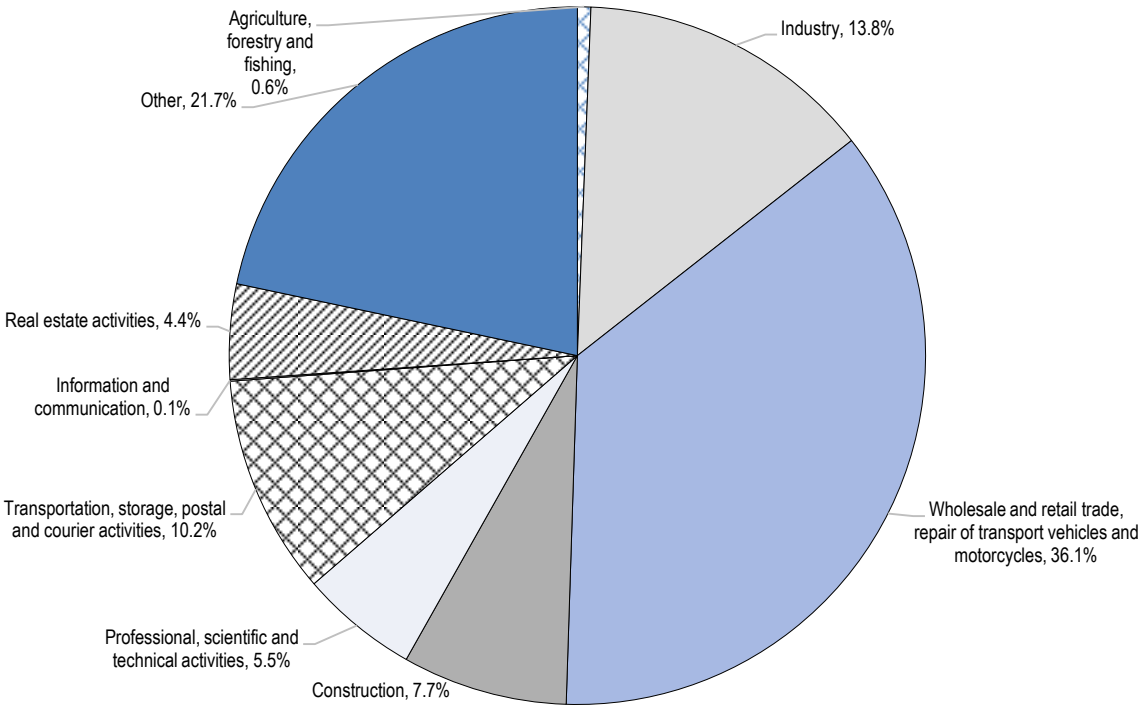
Note: 'Other' represents large enterprises', non-commercial entities' and non-observed economies' contribution to value added.
Source: National Statistical Committee of the Republic of Belarus (Belstat).

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Belarusian SMEs mostly operate on very small scales in non-innovative, low-productivity industries, which explains their limited contribution to value added. In 2018, 36% of SMEs operated in manufacturing and trade, as well as repair of motor vehicles (Figure 9.4). Only 3.5% of SMEs introduced product or process innovation in 2018 compared to 34% in the EU (Belstat, 2018[8]; EU, 2019[9]). However, the rapid expansion of the IT sector is worth mentioning, with exports of ICT services having nearly doubled from 2010 to 2018, reaching 21% of all service exports in 2018.

Despite the limited participation in innovative and high-productivity industries, according to the World Bank's Enterprise Surveys, 36.8% of small and 46.1% of medium enterprises introduced a new product and/or service (compared to the considerably lower Europe and Central Asia averages of 25.7% and 30.8%). For 61.1% of small and 68.2% of medium enterprises, the product/service introduced was also new in the main market (Europe and Central Asia averages are in this case higher, namely 66.5% and 70%). Finally, the percentages of firms that introduced a process innovation are also higher than average, accounting for 21.7% for small enterprises and 32.2% for medium enterprises (Europe and Central Asia averages are 19.2% and 25.3%) (World Bank, 2018[3]).

Figure 9.4. Sectoral distribution of SMEs in Belarus, 2018



Source: OECD calculations based on data from the National Statistical Committee of the Republic of Belarus (Belstat).

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SBA assessment by pillar

Level playing field pillar

Competition

Belarus is currently in the process of introducing a more market-oriented economy, and it is certainly a challenging task to apply a meaningful competition-law regime to an economy with such strong state influence. The establishment of the Ministry of Antimonopoly Regulation and Trade (MART) in 2016 as the body responsible for the implementation of the competition law provisions, enacted in the same year, is a big step in the right direction.

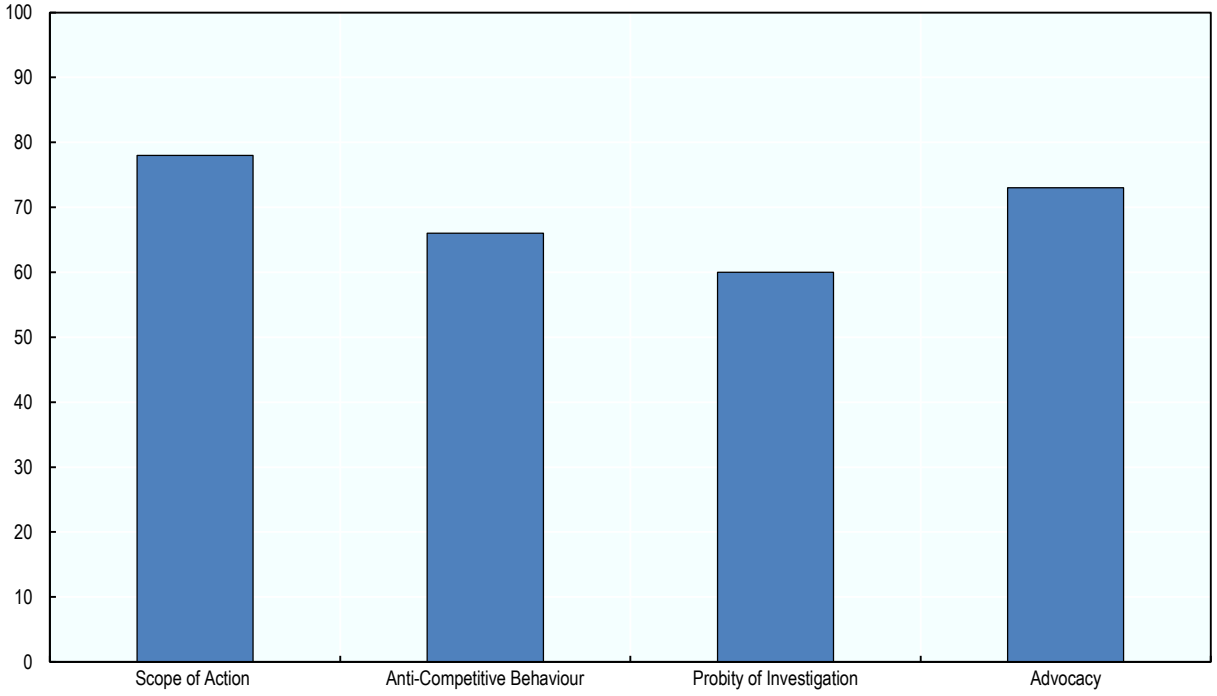
The competition law confers a wide range of powers on MART, including competition enforcement. The legal framework for competition incorporates most of the basic building blocks necessary for an effective competition law regime, namely the prohibition of anti-competitive agreements and concerted practices of undertakings, of abuses of dominance, merger control, legal acts restricting competition, and agreements or concerted practices of state authorities, as well as the application of competition law to public procurement. MART also seems to have most of the required investigation, sanctioning, and remedy tools at its disposal, with one notable exception: it lacks effective powers to conduct surprise, on-site inspections – so-called "dawn raids". In terms of actual enforcement, MART carries out a large number of merger control proceedings (520 in 2017-18) and responds to an

increasing number of complaints. It also conducts a large number of market studies every year and intervenes increasingly against anti-competitive practices by state bodies.

However, there is a total lack of meaningful cartel enforcement activity. In terms of due process and transparency, work remains to be done. There are no public merger decisions or any guidelines on enforcement rules and practices.

Figure 9.5. Competition policy in Belarus

Percentage of formally adopted competition criteria, as of June 2019



Note: The chart refers to the percentage of competition policy criteria formally adopted in the legal framework. It gives equal weight to all criteria. This does not illustrate actual enforcement activity in terms of relevance or quantity or provide information about the relevance of the criteria lacking or met.
Source: SBA questionnaire, interviews with MART and business associations.

StatLink http://dx.doi.org/10.1787/888934087477

In an economy dominated by SOEs, it is of vital importance that the competition enforcement body enjoys far-reaching institutional independence. The competition enforcer needs to advocate for competitive neutrality in all aspects relating to SOE activity, and it has to intervene against public distortions of competition. Only then will new entrants to markets and SMEs be encouraged to engage and invest, in competition with the powerful, state-owned incumbents. It will be difficult to instil this kind of trust in private businesses if the enforcement body is part of the government structure.

MART would benefit from an increased and stable budget. The individuals working in competition enforcement need to be highly qualified, and the salaries and working conditions have to be of a nature to encourage them to stay in enforcement. A valid comparator would be independent regulators such as the Central Bank.

Cartel enforcement is the top priority of most jurisdictions. The failure to fight cartels comes at a high cost to the consumers and taxpayers of a country, who can expect to pay

10–20% higher prices for goods and services. As cartels often target public procurement, public services come at a much higher cost to taxpayers as well. Effective dawn-raid powers are a universally agreed-upon, indispensable tool for uncovering such illegal cartels. Cartel agreements cannot be established solely on the basis of parallel conduct observations or other indirect evidence. They require direct proof of communication or agreement. Given that MART also supervises public procurement, there are significant synergies that could be expected from an approach that makes good use of both instruments. Too many markets are analysed solely to define undertakings for inclusion in or deletion from the register of dominant enterprises. More in-depth investigations of a few socially relevant markets could help to indicate relevant public or private restrictions of competition, which could subsequently be addressed with appropriate enforcement measures or pro-competitive legal changes, to open markets to competition.

Market actors, government officials, politicians, academics, lawyers and media representatives need to understand the relevance and benefits of an effective competition law regime. MART should continue and enhance its efforts to provide information and training to establish a widespread competition culture. This needs, however, to be combined with meaningful enforcement action; otherwise, purely educational measures will lack the required credibility.

Contract enforcement and alternative dispute resolution

Contracts in Belarus are enforced by commercial courts of first instance in Minsk and six regional cities on the basis of provisions in the Economic Procedural Code. While Belarus has no procedure for small claims in place, it has an extensive practice of writ proceedings.[2] In 2018, the share of appeals filed within the framework of writ proceedings represented more than 70% of all appeals of commercial courts. Evidence shows that contract enforcement procedures generally lack efficiency, as judges and bailiffs experience work overload – and, as a result, decisions are not enforced properly and in a timely manner. The World Bank has found in its Enterprise Surveys that 17.5% of small firms and 16% of medium firms identify the courts system as a major constraint (Europe and Central Asia averages are substantially lower, namely 6.5% and 9.2%) (World Bank, 2018[3]). In this regard, the government could introduce a framework for private enforcement of court decisions for a speedier and more effective procedure. In addition, courts' impartiality is challenged when it comes to commercial disputes between private and state-owned companies, as courts reportedly tend to favour SOEs in their decisions. According to a recent survey of SMEs (Urban, 2017[10]), unequal conditions for operations of private businesses and SOEs, as well as the lack of an independent and efficient court system, are regarded as among the main barriers to doing business in Belarus.

In 2015, the government launched the development of an automated information mechanism to improve the efficiency and transparency of courts' case management systems. As a result, in 2017, e-filing of cases, e-service of process, and e-payment of court fees were introduced and are now available in all commercial courts. In addition, starting from July 2019, full texts of decisions of economic courts are to be published on a dedicated website, which will contribute to the predictability of court decisions and promote consistency in the application of the law. Going forward, to ensure the transparency of its judicial system, Belarus could consider the introduction of random assignment of cases to judges, a widely adopted international practice, instead of the existing system of manual case assignment.

Belarus has put in place a comprehensive and well-functioning intellectual property rights (IPR) framework in line with international standards (WIPO, 2019[11]). IPR violations are subject to administrative and criminal liability and a Specialised Tribunal for Intellectual Property under the Supreme Court is in charge of IPR-related dispute resolution.[3] Broad discussions throughout 2017 on the establishment of an independent Business Ombudsman Office concluded on the high costs of setting up of such an institution and have not been followed up.

Alternative dispute resolution (ADR) mechanisms are widely recognised by Belarusian legislation and the government promotes ADR through a number of measures, including reduced court fees for parties engaged in mediation, ADR-clauses in commercial contracts, and ADR training for referral bodies provided by the Centre for Mediation and Negotiation. However, there is generally low awareness among SMEs of the benefits of ADR[4] and a lack of awareness-raising activities conducted by the government in that regard.

Business integrity

Belarus has put in place a comprehensive agenda for combatting corruption through the 2015 Law "On Combatting Corruption" and the National Programme for Combatting Crime and Corruption of 2017-2019. The Republican Co-ordinating Meeting on Combating Crime and Corruption develops the programme every three years and conducts its regular evaluation. In 2018, the first National Risk Assessment of Money Laundering and Terrorist Financing for the period 2014-2017 was carried out, covering predominantly the activities of financial, judicial and real estate sectors. In addition, the government has elaborated a methodology of risk assessment for oversight bodies to be adopted when planning and carrying out inspections.

Based on this methodology and with the aim of strengthening the transparency and integrity of private sector operations, a number of registers of companies have been put in place – including a register of companies and individual entrepreneurs with an increased risk of economic wrongdoing, a register of unfair suppliers in public procurements, a register of legal entities having indebtedness to the state budget, and a register of best tax payers. At the same time, the existing anticorruption framework does not address business integrity policy directly. Going forward, the government could conduct a study of corruption risks in the private sector (with a particular focus on SMEs, and actively engaging with business associations in the process) and elaborate dedicated business-integrity measures under the existing anti-corruption programme.

Corruption prevention is ensured through a number of mechanisms. Mandatory disclosure of companies' final beneficiaries is in place and the information is accessible through the Unified State Register of Legal Entities and Individual Entrepreneurs maintained by the Ministry of Justice. In addition, while there is no criminal liability of legal persons charged with corruption in place, draft amendments to the Law on Combatting Corruption that would provide for it are under development. The legal framework in Belarus provides for whistle-blower protection and contains provisions on remuneration of individuals contributing to corruption detection. Businesses can report corruption online via the website of the Prosecutor General's Office or directly to the bodies in charge of the implementation of anti-corruption policy. However, the effectiveness of reporting mechanisms in place is difficult to assess given the lack of data in that regard. Overall, Belarus has improved its position in Transparency International's Corruption Perception Index, moving from 107th in 2015 to 70th in 2018.

Efforts aiming at corruption prevention mostly concern corruption in the public sector (i.e. a series of seminars titled "The fight against corruption is a vital task of state and society" conducted across regions in 2018), while no specific private sector-oriented training has been conducted in this regard by the government. Despite the lack of government efforts specifically to promote business integrity, there have been cases of introduction of codes of conduct in business associations (i.e. a business association named after Professor Kunyavskiy) and promotion of compliance and corporate ethics principles in large enterprises and associations (i.e. participation in UN Global Compact Initiative). As a next step, Belarus could consider developing a programme to promote business integrity with a focus on SMEs in order to encourage companies to introduce compliance mechanisms and equip businesses with dedicated corruption prevention tools.

Pillar A – Responsive government

Institutional and regulatory framework for SME policy

Since the 2016 SBA assessment, Belarus has made significant progress in the establishment of a comprehensive institutional and regulatory framework for SME policy. The country's SME policy continues to be defined by the strategic guidelines set in the law "On SME Support" approved in 2010, which also set the current SME definition based on employment criteria. The Ministry of Economy's Entrepreneurship Department has the mandate to develop SME policy.

Traditionally, SME policy has been organised around successive multi-year state programmes, the latest covering 2016-20. The programmes contain a list of support measures and initiatives, as well as a set of quantitative targets, related to SME contribution to employment and GDP, as well as targets related to the outputs of specific SME support programmes. In 2018, the Council of Ministers approved the first country strategy for SME development, which covers the period to 2030: "Belarus – a country for successful entrepreneurship" (Government of Belarus, 2018[12]) – a document that sets medium-term objectives for SME development for the first time. The Ministry of Economy led the elaboration of the strategy, with the support of a working group including the Council for Entrepreneurship Development, other central and local government bodies and private sector organisations.

The SME Development Strategy outlines the country's main policy priorities for the SME sector. The focus is on improving the business climate, the promotion of entrepreneurial activity and private enterprises, the introduction of measures supporting innovation, fixed investments and exporters and the strengthening of the institutional framework, with the establishment of new institutions to support SME policy implementation. The strategy does not include quantitative or qualitative targets, nor does it contain a section on monitoring and evaluation, which instead are included in the still applicable and updated complementary multi-year state programme.

Moreover, the Ministry of Economy is currently elaborating a concept paper evaluating different options and configurations related to the establishment of an SME development agency. SME policy implementation is currently conducted by a mix of institutions, such as the Ministry of Economy, the Belarusian Fund for the Financial Support of Entrepreneurs (BFFSE) under the Ministry of Economy, the Regional Executive Committees, and the state accredited business support infrastructure.

The improvement of the business climate is one of the key priorities listed in the SME Development Strategy. Presidential Decree No. 7 "On the Development of

Entrepreneurship", enacted in November 2017, has eliminated a number of redundant administrative procedures related to business activity, while the government, guided by a dedicated Action Plan, is co-ordinating a systematic review of the administrative functions covered by the indicators in the World Bank's *Doing Business* report, including through the National Centre of Legislation and Legal Research.

Belarus has not yet introduced a full regulatory impact analysis (RIA) process for the review of new legal and regulatory acts. However, the January 2019 Resolution of the Council of Ministers No. 54 "On forecasting the consequences of regulatory legal acts" figures among the most significant changes since 2015. It contains a separate chapter on assessing the impact of draft legal acts on entrepreneurship. However, time is required to evaluate how such RIAs will be carried out in practice. As a next step, an SME test could be included in the RIA mechanism in order to assess the specific impact on smaller firms.

Belarus has introduced formal requirements concerning public-private consultations. The Resolution of the Council of Ministers on Public-Private Consultations states that all legal acts that have a significant impact on business activity must go through a formal consultation process before final approval. In line with Presidential Decree No. 4, 40 national and 133 regional advisory councils have been created within state authorities for public-private consultations, and 722 meetings have been held in the country since 2011 (including 74 in the first half of 2018). The private sector representatives sitting in the advisory councils have the right to submit legislative and regulatory proposals and may call for exceptional meetings. In addition, all draft laws are posted on a single central government web site for public consultations (www.pravo.by).

Since 2018, public-private dialogue has grown even stronger, with the expansion of the mandate of the Council for Entrepreneurship Development of Belarus, an advisory body under the President. Chaired by the First Deputy Prime Minister, the Council brings together successful representatives of the private sector (out of 20 members of the Council, 19 are heads of the most prominent and successful businesses). It meets on a quarterly basis and has a mandate to review and propose amendments to existing and draft legislation, and to propose government support programmes for entrepreneurs.

Operational environment for SMEs

Since 2016, Belarus has achieved only limited improvement in the overall score of this dimension, although it has started from an already relatively strong base. That regulatory reform is proceeding at a slow pace is also confirmed by the country's overall rank of Belarus (30th out of 190 countries) in the 2020 World Bank *Doing Business* report. However, Belarus ranks high in a number of *Doing Business* indicators and specifically on registering property (14), getting electricity (20) and trading across borders (24) (World Bank, 2019[7]).

The extension and upgrading of e-government services is mentioned as one of the main priorities of the State Programme for the Development of the Digital Economy and the Information Society for 2016-2020. A wide range of e-government services is already available, including tax and social security filing, pension and social contributions, with access via e-signature and m-signature.[5] Online registration of real estate properties will be available in 2020. The government has also begun developing an Open Government Data concept and is working to create a national open-data portal, under the co-ordination of the Ministry of Communications.

Company registration in Belarus has improved since the 2016 assessment and is now relatively efficient. According to the 2020 *Doing Business* report, its takes eight days and a half to start a business, registered as a limited liability company; four procedural steps are required, and the cost of the overall starting a business is equal to 0.5% of the country's income per capita. In 2018, Belarus further improved the procedures by creating a unified registry database, by setting a time limit for the completion of the company registration procedures, and by cutting in half the minimum capital requirement for limited liability companies. A network of one-stop shops offering company registration procedures has been established across the country, while an online registration facility is also available.

The issuance of business licences is regulated by the Presidential Decree "On Licensing of Certain Types of Business Activities", which was approved in 2010. All licensing requirements and the corresponding fees for processing the license application are listed on a dedicated government website. Although no significant change in this area has taken place since 2016, the government is conducting a review process and plans to issue a new decree "On Improving Licensing Requirements".

The tax regime for small enterprises in Belarus is based on a presumptive approach, which depends mainly on companies' turnover. SMEs may benefit from a simplified tax regime, if below certain employment and turnover thresholds (Legal entity < 100 employees and revenue < 1 159 800 BYN; individual entrepreneur < 126 700 BYN for 9 months of the year preceding the year in which the company intends to apply the simplified tax system), while VAT exemptions are foreseen for smaller enterprises (Deloitte, 2017[13]). According to the 2020 *Doing Business* report, seven tax payments are due per year, requiring a total of 170 hours. Both data points are better than the regional EaP average. The post-filing index is set instead at 50.00/100, a relatively poor performance (World Bank, 2019[7]).

Bankruptcy and second chance

The 2012 Law on Business Failure (Bankruptcy) and several Presidential Decrees continue to define the insolvency framework in Belarus. No major developments have been implemented since 2016, although the efficiency of the framework recently improved. *Doing Business 2020* reports improvements in the average time needed to resolve insolvency in Belarus (1.5 years, compared to 3 years in 2015) and in related costs (17% of estate, compared to 22% in 2015) (World Bank, 2019[7]).

The Law states a definition of indefinite discharge from bankruptcy of companies, by recognising obligations as repaid if they are not satisfied due to insufficient debtor means. At the same time, unrecognized and unapproved claims of creditors are also recognized as repaid if creditors have not applied to the economic court. The only exception to this rule is the preservation of obligations arising from illegal actions. Various insolvency procedures (protective period, financial rehabilitation and liquidation) have separate timeframes with possible, but very rare, extensions of financial rehabilitation procedures (performed by the economic court only at the request of a state body and in agreement with the government). Provisions on secured transactions, introducing a separate sequence of payments for the former, are also included in the law.

Although no major improvements in the legal framework have been formally introduced since the previous SBA assessment, a draft Law on Insolvency and Bankruptcy was prepared and submitted to the House of Representatives in 2019 to address the framework's shortcomings. The draft Law notably contains provisions to simplify the insolvency declaration, expedite the timeframe of insolvency procedures, enhance the framework and prioritise secured creditors, strengthen the protection of workers' rights during insolvency

procedures, and introduce random choices of managers, their self-regulation and the transition to e-commerce exclusively. At the same time, the draft Law contains no restrictions on the registration of a former (recognised) bankrupt as an individual entrepreneur, nor any restrictions on the right to carry out an entrepreneurial activity in the case of a false, intentional or concealed bankruptcy.

Prevention measures focus primarily on SOEs. The Ministry of Economy conducts regular analysis of SOE solvency and the efficiency of bankruptcy prevention measures for SOEs, but does not collect data on the application of preventive measures for private companies. Although private companies and individual entrepreneurs in financial distress have to some extent access to specific services to help prevent failure, these services lack visibility and accessibility, requiring efforts to promote and monitor preventive measures for entrepreneurs. Among the existing business support centres, very few have websites describing the available services, especially in the regions. An early-warning system identifying financially distressed businesses before filing for bankruptcy is in place. The Ministry of Economy, as well as Commissions on Preventing Business Failure, are responsible for the detection of insolvency and for pre-trial rehabilitation measures. However, the early-warning measures often take the shape of interrogations on management issues and imply that managers are solely responsible for the company's situation. These measures could rather take the form of consultations and provide further support and services to restructuring in order to save a larger portion of the debtor's asset and promote the idea of second chance for honest entrepreneurs.

Belarus should also consider implementing a dedicated policy or information campaign to promote second chance for entrepreneurs seeking a fresh start. Bankrupt entrepreneurs seeking a fresh start may currently benefit from the same range of services and support provided by public institutions or the business support infrastructure, but they are not allowed to register a new business entity until one year after their exclusion from official registries.

Pillar B – Entrepreneurial human capital

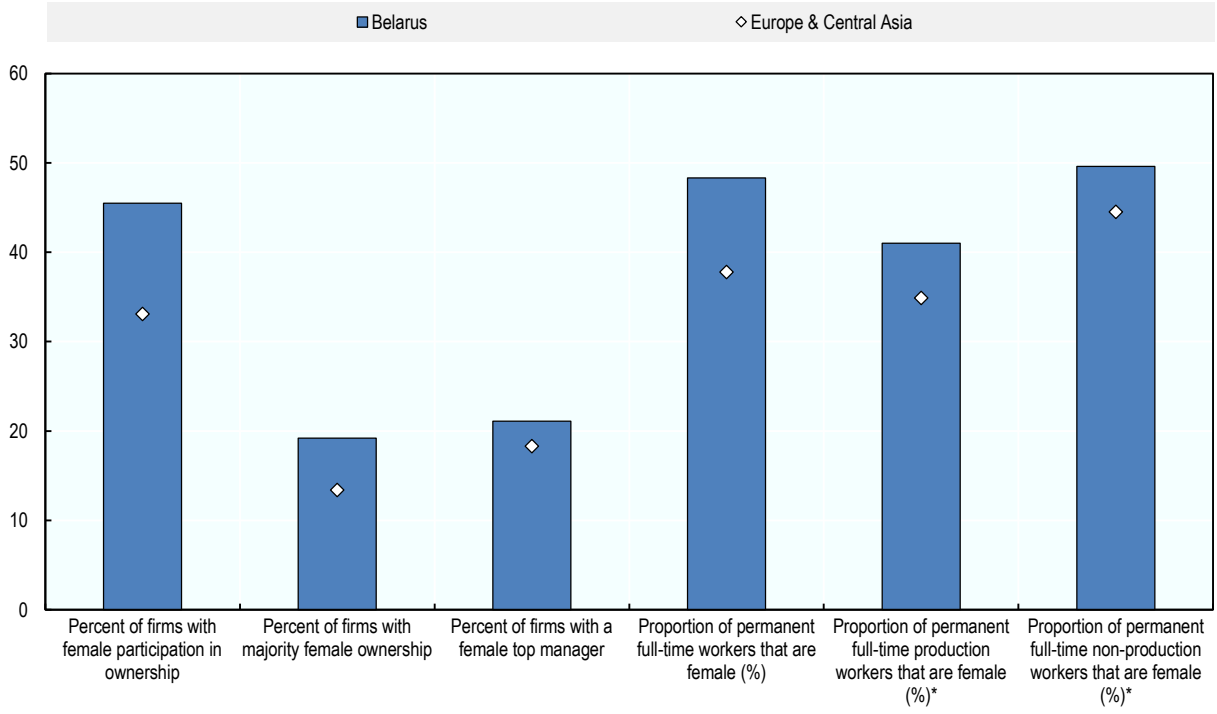
This section focuses on the human capital dimensions of the Small Business Act (SBA) for Europe. It first examines how entrepreneurial learning is addressed in the education system, focusing on entrepreneurship as a key competence – a factor in Belarus' wider drive for competitiveness, growth and employment. It then discusses developments in women's entrepreneurship. Finally, both policies and support for SME training are addressed.

Belarus has a wealth of public policy documents and strategies that could, with stronger multilevel governance of entrepreneurial human capital, be combined into one comprehensive vision. Entrepreneurship education is a clear policy priority. The establishment of the Council for the Entrepreneurship Development represents an important step towards a mechanism for engaging social partners in working towards a common vision for education and training content and provision. At the same time, incentives for the development of entrepreneurship key competences, i.e. the skills, knowledge and attitude that all allow individuals to act entrepreneurially, continue to be incorporated into multiple innovative pilot projects targeted at the primary and general secondary levels.

The Ministry of Economy is leading the development of support measures for women entrepreneurs – in collaboration with civil society organisations. Regular identification of training needs and monitoring of training provision by providers is not yet in place, but first steps have been made during the assessment period to identify the specific training needs

of women entrepreneurs and to ensure the efficiency of government financing across the three dimensions of entrepreneurial human capital – entrepreneurial learning, women's entrepreneurship, and enterprise skills.

Figure 9.6. Women participation in firms' ownership and workforce in Belarus



Note: *This indicator is computed using data from manufacturing firms only.
Source: *Enterprise Survey: Belarus*, (World Bank, 2018[3])

StatLink http://dx.doi.org/10.1787/888934087496

Entrepreneurial learning

The Ministry of Economy continues to move entrepreneurial learning up the national policy agenda. Important progress was made with the establishment of the Council for the Development of Business Education,[1] which brought public-private dialogue on entrepreneurial learning to an institutional platform.

The Council's main objectives are to develop proposals on state regulation of business education, coordinate the development the business education system, and assess the quality of business education services. The activities of the Council allow for the creation and approval of a new model of state policy in the field of business education – a model focused on the development of public-private dialogue and on increasing the level of self-regulation of the professional community of business-education market participants. This contributes to the modernisation of social education and entrepreneurship institutions, which is extremely relevant for Belarus.

[1] Resolution of the Council of Ministers No. 456.

In Belarus the need for a coherent system for entrepreneurship skills is emphasised in the National Strategy for Sustainable Development (2004-20), the Program for Continuing Education of Children And Young People (2016-20), and the programme "Small and Medium Entrepreneurship" (2016-20). The latter foresees entrepreneurial learning through student-created mini-companies, but does not specify budget allocations. The implementation is financed through a number of ministries and regional executive committees.

Good progress in the practical implementation of entrepreneurial learning continued at all levels of education during the assessment period. The Republican Institute for Vocational Education developed an optional course on the basics of entrepreneurship. At the level of higher education, the basics of entrepreneurship comprise a compulsory part of the curriculum for many specialties. In non-economic higher-education faculties (e.g. philology or geography), entrepreneurial learning is an optional course.

In January 2019, the new educational standards for general secondary education[2] (primary and general secondary) came into force. However, although the new educational standard moves the competence-based approach forward, the approach is not geared towards the entrepreneurship key competence and is not expressed or assessed in learning outcomes.

Practical implementation of the entrepreneurial learning approach in curricula varies greatly between levels of education. Progress can be seen in primary and secondary education, where elements of the entrepreneurship key competence have been integrated into the curricula, as envisaged in the Programme of Continuous Education of Children and Young people for 2016-20, under economic education as a "behavioural model and a life strategy". Development of entrepreneurial learning at the level of primary education is implemented through optional courses (e.g. logic, creative thinking, and innovative activity). In general secondary education, the new state program for SME support (2016-20) contains actions to develop student mini-companies (an initiative that started in 2011), which has made practical entrepreneurship experience accessible at school (about 250 student mini-companies were operating at the time of the assessment). Another model being tested at the level of general secondary education (in four regions) is the concept of "Entrepreneurial School", which aims to integrate both the "entrepreneurial learning" and "entrepreneurship key competence" elements into curricula.

Progress in vocational education and training (VET) and higher education has been slower. However, similar innovative approaches in offering entrepreneurial learning have also been identified in VET and higher education, including the provision of practical entrepreneurship experiences to students. The Ministry of Education has developed a model to promote the entrepreneurship key competence among VET students through mini-student companies at most VET schools. At the level of higher education, national and regional start-up forums called "Youth in Entrepreneurship" are conducted annually with the support of regional authorities, the Ministry of Education, and the Ministry of Economy. During the forums, teams of students develop business ideas and present them to potential employers.

Teacher training is of particular relevance at sub-national levels, where teachers lack practical work experience. Dedicated formal training courses are held for teachers on the concept of student mini-companies. Two important sources of teacher training are 1) the Resource Centre for Financial Literacy and Entrepreneurship (within the Minsk State

[2] Resolution of the Council of Ministers of the Republic of Belarus No. 125.

Palace of Children and Youth), which provides non-formal training in active learning methods for secondary and VET teachers; and 2) the Centre for Support and Development of Youth Entrepreneurship, which has a dedicated website on new educational technologies and active learning methods and provides guidance on preparing for entrepreneurship competitions (e.g. Ladder of Success or Winter Youth Business Doctrine).

Several policy documents contain provisions for supporting interaction between the education system and the business sector for the purpose of entrepreneurship training. These include the Concept for the Development of Business Education in the Republic of Belarus, the SME Strategy, and the Programme of Continuous Education of Children and Young People for 2016-2020. Moving forward, Belarus could bring entrepreneurial learning under one policy home for all levels of education and training – for example, by building on the existing Council for the Entrepreneurship Development. Defining the entrepreneurship key competence in teaching materials and learning outcomes would ensure teachers' ability to develop their students' entrepreneurship key competences. Finally, establishing formal career guidance would help to foster students with entrepreneurial aspirations in a more systematic manner.

Women's entrepreneurship

Women's educational achievement in Belarus generally exceeds that of men: 65.5% of women are in higher education, compared to 44.4% for men. In VET, by contrast, men dominate, with 49.4% against 33% for women (although women's dropout rates are only half that of men). Policy dialogue on women's entrepreneurship in Belarus continues to be ad hoc, and the SME Development Strategy 2030 makes no reference to women's entrepreneurship.

However, the Ministry of Economy is developing a new gender-sensitive policy approach that it envisions to include in the state SME support programme. The approach consists of developing criteria on women entrepreneurship and designing a number of policy-relevant measures to open up market opportunities for women entrepreneurs (e.g. in public procurement).

To develop the criteria for women's entrepreneurship, the Ministry of Economy has opened consultations with civil society organisations. This approach has paved the way for a new collaborative platform linking women-led SMEs to governmental actors. To date, in the absence of a national partnership on women's entrepreneurship, non-governmental organisations have been serving as a vehicle for policy messages from the bottom up. The new non-formal collaborative platform, initiated by the Ministry of Economy, is also informing ongoing plans for a new Agency for SME Support that will bring all support mechanisms for entrepreneurship under one roof.

Belinvestbank JSC, one of the largest banks in Belarus, in 2016 established the Centre for Support and Development of Women's Entrepreneurship. The Centre assists women in establishing and managing a business, including dedicated support for pre-start-ups (e.g. training and coaching) and businesses with growth potential. In this area, the bank assists with obtaining financial and technical resources and organizes networking, co-working and other training.

Non-governmental organisations are the main source of support for women entrepreneurs. Organisation such as the Belarusian Women's Network and ProWomen provide important information, training, networking and peer-learning opportunities to women entrepreneurs at the national and regional levels. ProWomen alone organises over 30 annual events, for

women and by women, for over a 1000 women. Another important step forward has been the completion of the study titled *Women in Belarus' Business: features, motivation and barriers*, which paves the way for assessing specific skills needs of women entrepreneurs and feeds policy dialogue on how to better promote women's entrepreneurship (Aginskaya and Akulava, 2018[14]).

In the context of Belarus, which has a sizeable public sector, measures to foster gender-responsive public procurement – e.g. through women's networks and online platforms, and training on how to access public procurement contracts – would expand opportunities for women-owned businesses. Having a designated single body (e.g. the new Agency for SME Support) responsible for co-ordinating and streamlining efforts related to women's entrepreneurship development would facilitate identifying and implementing such measures.

Enterprise skills

The majority of SMEs operate in low-value-added areas of the economy. Enterprise skills are essential to increasing SME contribution to GDP, employment and wealth generation.

There is no national framework for systematic and meaningful collection or analysis of enterprise skills. Limited studies are conducted by organisations active in research and advocacy, such as the Research Centre of the Institute for Privatization and Management (IPM) or the Belarusian Economic and Outreach Research Centre (BEROC); data specifically on women, whether employees or in SME management, is collected by the National Statistical Committee; and government-financed training programmes for SMEs are required to report to the Ministry of Economy on the number of courses and the number of people trained. However, this is not sufficient evidence to assess the impact and effectiveness of the training. Data from various studies and assessments is not pooled and analysed, nor is it used as evidence for policy learning to improve policy making in the area of SME training.

There is a need in Belarus to enable SMEs to identify training provision online. In the absence of a national data source on enterprise skills, some training providers (e.g. the Institute of Business or the Belarus Hi-Tech Park) conduct their own training needs assessments. Training providers also address gaps in skills intelligence by building on good practice through donor collaboration (e.g. the IPM Business School, Kozminski University, or the Bled School of Management collaboration with the Swedish Institute of Management).

The Ministry of Economy plans, under the SME Development Strategy 2030, to gather and present information on all SME training opportunities on one web platform. At present, the most comprehensive training portal is the one hosted by "Aspect" (http://ta-aspect.by), which provides links to training providers that are grouped by type and topic of training provision. Online training is available through certain training providers (e.g. ProBusiness Platform or the IPM Business School), and multiple webinars are available for SMEs on specific issues, such as the Ministry of Taxation and duties on SME taxation. Some training programmes also support digital skills (e.g. marketing) within SMEs.

The government provides financial support for SME training throughout the SMEs' lifecycle through different channels. Given Belarus's ageing society (less than 15% of youth in the total population), the young are an increasingly important source of economic dynamism and innovation. The Imaguru start-up hub (https://imaguru.co) develops fast-growing, young entrepreneurship and innovation from the idea stage through to the

establishment of the business, but also analyses the mistakes of start-ups and monitors their development throughout their lifecycles. Start-ups are also served by dedicated business associations, such as the centre for start-up technologies and the start-up school of Belarusian State University of Informatics and Radioelectronics. The Youth Business Incubator runs free-of-charge training courses that aim to develop entrepreneurial and managerial skills while increasing the financial and legal literacy of young, aspiring entrepreneurs and start-ups; the incubator factors into their training the good practices and lessons learnt of its tenants.

There is a specific focus on boosting entrepreneurship at the regional level. The state-owned Development Bank conducts training and provides educational services for women who receive concessional loans under the programme "Support for the Regions and Women's Entrepreneurship". Local authorities conduct periodic training; for example, the Grodno Regional Executive Committee held a training course for micro and small enterprises operating in small (up to 50 000 inhabitants) towns and rural areas in capitalising on the development potential of a business through increased sales, profits and expanding customer base.

Recently, the government has focused its attention on fostering SME internationalisation at the regional level through executive committees. In Mogilev a dedicated export support centre for SMEs has been established within the Regional Development Agency with the aim of supporting export-oriented SMEs and promoting local production. Industry associations and business unions (e.g. the Association of International Road Carriers) regularly conduct training events for their members, which are primarily SMEs. At the national level, the Center for Business Education of the Chamber of Commerce and Industry has launched the School of Export, but the training is not specifically tailored to the needs of SMEs.

The SME Development Strategy 2030 and the Presidential Decree No. 8 of December 21, 2017, "On the Development of the Digital Economy" both recognise the role of SMEs in an evolving digital economy. This is of particular relevance because a forecast by Ernst & Young reveals a shrinking supply of STEM and most–sought-after graduates, IT specialists, in the near future. If not addressed, this could result in labour shortages and missed opportunities for SME growth and competitiveness – even though engineering and technology, with 25.7% of students, represents the second-largest field of higher education in Belarus (Ernst & Young, 2017[15]).

In March 2018, the State Committee on Science and Technology asked the Director-General of the Joint Research Centre of the European Commission to assist Belarus in developing a Smart Specialisation Strategy. The request was accepted in November 2018, and preparations have begun for developing the strategy.

In moving forward with smart specialisation, the existing skills gaps in growth areas are likely to increase. Belarus needs to develop a systematic approach to optimising limited resources and connecting them to a broader innovation drive. The Ministry of Economy should take the lead in strengthening data collection on enterprise skills for evidence-based planning, monitoring and evaluation (e.g. under the new Agency for SME Support). This could also serve as a means of establishing a co-ordination mechanism for SME support organisations.

Pillar C – Access to finance

Belarus has made some progress in improving SMEs' access to finance. The legal and regulatory framework is taking steps towards strengthening protection for secured creditors, though there is still a long way to go. A new registration system for movable assets should facilitate the financial inclusion of SMEs previously considered higher risk by banks, while banking regulations have been strengthened and are now among the most stringent in the region. Financial intermediation remains low as banks do not offer many SME-specific products and public sector support relies heavily on less-sustainable interest-rate subsidies. Efforts to increase local currency lending, as well as the newly operationalised Credit Guarantee Scheme, should help alleviate common risk perceptions of SMEs financing as well.

Legal and regulatory framework

Belarus's progress on the legal framework for secured transactions has been limited and the key recommendation from the 2016 assessment – to improve the rights of secured creditors – has been addressed only minimally. Specifically, although there have been multiple attempts to move up secured creditors one place in the payout queue, none have passed the legislative process so far. If realised, this would be a welcome development, though it does not sufficiently address the weak protection of secured creditors, such as the ability to seize collateral and a legal obligation to observe creditor consent.

Collateral registration of assets improved following the launch of an online system for the registration of movable assets in late 2016. Businesses can now more easily register assets as collateral – although the inhibitive pricing model has not been addressed since the 2016 report and access remains expensive. A public credit information system adds to the system of borrowers' information, though data are provided only by financial institutions and therefore cover only 53% of the population (World Bank, 2019[7]).

Notable progress has been made in the field of banking regulations, with Basel II fully introduced and Basel III standards scheduled to be implemented by 2020. In light of the centralised and concentrated nature of the Belarusian banking sector – Belarusian and (subsidiaries of) Russian state-owned banks accounted for over 85% of sector assets as of the first quarter of 2019[6] – such stringent oversight is critical to mitigating system risk factors.

Finally, the local stock exchange is in place, though capitalisation is relatively low and it is dominated by one company. In combination with very low liquidity levels and the lack of a separate SME market, this means that there are few realistic financing opportunities for local SMEs for the time being.

Sources of external finance for SMEs (bank financing, non-bank financing and venture capital)

Financing in Belarus continues to be dominated by traditional banks, and the macroeconomic context – with a substantial fall in interest rates since 2016 – suggests an ease of access. However, the supply of finance is hindered by a lack of banks' physical presence outside of Minsk, with 0.78 commercial bank branches in the country per 100 000 adults, compared to an Eastern Partnership average of over 20 times as many, hindering the financial inclusion of regional SMEs (IMF, 2018[16]). Data on bank reach to SMEs is not available and products advertised for SMEs are rarely sufficiently tailored to their needs.

Public sector SME support schemes for SME lending are centred around the national Development Bank. Subsidised wholesale funding for financial institutions has recently been expanded with World Bank support, and the national Development Bank has made available local currency lending which helps decrease dollarization in line with the express priorities of the government's development strategy. This has led to a reduction in foreign currency loans from 11% in 2016 to 8% in the first quarter of 2019. Interest rate subsidies also continue to be a core tool for increasing SME access to finance, though the long-term impact and sustainability of this kind of instrument remain questionable due to the lack of multiplying effect and short-term, micro-level support.[7]

At the more systemic level, a Credit Guarantee Scheme was fully operationalised in early 2019. Initially targeting the smaller SME segment (with an eligibility criterion of <100 employees) and operating through three banks, it provides an encouraging sign to boost financial access for SMEs and indicates a move towards more commercially based financing mechanisms, as recommended in the 2016 report.

In the field of non-bank financing, the *de jure* environment continues to look strong, though the *de facto* reality for SMEs is less encouraging. Microfinance lending has long existed in the country, and the recent mandatory registration of providers (introduced in 2015) has helped formalise the sector, leading to a rapid increase in MFIs. The sector has also become more self-sufficient, with sector net profits doubling in 2018 (National Bank of Belarus, 2019[17]). However, 95% of institutions lend only to individuals (representing 97% of loans), which means that SMEs (other than individually registered entrepreneurs) do not widely rely on them as viable sources of financing.

The improvements to leasing regulations highlighted in the 2016 report remain in place, with improvements on residential leasing added in 2017, and the legal environment broadly follows international best practices. Nonetheless, the market is dominated by state-owned service providers and, despite a 50% surge of overall authorised capital within 2018, most of the end beneficiaries are individuals (representing over 90% of active leasing agreements) (National Bank of Belarus, 2019[17]).

Factoring regulation has been amended since the 2016 report, improving the framework by incorporating additional elements such as electronic factoring; however, newly introduced statistics show that the market penetration is still very low at around EUR 50 000 in factoring volume in 2018. Lastly, venture capital (VC) is nominally covered by the existing regulation in Belarus and there is a USAID-led review thereof, but no tangible signs of either dedicated regulation or VC activity exists. One promising development in this sphere, however, is the creation of the first Belarusian business angel network, also funded by USAID.

Financial literacy

Although financial literacy efforts have been expanded, without centralised planning and evaluation they have remained fragmented. Encouragingly, training and information materials are now widely and actively advertised on- and off-line, and an online SME credit portal[8] provides useful information to potential borrowers. The topic is also covered as an optional subject in both the general and vocational secondary-education tracks. In the absence of a transparent evaluation framework, the impact of these measures, however, is unclear.

Pillar D – Access to markets

Public Procurement

Public procurement is currently regulated by Public Procurement Law (PPL) No. 419-Z of 13 July 2012, "On the Public Procurement of Goods (Works, Services)" (Government of Belarus, 2012[18]). Significant amendments to the PPL were adopted on 17 July 2018 and has entered into force on 1 July 2019, as a means of harmonising regulations within the Eurasian Economic Union (EAEU). With the exception of certain local preference provisions, the main features of the PPL broadly reflect international practice. The SME Development Strategy 2030 calls for regulatory reform to raise the level of SME participation in public procurement.

The main institution regulating and monitoring public procurement is the public procurement directorate of the Ministry of Antimonopoly Regulation and Trade (MART). A special committee under MART reviews complaints by tenderers, which may create an impression of a conflict of roles in the Ministry. Procurement plans, procurement notices and related information are freely available on a single, official website (www.icetrade.by) run by the National Centre for Marketing and Price Study (NCMPS). Electronic auctions can be carried out using a platform (www.goszakupki.by) run by the NCMPS as well as one (http://zakupki.butb.by/auctions/index.html) of the Universal Goods Exchange of Belarus (BUTB); however, available data indicate that they are not much used at present. While some procurement data can be retrieved from the websites mentioned, information on SME participation is not readily accessible.

Measures for facilitating access by SMEs to the public procurement market currently include a possibility (but no obligation) for contracting authorities to divide a procurement into lots. In other respects, the PPL itself neither restricts nor favours participation by SMEs.

While there has been only limited progress since the 2016 SBA review, amendments to the PPL with effect from 1 July 2019 will bring about the following changes, among others:

- SMEs will be guaranteed the opportunity to participate in the procurement of items on a list of goods, works and services to be adopted by the Council of Ministers, with an obligation, whenever possible, for division into lots, each of no more than 10% of the total quantity. However, this may be cumbersome and ineffective, and SME participation in other procurement is not facilitated.
- Time limits for submission of tenders will generally be reduced to 5-15 days; this may reduce the possibility to prepare responsive tenders for those tenderers (typically SMEs) who have not received privileged access to advance information about upcoming contracts.

In light of the current situation and the room for improvement, with respect to SMEs, of the legal and institutional framework, as well as of public procurement practices, the following measures could be envisaged:

- Enhance the generation and accessibility of data on SME participation, then monitor it and analyse it in order to identify untapped potential and address corresponding impediments;
- Introduce and enforce policies on timely payment of invoices by contracting authorities;

- Introduce a general recommendation for division into lots, with obligation to publicly record reasons for not doing so, as a replacement for the new regulation mentioned above; and
- Make procurement procedures, time limits and qualification requirements more explicitly proportionate to the value and complexity of the procurement and to the potential for SME participation.

Standards and technical regulations

Belarus is a member of the Eurasian Economic Union and has therefore adopted its approach to standards and technical regulation. As Belarus has transferred the competence to develop technical regulations to the supranational level at the EAEU, its options for approximating technical regulations with the EU are limited.[9] However, the official position is that the 47 technical regulations that the EAEU has adopted are based on WTO principles and are drafted along the lines of the corresponding technical regulations of the EU.

In the eyes of the EAEU, standardisation, accreditation and conformity assessment remain under national sovereignty in Belarus, but regional and international approximation are fostered by the EAEU. The Belarusian State Committee on Standardisation (*Gosstandart*) is the agency responsible for overseeing and co-ordinating the governments' national quality infrastructure (NQI) policy. *Gosstandart* has also adopted an annual Plan on state standardisation, which foresees work on 333 state standards in 2019, of which 278 will be harmonised with international and EU standards (on average about 50% of adopted standards are harmonized with international equivalents, according to the authorities). *Gosstandart* is companion standardisation body member of the European Committee for Standardisation (CEN) and the European Committee for Electrotechnical Standardization (CENELEC). SME participation in and feedback with regard to standardisation activities are currently still limited and not actively promoted beyond the open access to technical committees. Yet, recent institutional changes may increase SME participation in standardisation, such as the establishment in 2016 of a new Consultative Expert Council under *Gosstandart* (including 11 representatives of business associations) and the recognition of the Belarusian Institute for Standardisation and Certification as the national institute for standardisation in 2017.

EAEU membership entails mutual recognition of conformity assessment certificates through the Eurasian conformity mark, which has reduced technical barriers to trade within the EAEU, including for SMEs. The EAEU defines a unified list of 66 products that are subject to mandatory technical regulations. While some SMEs have expressed ease of conformity assessment for the EAEU, others have demonstrated low awareness and expressed a need for assistance in entering EU markets.

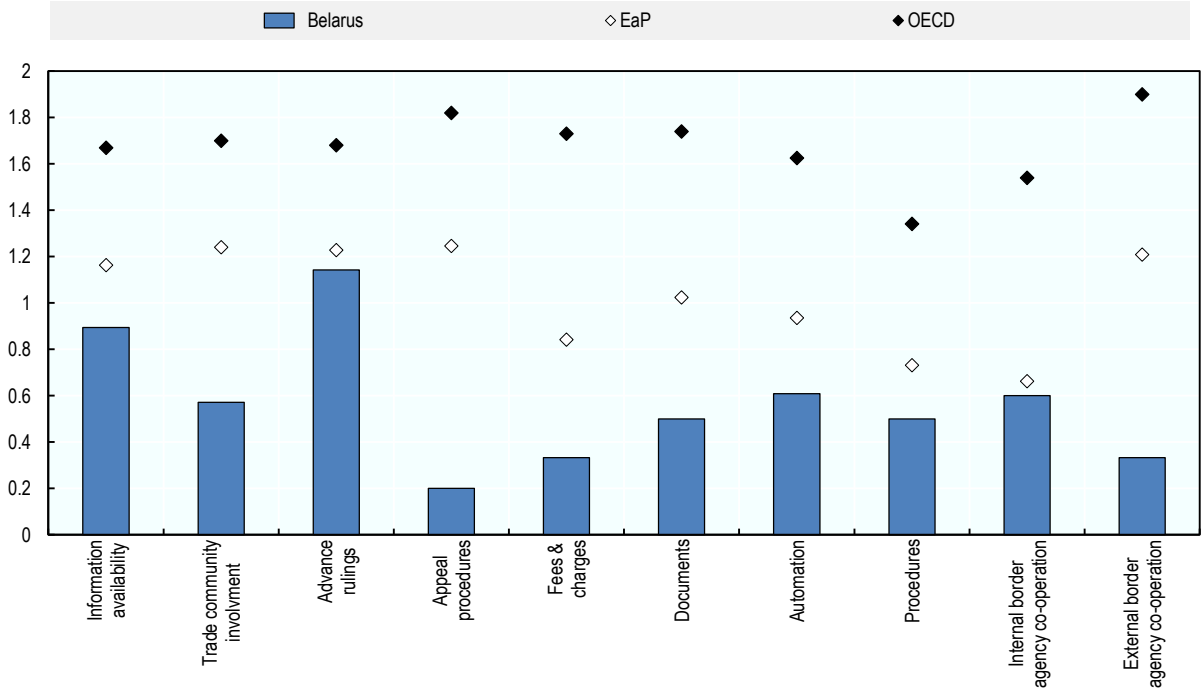
Belarus's active integration into the international and national accreditation systems is reducing technical barriers to trade. The Belarusian State Centre for Accreditation (BSCA) has been an associate member of the European co-operation for Accreditation (EA) since 2011 and confirmed this status in 2018. In addition, the BSCA signed a Mutual Recognition Agreement with the International Laboratory Accreditation Cooperation (ILAC) and a Multilateral Recognition Agreement with the International Accreditation Forum in 2018, which can be expected to boost trade through improved signalling of trustworthiness of certificates produced by Belarusian laboratories and certification companies. The signing of these agreements allowed the national accreditation system to become a member of the international accreditation and conformity assessment community and to apply for

recognition of conformity assessment documents issued in Belarus on equal terms in international trade. Finally, the national metrology institute, which is member of relevant respective international organisations, and market surveillance authorities that are co-ordinated by the State Committee for Standardisation, complement Belarus's national quality infrastructure.

SME internationalisation

Belarus is the most export-oriented country in the EaP region, with exports representing 67% of GDP in 2017 and mineral products accounting for 25% of the total. From 2014 to 2017, the share of SMEs in total exports increased by 6.6 percentage points to 47.2% in 2017, slightly below the EU average of 50%. According to the 2020 World Bank *Doing Business* report, Belarus ranks 24th on trading across borders, up from 145th in 2015 (World Bank, 2019[7]). However, the 2017 OECD Trade Facilitation Indicators suggest that Belarus continues to underperform the countries from the EaP region (Figure 9.7). Moving forward, the government could consider implementing a wide range of reforms to improve information availability, involvement of the trade community, and formal procedures related to international trade (OECD, 2017[19]).

Figure 9.7. OECD Trade Facilitation Indicators for Belarus, 2017



Note: TFIs take values from 0 to 2, where 2 designates the best performance that can be achieved.
Source: OECD, Trade Facilitation Indicators Database, https://oe.cd/tfi.

StatLink http://dx.doi.org/10.1787/888934087515

The National Export Support and Development Programme for 2016-2020 is the main strategic document guiding policy developments in the area of SME internationalisation. The programme calls for the implementation of policy measures in six areas, including promotion of an export-oriented IT sector and the development of export financing

instruments. However, implementation of the programme remains limited. In the absence of a dedicated SME and export promotion agency, there is an insufficient institutional framework and limited ownership for export support services to SMEs. A new Decree "On export support" has been approved late 2019, providing for the coverage of a part of the cost of exporters' participating in international exhibitions and assessing the conformity of products for export.

The Belarusian Chamber of Commerce and Industry and the National Centre for Marketing and Price Study provide some support for exporting companies, such as information on foreign markets, organisation of trade missions and certification. In addition, the EU Ready to Trade project implemented by ITC supports the internationalisation of SMEs operating in the textile and apparel sectors. In general, the services provided by the government are limited in scope and target mostly large, state-owned companies. Moving forward, strengthening institutional capacity for the provision of export support services for SMEs could be one of the government's priorities in the SME internationalisation area.

Concerning SME access to export finance, Belarus has begun to provide export credit and insurance for SMEs through the Belarusian Fund for the Financial Support of Entrepreneurs and through Eximgrant, a major Belarusian insurer. There are also considerations of reducing the minimum size of export loans provided by the Development Bank of Belarus. Next steps could include the expansion of these programmes for SME clients and their close monitoring.

Support for SME integration into global value chains (GVCs) is also limited to a few matchmaking events and business forums organised by the Belarusian Chamber of Commerce and Industry. In 2017, with support of international donors, Belarus started to work on cluster development to improve the integration of SMEs into domestic value chains. However, there is no targeted programme to support the creation of supply chain linkages between SMEs and large domestic or international investors. Although a basic regulatory and legislative framework has been put in place, Belarus does not provide any support services to increase the use of e-commerce among SMEs.

Pillar E – Innovation and Business Support

Business Development Services

A major breakthrough for the provision of business development services (BDS) in Belarus, the recently adopted SME Development Strategy 2030 includes a dedicated chapter on improving the forms of state support for SMEs, and specifically foresees measures to reduce cost and increase quality of BDS to enhance SME uptake. The planned creation of an SME agency in the near future, with regional branches, is expected to improve BDS provision, especially in remote areas.

The business support infrastructure (BSI), as of November 2019, co-ordinated by regional and city executive committees, consist of incubators (25 vs. 16 in 2015) and business support centres (109 vs. 95 in 2015[10]), of which 77% are privately owned, that have been accredited by the state and are eligible for government support. The latter provides subsidies and direct funding, including for the acquisition of fixed assets and expenditure on events. In 2017, 14 BSI entities received around EUR 330 000, corresponding to a spending of 79% of the resources foreseen for the BSI by the SME state support programme 2016-2020 from regional and Minsk city budgets. In 2018, this amount rose to EUR 500 000 for 17 BSI entities, corresponding to 143% of planned expenditures.

The BSI mainly provides SMEs and start-ups with basic consulting services, training courses and seminars, mostly free of charge. Incubators also provide office space at below market price to small businesses and start-ups. (More tailored services such as accounting, business plan development, or preparation of a marketing strategy are provided for a fee.) Moreover, city executive committees and regional administrations provide legal consultations to SMEs free of charge. In 2017, BSI entities provided 4290 training courses against a target of 3290. In 2018, 712 start-up events took place in Belarus, compared to 375 in 2016, with more than 30 thousand participants.

However, monitoring and evaluation (M&E) of the BSI could be improved. The publicly available report[11] on the implementation of the SME state support programme contains a small number of activity-oriented indicators (number of business support centres, number of incubators, number of training events conducted). These indicators are based on more-detailed information provided by the BSI – information that could be used to complement the state support programme's implementation report. The scarce monitoring of the BSI goes hand in hand with unclear benefits of, and criteria for, obtaining the status of "business support entity" and receiving financial support from the government. To improve the current M&E system, the government could adopt criteria including quality, impact, efficiency and client satisfaction components; gathering data on the impact of BDS on SMEs' revenue, productivity and other performance criteria could complement the effort. Furthermore, to improve the targeting of its BDS delivery, the government could conduct a systematic study of BDS demand and supply and carry out research on skills needs among SMEs.

More could also be done to develop a sustainable private BDS market in Belarus. Currently, public support is only available for the accredited BSI entities, and SMEs cannot receive financial support for BDS purchased from external providers (which might be of higher quality). A simple co-financing mechanism for first-time BDS users, which would be able to choose their own BDS providers, could help develop a sustainable market for consulting and other support services. At the same time, state-accredited, quality-certified BSI entities could concentrate on providing initial diagnostics and basic advice, and on redirecting SMEs to the best-suited private providers.

Innovation policy

Belarus maintains a relatively well-developed institutional framework for innovation. The "National Programme of Innovation Development 2016-2020"[12] is a well-drafted strategic document that builds on the previous five-year programme, showing continuity in government's action in this area. The Programme's objective is to ensure the growth and competitiveness of the national economy, concentrating its actions and resources (about EUR 190 million from the State budget) on building the high-tech sector and introducing advanced technologies into more-traditional sectors of the economy. The State Committee for Science and Technology co-ordinates the implementation of the Programme and is responsible for overall state policy in the field of science, technology, innovation, and protection of intellectual property.

The network of innovation support infrastructure has been expanding in Belarus since 2016. In addition to the widely available business incubators mostly offering support to start-ups, 16 technology parks and 9 technology transfer offices are present in nearly all regions of the country and provide favourable conditions in which to do business, invest in R&D, and transfer innovations from development phase to practical applications. Two initiatives stand out in this respect: the Hi-Tech Park (see Box 9.1) and the "Great Stone"

industrial park. The latter is a special economic zone hosting high-tech and export-oriented production and is building an R&D centre for innovative SMEs. As of 2018, there were 41 residents of the Park: 29 manufacturing enterprises, 10 research and development organizations, 1 logistics firm and 1 architectural firm.

Box 9.1. Hi-Tech Park in Belarus

The Hi-Tech Park (HTP) (http://www.park.by) plays a pivotal role in developing the Belarusian IT industry and in improving national economic competitiveness. The HTP was established as a special economic zone in which resident companies can benefit from a special tax and legal regime. It aimed at boosting the competitive power of high-technology-based sectors by developing modern technologies and expanding their exports, as well as attracting both Belarusian and foreign technologies. As it operates on the principle of extraterritoriality, it allows every registered company to enjoy all provided advantages, regardless of its location within the country. To apply, companies must have a legal entity in the Republic of Belarus and carry out one of the activities listed in the HTP legislation (analysis, development and software implementation of information systems, and data processing).

Resident companies are exempt from all corporate taxes, including value-added and income taxes. Beyond the fiscal advantages, residents of the HTP can enjoy substantial support services: its Educational Centre provides training to improve knowledge and skills in IT, while its Business Incubator offers office space and support staff to start-up companies at low prices. In exchange for these advantages, and to finance the HTP's administrative activities, the residents must pay a quarterly fee of 1% of their profits.

As of late 2018, 505 companies were registered and 45 700 people employed at the HTP. The park has experienced significant investment and growth: in 2017, exports of the HTP resident companies reached USD 1 billion, which made up more than 80% of the total production volume of the HTP. Software engineers at HTP also benefit from wages that are 5-6 times higher than the national average.

In 2017, the Decree No. 8 "On Digital Economy Development" expanded the duration of the Park's special legal regime until 2049 while also expanding the scope of activities available (e.g. development of biotechnologies, medical technologies, e-sport). The decree creates a legal basis for the circulation of digital currencies by allowing the usage of cryptocurrencies, initial coin offerings (ICOs) and smart contracts.

Sources: *Financial Times* (2017[20]), "Belarus tech dream is a walk in the park"; *BelarusFeed* (2018[21]), "For The 1st Time! Belarus' HTP Exports Hit Record $1bn In 2017"*; IntelliNews* (2019[22]), "Belarus Hi-Tech Park exports up by a third in 2018 to $1.414bn", Ernest&Young (2017[15]), "The IT Industry in Belarus: 2017 and beyond"; *iTechArt* (2018[23]), "How Hi-Tech Park Belarus is playing a major role in the economy", *http://www.park.by.*

Financial support for innovation is multi-faceted and available through dedicated funding schemes and fiscal incentives. The Belarusian Innovation Fund offers innovation vouchers (up to USD 25 000) and grants (up to USD 100 000) to accompany entrepreneurs at each phase of the innovation project, from research and design to production and commercialisation. Such instruments are awarded through a competitive process under the supervision of the State Committee for Science and Technology. The Development Bank, the BFFSE and the Belarusian Innovation Fund also offer subsidised loans for innovative projects.

Tax incentives for innovative enterprises in Belarus can take various forms. The main instruments include VAT and profit tax exemptions for revenues generated from the sale of innovative or high-tech products, as well as the possibility to deduct expenses in R&D from a company's profits with a multiplier of up to 1.5.

The policy framework for non-technological innovation in Belarus is at a very early stage of development. There is only one reference to organizational innovations in the National Programme and no dedicated measures for the diffusion of new technologies. Nevertheless, the State Committee on Science and Technology maintains a database that can help businesses find research partners and information about innovative projects, R&D initiatives, and high-tech products.

Overall, while Belarus continues to perform well in this dimension, with a wide palette of tools to support innovation and important success stories especially in the IT sector, only about 3% of SMEs introduce product or process innovation. The fact that financing for innovation is generally available for all legal entities leaves open questions about the extent to which SMEs can benefit from such tools as opposed to larger companies. A monitoring system that looks not only at progress on reporting inputs but also at the impact of specific policy tools could help shed light on their effectiveness, and provide a rationale to make SMEs a more prominent target in national strategies and policies for innovation.

SMEs in a green economy

In 2016, Belarus approved the National Action Plan of Green Economy Development (2016-2020), under the National Strategy of Sustainable Socio-Economic Development 2030. This includes measures targeting specific sectors of the economy, including the energy sector, construction, transportation, and agriculture. However, these policies do not specifically target SMEs. The introduction of detailed monitoring and evaluation around the National Action Plan would provide valuable information on its impact on SMEs.

From a regulatory standpoint, the adoption in 2017 of Decree No. 7 "On the Development of Entrepreneurship" simplified the environmental impact assessment (EIA) procedure for small enterprises. Moving to a more risk-based approach for the environmental regulation of SMEs will both help improve the use of regulatory resources as well as place less of an unnecessary burden on SMEs that do not pose an environmental risk.

Belarus has also introduced STB ISO 14001-2017, an environmental management system standard based on ISO 14001. While there has been strong uptake so far, with more than 270 enterprises gaining certification, the ISO 14001 standard it is based on can be complex for smaller enterprises to implement without support, and there is no information available on the number of SMEs that have implemented it. Additionally, an STB ISO 14004-2018 standard, including general implementation guidelines, entered into force in March 2019, which helps organizations to develop, implement, maintain and subsequently improve their environmental management systems.

It is clear from Belarus's overall policy approach that there is high-level commitment to greening the economy, but policies may be more effective at reaching SMEs if the government recognises the varying capacities and resources of smaller firms. The next step will be developing policies that specifically target SMEs, in order to ensure that SMEs are able to benefit from measures designed to support the development of the green economy. For green public procurement, that includes specific support for SMEs to help them meet the requirements and participate in procurement. EMS certification for SMEs could be integrated into public procurement requirements, thereby incentivising SMEs to achieve it.

Sectoral analysis: SME perspectives on the textile and garment sector in Belarus

Textile and clothing has traditionally been one of the most important sectors of the manufacturing industry in Belarus. In 2013-16, as a result of a contraction of local purchasing power and of the main export market (Russia), the sector suffered a sharp decline, but it has since picked up again. Implemented by the International Trade Centre, "Ready to Trade" – an EU4Business initiative project – supports the textile and clothing sector, assisting SMEs in producing value-added goods in accordance with international and EU market requirements and linking them with EU markets.[13]

Evidence collected through focus groups and interviews with selected manufacturers and clothing associations sheds light on the major constraints faced by SMEs operating in the textile and garment sector in Belarus:

- The industry is dominated by large state-owned enterprises (SOEs receive subsidised financing and are favoured when it comes to export promotion) and co-operation with the latter remains difficult. SMEs have little choice but to import basic textiles from foreign companies for a higher price, due to the absence of flexibility in terms of payment terms, volume of orders and assortment of SOEs.
- Limited access to markets beyond Russia is one of the main barriers for small and medium fashion businesses. Little awareness on EU requirements, including certification, and the lack of availability of state support for export promotion (limited resources to participate in trade fairs and exhibitions; no qualified consultancy support) represent major growth hurdles for the export-ready sector.
- One of the major constraints for SMEs is the general level of depreciation of production equipment. Lack of access to finance hinders the ability of SMEs to upgrade equipment and technology.
- Insufficient availability of relevant business support services in particular in the regions limits SMEs abilities to enhance competitiveness.

Given the aforementioned challenges, the government could consider the following next steps:

The textile and garment sector shows considerable export potential, and the government could enhance the provision of targeted support programmes to SMEs. For example, information and training on cross-border e-commerce for fashion companies, marketing content, e-logistics and returns management, a deepened understanding of the requirements for labelling and packaging of apparel products, and shared best practices on multi-channel customer support and digital marketing strategies could be of great importance to SMEs. The knowledge acquired would allow Belarusian apparel enterprises to better understand corporate, legal, fiscal and other requirements to access the EU market. It will help them link to key payment solutions and international platforms for cross-border e-commerce, and ultimately increase their export sales on the EU market.

The way forward

In recent years, the Government of Belarus has been increasing its efforts to strengthen the position of SMEs and sustain growth, employment and resilience. The following measures could be considered by the government to further strengthen the system:

- The government has been working towards ensuring level-playing-field conditions for SMEs. However, improvements in the area of competition, contract enforcement and business integrity are needed. Thus, Belarus could consider 1) setting up an independent enforcement body staffed with qualified and experienced workers receiving a competitive salary and 2) putting in place effective enforcement against hard-core cartels, equipping MART with established tools such as dawn raid powers. To provide for efficient contract enforcement, Belarus could step up its efforts to establish court automation and put in place automatic random case assignment to judges in line with good international practices for increased transparency and impartiality of court decisions. In addition, the government could promote ADR among SMEs as an efficient alternative to solving commercial disputes (i.e. organisation of awareness-raising campaigns, training for SMEs, etc.). Moreover, Belarus could consider providing continuous training programmes and enable exchanges with peers abroad for judges treating IP disputes, which would eventually improve the quality of IPR dispute settlement. In terms of enhancing corruption prevention in the private sector, Belarus could consider conducting a dedicated study of business integrity risks with a focus on SMEs, and with the active engagement of business associations and civil society. Introducing criminal liability of legal persons for corruption and its enforcement by independent and well-trained judiciary, would be another important step towards preventing corruption in the business sector.
- The new resolution concerning the forecasting of the consequences of regulatory legal acts is a first step towards the introduction of a full regulatory impact analysis (RIA) process. As a next step, it would be important to include an SME test in the RIA mechanism in order to assess the specific impact on smaller firms. The insolvency framework would benefit from the introduction of a clear definition of discharge from bankruptcy and of a maximum time for discharge, and it should cover secured transactions for companies filing for bankruptcy. Furthermore, the Ministry of Economy could expand its regular solvency analysis to SMEs and collect data on the application of preventive measures for private companies. The tools available to private companies and individual entrepreneurs in financial distress could be better promoted in order to grant them more visibility and accessibility. In addition, the early-warning measures should take the form of consultations and provide further support and services to restructuring. Finally, Belarus could also consider implementing a dedicated policy or information campaign to promote second chance for entrepreneurs seeking a fresh start.
- Belarus is encouraged to bring *entrepreneurial learning* under one policy home for all levels of education and training, for example, by building on the existing Council for Entrepreneurship Development. The authorities should define entrepreneurship key competences in teaching materials and learning outcomes to ensure teachers ability to develop their students' entrepreneurship key competences, and establish formal career guidance to provide more targeted and systematic support to students with entrepreneurial aspirations.

  To support *women's entrepreneurship* in the context of Belarus, with a sizeable public sector, measures are needed to foster gender-responsive public procurement e.g. through strengthening capacity of women's networks and online platforms, and provision of training on how to access public procurement contracts to expand opportunities for women-owned businesses. Having a designated single body (e.g. the new Agency for SME Support) responsible for co-ordinating and streamlining

efforts related to women's entrepreneurship development would facilitate identifying and implementing such measures.

In the area of *SME skills,* Belarus should develop a systematic approach to optimising limited resources and connecting them to a broader innovation drive. In moving forward with smart specialisation, the existing skills gaps in growth areas are likely to increase. The Ministry of Economy should take the lead in strengthening data collection on enterprise skills for evidence-based planning, monitoring and evaluation (e.g. under the new Agency for SME Support). This could also serve as a means to establish a co-ordination mechanism for SME support organisations.

- Additional steps should be taken to ease SME access to finance, for instance by further protecting secured creditors, including: allowing seizure of collateral, paying out secured creditors first and making creditor consent observation mandatory. This would bring the current regulation more into line with internationally recognised best practice and would help stimulate SME investment. Easing access to the cadastre and register for movable assets, including a review of the pricing model to make it more attractive for smaller enterprises, would improve the information available to banks and, in turn, mitigate the risk commonly associated with lending to SMEs. Further expansion of the credit register would further enhance the financial inclusion of potential borrowers with limited credit histories. The newly operationalised Credit Guarantee Scheme provides an excellent opportunity to implement lessons learned from similar schemes around the world and its progress should be closely monitored, making adjustments as needed; an easy first amendment to its set-up would be to expand the eligibility criteria, aligning it with the EU SME definition in order to broaden its reach. Implementing policy to provide dedicated regulation for venture capital activity – building on the ongoing review of the existing framework – would further broaden the non-bank financing options for SMEs.
- Although many steps have been taken to facilitate SMEs' access to markets, there is still room for improvement. To facilitate SME access to public procurement, the government could introduce a general practice of division into lots, with obligation to publicly record reasons for not doing so. A second important step would be the introduction and enforcement of policies on the timely payment of invoices by contracting authorities. SMEs would also benefit from procurement procedures, time limits and qualification requirements more explicitly proportionate to the value and complexity of the procurement and to the potential for SME participation. Finally, the generation and accessibility of data on SME participation should be enhanced, and the data should be monitored and analysed in order to identify untapped potential and address corresponding impediments. SME participation and feedback in standardisation activities are currently still limited and should be further promoted beyond the open access to technical committees. To promote SME internationalisation, the government should focus on strengthening institutional capacity for the provision of export support services for SMEs, starting with the establishment of a dedicated SME and export promotion agency. Moreover, export finance tools should be expanded and monitored. Finally, a targeted programme to support the creation of supply chain linkages between SMEs and large domestic or international investors could be considered, and more support services provided to SMEs to increase their use of e-commerce.

- The current monitoring and evaluation system for BDS needs to be improved and, in this regard, the government could adopt criteria including quality, impact, efficiency and client satisfaction components. The impact of BDS on SMEs' revenue, productivity and other performance criteria could complement the effort. Furthermore, a systematic study of BDS demand and supply should be undertaken, together with research on skills needs among SMEs to deliver more targeted BDS. More could also be done to develop a sustainable private BDS market in Belarus: a simple co-financing mechanism for first-time users of BDS, which would be able to choose their own BDS provider, could help develop a sustainable market for consulting and other support services. At the same time, state-accredited, quality-certified entities could concentrate on providing initial diagnostics and basic advice, and redirecting SMEs to the best-suited private providers. The best way to further promote innovation among SMEs is to adopt a monitoring system that looks not only at progress on reporting inputs but also at the impact of specific policy tools to shed light on their effectiveness. The Belarusian government is highly committed to greening the economy, but a specific target for SMEs is lacking. For instance, EMS certification for SMEs could be integrated into public procurement requirements to further incentivise SME greening.

Conclusion

Table 9.5. Belarus: Roadmap for reforms

Promoting a level playing field for all enterprises
• Grant institutional and budgetary independence to MART, to ensure it is a neutral and trusted regulator
• Enable and prioritise enforcement against hard-core cartels by giving MART effective investigation tools
• Conduct a study of integrity risks for businesses with a focus on SMEs, with the active engagement of business associations and civil society
• Consider introduction of automatic random case assignment to judges in line with best international practices for increased transparency and impartiality of court decisions
• Develop and conduct awareness-raising activities with a focus on SMEs for promotion of ADR in resolving commercial disputes
Strengthening the institutional and regulatory framework and operational environment
• Complete the decision process on the establishment of a dedicated government agency for SME development. Clarify the relationships between the potential new agency, the Ministry of Economy, and other government bodies providing support to private enterprises and the local administrations
• Upgrade the methodology currently used to perform the impact assessment of new laws and regulations and align it with the standard RIA methodology
• Improve the company registration process by consistently eliminating the need to make a company seal and by shortening the time required to complete the registration and notification procedures
• Improve tax administration procedures, especially VAT reimbursement procedures and post-filing tax auditing procedures
• Enhance the visibility and evaluation of insolvency prevention measures for private companies
• Adopt a comprehensive and proactive second-chance strategy for bankrupt entrepreneurs
Promoting skills and entrepreneurship development
• Define *entrepreneurship key competence* learning outcomes in curricula, and provide support materials and training courses for teachers to ensure their capacity to develop their students' entrepreneurship key competence. Establish career guidance that promotes entrepreneurship and self-employment as viable career choice along with wage employment.
• Ensure that coordination and oversight role is clearly assigned to a designated body in the policy areas of women's entrepreneurship development and SME skills' support.
• Strengthen data collection on enterprise skills for evidence-based policy design, monitoring and evaluation (e.g. under the new Agency for SME Support).
Facilitating SME access to finance
• Strengthening the legal protection for secured creditors, including allowing the seizing of collateral, paying out secured creditors earlier and making creditor consent observation mandatory
• Continue improvements to ease SMEs' access to finance through a review of the pricing models of both the cadastre and registration systems for movable assets, as well as expanding credit register information to incorporate sources beyond financial institutions

Supporting SME access to markets
• Improve the institutional framework for export support and promotion by establishing an export promotion agency
• Strengthen the provision of support programmes targeting export readiness of SMEs and support better integration of SMEs into global value chains (e.g. a programme supporting the creation of supply chain linkages between SMEs and large investors)
• Raise awareness on international and EU quality infrastructure by e.g. designing an SME web portal or single contact point for exporters to the EU
• Add regulatory provisions that would facilitate SME participation, such as proportionality of requirements, division into lots, and timely payments
• Ensure that e-auctions become a complement to the award procedures, and widen the use of award criteria other than price
Enhancing SME competitiveness
• Improve the monitoring and evaluation of current BSI – including measuring the impact of BDS on SME performance, and subsequently the criteria for attribution of government-accredited BSI status
• Develop a pilot programme to support a targeted group of SMEs (e.g. high-growth enterprises), including financial and non-financial support, relying on a simple co-financing mechanism that would allow first-time users of BDS to choose their preferred BDS provider
• Adopt a monitoring system that looks at the economic impact of specific policy tools beyond progress on reporting input
• Increase the role of SMEs as more prominent targets in national strategies and policies for innovation, with dedicated financing tools
• Incorporate provisions for SMEs into green public procurement standards, with targeted support to ensure SME participation

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Notes

[1] Belarus is a substantial net oil importer. However, because of its heavy reliance on exports of refined products and privileged access to Russian oil, it sometimes experiences net *improvement* in the terms of trade when oil prices rise.

[2] During these writ proceedings, a simplified consideration of disputes on economic matters takes place within 20 days, without the summon of the parties to the court. The judge examines supporting evidence and issues an executive order following the appeal.

[3] The Board of Appeals of the National Center of Intellectual Property conducts pre-trial settlements of IP disputes, which, if not resolved, are reviewed directly by the Specialised Tribunal for Intellectual Property under the Supreme Court of the Republic of Belarus.

[4] *Source*: SBA assessment questionnaire.

[5] An m-signature, or mobile signature, is using a mobile device to sign an electronic form or document.

[6] FitchRatings, *Belarus Banking Sector: Growth Moderates, Asset Quality Still Vulnerable,* July 2019 https://www.fitchratings.com/site/re/10080828

[7] Please see the *Access to finance* thematic pillar for more information on these support mechanisms.

[8] https://www.nbrb.by/today/creditregistry

[9] Apart from areas where no EAEU technical regulations exist yet and where national technical regulation still prevails.

[10] https://www.economy.gov.by/ru/perechen-incubatorov-ru/

[11] https://www.economy.gov.by/uploads/files/gos-programmy/otchet-2018.pdf

[12] http://www.gknt.gov.by/deyatelnost/innovatsionnaya-politika/gpir/

[13] See http://www.eu4business.eu/project/eastern-partnership-ready-trade-eu4business-initiative-3

Chapter 10. Georgia: Small Business Act country profile

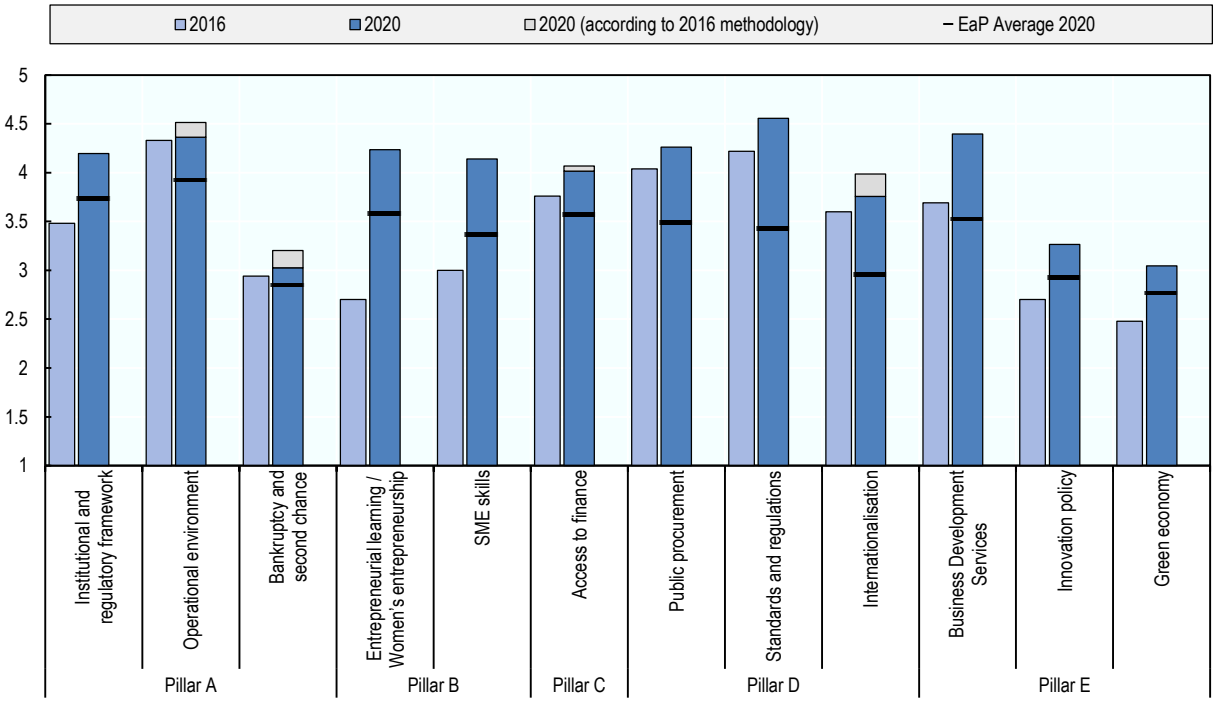
From an already strong position, Georgia has made further progress since 2016 by adopting a more strategic approach to small and medium-sized entrepreneurship development through targeted initiatives. The adoption of the SME Development Strategy 2016-2020 and respective action plans, the improvements made to entrepreneurial learning and women's entrepreneurship, the continued simplification of business registration, and the increase in e-government services have drastically improved the operational environment for SMEs.

Going forward – and with a view to seizing all the opportunities offered by the Deep and Comprehensive Free Trade Area with the European Union – the Government of Georgia should prioritise the creation of level-playing-field conditions for enterprises of all sizes and provide for more-efficient enforcement of contracts and competition law. Moreover, strengthening the support provided to exporting SMEs (including targeted financing tools) would be of crucial importance – as would expanding the links between foreign direct investment and domestic businesses beyond pilot projects, to further attract quality FDI and increase the competitiveness of Georgian SMEs.

Key findings

Figure 10.1. SME Policy Index scores for Georgia

Country scores by dimension, 2020 vs. 2016



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Table 10.1. SME Policy Index scores for Georgia, 2020 vs. 2016

Pillar	Dimension	GEO 2020	GEO 2016	EaP average 2020	*GEO 2020 (2016 methodology)*
A	Institutional and regulatory framework	**4.20**	3.48	3.74	4.20
	Operational environment	**4.36**	4.33	3.92	4.52
	Bankruptcy and second chance	**3.03**	2.94	2.85	3.20
B	Entrepreneurial learning / Women's entrepreneurship	**4.24**	2.70	3.58	n.a.
	SME skills	**4.14**	3.00	3.36	n.a.
C	Access to finance	**4.02**	3.76	3.57	4.07
D	Public procurement	**4.26**	4.04	3.49	4.26
	Standards and regulations	**4.56**	4.22	3.43	4.09
	Internationalisation	**3.76**	3.60	2.96	3.99
E	Business development services	**4.39**	3.69	3.53	4.39
	Innovation policy	**3.27**	2.70	2.92	3.25
	Green economy	**3.05**	2.48	2.77	3.05

Table 10.2. Implementation progress on SME Policy Index 2016 priority reforms – Georgia

Priority reforms outlined in SME Policy Index 2016	Key reforms implemented so far
Pillar A – Responsive government	
Create a structured framework for inter-agency co-ordination and public-private consultation (PPC) on SME policy via the SME Development Strategy for 2016-2020	SME Development Strategy 2020 and respective action plans adopted Private Sector Development Advisory Council created
Introduce a single SME definition aligned with EU standards	Introduced an SME definition for statistical purposes aligned with EU standards
Address existing constraints in legislation on grants for targeted SME support	Legislation amended to allow grants to be issued to SMEs
Pillar B – Entrepreneurial human capital	
Develop a national entrepreneurship competence framework set against wider qualifications development	Entrepreneurial learning action plan agreed and entrepreneurship key competence developed in VET
Establish a Women's Entrepreneurship Commission	A Sub-Council for Women's Entrepreneurship Promotion established
Reinforce Enterprise Georgia's capacity for intelligence and analysis of SME skills	Sector-specific skills intelligence framework in place
Pillar C – Access to finance	
Introduce legislation to allow secured creditors to seize collateral after re-organisation	Depth of credit information has been strengthened, including strengthened creditors rights, increased access to the cadastre and registry for movable assets, and expanded coverage of the credit information bureau
Improve online access for the registry of movable assets, particularly for smaller users	Adoption of Basel III requirements, helping to strengthen banking sector supervision Adoption of a National Strategy for Financial Literacy Introduction of mandatory compliance with IFRS for SMEs
Pillar D – Access to markets	
Strengthen targeted support for exporting SMEs through Enterprise Georgia and establish an export credit facility to develop trade finance	Established four clusters in co-operation with GIZ funded by EU Pilot project on linking domestic SMEs with MNEs in the hospitality sector by Enterprise Georgia
Upgrade Georgia's quality of infrastructure in line with the DCFTA Action Plan	Established various DCFTA information centres throughout the country, offering training courses for EU standards adoption
Promote greater SME participation in public procurement	Dedicated guidelines and training sessions for SMEs on public-procurement-related legal framework, as well as on new services of eProcurement system
Pillar E – Innovation and Business Support	
Implement the National Innovation Strategy 2020	Innovation strategy 2025 awaiting government approval
Build on existing schemes to promote the use of private business development services (BDS)	BDS provision based on good practice – services outsourced to private providers/ or co-financing scheme

Context

Economic snapshot and reform priorities

Economic growth in Georgia has been steady if unspectacular in recent years. After two years of slow growth against the backdrop of the wider regional slowdown, real GDP growth picked up in 2017-18, reaching 4.8-4.7%, led by the trade, construction and transport sectors in an improved external environment. Goods exports increased strongly (29.5% in 2017 and a further 22.7% in 2018) on the back of stronger demand from Russia, the European Union, China and the United States, while exports of services rose 20%, mostly due to the tourism sector (World Bank, 2019[1]). In 2018, international tourist visits rose by 9.8% year-on-year, to 8.7 million, and tourism revenue by 21.5%, to USD 1 billion – due mostly to government support for the sector, growth in accommodation capacity and passenger traffic, and improved access to many regions (The Economist Intelligence Unit, 2019[2]; GNTA, 2018[3]).

Moreover, since the provisional application of the DCFTA in 2014, a constant increase of Georgia's exports to the EU can be observed. Throughout 2014-18, the total volume of export to EU markets has increased by 17%, accounting for 21.7% of exports in 2018. Imports from EU countries have increased by 10%, accounting for 29% of total imports in 2018 (ITC, 2019[4]). Overall, since 2009, Georgia has experienced the strongest GDP growth among the six EaP countries and can be considered the most resilient economy in the region.

Georgia now has free-trade regimes with one-third of the world's population – in the Commonwealth of Independent States, Turkey, the European Union, the European Free Trade Association, China and Hong Kong. However, Georgia's goods export potential is limited by its low-value and undiversified export base. Outside the agriculture sector, used cars, re-exports and base metals account for a large share of foreign sales. The small size of the manufacturing sector limits opportunities to broaden its range of exports.

Relative to GDP, Georgia attracted larger net FDI inflows than any other EaP country over 2009-18, despite very low inflows in 2018.[1] However, integration into global value chains continues to be constrained by skills gaps and by limited – albeit improving – regional interconnectivity. High levels of poverty and unemployment, a large rural population share (41.8% in 2017) (The Economist Intelligence Unit, 2019[2]) and a large grey economy (estimated by the IMF at 64.9% of GDP in 2015)[2] present considerable barriers to growth (Medina and Schneider, 2018[5]).

In early 2017, the government signed a three-year USD 285 million extended fund facility with the IMF, the programme aiming to improve the structure and sustainability of the country's public finances. The reform programme is currently on track, including a new insolvency law and a comprehensive education reform (The Economist Intelligence Unit, 2019[2]). Georgia also launched a large-scale de-dollarisation policy in 2016 aiming to mitigate the risks caused by the high dollarisation of the economy; small loans are now to be issued solely in local currency.

Table 10.3.Georgia: Main macroeconomic indicators, 2013-18

Indicator	Unit of measurement	2013	2014	2015	2016	2017	2018
GDP growth*	Percentage, y-o-y	3.4	4.6	2.9	2.8	4.8	4.7
Inflation**	Percentage, average	-0.5	3.1	4.0	2.1	6.0	2.6
Government balance[1]**	Percentage of GDP	-1.4	-1.9	-1.3	-1.6	-0.5	-0.9
Current account balance*	Percentage of GDP	-5.9	-10.8	-12.6	-13.1	-8.8	-7.7
Exports of goods and services*	Percentage of GDP	44.7	42.9	44.7	43.6	50.3	55.1
Imports of goods and services*	Percentage of GDP	57.6	60.5	62.3	59.3	62.2	66.7
FDI net inflows*	Percentage of GDP	6.4	11.0	11.9	10.9	12.1	7.3
General government gross debt**	Percentage of GDP	34.7	35.6	41.4	44.4	45.1	44.9
Domestic credit to private sector*	Percentage of GDP	43.3	48.9	54.6	61.9	62.5	68.0
Unemployment[2]*	Percentage of total active population	16.9	14.6	14.1	14.0	13.9	14.1
Nominal GDP*	USD billion	16.1	16.5	14.0	14.4	15.1	16.2

[1] General government net lending/borrowing.
[2] Modelled ILO estimates.
Source: *World Bank (2019[1]), *World Development indicators;* **IMF (2019[6]), *World Economic Outlook*, both accessed on December 2019

Business environment trends

Georgia is doing well in international rankings, having now entered the top ten in the World Bank's *Doing Business* report. Georgia has risen 17 positions since 2016, ranking 7th out of 190 countries in 2020. It is in the world's top ten countries in terms of starting a business (2nd), registering property (5th) and protecting minority investors (7th). Georgia has considerably improved its position, with a total number of 42 institutional and regulatory reforms carried out since 2008 (World Bank, 2019[7]).

According to the Heritage Foundation's Index of Economic Freedom 2019, Georgia ranks 16th out of 180 countries worldwide and 8th out of 44 in Europe, with a drop in judicial effectiveness and lower scores on government integrity and monetary freedom exceeding a big gain in financial freedom (Heritage Foundation, 2019[8]). The Fraser Institute's *Economic Freedom of the World 2018* report (Gwartney et al., 2018[9]) puts Georgia in the list of top ten countries, ranking 7th out of 162.

Georgia's growth and resilience through the turbulence of the last decade suggest that these reforms have been bearing fruit in the form of better economic outcomes. However, while the solid, growth has been unspectacular, the evident constraints on growth Georgia encounters are a reminder that these indexes are not comprehensive. The latest World Economic Forum (WEF) Global Competitiveness Index (World Economic Forum, 2019[10]) thus ranks Georgia 74th among 141 countries. While the WEF ratings confirm Georgia's strong performance on a number of dimensions (such as institutions, ICT adoption, business dynamism and product market regulation), it also points to potentially serious constraints with respect to skills of current workforce, internal labour mobility, infrastructure, market competition, and the financial system – including the financing of SMEs, on which it is ranked 83rd.

Given evidence of synergies among successful reforms, addressing these and other challenges that remain will not only reduce barriers to growth in their own right: it will also increase the pay-off from the many reforms that Georgia has already adopted.

SME sector

The institutional and regulatory framework for SME policy in Georgia has seen several changes since 2016. In particular, the SME Development Strategy 2016-2020 has been adopted, setting 33 priority actions to be taken in important areas for SME development such as improving legislation, institutional and regulatory frameworks and the operational environment, as well as widening access to finance, developing entrepreneurial skills, broadening internationalisation and supporting innovation activities.

Numerous stakeholders are involved in the implementation of SME policy reforms, with the most prominent roles being played by the entrepreneurship development agency Enterprise Georgia and Georgia's Innovation and Technology Agency (GITA), both of which fall under the authority of the Ministry of Economy and Sustainable Development.

The National Statistics Office of Georgia (Geostat) revised its SME definition in 2017 to comply with EU standards and increase international comparability. The new Georgian definition provides for lower thresholds for both the number of employees and the total turnover of the company.[3]

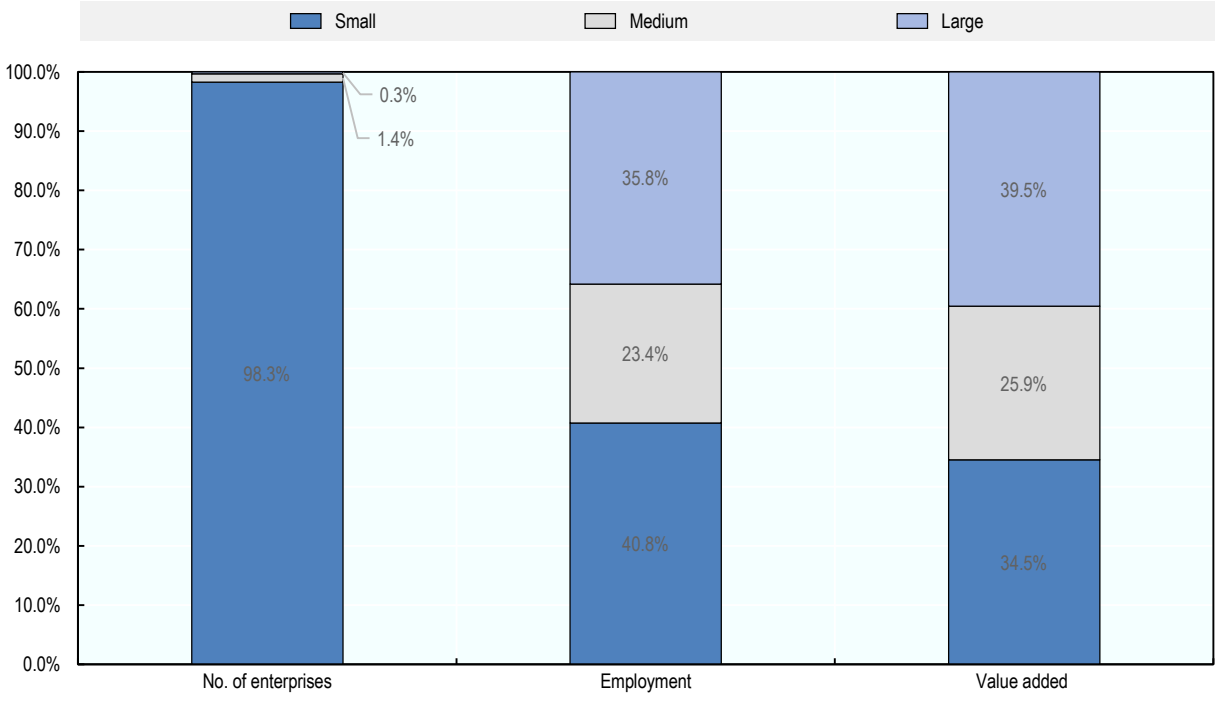
Table 10.4. The SME definition in Georgia

	Small	Medium
Employment	≤ 50 employees	≤ 250 employees
Turnover	≤ GEL 12 million (EUR 3.6 million)	≤ GEL 60 million (EUR 19.5 million)

Note: Exchange rates as of October 2019 (https://www1.oanda.com/lang/it/currency/converter/).
Source: National Statistics Office of Georgia (Geostat).

Under the recently adopted new definitions and methodology, 99.7% of all firms in Georgia in 2017 were SMEs. In 2018, SMEs, accounted for 64% of business sector employment and 61% of value added (Figure 10.2). The new definition has enabled the government to obtain a more realistic idea of the weight of companies in the Georgian economy.

Figure 10.2. Business demography indicators in Georgia, by company size, 2018 or latest available

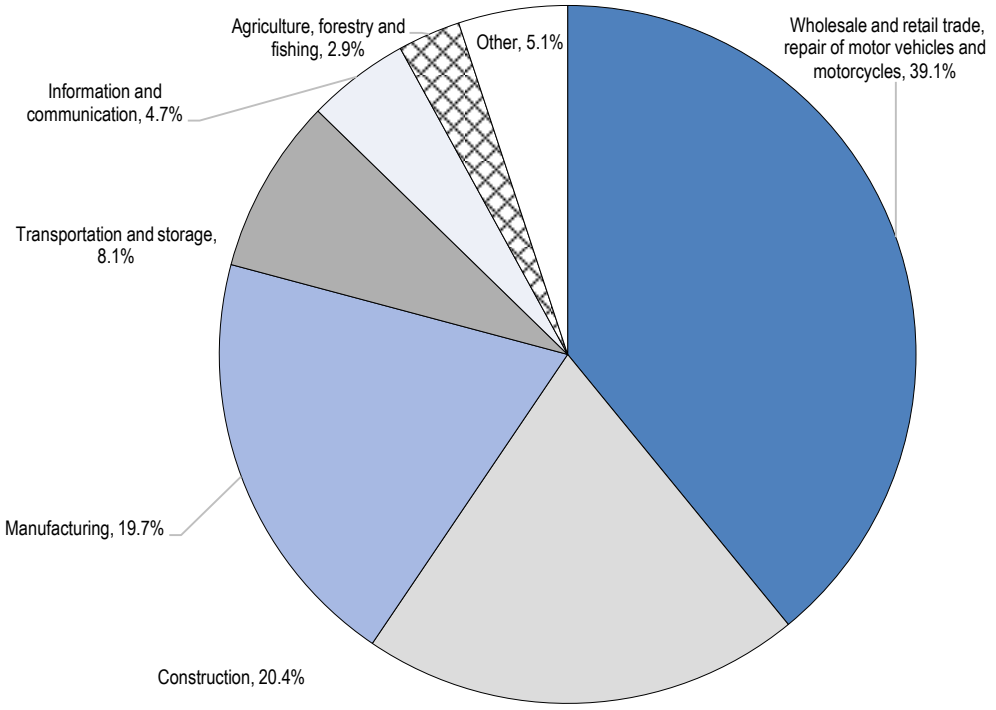


Note: data on the number of enterprises refer to 2017, data on contribution to employment and value added refer to 2018.
Source: Georgia State Statistical Committee (Geostat).

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SMEs tend to be concentrated in low-value-added sectors (Figure 10.3), such as trade (including repair of vehicles), manufacturing and construction, which contributed respectively 39%, 20% and 20% of business sector employment in 2017.

Figure 10.3. Sectoral distribution of SMEs in Georgia, 2017



Note: Sectors include section B to N, the sector S95, excluding the sector K (financial intermediation services) of ISIC rev. 4.
"Other" includes Arts and recreation; Education; Health; Electricity and water supply; Mining and quarrying; Financial services.
Source: OECD calculation based on data from National Statistics Office of Georgia (Geostat).

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SBA assessment by pillar

Level playing field pillar

Competition

Georgia's legal framework for competition law is seriously underdeveloped and lacks, in particular, the necessary investigation, sanctioning and remedial tools that are international best practice. While the basic legal provisions on prohibited agreements, abusive conduct, and merger control are in place, the Competition Agency of Georgia (GCA) cannot exercise its mandate effectively. The GCA has no power to conduct surprise on-site inspections (so-called "dawn raids"), compel undertakings to provide information for merger assessment, or apply financial penalties in merger cases. It lacks the power to impose remedies or accept commitments in merger and non-merger cases. This results in very limited enforcement. The GCA reviewed only seven mergers and conducted 15 investigations of antitrust infringements in 2016-18, compared to 65 investigated mergers in Armenia in the same time period.

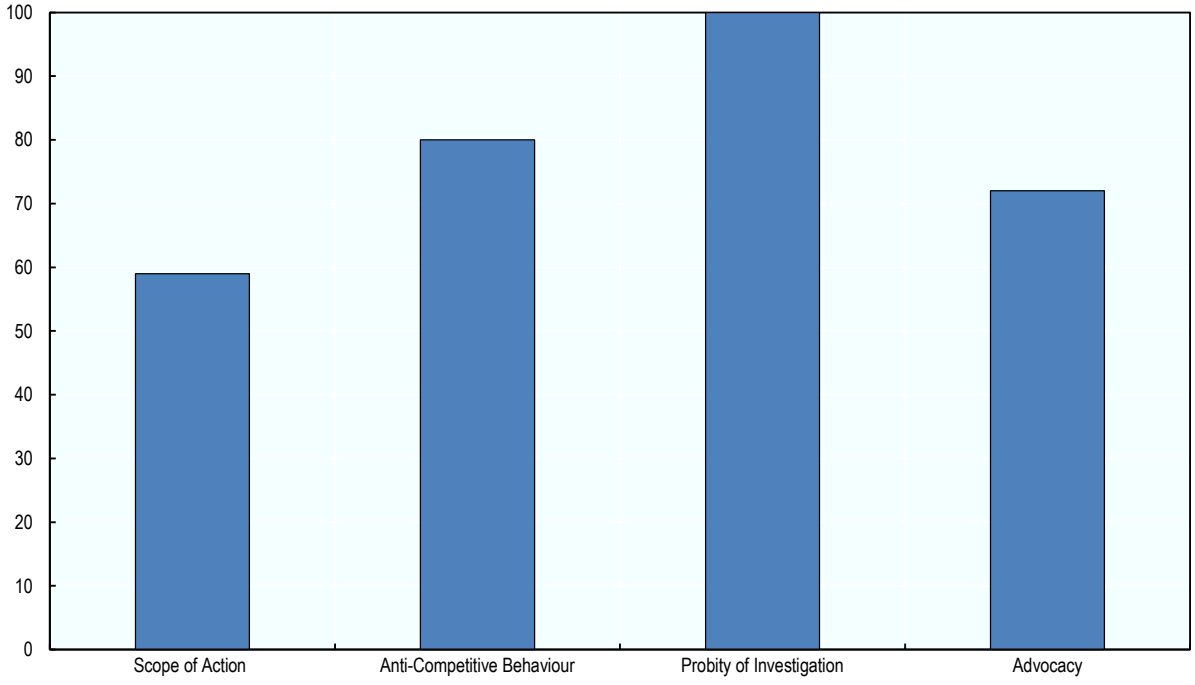
Other factors that impede competition on the Georgian markets include economic sectors that are directly excluded from the scope of competition law (e.g. the securities market,

labour and intellectual property relations, subject to certain exemptions) and sectors that are subject to competition law but outside the authority of the GCA (e.g. energy, banking, telecommunication). Furthermore, long-term concession projects are frequently granted without any competitive process. The size and structure of the economy also play a role, since it is often harder to prevent dominance in a small market, with fewer players: the WEF's *Global Competitiveness Index 2019* notes that, while Georgia is very *externally* open, it scores poorly on the extent of market dominance *internally* and, in particular, on competition in services (World Economic Forum, 2019[10]).

The GCA, however, has a track record that suggests it would make good and responsible use of the proper tools if it had them. Notwithstanding the limitations on its authority, the GCA is very active in competition advocacy. The agency regularly conducts training, seminars and conferences for all target groups (including the private sector, public officials, media, lawyers and judges) and carries out market studies. It also actively comments on draft laws and regulations, with the aim of reducing or abolishing unnecessary restrictions on competition, and its enforcement action addresses state actors when they commit competition law violations. All this benefits in particular SMEs, which depend on a level playing field and open markets. In all these investigations, the GCA is acknowledged by the legal community as a fair, transparent and predictable actor that strictly adheres to the rule of law.

Figure 10.4. Competition policy in Georgia

Percentage of formally adopted competition policy criteria, as of June 2019



Note: The chart above refers to the percentage of competition policy criteria formally adopted in the legal framework. It gives equal weight to all criteria. This does not illustrate actual enforcement activity in terms of relevance or quantity, and about the relevance of the criteria lacking or met.
Source: SBA questionnaire, interviews with the GCA and business associations.

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Pending amendments to the competition law address some of the problems described above. Expected changes include the formation of an independent elected board for the agency, improved merger control rules and procedures, and the application of competition law to regulated sectors. In addition, the reform will possibly include the extension of the agency's investigative powers. The GCA is also expected to become the designated enforcement body for new laws on anti-dumping and consumer protection. Amendments of the public procurement act foresee that the staff of the dispute resolution council will be subordinated to the GCA.

Effective enforcement requires well-functioning tools and procedures. In terms of tools, effective dawn raid powers are an indispensable tool for uncovering illegal cartels. Cartel agreements cannot be established based on parallel conduct observations or other indirect evidence alone; they require direct proof of communication or agreement. In a country like Georgia, where the economy is small and a few players dominate in many sectors, cartels can be expected to be a pervasive problem. This comes at a high cost to the country's consumers, who will pay 10–20% higher prices for goods and services. As cartels often target public procurement, public services also come at a much higher cost to taxpayers. Concerns about the GCA's possible abuse of these powers seem to lack a realistic foundation and should in any case be managed – as in other jurisdictions – by having proper oversight and recourse mechanisms in place.

Other investigation tools, like merger notifications and requests for information, have to be enforceable, if necessary, with sanctions for non-compliance. All enforcement instruments would benefit from more flexibility, and, when necessary, longer legal deadlines. Currently, an investigation cannot last longer than three months (for significant and complicated cases this term can be extended to 10 months); this is very short by international standards. When necessary, longer timelines would enable better enforcement cases based on international best practice.

Effective enforcement requires highly qualified enforcers who act in an institutional environment that assures independence from political or private stakeholder interventions. The GCA needs to establish a reputation for impartial and neutral enforcement against public and private restrictions to competition. In order to attract and retain highly qualified lawyers and economists, salaries would need to increase significantly, and with them the overall budget of the GCA, including for IT and office equipment.

The extension of responsibilities – not only for competition enforcement, but also for public procurement, anti-dumping and consumer protection – risks a dilution of the competition mandate. Adequate staffing, funding and training for these additional tasks would need to be assured. The GCA lacks discretion to decide on, and eventually dismiss, incoming complaints based on their relevance and the GCA's enforcement priorities. This occupies resources that could be used in a more meaningful way.

Contract enforcement and alternative dispute resolution

Since 2015, Georgia has progressed in the *enforcing contracts* indicator of *Doing Business*, ranking twelve in 2020 (vs. 23rd in 2015) and showing important improvement in the overall quality of judicial process (World Bank, 2019[7]). These improvements reflect significant efforts to reform the judicial system that include *inter alia* court automation, with e-filing of cases and e-service of process successfully operating within the entire court system (the e-payment of court fees is envisaged at a later stage of the reform). However, the *Doing Business* results should be considered carefully, as the evidence from WEF's *Global*

Competitiveness Index 2018 (World Economic Forum, 2018[11]) reflects wider concerns about the independence of the judiciary and the efficiency of judicial processes.[4]

The random automatic case assignment for judges was introduced in 2018 and covers all courts, and a specialised procedure for small claims is in place. In order to ensure transparency and predictability of contract enforcement, the government of Georgia has put in place a centralised database for publication of court decisions of all instances that has been operational since June 2019. In addition, during 2018, in the framework of the USAID and GIZ project on "Promoting Rule of Law in Georgia", the High School of Justice of Georgia (HSoJ) conducted the first round of training in commercial law for 39 judges, with another round having taken place in August 2019. While this is an important development, the government should ensure regular training for all judges within the common court system who treat commercial disputes in order to provide for quality dispute resolution across the country and to build the knowledge and expertise of all judges.

Georgia has improved its protection of property rights over the last few years, moving up by 10 ranks since 2015 to 48th place in 2019 in the Global Competitiveness property rights protection index (World Economic Forum, 2019[10]). Following the provisional application of the DCFTA in September 2014, Georgia has adopted a series of amendments to its IPR legislation for the implementation of DCFTA requirements. The e-filing system for intellectual property rights (IPR) applications became available and the violation of IPR rights is sanctioned by both Civil and Criminal Codes. While there are no specialised courts on IPR matters in Georgia, there is a narrow specialisation of judges in IP law treating IPR-related cases within the Tbilisi City Court and Tbilisi Court of Appeals. Thus, all IP disputes in Georgia are adjudicated by qualified judges in those two courts. In this regard, it is important to ensure that the judges have an adequate workload to provide for high-quality dispute resolution on IPR. When it comes to IP training for judges, the High School of Justice of Georgia (HSoJ) reports that it is providing training – for instance, the IP training provided to 26 judges in co-operation with the Commercial Law Development Program (CLDP) in 2018, which will be continued in 2019. In addition to this, with the support of the World Intellectual Property Organisation (WIPO), the Georgian IP agency Sakpatenti offers training and seminars, provides online courses, and conducts other capacity-building activities on IPR. However, more could be done by the state to ensure that IPR disputes are settled in a quality manner and are properly enforced.

Arbitration, mediation and conciliation are available in Georgia as alternative means of dispute resolution (ADR). However, despite the relatively low costs of ADR (1% of the claim value in the case of mediation, versus 3% in a standard court procedure) and its promotion by the government (through isolated awareness-raising campaigns promoting the possibility of referral to mediation with all parties' consent), such mechanisms are rarely used by businesses. The country could better leverage existing incentives for ADR (including financial) to encourage business usage of ADR. Organising training events, workshops and roundtables on ADR for the private sector, with particular focus on SMEs, could be a first step towards establishing an ADR culture within the business community.

Lastly, the establishment of a Business Ombudsman in 2011 to protect the interests of entrepreneurs has greatly contributed to the resolution of private-to-public litigations and has enhanced protection of the property rights of SMEs against the discretion of public authorities. In 2017, businesses filed 257 complaints through the online portal, and the Ombudsman prepared 63 opinions and recommendations based on the cases and held 479 meetings with businesses. Going further, the government could strengthen its support for the Business Ombudsman by, for example, adopting the draft law (introduced in 2018) that

provides for extension of the *amicus curiae*[5] function to the Business Ombudsman. This would enable the Ombudsman to submit recommendations to court or assign a lawyer to assist businesses in resolving administrative disputes.

Business integrity

Adopted in 2015, the Anti-corruption Strategy of Georgia addresses the prevention of corruption in the private sector and is the main strategic document guiding business integrity policy development and implementation. The 2019-2020 Action Plan for the Anti-corruption Strategy elaborated by the government was shared with public and private stakeholders for consultations. Despite the fact that the preceding 2017-2018 Action Plan envisaged a study of business integrity risks, the government did not conduct such study over the indicated period of implementation. At the same time, the Strategy on Money Laundering and Terrorism Financing (2014) contains to a certain extent an analysis of corruption risks in the private sector that could complement the evaluation of risks for business integrity. The government could conduct a corruption risk assessment with a specific focus on SME-related risks, actively engaging with the private sector as it does so.

Georgia has taken important steps to improve the framework for preventing corruption in the private sector, including by incorporating enforcement of the liability of legal persons for corruption offences in the policy priorities in the criminal justice area (ACN, OECD, 2019[12]). Following the 2016 Law on Accounting, Reporting and Audit, all companies in Georgia are obliged to disclose their financial statements, and the Business Registry information is accessible through the website of the National Agency of Public Registry, or NAPR (https://napr.gov.ge). Information on the beneficiary owners of legal entities is available through the portal of the Service for Accounting, Reporting and Auditing Supervision, or SARAS (www.reportal.ge), which contains the financial statements of all companies, including SMEs. Since 2019, NAPR and SARAS have been co-ordinating efforts to link the SARAS portal to the NAPR business registry in order to offer easier and more user-friendly access to complete company information in one place. While these efforts are commendable, the government should also ensure that an effective enforcement mechanism for legal persons' liability exists in case of non-disclosure or false disclosure of final beneficiary information.

Businesses in Georgia can report corruption via a recently established whistle-blower portal (www.mkhileba.gov.ge), a link to which has been incorporated into the websites of all governmental bodies. At the same time, although legal guarantees for the protection of whistle-blowers in the public sector have been strengthened,[6] the protection of private sector corruption reporting is not properly ensured by the law and should be further addressed by the government. In addition, the role of the Business Ombudsman (BO) of Georgia in promoting business integrity measures has grown considerably and now allows for the BO to take active part in the planning and design of business integrity actions under the 2019-2020 Anti-corruption Action Plan (ACN, OECD, 2019[12]). Moreover, the BO has elaborated an e-communication platform for businesses that enables access to the BO and reporting of cases involving corrupt behaviour.

Georgia has made substantial efforts to raise awareness of the corruption prevention mechanisms available to businesses (i.e. seminars and meetings provided by the Civil Service Bureau, Competition and State procurement agencies, Ministry of Justice) and to encourage companies to adopt business integrity practices. However, further steps could be taken to encourage firms, especially SMEs, to introduce codes of conduct and compliance mechanisms, including the creation of financial stimuli (e.g. tax reductions, or

benefits when applying for a loan) and non-financial measures that would support businesses engaged in integrity initiatives and would raise awareness of the benefits of adopting compliance mechanisms. In addition, the government and business associations could engage in a collective integrity action through, for example, initiating an integrity pact within one or several business sectors.

Pillar A – Responsive government

Institutional and regulatory framework for SME policy

Georgia has made significant progress in this policy dimension and has now established a well-structured and advanced institutional and regulatory framework for SME policy. Since the latest SBA assessment conducted in 2016, Georgia has approved and is currently implementing its first multi-year SME Development Strategy and has made operational two key public agencies, one in charge of supporting SMEs, the second of supporting innovation and technological development.

Work on the SME Development Strategy, covering the period 2016-2020, has been co-ordinated by a Steering Committee chaired by the Ministry of Economy and Sustainable Development (MoESD), the line ministry in charge of SME policy. The elaboration of the strategy marked the departure from the approach to SME development traditionally championed by Georgia, which placed a great emphasis on improving the business environment but had a more neutral public policy position towards SMEs, in a move towards a more proactive policy. The Strategy is articulated along five strategic directions (improvement of the business and institutional environment; access to finance; skills upgrading and promotion of an entrepreneurial culture; export promotion and enterprise internationalisation; innovation and R&D promotion) and lists 33 priority actions. The document includes the identification of three quantitative targets at the aggregate level, relating to SME growth, employment generation and productivity increase.

With the technical support of the OECD, the government has adopted a result-oriented monitoring system for the SME strategy, with dedicated key performance indicators for each strategic direction. The public agencies and institutions involved in the strategy implementation report regularly on progress made, while Geostat is in charge of reporting on the achievements of the aggregated targets. Data produced by Geostat show that all three targets set for 2020 have already been achieved in 2018.

SME policy implementation has largely been assigned to the SME development agency, Enterprise Georgia, established in 2014. The agency is fully operational and has been granted substantial autonomy. Enterprise Georgia provides a range of support services and manages the country's main enterprise development programme, Produce in Georgia, which covers a set of priority sectors and activities. Innovative enterprises may benefit from the support of Georgia's Innovation and Technology Agency (GITA), also established in 2014, and enterprises operating in the agricultural and agribusiness sector can turn to the support of the Agricultural and Rural Development Agency (ARDA). The latter agency was established in June 2019, after a merger between the Agricultural Cooperatives Development Agency, the Agricultural Projects Management Agency and the Department of Regional Relations of Georgia. Through this reorganisation ARDA's mandate has been expanded, and it is now able to support both agricultural and non-agricultural SMEs through various programmes and projects, seeing the quality and quantity of services improved through regional and municipal centres, and providing information to farmers and entrepreneurs in the agriculture sector.

In 2017, the Law on Grants was also been amended, allowing the above-mentioned state agencies to award public grants, exempted from relevant taxes, to private commercial entities.

The informal sector plays a relatively minor role in Georgia and its weight is estimated to be below 10 per cent of the GDP (according to national statistics),[7] thanks to the government's determined efforts to improve the business environment, reduce administrative burdens, increase transparency and fight corruption.

In addition to the good results obtained in reforming the existing regulatory environment, Georgia has also made significant progress towards the systematic application of regulatory impact analysis (RIA). A unit in charge of RIA has been established within the MoESD since 2007 and a number of pilot RIA projects have already been completed. Since March 2019, it has been compulsory to perform RIA for any new business-related legislation, and a methodology for SME-specific RIA tests is currently under development.

Public-private consultations (PPCs) are regularly conducted and a set of public-private institutions, including the Business Ombudsman, the Investors Council, the Private Sector Development Advisory Council and the DCFTA Advisory Group are actively engaged in promoting public-private dialogue.

Operational environment for SMEs

Over the years, Georgia has managed to build up a high-standard regulatory and business environment that has received significant international recognition. It has done this through a systematic and continuous reform process and the commitment of a number of strong and independent institutions. The country currently has one of the most advanced platforms in the EaP region for e-government services.

As early as 2016, Georgia was already demonstrating an advanced e-government service platform. The implementation of the e-Georgia strategy (2014-2018) and related action plans, under the coordination of the Data Exchange Agency, has contributed to further widening the range of e-government services (up to 500 e-services including business registration, reorganisation and bankruptcy registration), all accessible through a single portal (www.my.gov.ge). In parallel with the e-government services, a system of Public Halls, distributed across the country, facilitates the access of enterprises and private citizens to government services (see Box 10.1). The government has also been active on the Open Data front. A unified open-data portal (www.data.gov.ge) has been established and a wide range of information on government activities is regularly posted. There are plans to update the portal, making it more user-friendly and aligning it with EU standards.

As a result of a very proactive regulatory reform policy, the number of business licenses has decreased by 85% and e-auction has been introduced for the allocation of the remaining licenses, substantially reducing room for corruption.

Georgia has developed a state-of-the-art company registration system and the country now ranks second in the *starting a business* indicator of the 2020 *Doing Business* report, behind New Zealand. Registration of a limited liability company requires just one single procedure, as a single window system is in place performing all the necessary notifications on behalf of the newly established company. The entire starting a business procedure is completed within one day at the cost of 2.1% of the country's per capita income (World Bank, 2019[7]).

Moreover, Georgia has implemented a light taxation regime for small enterprises. Microenterprises with an annual income below GEL 30 000 (~ EUR 9 052) are exempted from profit tax, while small businesses with an annual turnover not exceeding GEL 500 000 (~ EUR 150 870) are subject to a tax rate of 1% of taxable income). The "small business" status is withdrawn if the enterprise reports a turnover exceeding GEL 500 000 over two calendar years. The value-added tax (VAT) threshold has been fixed at GEL 100 000 (~ EUR 30 174), and a new system for the automatic return of VAT credits was launched in February 2019. All taxes are payable online. According to the 2020 *Doing Business* report, Georgia performs relatively well in terms of tax payments per year (5) and has a high post-filing index (85.9/100), while the time required to complete tax compliance procedures is 216 hours per year, in line with the regional EaP average (World Bank, 2019[7]).

Box 10.1. Georgia's Public Service Hall

The Public Service Hall (PSH) is an agency of the Georgian government, operating under the management of the Ministry of Justice, that provides a variety of public services in one place – including the services of the Civil Registry Agency, the National Agency of Public Registry, the National Archives, the National Bureau of Enforcement and the Notary Chamber of Georgia. There are 22 PSH branches in total, the goals of which are threefold: provide customers with high-quality services via a one-stop-shop principle; promote public services development; and offer diverse and innovative services.

Over 20 000 customers use PSH services throughout Georgia on a daily basis. Each hall is divided into three areas: a self-service area, a prompt service area and a prolonged service area.

- *Self-service area*: Using automated systems, customers receive diverse services such as extracts of property or business registrations, biometric photos for IDs and passports, cash withdrawal from ATMs, and conducting long-distance payments via pay boxes.
- *Prompt service area*: This is for services that require no more than five minutes to carry out. Examples include the issuance of already-printed ID cards and passports, birth and marriage certificates, documents certified by apostille or legalisation, and extracts of property and business registrations.
- *Prolonged service area*: This is for services exceeding five minutes, such as applications for passports, ID cards, registration of property and business, or receipts of birth certificates from the archive.

While this division of service areas goes some way towards minimising queue length, queues are also regulated via an integrated electronic queue management system. Prominent navigation banners also help users orient themselves and move around the building. PSHs also conduct surveys of customer satisfaction on an annual basis.

Source: http://psh.gov.ge.

Bankruptcy and second chance

The 2007 Law on Insolvency Proceedings continues to define the insolvency framework in Georgia. As of 2017, a series of amendments to the Law improved Georgia's rank in *Doing*

Business 2020 in the resolving insolvency indicator (64th versus 122nd in 2015) (World Bank, 2019[7]). The amendments introduced expedited reorganisation and liquidation proceedings, strengthened secured and unsecured creditors rights (through better participation in the decision-making process), introduced an electronic system for insolvency proceedings and regulated the appointment of bankruptcy trustees.

However, the insolvency legislation could be further improved to reach international standards and reduce implementation issues hampering the efficiency of the framework. Implementing out-of-court settlements or simplified in-court proceedings would allow SMEs, which sometimes do not have the necessary resources to engage in costly formal insolvency proceedings, to avoid selling all their assets when fearing insolvency. In addition, the newly introduced electronic system, which includes all rulings related to cases and hence increases the transparency of the procedures, is yet to be fully applied and implemented.

The government is preparing a new legislative framework for bankruptcy with the aim of increasing procedural transparency, giving creditors a chance for a better recovery and maintenance of co-operation with clients and suppliers, fostering accelerated and consistent access to finance to support restructuring processes, and giving bankrupt entrepreneurs better access to credit for a fresh start. Informational campaigns are being held with the support of donors (e.g. GIZ or USAID) to disseminate information about the core improvements of the new law among business representatives, business associations and consultancy companies.

Moreover, even though restructuring proceedings are available, the large majority of insolvency cases involve liquidation, denoting a credit-driven preference and the weaknesses of the preventive measures. While entrepreneurs fearing failure can benefit from pre-insolvency services from public and private organisations, or find information through online tools and hotlines, Georgia should introduce an institutional early-warning system to systematically identify distressed companies. In addition, while there are no economic disabilities for entrepreneurs after going bankrupt, Georgia should consider implementing a dedicated policy strategy based on a large-scale information campaign to better promote second chance for entrepreneurs seeking a fresh start.

Pillar B – Entrepreneurial human capital

This section focuses on the human capital dimensions of the Small Business Act for Europe. It first examines how entrepreneurship is addressed in the education system, focusing on entrepreneurship as a key competence – a factor in Georgia's wider drive for competitiveness, growth and employment. It then discusses developments in women's entrepreneurship. Finally, both policies and support for SME training are addressed.

Entrepreneurial learning

Since the 2016 SBA assessment, an inter-agency working group on entrepreneurial learning has been established. Led by the Ministry of Education, Science, Culture and Sport, it has raised awareness and ensured cross-stakeholder co-operation in lifelong entrepreneurial learning. Further, Georgia's entrepreneurial learning drive has been reinforced by the Unified Strategy for Education and Science (2017-2020). This establishes entrepreneurship within a lifelong learning perspective and is backed up an entrepreneurial learning action plan (2019-2020). Entrepreneurship key competence features within national curriculum (primary, secondary and upper secondary education) and addressed through dedicated subjects.

Entrepreneurship skills are most developed in vocational education and training (VET), with teacher training and support materials available. This is set against a wider objective of employability and includes career guidance, where entrepreneurship is an integral feature. VET developments also include the entrepreneurship key competence and the piloting of the 'VET Entrepreneurial School'. In the reporting period, there were no significant developments on entrepreneurship promotion in higher education, apart from individual cases at a number of universities.

The assessment identified excellent non-formal learning initiatives to encourage young people to develop their creativity and entrepreneurship potential. For example, the 2017 Fablab initiative, where young people work directly on product design and prototype building, is good practice and demonstrates the value of partnership between vocational schools and the Georgian Innovation and Technology Agency (GITA). Entrepreneurial Clubs at a number of VET colleges also allow for young people to meet directly with entrepreneurs and to hear at first hand the opportunities and challenges for self-employment and running a business. Nonetheless, improved co-operation between all schools (vocational and general secondary education) will be important in forward planning for all developments in entrepreneurial learning. In this regard, the recommendations for school-business co-operation, including teacher placements in commerce and industry, included in a review of entrepreneurship promotion in VET should be considered (Livny et al., 2016[13]).

Finally, monitoring of entrepreneurship developments across the learning system will need to go beyond standard, annual school reporting. Given that entrepreneurial learning is a new and evolving policy area, better scrutiny of the ways in which entrepreneurship is addressed through formal and non-formal learning will not only help build a culture and capacity for systematic review and evaluation, but will also ensure policy and practice can be continuously improved based on lessons learnt.

A next phase of the inter-agency working group should address non-formal entrepreneurial learning and focus on promoting opportunities for young people to gain concrete entrepreneurial experience. Including Creative Georgia in this group could also help transfer knowledge and capacity from the creative economy into local schools, training centres and universities.

Options should be considered for building on the existing subject-based entrepreneurship key competence for wider application across the curriculum. This should draw on the three pillars of the European Entrepreneurship Competence Framework. This will have significant implications for teacher training and the role of the Centre for Teachers Professional Development will be important.

Finally, a structured dialogue involving the higher education community, student bodies, private sector and the education and economy ministries should explore ways to ensure that entrepreneurship is more systematically developed across the country's university network.

Women's entrepreneurship

Since the 2016 SBA assessment, policy support for women's entrepreneurship has been reinforced through the SME Development Strategy (2016-2020) and a rural development strategy (2017-2020). While linkages across different government strategies addressing women's socio-economic standing are provided by an Inter-Agency Commission for Gender Equality, a sub-committee on women's entrepreneurship within the Private Sector Development Council has the objective of closing the gender gap in entrepreneurship.

Baseline research commissioned by the Private Sector Development Council points to a predominance of women-owned businesses in retail, social services, food processing and hospitality sectors, with 40% of state-support programmes (Elizbarashvili, Samadashvili and Burchuladze, 2018[14]). The lion's share of training for women's start-up and growth businesses is provided by Enterprise Georgia and GITA. However, with women accounting for just 31% of start-ups (GEOstat, 2018[15]), more support is needed, especially in outlying regions. Almost 60% of women-owned businesses are located in two (Tbilisi and Imeriti) of the country's nine, mostly rural regions (Elizbarashvili, Samadashvili and Burchuladze, 2018[14]).

Gender stereotyping is considered a critical factor in women's entrepreneurship development (Natsvlishvili, 2017[16]). A concerted effort by government and civic interest groups to raise awareness and understanding of the potential of women's entrepreneurship for wider socio-economic development is necessary, including promotion of role models and success stories through mass media (Elizbarashvili, Samadashvili and Burchuladze, 2018[14]). A step in this direction is an initiative by Enterprise Georgia to ensure preferential treatment of women applicants under its SME support programme, Produce in Georgia.

While baseline data on women's entrepreneurship for this assessment was available primarily through a one-off research project, the Private Sector Development Council should consider developing a state-level intelligence framework to support wider policy planning and analysis.

Given the urban-rural divide on women's entrepreneurship, an action plan for women's entrepreneurship that was proposed in a mid-term evaluation of the SME strategy (Ministry of Economy and Sustainable Development of Georgia, 2018[17]) should be followed up. The action plan should give equal weighting to necessity entrepreneurship and opportunity entrepreneurship and ensure greater access to training and advisory services. Engagement and co-operation with locally-based NGOs will help widen outreach. Benchmarks, against which policy performance can be assessed, will be important. This will require closer collaboration between policy areas already addressing women's economic empowerment, including SME development, employment promotion and rural and agricultural development.

SME skills

Since the 2016 assessment, the new SME strategy has given particular attention to human capital. All developments from the strategy are overseen by the Private Sector Development Council, although the Council has not yet taken a specific position on SME manpower developments. A further development has been a more concerted effort in building skills intelligence. Initially undertaken by the labour ministry, a labour market information system is now managed by the Ministry of Economy and Sustainable Development. This should improve the interface between skills required by SMEs and the manpower available. An Inter-Agency Working Group led by the Ministry (and which includes Enterprise Georgia) advises on sectoral skills intelligence. In 2018, the Working Group specifically addressed skills in the hospitality and publishing sectors. An SME skills review for the construction sector is planned for 2019. Enterprise Georgia has developed an 'export readiness' tool that allows SMEs to assess their capacity to internationalise; it also provides recommendations for training and advisory services and export-management courses.

While Enterprise Georgia provides a range of training and advisory support to start-ups and growing businesses (e.g. e-commerce, digital marketing, cybersecurity), GITA's Start-up

Georgia Programme is the primary resource for supporting innovative start-ups. Its services comprise a mix of training, mentoring and advisory services backed up by a micro-grants scheme. GITA also provides training to develop the digital capacity of SMEs, including training for e-commerce. Further, the Georgia National Innovation Ecosystem Project (GENIE) has defined a number of good-practice criteria that it uses when procuring training providers, while the Ministry of Education, Science, Culture and Sport provides adult training courses specifically related to labour demand.

Regarding the knowledge and skills businesses need to trade with the EU Single Market, six DCFTA centres have been established by the Chamber of Commerce and Industry with EU support. These centres provide not only information on EU regulations and standards, but also training and information on good practices. Additional training services are provided by the Georgian Agency for Standards and Metrology. Further, although still relatively new, online training offered by Enterprise Georgia to support SMEs with the fundamentals of international trade demonstrates the potential of available technologies to improve SME access to training.

An important next step to reinforce the overall skills intelligence drive will be to gather data on training delivered by the range of agencies (education, employment, enterprise), which will allow for a more consolidated package to support the monitoring and evaluation of policies to support SME manpower development.

Finally, Georgia is in an early phase of developing smart specialisation. Proposals currently exist 1) to integrate smart specialisation approaches into the Pilot Integrated Regional Development Programme or 2) to elaborate a separate strategy for the selected pilot region(s) using input from four regional development initiatives; both proposals are good.

As Georgia moves forward with smart specialisation, it will be important that vocational training and higher education bodies are an integral feature of regional development planning and implementation.

Pillar C – Access to finance

Georgia has made some progress in easing SME access to credit since the 2016 assessment. Bank lending has expanded in recent years, and a number of public financial support programmes now support access to finance for SMEs. Reforms are currently under way to develop leasing and factoring, which is expected to help increase the availability and use of financing. Georgia has also made progress in addressing financial literacy, and the mandatory introduction of IFRS for SMEs standards is expected to increase the creditworthiness of adhering companies.

Legal and regulatory framework

SME access to finance in Georgia is supported by a well-developed legal and regulatory framework. Capital requirement regulation is in line with Basel III, and a comprehensive legal framework is in place to protect creditors' rights. Minority shareholder rights in particular have been strengthened. Insolvency procedures, which have been amended since the last assessment, now include time limits during an automatic stay in case of re-organisation.

Credit information on borrowers is largely available, helping particularly smaller enterprises to build an adequate credit history. A modern real-estate cadastre is in place, covering the entire territory of Georgia. Georgia is one of the first countries worldwide to have transferred its property register to a blockchain platform, which has helped increase

transparency and efficiency of real estate registration. In addition, the coverage of the private credit information bureau has expanded significantly, from 57% of Georgia's population during the last assessment to 100% (World Bank, 2019[7]); it now includes data from non-bank financial institutions, retailers and utility providers.

Access to capital market finance remains in its infancy. Although the authorities have made its development a priority and reforms are planned, the market is currently not sustainable and does not offer a genuine source of finance for enterprises.

Sources of external finance for SMEs (bank financing, non-bank financing and venture capital)

Lending has expanded significantly in recent years, and financial intermediation is relatively high compared to regional peers at 62.5% of GDP (World Bank, 2018[18]). Annual credit growth stood at 17% (National Bank of Georgia, 2019[19]) at the end of 2018, and liquidity in the banking sector is ample. However, the spillover effects of SME lending have remained negligible, and the share of SME loans in total private sector lending remains unchanged at around 40%, though lending terms have become somewhat more favourable. Lack of working capital remains one of the key challenges for businesses, as suppliers are commonly required to provide trade credit to their large buyers and to hold accounts receivable on their balance sheets – creating funding problems for SMEs, which typically lack cash flow. The National Bank of Georgia (NBG) adopted a comprehensive action plan for larisation in December 2016, and joined the EBRD's SME Local Currency Programme with a view to increasing access to affordable local-currency funding. As a result, the level of dollarisation has fallen somewhat but remains high, at above 50% of both deposits and loans. This can pose a particular problem for SMEs, which are more likely than large companies to be unhedged against foreign exchange risks.

Public financial support programmes are mainly channelled through Enterprise Georgia, which provides loans at preferential rates primarily for enterprises located in the regions and active in tourism. Financing schemes like "Produce in Georgia" have generated great interest, have financed over 400 SMEs since 2014, and are regularly monitored. Furthermore, the Ministry of Environmental Protection and Agriculture provides funding to enterprises in the agricultural sector. Supported by the EU, credit guarantee schemes and subsidized loans are available to local enterprises through local banks for the implementation of the Deep and Comprehensive Free Trade Agreement (DCFTA). Preparation for the establishment of a public sector guarantee fund is at its final stage; if designed well, this could significantly broaden access to finance for smaller businesses, while mitigating perceived risks.

Non-bank finance remains below potential. Microfinance is commonly used and accounts for around 3.5% of total financial sector assets, though it is mainly issued to individuals. However, there are signs of market saturation, and microfinance institutions are increasingly looking into financing businesses. At present, leasing and factoring remain largely underdeveloped. Leasing is offered by some banks and a leasing association has been formed since the last assessment; however, effectively, operations are presently almost unregulated and, according to the 2019 amendments to the Civil Code of Georgia, caps on effective interest rates and other financial costs for leasing contracts have only recently been established. Factoring accounts for around 0.1% of GDP and there is currently no legal framework in place, leaving the entire factoring market unregulated. With the support of the EBRD, Georgia is preparing a reform of its legal framework for

leasing and introducing a dedicated law on factoring, which will help strengthen supervision and embed activities into an adequate framework.

Venture capital is just beginning to develop and there is no dedicated legal framework in place to support investments. State support is focused on building an ecosystem conducive to innovation, and GITA offers financial support to innovative companies. A crowdfunding platform was established in 2015, and legislation to regulate crowdfunding is under preparation. If adopted, crowdfunding could develop into a viable financing tool for small start-ups.

Financial literacy

A number of initiatives have been launched to increase the level of financial literacy among the broader population and enterprises.

A key development since the last assessment is the introduction in 2017 of a mandatory "IFRS for SMEs Standard" for all businesses with a turnover of more than GEL 2 million (approx. EUR 630 000) and/or balance sheets of more than GEL 1 million (approximately EUR 310 000) and 10 employees; this compliance requirement is being rolled out in a staggered approach until autumn 2019. Under the auspices of the Ministry of Finance and in coordination with international donors, the Service for Accounting, Reporting and Auditing Supervision (SARAS) offers free-of-charge training to enterprises to familiarise themselves with IFRS for SMEs. Guidelines have been issued to commercial banks, auditors and even universities to ensure a smooth transition. Once fully adhered to by enterprises, standardised accounting practices are expected to ease access to credit, as financial service providers will be able to make sound judgements on the creditworthiness of loan applicants.

The National Bank of Georgia carried out an assessment of the financial literacy of the general population in 2016, which resulted in the adoption of a National Strategy for Financial Education. An action plan for implementation was recently approved, though the strategy does not envisage a specific focus on entrepreneurship. Separately, the National Bank of Georgia launched a financial education programme for micro and small entrepreneurs that includes information about the sources of business finance, relevant financial services, as well as approaches and indicators used for business assessments. The training was piloted in 2018 and is expected to reach over 1000 SMEs per annum. As of 2019, financial education has also been incorporated into the national school curriculum.

Pillar D – Access to markets

Public procurement

Public procurement is currently regulated by the public procurement law (PPL) of 20 April 2005, which came into force on 1 January 2006 and has been repeatedly amended (Government of Georgia, 2005[20]). The provisions of the current PPL will be successively replaced according to the timetable for alignment with the EU directives for public procurement, as required by Georgia's association agreement with the EU. This will include new provisions for facilitating SME participation.

The State Procurement Agency (SPA) is the main institution at the national level. Its functions include regulation (drafting the new PPL and issuing administrative orders complementing the current PPL), monitoring, training, management of centralised purchasing, operation of the e-procurement system, and review of complaints. Complaints

can be made online, against a modest fee, and suspend the proceedings until a decision is made. The authorities are working to raise the independence of the review function in order for it to match international standards.

Particular measures for facilitating SME access to the public procurement market include the option of dividing contracts into lots, requirements for proportionality of selection and award criteria, obligation for prompt payments, guidance materials on SME participation for contracting authorities and enterprises,[8] training for interested enterprises, a new e-catalogue (www.emarket.spa.ge) providing supply market information, and a comprehensive e-procurement system (www.tenders.procurement.gov.ge).

Nevertheless, despite the notional advantages and the apparent simplicity of the e-procurement system (which is used for a large number of small-value contracts[9]), the low average participation rate (2.1% in 2018) seems to point to a lingering hesitation of SMEs to participate in public procurement. The large share (27%) of unsuccessful procedures[10] is mainly a result of incomplete tender documentation or insufficient description of the item to be procured. In turn, this reflects a lack of public procurement skills and experience in the many small contracting authorities and the not uncommon use of technical specifications that, even without mentioning any brand name or the like, clearly represent a specific product from a particular company, thus discouraging competition.

A wide range of data covering the whole procurement cycle is available through the e-procurement system,[11] but information on SME participation has not yet been easy to extract. However, with the support of the UK's Department for International Development (DfID) and the World Bank, the SPA is taking significant steps to address this shortcoming.

Although the progress made since 2016 is not yet evident in the available data, the effects of the recent measures to improve guidance, training and market access for SMEs could start appearing soon. Also, the regulatory and institutional development required for alignment with EU standards may lead to further improvement in coming years. For the time being, the following reforms could be envisaged in order to raise the level of SME participation in the public procurement market (though they also including measures of more general nature):

- Seek the means to train and incentivise public procurement officials to properly apply principles and practices for open, fair and competitive procurement, with special emphasis on raising SME participation; and
- Improve the possibility to access and extract public procurement data for evidence-based policy making as well as for spotting indications of bad practices, fraud and corruption in both the general and SME cases.

Standards and technical regulations

Georgia can refer to various accomplishments in the current assessment period, in particular regarding the implementation of the WTO Technical Barriers to Trade (TBT) Agreement and the EU-Georgia Deep and Comprehensive Free Trade Area (DCFTA) – which, as part of the Association Agreement, entered into force in 2016.

Another good practice example is the country's single point of contact for exporters to the EU: the Trade Development and International Economic Relations Department at the Ministry of Economy and Sustainable Development. It is also notable that Georgia could, in contrast to most EaP countries, report positively about several specific financial support measures for SMEs and the monitoring of these activities.

As a Companion Standardisation Body, Georgia's National Agency for Standards and Metrology (GEOSTM) collaborates closely with the European Standardisation Organisations CEN and CENELEC to achieve technical approximation and to help remove technical barriers to trade EU and Georgia. In addition, GEOSTM signed a memorandum of understanding (MoU) with the European Telecommunications Standards Institute (ETSI) in 2018 to become an ETSI National Standardisation Body and give Georgia's stakeholders the opportunity to participate in ETSI's standardisation processes. Another MoU was signed with the international standardisation organisation ASTM International (previously "American Society for Testing and Materials").

Georgia is also a correspondent member at ISO with observer status at ISO's technical and policy meetings. However, based on ISO's New Rights Program, the country has specific opportunities to influence the development of ISO standards in selected technical committees (TCs). Based on the program, GEOSTM is participating with voting right in five priority TCs. Similarly, GEOSTM is an Associate Member at the IEC and participates in selected IEC TCs with voting rights.

Various tools are used to support and enable Georgian members of standardisation TCs (representatives of SMEs, NGOs etc.) to take part in international standardisation meetings, in particular at ISO. This includes external support, for example by the United Nations Industrial Development Organization (UNIDO). To extend the successful co-operation with ISO, full ISO membership could be considered in the medium term.

In the field of metrology, GEOSTM has modernised its laboratories with help from the EU (including both renovation of its physical infrastructure and significant development of its equipment base) and has worked successfully on the capacity building of staff. As a result, the range and the scope of metrology services GEOSTM provides to interested parties (e.g. testing and calibration laboratories, pharmaceutical companies, food processing companies, the construction sector) has increased significantly. Georgia has maintained recognition in electrical measurements, mass and temperature, and has significantly expanded the scope of recognition to new fields, e.g. humidity, small volume, pressure, length, and ionizing radiation. Georgia's metrology services are also used by interested parties, e.g. accredited food testing laboratories, from neighbouring countries. In addition, a GEOSTM representative is one of the vice presidents in the Euro-Asian Cooperation of National Metrological Institutions (COOMET).

Georgia's Accreditation Centre (GAC) is an associate member of the European co-operation for Accreditation (EA) and has achieved international recognition through peer review. The success in the current evaluation period includes the standards ISO/IEC 17025, 17020, 17065, 17024 and ISO 15189.

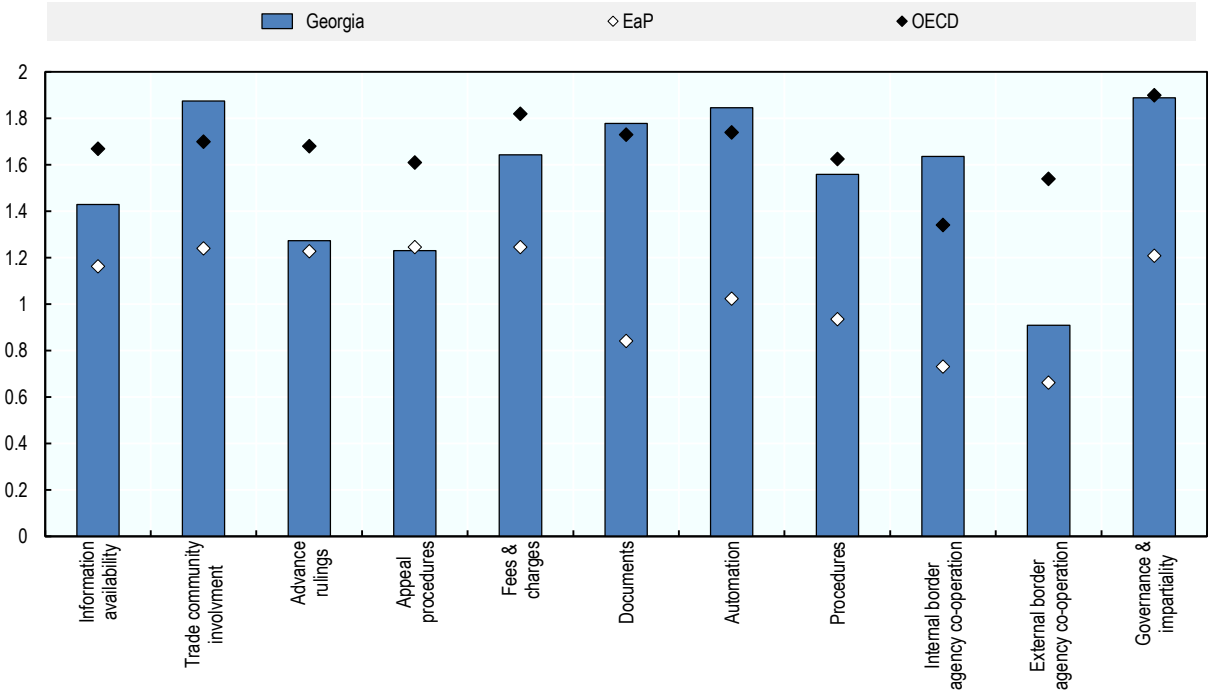
In the current assessment period Georgia has approximated with a number of EU technical regulations and almost 25% of Georgia's standards in priority sectors are already European Standards (EN).[12] An important element of the path forward is the further adoption of European standards. Georgia has a detailed schedule and is committed to addressing this issue.

Georgia has demonstrated strong interest in international and EU standards, as well as in standardisation. Improving its SMEs' ability to use standardisation as a strategic instrument is important in this context. To address these aspects, Georgia has implemented several promising awareness-raising activities, which could be further expanded. Regarding market surveillance, the regular evaluation of implementation of legislation is also an action item to be considered.

SME internationalisation

Georgia's exports have increased by 26% since signing its Association Agreement (including DCFTA provisions) with the EU in 2014. In 2017, SME exports accounted for 60% of total export value, the highest share among the EaP countries for which such data are available. According to the 2020 World Bank *Doing Business*, Georgia ranks 45th on trading across borders, down from 33rd place in 2015 (World Bank, 2019[7]). Based on the 2017 OECD Trade Facilitation Indicators, Georgia is the best performer among the EaP countries, performing at the OECD average across the majority of the assessed areas, with some remaining challenges in the areas of *External border agency co-operation* and *Advance rulings* (OECD, 2017[21]).

Figure 10.5. OECD Trade Facilitation Indicators for Georgia, 2017



Note: TFIs take values from 0 to 2, where 2 designates the best performance that can be achieved.
Source: OECD, Trade Facilitation Indicators Database, https://oe.cd/tfi.

StatLink http://dx.doi.org/10.1787/888934087610

Enhancing SME internationalisation is one the five strategic objectives of Georgia's SME Development Strategy 2016-2020. Enterprise Georgia is the main institution responsible for export promotion and export support services in Georgia. The agency facilitates SMEs' participation in trade fairs and trade missions and, in co-operation with GITA and the Georgian Chamber of Commerce and Industry, organises events and fairs to help Georgian enterprises establish international trade relations. The "Trade with Georgia" website (www.tradewithgeorgia.com) provides information on export-oriented Georgian companies to facilitate connections with foreign buyers. The EU Ready to Trade project implemented by the ITC assists SMEs operating in the agribusiness sector in increasing their international competitiveness. In addition, a few recently launched programmes such as the Export Readiness Test, which assesses the marketing abilities and competencies of

companies needed to access foreign markets, and export management courses, which aim to strengthen SMEs' export readiness, are valuable initiatives. However, the uptake of these programmes remains limited. Moving forward, Enterprise Georgia could increase the scope of these support programmes and ensure their proper evaluation.

To increase the capacity of local SMEs to meet international demands, Georgia, in co-operation with GIZ, has supported cluster development in the furniture, apparel, film production and ICT sectors. Furthermore, supported by DfID, Enterprise Georgia has launched a pilot project to support the creation of supply chain linkages between local SMEs and large enterprises in the hospitality sector. However, the scale of the support programme is limited, and Enterprise Georgia could consider expanding the programme to other sectors.

To further support SME internationalisation, Georgia could start providing targeted financial support (e.g. trade insurance), since SMEs often report limited access to finance as a significant barrier to increasing their export capacity. Currently, there are no trade targeted financial instruments available in Georgia.

Pillar E – Innovation and Business Support

Business development services

A number of SME state support programmes, implemented by various agencies such as Enterprise Georgia, GITA or the Georgian Chamber of Commerce and Industry, rely on business development services (BDS).

Enterprise Georgia is the implementing agency for the main state programme *Produce in Georgia,* which is composed of various sub-programmes such as the industrial component, Host in Georgia or the Micro and Small Business Support component. Sub-programmes include financial support and a mandatory technical assistance component, which facilitates entrepreneurs' access to BDS related to the introduction of technologies, training and consultations on management, productivity, sales and marketing, financial accounting, and the introduction of technical standards. Companies co-finance up to 20% of the consultancy/training costs, while the state pays up to GEL 10 000 GEL (~ EUR 3 017) directly to BDS providers. To obtain state support, companies must provide a written analysis of current operations combined with the rationale for the interest in consulting services, a detailed description of the project, projected results and credentials of the selected consultants. Hence, SMEs are free in their choice of BDS providers, representing a best practice among the EaP countries.

Moreover, in 2016, the government launched a new programme for start-up support: *Start-up Georgia*, implemented by GITA. The programme covers agriculture, services, non-agricultural production and ICT, and seeks to support the development of start-ups and enhancing their competitiveness through the provision of financial support, as well as through training and consultancy services. The Georgian Chamber of Commerce and Industry have established DCFTA information centres, which offer training in the introduction of export market standards, throughout the country with support from the EU and GIZ. Furthermore, several programmes cater to specific sub-groups of entrepreneurs, such as the Young Entrepreneurs Support Programme implemented by the Ministry of Environmental Protection and Agriculture.

Some programmes – such as *Produce in Georgia*, which is co-ordinated by the Ministry of Economy and Sustainable Development and implemented by Enterprise Georgia – are

designed after extensive formal and non-formal consultations with stakeholders; and for this specific programme, research on market failures and SME needs was performed. Data on programme implementation is systematically collected by the implementing organisations and presented in regular progress reports. Some of the programmes implemented by GITA and Enterprise Georgia have been evaluated by independent auditors; for others, evaluations take place on an ad-hoc basis. In terms of support received from all related agencies, nearly 60 000 SMEs benefitted from government-supported BDS in 2017. In addition, three techno parks offer facilities as well as mentoring for development and commercialisation of innovative business ideas.

The government, and especially Enterprise Georgia, could consider developing a single information portal containing information on all institutions and agencies offering programmes; the portal could include a BDS component and list private quality-assured BDS providers. Such a national online platform would increase overall awareness of BDS and help shape a recognised, high-quality BDS brand, beyond state programmes. Digital business diagnostics and self-assessment tools could make initial advice more accessible (especially in the regions) and ensuing BDS provision more efficient by highlighting challenges and priorities at an early stage.

Innovation policy for SMEs

Thanks to the important steps Georgia has taken to improve its policy environment for innovation, including specific actions designed to target SMEs, the country is among the best performers on this dimension of the SBA assessment.

First, innovation as a policy priority is taking an increasingly prominent position in government's strategies and programmes. The SME Development Strategy 2016-2020 includes innovation for SMEs as one of its five pillars, and a brand new "Innovation Strategy" (with actions until 2025) has been developed with the support of USAID and is awaiting the government's approval. In addition, the new "Law on Innovation" has brought clarity to the legal framework for innovation financing, infrastructure and commercialisation.

Georgia's Innovation and Technology Agency (GITA) (see Box 10.2) and the Shota Rustaveli National Science Foundation are the main bodies responsible for promoting innovation in the business sector and supporting fundamental and applied research, respectively. GITA, in particular, plays a central role in developing the innovation infrastructure: with the support of the World Bank's GENIE project (EUR 40 million over five years) (World Bank, 2019[22]), Georgia has now established 28 "fab-labs" and three techno-parks offering space and equipment to develop prototypes (e.g. 3D printers, laser cutters). Complementary to GENIE, an EU-funded World Bank project supports GITA in testing technology transfer, improving investment readiness for start-ups, and investor cultivation. Throughout 2019, GITA also plans to create a network of business accelerators in co-operation with eight universities, with the goal of nurturing a start-up culture and entrepreneurship in academic institutions.

Box 10.2. Georgia's Innovation and Technology Agency

The Georgian Innovation and Technology Agency (GITA) was established in February 2014 under the authority of the Ministry of Economy and Sustainable Development. Its goal is the creation of an innovation eco-system within the country in order to support start-ups and R&D, especially in the ICT field.

GITA focuses on the construction of new physical infrastructures for the creation of new technologies, such as technology parks, ilabs, dablabs, industrial laboratories, and innovation centres within universities, fostering dialogue between academia and industry. The Agency also provides a legal framework for innovations and support to the knowledge and innovation commercialization process.

Alongside plans to improve internet speed and access, including coverage in remote regions of Georgia, GITA aims to promote innovative business development with a particular focus on entering international markets. Beneficiaries of GITA, apart from receiving financial support, obtain assistance and training in a range of business areas. At the current stage, a wide range of products and services are offered as key tools for developing a stable startup ecosystem, such as small grants program, Startup Friendly, Startup Beats, Boot Camp, common working space, Incubator, Registry of Ideas, the training portal and the IT support system.

Source: https://gita.gov.ge/eng

With regard to financial support for innovation, an important amendment to the "Law on Grants" now makes it possible for SMEs to become beneficiaries of public grants. Building on this, the government has introduced a diversified set of financial instruments to support businesses willing to innovate: the "Start-up Programme" provides equity funding for new ventures in high-tech industries and the "Innovation Matching Grants" awards financing of between EUR 40 000 and 200 000 to develop products, processes or services (or innovative uses of existing ones) that are new at least to the Georgian market, with preference given to projects that enable provision of services to international markets. Overall, these tools – which require some form of co-financing on the part of the beneficiary – have proven very popular among target companies, with several hundred applications received by GITA each year (Georgia's Innovation and Technology Agency, 2019[23]).

While Georgia does not have a specific policy framework for promoting non-technological innovations, its policy tools do not exclude marketing and organisational innovation projects as potential recipients of public support. Looking ahead, three areas of intervention could be considered by the government: 1) monitor the economic impact of the many financial instruments introduced, in particular on the SME sector; 2) strengthen the linkages between businesses and the research infrastructure, especially for projects receiving support from the Rustaveli Foundation; and 3) increase the role of demand-side policies to incentivise the diffusion of innovative products and services, for instance by upgrading public procurement standards.

Green economy policies for SMEs

There have been a number of policy developments related to greening SMEs in Georgia since 2016. This includes the Third National Environmental Action Programme of Georgia (NEAP) (2017-2021), the SME Development Strategy of Georgia (2016-2020) and, to

some extent, the Waste Management Strategy (2016-2030) and its associated Action Plan. Dimension 13 of the NEAP supports the transition to a green economy, and specifically mentions greening SMEs through resource efficiency and clean production techniques. The SME Development Strategy and Action Plan have supported the development of a training manual for resource efficiency and clean production (RECP); RECP assessments for enterprises, workshops and training events; and training in waste management for management-level employees of SMEs. Finally, the Waste Management Strategy introduced an Extended Producer Responsibility Strategy. All of these developments suggest the important role of greening SMEs in Georgia policy. However, to be more effective, the actions implemented so far need to be scaled up; and so that they are sustainable in the long term, they need to be supported more directly by budgetary funds.

Other policy changes, such as the new Environmental Assessment Code (2017), also point to the importance of recognizing the specific capacities and resource limitations of SMEs. The Code requires businesses to have environmental managers and introduces reporting requirements for waste that do not necessarily make sense for all industries or types of SMEs, and may be burdensome.

Enterprise Georgia, the agency that supports SMEs and entrepreneurs in developing their business in Georgia, would be an effective agency through which to mainstream greening approaches and reach more SMEs. This could be accomplished by moving responsibility for greening SMEs into their portfolio of activities, or by increasing collaboration with the Ministry of Environmental Protection and Agriculture and the Environmental Information and Education Centre. This would also provide SMEs with a more straightforward one-window approach to getting assistance, including enhancing their competitiveness through adopting greener practices.

Sectoral analysis: SME perspectives on the agribusiness sector in Georgia

The agribusiness sector plays an essential role in Georgia's economy. Primary agricultural sector accounted for 7.7% of GDP and 39% of employment in 2018 (GEOstat, 2019[24]). Food processing is the largest manufacturing segment, representing 48% of value-added in Georgia's manufacturing sector in 2017. The top export products in 2015 were hazelnuts (29%), wine (16%), water (14%), spirits (11%) and live animals (7%).

The OECD held a focus group meeting with representatives of Georgia's agribusiness sector in May 2019. The meeting provided a platform to discuss some of the major constraints faced by SMEs operating in the sector:

- SME have difficulties accessing financing, due to stringent regulations and collateral requirements. The lack of specialised financing instruments for SMEs (e.g. trade finance for export-oriented SMEs) also warrants further attention.
- Underdeveloped value chains and infrastructure deficiencies constrain access to markets and the productivity of SMEs in the agribusiness sector. Irrigation and drainage systems often date back to the Soviet era, and further investments are needed to develop cold chains and transport and storage infrastructure.
- Agricultural land in Georgia is highly fragmented (the average farm size is 1.3 ha, and 98.4% of farms are less than 5 ha in size). While recent reforms have substantially improved the system of land registration, an important share of Georgia's agricultural land remains unregistered. This results in weak incentives to invest in agricultural land, and difficulties for small-scale producers to grow and take advantage of economies of scale.

- Farmers face difficulties establishing supply-chain linkages with large-scale food processing and retail enterprises, and tend to prefer spot market transactions to the establishment of longer-term supplier relationships. This can be explained by the lack of trust between actors in the value chain, weaknesses in the regulatory framework for contract enforcement, and the inability of SMEs to provide a stable supply of high-quality products.
- SMEs often lack the necessary skills and resources to comply with EU and other international regulations and quality standards.

Further policy attention is needed to ensure the continued growth and development of Georgia's agribusiness sector. As a first step, the government could work to expand the provision of targeted financing and training programmes for SMEs. Addressing the issues surrounding land ownership and the fragmentation of agricultural land is critical to attract investment from both foreign and domestic sources. Additional investments are also needed to bridge the infrastructure gap in rural areas and facilitate SMEs' access to markets. Finally, the government could strengthen the contract enforcement system and facilitate business linkages to connect farmers with food processors and retail chains, leading to sustained increases in productivity, the adoption of new technologies, and improved quality.

The way forward

Georgia has made further progress since 2016 by adopting a more strategic approach to small and medium-sized entrepreneurship development through targeted initiatives. The following measures could be considered by the government to further strengthen the system:

- While Georgia has made significant progress in creating a favourable business environment for SMEs, it still has room for improvement in ensuring a level playing field for all firms. Thus, the Georgian economy would benefit from strengthened competition enforcement to effectively tackle cartels, anti-competitive mergers, and abusive market conduct. In addition, the GCA should be granted effective dawn-raid powers to uncover illegal cartels and greater flexibility when using enforcement instruments, including longer legal deadlines. In order to attract and retain highly qualified lawyers and economists, the GCA budget should be revised and its staff salaries significant increased. Moreover, merger notifications and requests for information must be enforceable, if necessary with sanctions for non-compliance. When it comes to contract enforcement, despite impressive results in *Doing Business* 2020 (World Bank, 2019[7]), Georgia should continue working to improve the quality of its dispute resolution system by ensuring that judges treating commercial disputes are well trained and have an adequate workload. In addition, raising awareness of the availability and benefits of ADR use for SMEs, and leveraging incentives for greater ADR use for commercial dispute settlement, could be important steps towards building an ADR culture among the business community in Georgia. Furthermore, Georgia has taken important steps towards strengthening its anti-corruption framework and introducing mechanisms for corruption prevention (whistle-blower platform, beneficiary owners disclosure) and prosecution (criminal liability of legal persons for corruption). However, further efforts are needed to promote business integrity within SMEs, by carrying out a business integrity risk analysis when developing anti-corruption policy, and

conducting awareness-raising activities for SMEs on the benefits of adopting integrity practices.

- Although a series of amendments to the Law on Insolvency Proceedings have been recently introduced, the insolvency legislation could be further improved to reach international standards. Moreover, out-of-court settlements or simplified in-court proceedings should be implemented to make it possible for the SMEs to avoid selling all their assets when fearing insolvency. The newly introduced electronic system, which is expected to increase the transparency of the procedures, is yet to be fully applied. Additionally, although some pre-insolvency services and tools are already available to SMEs, Georgia should implement an institutional early-warning system to systematically identify distressed companies. It is also necessary to develop a dedicated strategy based on a large-scale information campaign to better promote second chance for entrepreneurs seeking a fresh start.

- As regards the way forward in the area of entrepreneurial human capital, in *entrepreneurial learning*, moving on from subject-specific approaches to EntreComp, options for cross-curricula developments should be considered, with specific attention paid to integrating concrete entrepreneurial experience through school-based learning. Also, in cooperation with the private sector and civic interest groups, the Georgian authorities should consider reinforcing university contribution to regional development as part of a wider smart specialisation drive.

  Strategic developments in *women's entrepreneurship* will require more-comprehensive intelligence on women's contribution to the economy. To this end, the Private Sector Development Council should consider the merits of more developed data and analysis for policy improvements, monitoring and evaluation. In addition, with the lion's share of women's start-ups confined to two of the country's nine regions, support for women's entrepreneurship should be a core feature in wider regional development planning.

  With regard to *SME skills*, greater outreach of training services to SMEs is needed, particularly in outlying regions. This should build on the capacity of Enterprise Georgia in developing their on-line training provision.

- Access to finance has somewhat improved for SMEs in Georgia in recent years, but the level of dollarisation remains substantial despite the efforts of the National Bank of Georgia. As a way forward, the government should continue to implement its de-dollarisation action plan, including through raising awareness of FX risks among borrowers and, for instance, developing local capital markets and developing an investor base to support long-term local-currency bonds and other financial assets. Adoption of the reformed framework on leasing and factoring, accompanied by an awareness raising campaign, will be critical to diversifying access to finance and fostering financial inclusion in the medium-to-long term. New legislation on financial leasing would encourage the development of leasing services by guaranteeing the stability of the industry and increasing the legal certainty of leasing transactions. Introducing a legal framework on factoring could help boost cash flow for SMEs and help entrepreneurs better assess and trade with high-quality customers. Furthering efforts to establish a regulatory framework for crowdfunding would further help stimulating start-up financing.

- Georgian SMEs' access to markets can be further facilitated, firstly by promoting SME participation in public procurement. To this end it is important to invest in

contract management training for contracting authorities to contrast the apparent weak institutional capacity. More can be done also in terms of SME-specific procurement data collection, by improving options to access and extract public procurement data. With regard to standards and technical regulations, Georgia should enhance its adoption rate of European standards. Market surveillance should also be reinforced by introducing regular evaluation of implementation of legislation. In order to continue to encourage SME internationalisation, Georgia should increase the scope of its existing export promotion programmes and ensure their proper evaluation. In addition, the government should tackle SMEs' limited access to finance by introducing targeted financial support, such as trade insurance and export working capital.

- Despite Georgia's improvements in this regard, more can be done to improve the performance in Innovation and Business Support. Although BDS function well in the country, the government could further promote their development by establishing a single information portal in the form of a national online platform, in order to increase overall awareness of the availability of BDS. Many steps have been taken to improve the policy environment for innovation, and the government should now focus on monitoring the economic impact of the many financial instruments introduced, promoting channels for science-industry interactions by strengthening the linkages between businesses and the research infrastructure, and increasing the role of demand-side policies to incentivise diffusion of innovative products and services, for instance by upgrading public procurement standards. Several actions have been implemented regarding greening SMEs in Georgia; nevertheless, these too can be made more effective by being expanded and supported more directly by budgetary funds, so that they are sustainable in the long term. Awareness among SMEs of the benefits of adopting green practices can benefit from moving responsibility for greening SMEs into Enterprise Georgia's portfolio of activities, or from increasing their collaboration with the Ministry of Environmental Protection and Agriculture and the Environmental Information and Education Centre.

Conclusion

Table 10.5. Georgia: Roadmap for policy reforms

Promoting a level playing field for all enterprises
• Provide the GCA with adequate investigation and sanctioning tools, including the power to conduct dawn raids
• Increase the GCA budget to allow for recruitment of highly qualified staff
• Introduce monitoring mechanism to address deficiencies of the e-court system and evaluate its efficiency
• Ensure that judges treating IP disputes undergo continuous training in IP law and have an adequate workload to provide for high-quality IPR dispute resolution
• Develop and conduct awareness-raising activities to promote ADR use by SMEs in resolving commercial disputes (training, workshops and roundtables for the private sector, with a particular focus on SMEs)
• Support granting the Business Ombudsman (BO) of Georgia *amicus curiae* function, which would enable the BO to submit recommendations to court or assign a lawyer to businesses in resolution of administrative disputes.
• Conduct a study of integrity risks for businesses (with a focus on SMEs and with active engagement of business associations and civil society) as part of anti-corruption policy development
• Introduce an effective mechanism for verifying the validity of final beneficiary information

- Ensure effective enforcement of existing criminal liability provisions through strengthening the capacity of judges and lawyers, and by providing the judiciary with effective investigative tools and a reasonable time for investigation of corruption crime
- Raise SME's awareness of the benefits of business integrity through workshops, forums and round tables, and introduce incentives for companies to adopt corporate ethics and compliance instruments

Strengthening the institutional and regulatory framework and operational environment

- Elaborate a new SME Development Strategy beyond 2020 through a process of inter-governmental and public-private consultations (PPCs); ensure consistency with the country's medium-term strategy and promote advanced monitoring and project-evaluation mechanisms
- Make sure that the RIA SME-test is systematically applied and that the results are discussed with the private sector and taken properly into consideration in the legislative and regulatory approval process
- Further improve tax administration procedures by reducing the time required to fulfil tax payment requirements
- Continue to streamline the insolvency framework by introducing out-of-court settlements and simplified or pre-packed insolvency proceedings for SMEs
- Implement an early-warning system for detection of insolvency
- Adopt a comprehensive and proactive second-chance strategy for bankrupt entrepreneurs

Promoting skills and entrepreneurship development

- Moving on from subject-based approaches, EntreComp should be addressed transversally across the curriculum and backed up by teacher training (pre-service and in-service)
- The Private Sector Development Advisory Council should consider the merits of an improved state-level intelligence framework (data, analysis, monitoring and evaluation) for women's entrepreneurship
- Reinforce GITA's online training developments to widen outreach to SMEs in outlying regions

Facilitating SME access to finance

- Support the diversification of financing to enable small businesses to access funding. This should include completing the reform of the legal and regulatory framework for leasing and factoring, and furthering the development of a framework for crowdfunding
- Continue efforts to reduce the level of dollarisation in the financial sector, in collaboration with international donors

Supporting SME access to markets

- Increase the scope of export readiness and SME–FDI linkages programmes provided by Enterprise Georgia and ensure their proper evaluation
- Introduce financial support programmes for exporting SMEs
- Carry out regular evaluations of the legislation implementation regarding technical regulations and legislation on metrology and market surveillance taking into account private sector needs
- Improve the ability of the contracting authorities to ensure wider competition through better needs identification and planning, less restrictive specifications and the use of award criteria other than the lowest price

Enhancing SME competitiveness

- Develop a single information portal containing information on all institutions and agencies offering programmes, including a BDS component and listing private quality-assured BDS providers
- Monitor the economic impact of the many financial instruments introduced, in particular on the SME sector
- Strengthen the linkages between businesses and the research infrastructure, especially for projects receiving support from the Rustaveli Foundation
- Increase the role of demand-side policies in incentivising the diffusion of innovative products and services, for instance by upgrading public procurement standards
- Provide a single point of access for SMEs to get information on implementing green practices, ideally through an existing SME development body such as Enterprise Georgia
- Incorporate policies to support SMEs in adopting greener practices into overall support for enhancing SME competitiveness

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Notes

[1] In USD, *per capita* FDI over the period was second only to Azerbaijan among EaP countries.

[2] The low estimates of the informal sector provided by Geostat (around 10% of GDP) are not in line with estimations from the IMF, according to which Georgia figures among the largest shadow economies (with a size of 64.9% of GDP). Such discrepancy may be due to differences in the methodology used. For more on this, see (Medina and Schneider, 2018[5]).

[3] In Geostat's previous SME definition, "medium-sized" enterprises employ up to 100 employees and have a turnover of up to GEL 1.5 million (~ EUR 500 000) annually. "Small" enterprises employ up to 20 employees and have a turnover of up to GEL 500 000 (~EUR 170 000) annually.

[4] Georgia ranks 3.3/7 on *efficiency of the legal framework in settling disputes* indicator, and 3.6/7 on *judicial independence*.

[5] An *amicus curiae*, or "friend of the court", is someone who is not a party to a case (and who may or may not have been solicited by a party) who assists the court by offering information, expertise,

or insights that have a bearing on the issues in the case; the information is typically presented in the form of a brief.

[6] Amendments to the Law of Georgia on Conflicts of Interest and Corruption in Public Service, "Protection of Whistle-blowers" (Chapter V).

[7] The low estimates of the informal sector provided by Geostat (around 10% of GDP) are not in line with estimations from the IMF, according to which Georgia figures among the largest shadow economies (with a size of 64.9% of GDP). Such discrepancy may be due to differences in the methodology used. For more on this, see (Medina and Schneider, 2018[5]).

[8] http://procurement.gov.ge/getattachment/ELibrary/metod-mititebebi-da-recomendaciebi/SME.pdf.aspx.

[9] In 2018, 75% of public procurement by value was accounted for by contracts of less than GEL 50 000 each.

[10] No award, no bids, cancellation; see http://charts.procurement.gov.ge/eng/index.php?page=chart9

[11] In addition, the SPA has since 2017 separately published data on www.stats.spa.ge and www.opendata.spa.ge.

[12] *European Standards* is abbreviated "EN" owing to the more literal translation from French/German as "European Norms".

Chapter 11. Republic of Moldova: Small Business Act country profile

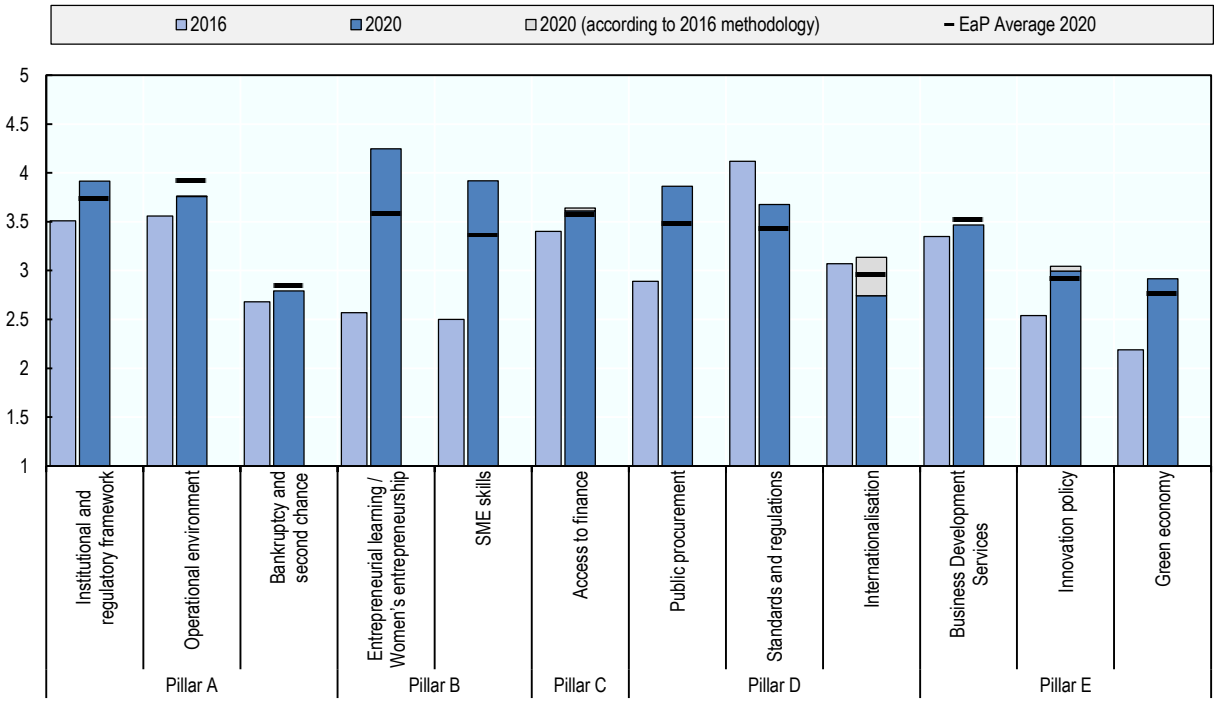
Since 2016, the Republic of Moldova has made moderate progress in further developing a conducive business environment for SMEs. Moldova has advanced in the implementation of the SME Development Strategy 2012-2020 with substantial progress in the reduction of burdensome regulation, the implementation of regulatory impact analysis and the provision of business development services for SMEs. Noteworthy reforms also include reinforced policy framework for entrepreneurial learning, start-up support for young entrepreneurs, an expansion of the credit guarantee scheme, broadened e-government services and a formalised public-private dialogue platform.

In future, Moldova should focus on promoting a level playing field for all enterprises through effective competition policy and a transparent and independent judiciary. Considerable work remains to be done to promote entrepreneurial learning, including meeting the specific skills requirements of SMEs. The limited internationalisation of Moldovan SMEs is a long-term challenge, and more emphasis could be placed on making better use of Moldova's DCFTA with the EU. In addition, Moldova could further support the innovation activities of SMEs and their transition to the green economy.

Key findings

Figure 11.1. SME Policy Index scores for Moldova

Country scores by dimension, 2020 vs. 2016



StatLink http://dx.doi.org/10.1787/888934087629

Table 11.1. SME Policy Index scores for Moldova, 2020 vs. 2016

Pillar	Dimension	MDA 2020	MDA 2016	EaP average 2020	*MDA 2020 (2016 methodology)*
A	Institutional and regulatory framework	**3.92**	3.51	3.74	3.92
	Operational environment	**3.76**	3.56	3.92	3.76
	Bankruptcy and second chance	**2.79**	2.68	2.85	2.69
B	Entrepreneurial learning / Women's entrepreneurship	**4.25**	2.57	3.58	n.a.
	SME skills	**3.92**	2.50	3.36	n.a.
C	Access to finance	**3.61**	3.40	3.57	3.64
D	Public procurement	**3.86**	2.89	3.49	3.86
	Standards and regulations	**3.68**	4.12	3.43	3.39
	Internationalisation	**2.74**	3.07	2.96	3.13
E	Business Development services	**3.47**	3.35	3.53	3.47
	Innovation policy	**2.99**	2.54	2.92	3.04
	Green economy	**2.92**	2.19	2.77	2.92

Table 11.2. Implementation progress on SME Policy Index 2016 priority reforms – Moldova

Priority reforms outlined in SME Policy Index 2016	Key reforms implemented so far
Pillar A – Responsive government	
Adopt the new SME law	Public-private consultation finalised
Formalise public-private consultation mechanisms	Simplified regulation introduced
Continue regulatory simplification in key areas	RIA framework implemented by all the relevant institutions
Pillar B – Entrepreneurial human capital	
Introduce a national vocational school graduates' tracking system	Expanded provision of services in the area of entrepreneurship key competence development through the establishment of the Centre for Entrepreneurial Education and Business Support
Conduct policy consultations on training needs assessment and quality assurance frameworks	A dedicated 'Women in Business Programme' implemented by ODIMM
Further develop and offer e-training for SMEs	
Pillar C – Access to finance	
Improve corporate governance and transparency in the banking sector (including strengthening the capacity and mandate of regulators)	The financial sector has seen increased levels of stability and international investor interest following the IMF-led review
Fill regulatory gaps regarding non-banking financial institutions	A 2018 law on "non-bank credit institutions" has brought various forms of alternative finance under one regulatory umbrella, strengthening, for example, leasing regulations
	A survey of the general population's levels of financial literacy was undertaken in 2018
Pillar D – Access to markets	
Adopt the Export Promotion & Investment Attraction Strategy (2016-2020)	Investment Attraction and Export Promotion Strategy adopted
Implement DCFTA provisions for public procurement	New public procurement law adopted
Pillar E – Innovation and Business Support	
Improve existing support for the development of a business development service market	Supply of business development services increased in co-operation with the private providers
Expand and promote existing financial schemes for SME innovation and greening	National Agency for Research and Development established

Context

Economic snapshot and reform priorities

Growth in Moldova has recovered remarkably quickly from the slowdown caused by the banking crisis and an unfavourable international environment, which resulted in a contraction in 2015 (Table 11.3). This reflects improvements in both external economic conditions and domestic fundamentals (World Bank, 2018[1]). In 2018, unemployment and inflation rates reached their lowest levels since 2010 (3.4% and 3.1%, respectively) and, together with lower interest rates on new loans, contributed to a modest increase in investment and domestic demand. Personal remittances, which amounted to 16.3% of GDP in 2018, continue to play an important role in Moldova, affecting domestic demand and the current account deficit.

Although services represent 55% of GDP, the agriculture sector continues to play a significant role, accounting for 12% of GDP and more than 30% of employment. Manufacturing in Moldova is driven chiefly by its traditionally strong food-processing sector, which accounts for 37% of manufacturing production. However, FDI inflows directed mainly towards the automotive and machinery sectors are changing the landscape of Moldovan manufacturing.

Table 11.3. Moldova: Main macroeconomic indicators, 2013-18

Indicator	Unit of measurement	2013	2014	2015	2016	2017	2018
GDP growth*	Percent, y-o-y	9.0	5.0	-0.3	4.4	4.7	4.0
Inflation**	Percentage, average	4.6	5.1	9.6	6.4	6.6	3.1
Government balance[1]**	Percentage of GDP	-1.6	-1.6	-1.9	-1.8	-0.8	-1.1
Current account balance*	Percentage of GDP	-5.2	-6.0	-6.0	-3.5	-5.8	-10.5
Exports of goods and services*	Percentage of GDP	32.1	31.2	31.9	32.3	31.1	30.4
Imports of goods and services*	Percentage of GDP	63.6	62.0	57.4	55.3	54.5	56.3
FDI net inflows*	Percentage of GDP	2.5	3.6	2.8	1.2	1.7	2.1
General government gross debt**	Percentage of GDP	24.9	30.3	37.8	35.6	31.8	29.7
Domestic credit to private sector*	Percentage of GDP	35.7	31.0	29.1	25.6	22.8	23.5
Unemployment[2]*	Percentage of total active population	5.1	3.9	3.7	4.2	4.1	3.4
Nominal GDP*	USD billion	9.5	9.5	7.7	8.1	9.7	11.3

[1] General government net lending/borrowing.
[2] Modelled ILO estimates.
Source: *World Bank (2019[2]), *World Development indicators;* **IMF (2019[3]), *World Economic Outlook*, both accessed on December 2019.

Moldova has a continuously negative trade balance that is only partially offset by remittances, so the current account shows persistent deficits, reaching 10.5% of GDP in 2018. Vegetable products continue to be the main export commodity, accounting for 30% of total exports, followed by machine and electrical equipment (16%) in 2017 (WITS, 2019[4]). From 2009 to 2017, the share of machinery in total exports increased by 6 percentage points, making it the fastest growing export sector. The EU is the most important and a continuously growing trading partner of Moldova, accounting for 65% of total exports in 2017 (United Nations, 2018[5]).

Although the National Development Strategy "Moldova 2020" is the main strategic economic policy document, the EU-Moldova Association Agreement (AA), the Deep and Comprehensive Free Trade Area (DCFTA) created in 2014, and the IMF programme that followed the banking crisis in 2015 have been important in shaping policy developments in Moldova, stimulating the speed and depth of economic and financial policy reforms.

Moldova has recently developed a new National Development Strategy, "Moldova 2030", which is aligned with both its EU AA and the United Nations' *2030 Agenda for Sustainable Development*. This document will contribute to the strategic allocation of budgetary resources, according to the objectives set for its four basic pillars: (1) Sustainable and inclusive economy, (2) Strong human and social capital, (3) Fair and efficient institutions, and (4) Healthy environment. Although the Strategy does not have specific targets for SME development, many of the priority actions highlighted in the document aim to support entrepreneurship.

Business environment trends

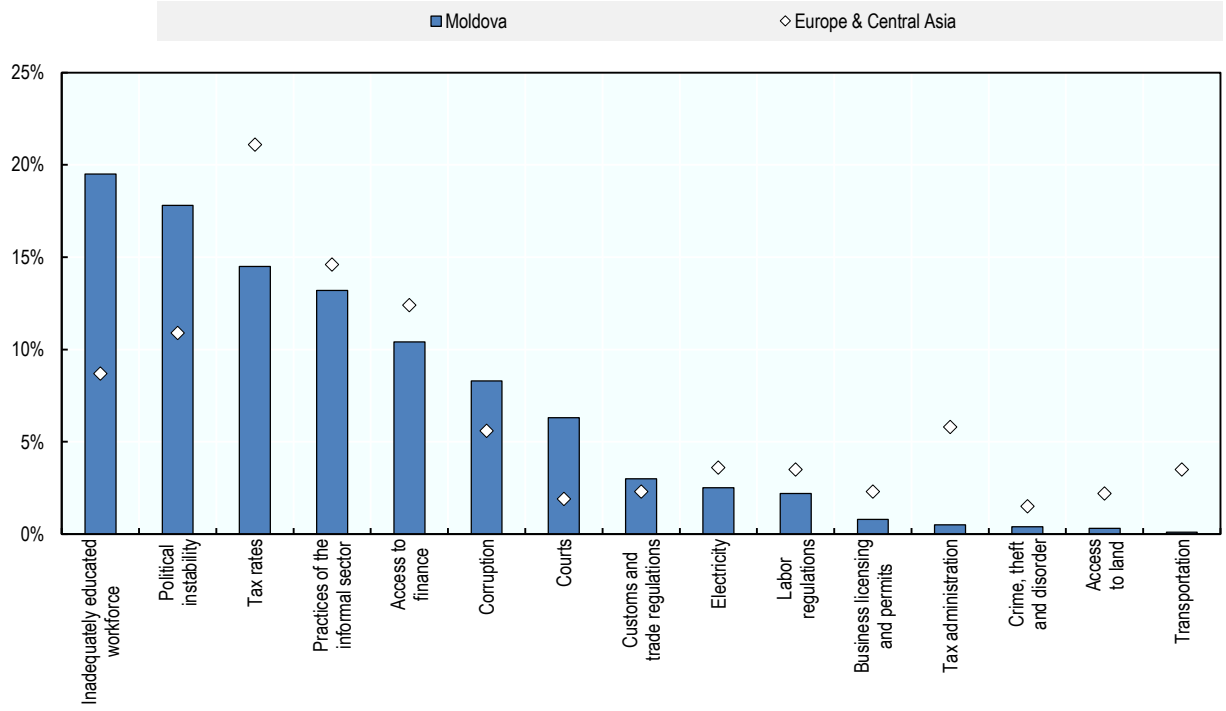
Moldova has advanced in the implementation of its 2012-2020 SME Development Strategy, removing redundant bureaucratic requirements on enterprises, expanding e-government services and implementing programmes to alleviate barriers to doing business. These reforms have been reflected in the 2020 World Bank *Doing Business* report, which ranks Moldova 48th, up from 63rd in 2015. Moldova performs relatively well in the s*tarting a business* and *registering property* indicators, but underperforms in the *dealing with*

construction permits indicator (World Bank, 2019[6]). According to the 2019 Global Competitiveness Index, Moldova ranks 86th out of 141 countries, with the financial system, including the financing of SMEs, (ranked 124th and 93th respectively), remaining one of the most problematic issues despite a slight improvement compared to 2018 (World Economic Forum, 2019[7]).

Despite major improvements in the operational environment for both domestic and foreign companies, important structural challenges remain. For example, massive emigration and a rigid education system have led to shortages of skilled labour – one of the main obstacles to doing business reported by SMEs. In addition, interviews with members of the business community indicate their perception that levels of corruption continue to be very high. Moldova scored 117th out of 180 countries in the Corruption Perceptions Index (Transparency International, 2018[8]). The impartiality and independency of courts continues to be questioned by the private sector, decreasing investors' appetite to expand their activities in Moldova. According to the World Bank's Enterprise Surveys, 27.4% of the interviewed firms identify corruption as a major constraint, while 30.6% identify the courts system as a major constraint. Those value fall considerably above the Europe & Central Asia averages of 19.4% and 10.1% respectively (see Figure 11.2 for more information) (World Bank, 2019[9]).

Figure 11.2. Business environment constraints in Moldova

Percentage of surveyed firms that consider a specific business environment obstacle as the most important one.



Source: OECD World Bank (2020), *Enterprise Survey: Moldova*.

StatLink http://dx.doi.org/10.1787/888934087648

SME sector

The new definition of SMEs adopted in 2016 is in line with EU and international good practices. It uses employment, turnover and balance sheet criteria to determine whether a company is a micro, small or medium enterprise. While the employment criteria are consistent with the EU definition, thresholds for turnover and assets are lower in Moldova, reflecting Moldova's lower per capita incomes.

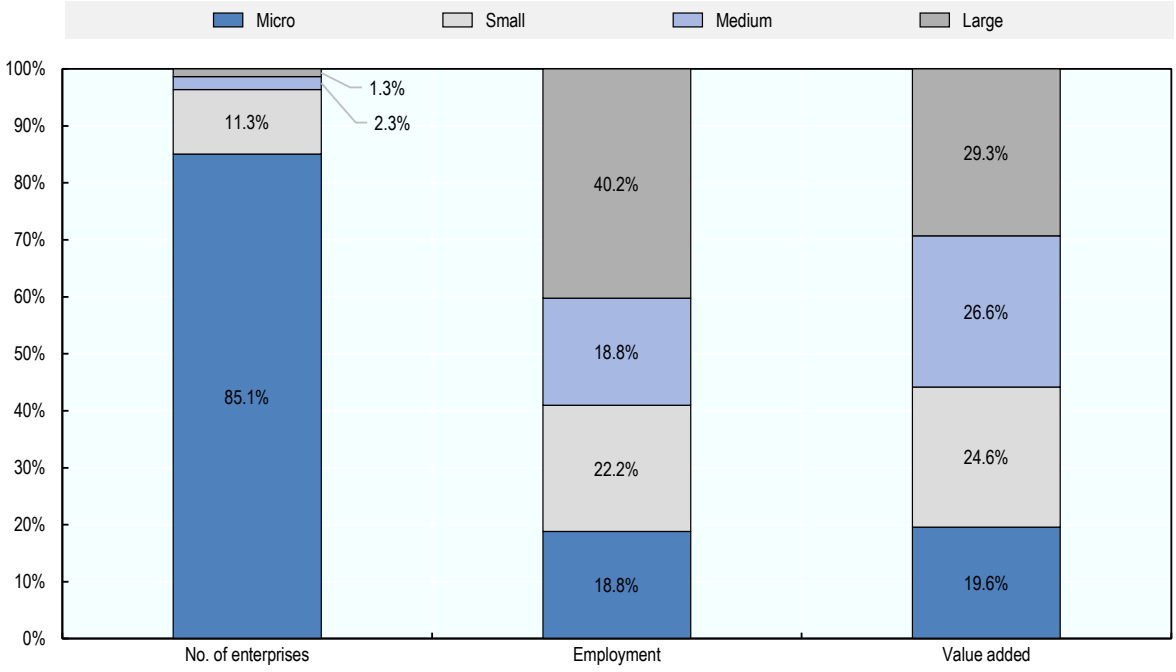
Table 11.4. Definition of micro, small and medium enterprises in Moldova

	Micro	Small	Medium
Employment	< 10 employees	< 50 employees	< 250 employees
Annual turnover	< MDL 9 million (EUR 0.46 million)	< MDL 25 million (EUR 1.28 million)	< MDL 50 million (EUR 2.56 million)
Total assets	< MDL 9 million (EUR 0.46 million)	< MDL 25 million (EUR 1.28 million)	< MDL 50 million (EUR 2.56 million)

Note: Exchange rates as of October 2019, per https://www1.oanda.com/lang/it/currency/converter.
Source: Law No. 179 of July 2016 "With regard to small and medium-sized enterprises."

Under the new definition, 98.7% of all firms in Moldova in 2018 were SMEs (Figure 11.3), accounting for 59.8% of business sector employment and 70.7% of value added (2017).

Figure 11.3. Business demography indicators in Moldova, 2018 or latest available

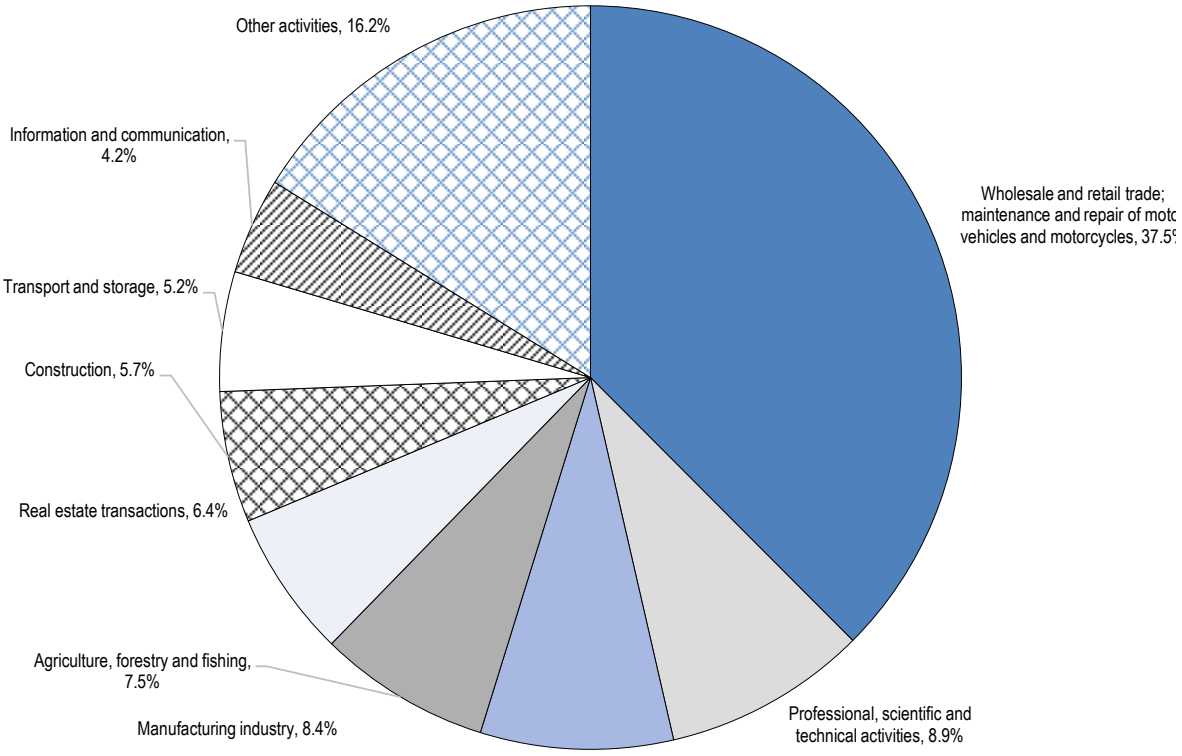


Note: data on the number of enterprises and employment refers to 2018, data on value added refers to 2017.
Source: National Bureau of Statistics of the Republic of Moldova.

StatLink http://dx.doi.org/10.1787/888934087667

SMEs tend to be concentrated in low-value-added sectors (Figure 11.4) – although less concentrated than in other EaP countries – such as trade (including repair of vehicles), professional, scientific and technical activities, and manufacturing.

Figure 11.4. Sectoral distribution of SMEs in Moldova, 2018



Note: "Other" notably includes accommodation and public catering activities, water distribution; sanitation, waste management, decontamination activities, production and supply of electricity and heat, gas, hot water and air conditioning.
Source: OECD calculation based on data from National Bureau of Statistics of the Republic of Moldova.

StatLink http://dx.doi.org/10.1787/888934087686

SBA assessment by pillar

Level playing field pillar

Competition

Moldova has moved steadily towards an effective competition law and policy regime. The Competition Council of Moldova (CC) has the powers and tools required for competition enforcement and makes active use of them. In carrying out its enforcement against anti-competitive agreements, abuses of dominance, and merger control, the CC can compel firms to provide all necessary information, can perform unannounced on-site inspections (so-called "dawn raids"), and can impose remedies, sanctions and cease and desist orders. The transparency of the CC's activities has increased. Guidelines on investigative procedures, the assessment of abuses of dominance, horizontal and vertical agreements, as

well as the CC's decisions are publicly available. The CC also carries out a number of advocacy activities. With regard to public procurement, it holds regular seminars on fighting bid rigging for public procurement officials. In addition, the CC frequently communicates with the government regarding competition issues, it actively comments on draft laws and regulations, and it carries out market studies with the aim of removing barriers to market competition.

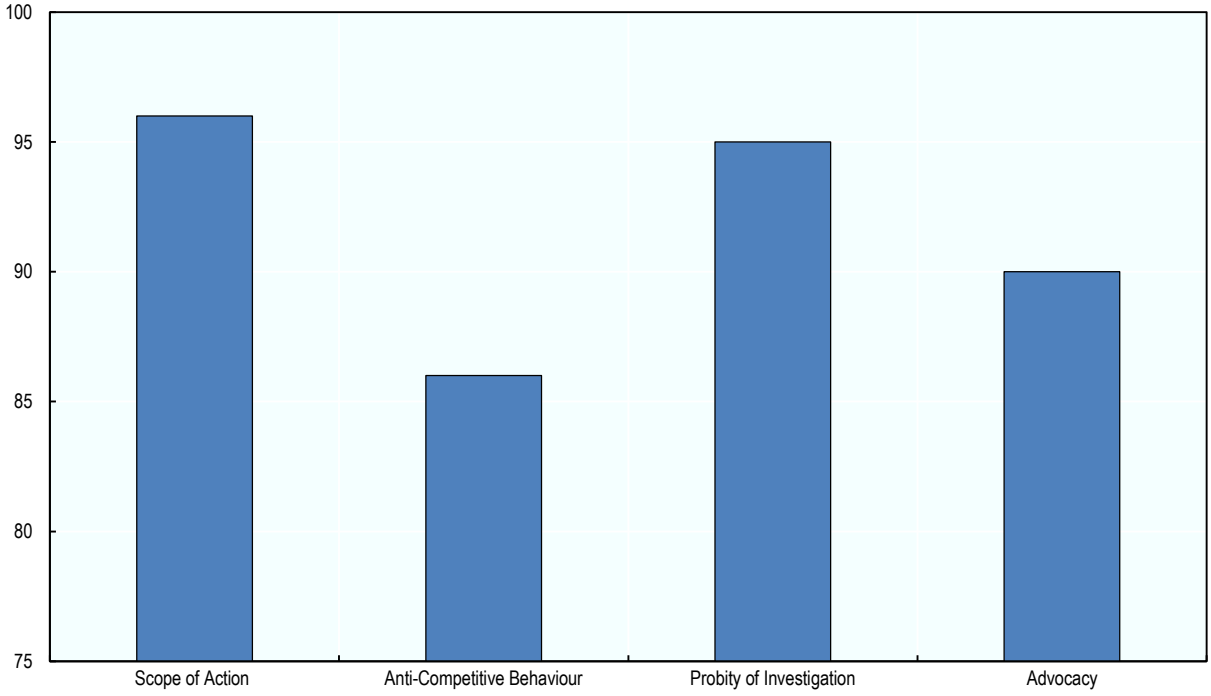
In terms of actual enforcement activity, developments are overall positive. The CC has stepped up its cartel enforcement. The number of unannounced inspections increased from 3 in 2016 to 31 and 27 in 2017 and 2018, respectively. Twice as many cartel cases resulted in fines in 2018 as in 2017, doubling the total amount of fines per year to a total of ~ EUR 500 000. Three decisions on abuses of dominance were issued in 2018. The total number of merger cases, however, amounted to just 41 in the last four years, and they were initiated *ex officio*, as businesses do not seem to take the merger rules seriously. Another important feature of the CC's work is the competition assessment of laws and regulations. It issued more than 300 proposals in 2017/18, of which about 100 were implemented, with a twofold increase in 2018 on 2017.

Moldovan society is characterised by a distrust of state institutions and a large share of the economy is informal[1]. Corruption is pervasive. In such an environment, the competition enforcer needs to do everything possible to establish itself as a trusted and independent authority. Only then will businesses be encouraged to invest and engage in business activity, and to compete with powerful incumbents and SOEs. The CC will need to continue to prove its impartiality and function as a neutral referee. This also means that any kind of political intervention (or the appearance thereof) in enforcement or staffing of ODIMM, the national SME Development Agency, needs to be avoided. Independence and neutrality in enforcement, as well as high-quality enforcement, require a budget sufficient to enable the CC to attract and retain highly qualified staff.

The lack of merger notifications suggests an insufficient awareness among the business community of the competition law requirements. The CC should continue to expand its advocacy activities, and should ensure that it uses every business contact as an advocacy opportunity. This includes being open to discussions, informal conversations, and reducing administrative burden wherever possible. Businesses should not perceive the CC as an additional burden, but as an advocate on their behalf.

Figure 11.5. Competition policy in Moldova

Percentage of formally adopted competition criteria, as of June 2019



Note: The chart above refers to the percentage of competition policy criteria formally adopted in the legal framework. It gives equal weight to all criteria. This does not illustrate actual enforcement activity in terms of relevance or quantity, and about the relevance of the criteria lacking or met.

Source: SBA questionnaire, interviews with Competition Council of Moldova and business associations.

StatLink http://dx.doi.org/10.1787/888934087705

Given that the Moldovan CC has a significant enforcement track record, a deeper assessment of the quality of the enforcement and the legal framework could provide interesting insights into and recommendations on how to further improve competition enforcement in Moldova, and how to align better with international best practices. Peer reviews, as conducted by OECD or UNCTAD, can be a useful instrument, especially considering that Moldova has so far not undergone such an exercise.

The active competition assessment work, as well as the advocacy directed at public procurement officials, could benefit from the relevant OECD guidance and materials – the OECD Competition Assessment Toolkit[2] and the OECD *Recommendations for Fighting Bid Rigging in Public Procurement*[3] – as well as from training in the use of these tools.

Contract enforcement and alternative dispute resolution

Enforcing contracts in Moldova remains a lengthy and cumbersome process, taking 585 days and costing 28.6% of claim value with no changes compared to 2016 performance (World Bank, 2019[10]). In addition, no system is in place to monitor the execution of judges' decisions and major gaps persist in the information available on pending enforcements (Council of Europe, 2017[11]). The World Bank has found in its Enterprise Surveys that 30% of small firms and 31.8% of medium firms identify the courts system as

a major constraint (Europe and Central Asia averages are substantially lower, namely 9.4% and 12.3%) (World Bank, 2019[9]).

Despite this static picture, the government has recently made efforts to strengthen the regulatory framework for contract enforcement in the country. A new procedure for small claims, providing SMEs with a faster dispute resolution, has been available since June 2018. Automation of court procedures is under way, with random case assignment to judges introduced and publication of court judgements in place. The courts' automation, however, will require a major modernisation of the IT infrastructure, which may be challenging given the limited public funds available for justice system reform. As a result, the adoption of key court procedures providing for speedier and more transparent contractual dispute settlement (e.g. e-filing, e-service of process, e-payment of court fees) is progressing slowly. In future, the government should further ensure the effective rollout of the e-justice system to make e-courts fully operational, while also monitoring the performance of the system to address its deficiencies.

Businesses also have limited protection when it comes to appealing administrative decisions directly affecting their property. Public-to-private litigation lacks an independent body to protect businesses' rights in the case of unlawful action or inaction by the public authorities. The establishment of such an institution (i.e. a Business Ombudsman) appears a clear priority for reform.

As regards protection of intellectual property rights (IPR), Moldova has introduced the National Strategy on IPR until 2020, which includes provisions to sanction IPR violations and develops specific IPR protection services for SMEs. However, the enforcement of IPR in Moldova remains problematic, as the country ranks 91th in IPR protection in the *Global Competitiveness* Report 2019 (World Economic Forum, 2019[7]). Also, SME-dedicated measures under the Strategy have had limited impact on SMEs' usage of IPR – only 18 enterprises used the service of pre-diagnosis proposed by the government in 2015-17.

Finally, alternative dispute resolution (ADR) mechanisms are recognised by the legal system in Moldova and are largely available to settle commercial disputes. The Mediation Council under the Ministry of Justice organises and co-ordinates the work of mediators in the country, including certification of mediators and the development of standards and training programmes. While legal provisions favour the use of ADR mechanisms,[4] these currently represent only 1% of civil dispute settlement, with only 264 commercial disputes resolved through mediation in 2018. Going forward, the Government of Moldova could promote ADR within the business community by conducting awareness-raising campaigns and introducing incentives for companies to use ADR.

Business integrity

The National Integrity and Anti-Corruption Strategy of Moldova 2017-2020 includes a component on business integrity that addresses the issues of transparency of private-to-public relations, the integrity of state-owned enterprises, and business ethics. While this is an important development compared to the previous strategy,[5] business integrity policy in Moldova still lacks a risk-based approach and an effective implementation mechanism. The government has not conducted a study of corruption risks in the private sector and, according to the National Anti-corruption Centre (NAC), only two of 14 actions planned under the Action Plan were fully implemented in 2017, while eight were implemented partially. Overall, Moldova's performance in international rankings assessing the level of corruption and economic freedom remains weak. The country ranks 97th in the Heritage Foundation's 2019 Index of Economic Freedom, scoring 59.1 (having risen from 111th

place in 2015, with a score of 57.5), with government integrity and judicial effectiveness among the most problematic areas.

Moldova has introduced criminal liability of legal persons charged with corruption (2012) and reinforced mandatory disclosure of final beneficiaries of companies (amendments introduced in 2012, 2014, and 2016) as elements of its corruption prevention framework in the private sector. However, these prevention mechanisms need to be properly enforced to guarantee their efficiency, while others need improvement. The NAC hotline for reporting corruption is known by the private sector, but the majority of surveyed businesses prefer to abstain from reporting (Centre of Sociological, Politological and Psychological Analysis and Investigations CIVIS, 2018[12]). The adoption of a law on whistle-blowers in July 2018 is an important step towards protecting whistle-blower rights; given the law's short implementation period, however, it is too early to analyse its enforcement and impact on corruption reporting by businesses.

In recent years, Moldovan institutions have implemented a number of actions to promote business integrity and to raise awareness of corruption in the private sector. With the support of UNDP, the NAC carried out a public awareness campaign ("Integrity is freedom") and a training course on the implementation of the international standard for Anti-Bribery Management Systems,[6] and developed a Sample Code of Conduct for SMEs. The Competition Council and NAC launched the Anticorruption Co-operation Platform with the Private Sector, an important tool for disseminating and anchoring business integrity practices within the private sector. In addition, the government could further promote the adoption of compliance mechanisms by SMEs through awareness-raising activities highlighting the benefits of business integrity practices for a company's competitive advantage, and by introducing various mechanisms for better business engagement (i.e. tax reductions, whitelisting of companies, integrity awards, etc.) into integrity practices and wider integrity initiatives.

Pillar A – Responsive government

Institutional and regulatory framework for SME policy

Moldova has developed a well-structured institutional and regulatory framework containing all the main building blocks of a proactive SME policy. Progress since the 2016 SBA Assessment has been moderate, with more marked improvements in the area of regulatory reform and regulatory impact analysis (RIA) application.

Moldova has broadly aligned its SME policy with the guidelines set by the European Union's Small Business Act for Europe (SBA). The country's SME definition, reviewed in 2016, follows on the EU definition. Its SME strategy, covering the 2012-2020 period, is designed according to the EU SBA framework. The policy approach is mainly horizontal, placing a particular emphasis on improving the business climate and reducing administrative burdens, encouraging entrepreneurship (particularly among women and in the less developed area of the country) and improving access to finance for SMEs. A section is dedicated to the role that could be played by remittances, a major national income source in Moldova, for the development of small enterprises. The SME development strategy is aligned with the country's mid- and long-term development strategies, "Moldova 2020" and "Moldova 2030".

The Ministry of Economy is in charge of SME policy and supervises the overall implementation of the strategy, while ODIMM, the national SME Development Agency, is responsible for the implementation of most of the planned actions, according to bi-annual

action plans. Most of the actions foreseen by the strategy appear to have been implemented, and a report on action implementation is available; however, the monitoring reports do not assess the impact of the implemented reforms. The Ministry of Economy, which reports annually to the Council of Ministers on the strategy implementation, is committed to completing an evaluation report by September 2021.

Regulatory reform and the reduction of administrative burdens have been a high priority for the government. Moldova was one of the first countries to introduce the regulatory guillotine process and a number of rounds have taken place, starting from a strictly regulated business environment and having to deal with a complex, inefficient and often corrupted inspection system. Overall, those actions have produced a number of tangible results.

According to the Law on Normative Acts (2017), the application of RIA for business-related legislation should be mandatory, but the practice has not yet been uniformly applied across the public administration. The institution co-ordinating the RIA application is the State Chancellery, through an RIA secretariat, while the RIA methodology has been reviewed in 2016 and brought in line with EU standards.

Moldova has an established practice of consultations with the public and private enterprise sectors. According to the Law on Transparency in the Decision-Making Process (2008), public consultations are mandatory for each legislative and regulatory act that has a social, economic or environmental impact. For this purpose, the government has established a central dedicated website (www.particip.gov.md), but not all branches of the public administration use it to publish draft versions of their legal acts; according to the State Chancellery, 134 draft laws were posted on the website in 2017 out a total of 185 drafts laws recorded by the Chancellery. Meetings regularly take place between SME policy institutions and private sector organisations. Private sector representatives sit on ODIMM's governing body and can present and promote policy initiatives. However, private sector organisations appear to be less active than in the past and have lost some confidence on the effectiveness of public-private dialogue.

Operational environment for SMEs

Moldova has made significant progress in a number of areas related to the operational environment for SMEs, such as company registration and licencing. However, a number of challenges remain related to pervasive corruption and the tendency of public bodies to conduct frequent and often unjustified inspections of private enterprises.

The provision of e-government services is one of the areas where progress has been more notable. In 2016 the government adopted an Action Plan for the Reform and Modernisation of Public Services covering the 2017-2021 period. The action plan's implementation is co-ordinated by the State Chancellery, which presents an annual report to the National Council for Public Administration Reform. Currently, the government provides a wide range of e-government services. Access is granted through an e-signature system and taxes and fees can be paid through the MPay public platform. The availability of internet connection through the country has significantly increased, but the level of IT skills of entrepreneurs remains limited, which prevents the uptake of e-government services.

Company registration procedures have been significantly simplified since 2016. According to the 2020 World Bank *Doing Business* report, it takes three procedures to start a business in Moldova; the entire process takes four days, and the cost is equal to 5% of the country's per capita annual income. In the *starting a business* indicator, Moldova ranks 13th out of

190 countries, up 13 positions since 2016 (World Bank, 2019[6]). Company registration procedures are conducted in one-stop-shops managed by the Public Service Agency, which is present in 26 cities across the country. Company registration can be partly completed online, but the notifications procedures (registration with the tax office, social insurance organisations and the statistical office) have to be conducted in person.

Moldova has introduced a simplified tax regime for sole proprietors and small companies complemented by low tax rates for microenterprises. Enterprises with a turnover below MDL 600 000 (~ EUR 30 734) are subject to a presumptive tax regime and a tax rate equal to 1% of their turnover, but not less than MDL 3 000 (~ EUR 153). Cash accounting can be applied only to sole proprietors. SMEs with a turnover above the MDL 600 000 (~ EUR 30 700) are subject to a tax equal to 4% of the operational income. According to the 2020 *Doing Business* report, ten tax payments must be made each year, and the fulfilment of tax compliance requirements takes on average 183 hours, while the regional average is of 8.5 payments and 220 hours. The post-filing index, measuring the efficiency of the VAT reimbursement system and tax auditing procedures, is also high, standing at 90.8 /100 (World Bank, 2019[6]).

Bankruptcy and second chance

The Law on Insolvency no. 149/2012 continues to define the insolvency framework in Moldova. The legislation provides detailed and rigid timing for bankruptcy (two years in most cases) and restructuring procedures (three years, with a possible two-year extension), as well as a favourable framework for the protection and representation of creditors' rights.

However, enforcement issues cause the actual performances of the insolvency framework to remain below the legislation's objectives. *Doing Business 2020* indicates that the average time required for resolving insolvency is 2.8 years, and related costs amount to 15% of estate – similar levels to those registered in *Doing Business 2015* (World Bank, 2019[6]). The effective implementation of the legislation critically depends on the neutrality and capacity of the judicial system. *Global Competitiveness 2019* ranks Moldova 132th out of 140 with regard to judicial independence (World Economic Forum, 2019[7]). Moreover, the recent (January 2018) decision to transfer insolvency cases from courts of appeal to regular courts of law – in the absence of specialised courts – is expected to further extend the timeframe required to settle insolvency cases because of the judges' lack of expertise.

Although no major improvements in the legal framework have been formally introduced since the previous SBA Assessment, a draft Law amending the insolvency framework was passed in first reading in December 2018 and is currently pending final reading and enactment. The draft Law aims at bringing the insolvency regime closer to international standards, notably through provisions to increase the transparency of procedures, recover a larger portion of the claims, accelerate restructuring procedures, improve the chances of obtaining finance after insolvency, and enhance protection of debtors against abusive creditors.

However, legislation and policies for preventing bankruptcy and the promotion of second chance for entrepreneurs are not sufficiently aligned and proactive, although the concepts are gaining momentum. ODIMM offers a self-test website providing basic information on entrepreneurship, but systematic training, websites, call centres, or an early-warning system for entrepreneurs fearing financial distress are yet to be introduced. As regards second chance, ODIMM was recently involved in the DanubeChance2.0 project, which aims to set up a transnational strategy on second chance in the Danube region, along with training and restructuring services. Moving forward, Moldova should consider implementing a

dedicated policy strategy or information campaign to promote second chance for entrepreneurs seeking a fresh start.

Pillar B – Entrepreneurial Human Capital

In its drive to establish an open, competitive, job-creating economy, the Moldovan government has put poverty reduction and economic growth at the centre of its master plan, Moldova 2020, with education and the business environment as core areas for reform. This pillar first considers how Moldova is addressing entrepreneurship promotion in its education system (specifically against wider developments within the European Union); it then reviews developments in women's entrepreneurship as part of the wider drive for competitiveness. Finally, the text considers how SME skills are addressed. Recommendations for next-step developments in all three areas are provided at the end of the chapter.

Entrepreneurial learning

Since the 2016 assessment, the overall policy framework for entrepreneurial learning has been reinforced through the 2030 national development plan, backing up the 2020 education and SME strategies that give particular attention to entrepreneurial learning. As noted in the 2016 assessment, efforts to promote entrepreneurship key competence in primary, secondary and vocational education are good but continue to be embedded within specific subjects or optional courses (e.g. career design and development of entrepreneurial spirit). The greater part of non-formal entrepreneurial learning is provided by ODIMM (see below) with good efforts by bodies like the National Youth Council to raise awareness among young people of entrepreneurship potential.

A curriculum review planned for late 2019/20 provides an opportunity to reconcile the existing entrepreneurial learning provisions with the European Entrepreneurship Competence Framework, or EntreComp (Bacigalupo et al., 2016[13]). The expertise and support of Junior Achievement in promoting entrepreneurial learning in Moldova, including teacher training and support materials, is important. However, greater responsibility and strengthened capacity for curriculum reform, teacher development and school governance vis-à-vis entrepreneurial learning within the national administration will be important for sustained systemic reforms.

The assessment noted important work by the Center for Entrepreneurial Education and Business Support (CEDA) in vocational education, including development and assessment of entrepreneurship competences. It also noted continued promotion of entrepreneurship skills of pupils in post-secondary vocational education. This should be widened to include more developed entrepreneurial experience through work placements where pupils not only have the opportunity to develop occupational skills but also learn how a business works.

Little strategic progress has been made to promote entrepreneurship in higher education. As in 2016, entrepreneurship in higher education remains confined to individual champions within a number of universities (e.g. Technical University, Academy of Economic Studies). University-business co-operation remains underdeveloped. Universities and the wider higher education community, in particular teaching and research staff, should be better integrated into the country's wider economic drive, including the SBA monitoring framework.

Finally, monitoring of all developments in entrepreneurial learning is covered by the education and economy ministries. Specifically for formal entrepreneurial learning

(education ministry), the annual school reporting framework may not be sufficient to capture progress made as the country moves forward with developing entrepreneurship as a key competence. Meanwhile, dialogue with key stakeholders through the SBA assessment drive highlighted that evaluation of entrepreneurial learning remains misunderstood and considered more in terms of how pupils are assessed. At the time of the SBA review, the Institute of Economic Studies was undertaking a review of entrepreneurial learning activities (formal education only). This suggests the Institute could play a larger role in supporting both the education and economy ministries with evaluation of formal and non-formal entrepreneurial learning, particularly in terms of impact on entrepreneurial intention, employability and start-up activity.

Universities and the wider higher education community, in particular teaching and research staff, should be better integrated into the country's wider economic drive, including the SBA monitoring framework.

Women's entrepreneurship

Following up on a recommendation from the 2016 assessment, very good efforts have been made by the Moldovan authorities to improve support for women's entrepreneurship.

First, the SME Strategy 2012-2020 was revised, giving particular attention to women's entrepreneurship. This includes a dedicated "Women in Business" programme supporting women entrepreneurs through all phases of start-up development: pre-start-up and early-phase development through to business growth. Start-up financing is also available, with projections for 2019-20 of 280 women's start-ups and up to EUR 75 000 in start-up capital per business. Additionally, the Business Academy for Women includes knowledge transfer between experienced entrepreneurs and women keen to scale up their businesses.

Second, the setting of targets for women's entrepreneurship is good practice. ODIMM has set a target of 30% for women within its training drive, including a 30% target set for women within the wider effort to support young entrepreneurs and returning migrants, including loan guarantees and credits (ODIMM, 2016[14]). These targets are already yielding results. For example, under the young entrepreneurs' programme, 45% of those receiving entrepreneurial consultancy are women, with 43% following entrepreneurship training and 30% accessing finance. Further, 34% of 132 occupants of the Moldovan Business Incubators Network are women. But more needs to be done to support women's entrepreneurship in rural areas where employment opportunities are limited and where opting for migration comes at great family and social cost (World Bank, 2017[15]).

In terms of institutional support structures, the National Council for Women's Entrepreneurship established in 2015 has lost momentum, but its mandate remains important: to ensure that government, private sector and civic interest groups can discuss, review and propose policy options to the government.

A Women's National Platform provides links to women entrepreneurs in local communities, and plays an important role in sharing success stories. It cooperates with ODIMM in hosting a Women's Entrepreneurship Contest with prizes for 1) new product/services, 2) innovative start-up, 3) corporate social responsibility and 4) Women Entrepreneur of the Year.

A new initiative by ODIMM, in partnership with other countries in the Danube region, will map and compare policies and good practices in young women's entrepreneurship development. This provides an opportunity to develop and extend women's entrepreneur networks for good-practice exchange.

Notwithstanding the substantial progress on women's entrepreneurship, in terms of policy, data and training provision, challenges remain – particularly in terms of access to finance, with questions raised as to unequal treatment of women by banks and public authorities. By way of example, in applying for a bank loan, women business owners in the retail trade must pledge four times the collateral that men do, and are subjected to more severe tax scrutiny than their male counterparts, including requests for informal payments to tax inspectors (Sahovic, Gimelli and Cicanci, 2018[16]).

SME skills

Since the 2016 assessment, good efforts have been made by ODIMM to ensure a better fit between business training needs and training provision. However, significant challenges remain as to how the public education system can respond to the skills demands of businesses. With some 46% of businesses having difficulty in engaging staff with the skills required, and a third of employers considering skill gaps and mismatches as a significant constraint on business, the business community is 'extraordinarily critical' of the workforce skills base (Hoftijzer and Kheyfets, 2018[17]). Despite the importance afforded to education within the country's national development strategy – Moldova 2020 – more efforts are necessary to ensure that both vocational and higher education are more responsive to the evolving economy. In particular, while reforms to vocational education are ongoing, significant structural reforms across the higher education system are paramount to Moldova's wider drive for innovation, productivity and growth (Gamberoni and Newfarmer, 2019[18]).

The assessment highlighted a range of services offered by ODIMM including start-up training, a network of 11 incubators in operation, loan guarantees, and dedicated training and financing support for young people. Since the last assessment, a 'Start for Youth' programme has been launched to support young entrepreneurs, with 970 young people registering in 2018.

Wider training services for businesses include 1) "Efficient Business Management", comprising core areas like strategic business planning and online marketing, with take-up by approximately 2,500 entrepreneurs; and 2) mentoring services provided by the Business Consultancy and Business Support Centre (CCAA). Further, since the last assessment Moldova has re-launched its virtual platform providing SMEs with access to key business-support information, including training availability (www.businessportal.md).

A particular innovation is the dedicated effort to engage the Moldovan diaspora through the PARE 1+1 Programme, which supports back-home microenterprise developments, which is good practice. The programme mobilises remittance inflows to support business creation, backed up with training. Given their potential to bring value to the economy and job creation, more effort is needed to support training for growth-oriented businesses, which suffer from skills shortages, including training for businesses with potential to trade internationally. Meanwhile, training addressing environmental risk management provided by ODIMM, and more specialist courses on energy conservation by the National Agency for Energy Efficiency, reflect growing awareness for environmental protection.

Good efforts, mostly donor-supported, are being made to promote digital skills within SMEs. Meanwhile, a first analysis has been undertaken on smart specialisation. This identified sector priority areas in Chisinau and outlying regions, as well as innovation potential (including presence of vocational and higher education institutions), including clusters (e.g. business services) and emerging (e.g. creative industries).

Finally, while monitoring of SME training is well established for government-supported programmes, a more system-based approach to evaluation of training programmes is required.

Structured cooperation, joint analysis of skills (weaknesses, gaps and future perspectives) and forward planning, involving sector associations and the vocational and higher education communities is required. This should build on on-going skills anticipation work of sector committees.

More developed focus on training (regulatory, vocational and managerial) for SMEs in priority sectors with growth and export potential.

Given its capacity, consideration could be given to engaging the National Institute for Economic Research as a partner body to the economy ministry and ODIMM to both monitor and evaluate government-supported training programmes.

Pillar C – Access to finance

Moldova has taken certain steps to facilitate SMEs' access to finance. Notable policies include an expansion of the registration system for movable assets, which has improved the ecosystem for registering collateral. The consolidation of the banking sector has shown palpable results, with international investors returning to the country along with the first signs of credit growth recovery. Support for SME finance is heavily donor-dependant, though the expansion of the Credit Guarantee Fund is a positive step in mitigating the perceived risks of SME lending. A 2018 law on non-bank financial institutions is a positive step in diversifying sources of financing for SMEs, though available statistics show limited market penetration of these instruments.

Legal and regulatory framework

Moldova has in place a well-established legal framework on secured transactions, with creditor protection broadly in line with international best practices. Despite these legal safety nets, however, Moldovan insolvency proceedings are prone to long procedures and relatively high costs, and recovery rates are low (World Bank, 2019[6]). With regard to the options available for SMEs to leverage their assets to raise financing, the existing cadastre (fully available online and free for all users) has been complemented with an expanded registration system for movable assets. Widely accepted by banks as collateral, the ability to register movable assets online significantly helps SMEs with limited immovable assets to access financing. This is particularly pertinent in light of heavy reliance on collateral by banks and the very limited coverage of the existing private credit information bureaus – drawing information only from financial institutions, their coverage may have almost doubled since the 2016 assessment, though it still covers only 16% of the adult population.

Banking regulations and oversight have received significant attention in recent years in the context of an International Monetary Fund-led review following the 2014 banking crisis. Reforms introduced in 2018 have continued the implementation of Basel III requirements (to be completed by 2023). While these standards are uniformly applied across institutions, there are exceptions for SME lending.

A further risk disproportionately affecting SMEs is loans in foreign currencies. As of 2015, mandatory disclosure regulation has forced lenders to inform borrowers of the additional risks associated with these loans. At the same time, only internationally exposed SMEs are legally able to access foreign currency loans, limiting potential demand from borrowers simply lured by the lower interest rates (typically about half those offered for local-

currency loans). However, in the absence of a large-scale mechanism to encourage or facilitate local currency lending, the likelihood of SMEs taking on disproportionate foreign-exchange risks continues to exist.

The local stock exchange, while operational and centrally regulated, does not represent a feasible source of financing for local businesses, given heavily fluctuating trading levels and the absence of an operational separate market for SMEs.

Sources of external finance for SMEs (bank financing, non-bank financing and venture capital)

Banks represent the primary source of financing for local SMEs in Moldova. This segment was therefore particularly affected by the sector crisis of 2014-15, as reflected by four subsequent years of decreasing domestic credit provided to the private sector (from 35.7% of GDP in 2013 to 22.8% in 2017) (World Bank, 2018[19]) . Positive credit growth returned in 2018 in a first sign of recovery, though this has been led primarily by consumer and mortgage lending. However, the sector does show signs of consolidation, revitalisation and stabilisation, as well as international investor interest.

SME support programmes are offered through virtually every major bank, though they tend to be both donor-funded and targeting a very specific segment or use. Government support schemes also include interest rate subsidies, which are generally considered to be a less sustainable mechanism. A positive development since the last assessment is the 2018 expansion of the Credit Guarantee Fund, both in monetary terms and in terms of its design and offerings; improved monitoring and evaluation of the Fund should aid in improving the scheme where most needed, while complementary assistance and training services aim to create a holistic support programme for SMEs previously considered less bankable. Information on both public and private sector support measures is available on a central, donor-funded web portal,[7] providing information on the ecosystem of financing and support mechanisms available to the various SME segments.

In the sphere of non-bank financing, a notable improvement has been the 2018 law on "non-bank credit institutions", which brings various forms of alternative finance under one regulatory umbrella. For example, leasing regulations have been strengthened and all oversight consolidated under the National Commission for Financial Markets. Due to a lack to up-to-date and methodologically consistent statistics, it is difficult to judge the uptake of this financing mechanism, though the existing data suggests an increase.[8]

Microfinance institutions have a long tradition in Moldova, which has a continuously growing number of MFIs and a largely self-sustaining industry. The increase in MFIs has been accompanied by a 15-20% annual growth in loan volume, though the vast majority of loans (83%) continue to go to individuals, with business entities accounting for a combined EUR ~39 million in total annual volume. While substantive improvements have been made, this shows that microfinancing still has a very long way to go to be considered a realistic alternative source of finance for a large segment of SMEs.

In the field of factoring, dedicated regulation is in place, though it could be further improved through the inclusion of additional elements, such as provisions for electronic factoring. Additionally, no statistics are available to assess market penetration of this instrument.

Lastly, plans to introduce a dedicated legal framework for venture capital have existed for years, but they have yet to materialise. Since 2015, a draft law taking into account existing

EU regulations has essentially been dormant – although, in an encouraging sign, it is currently under review.

Financial literacy

In what constitutes a very positive step forward, the government in 2018 carried out a survey on the general public's levels of financial literacy. While it did not include a focus on existing enterprises, it should nonetheless provide a good baseline around which to determine policy needs. Consequently, the roadmap currently under discussion on developing the general population's financial literacy would provide a framework for centrally co-ordinating various support programmes. This would go a long way in alleviating the currently disparate approach of ad hoc training without centralised planning and evaluations. Specific training courses in financial literacy for existing entrepreneurs (including information on financing) are currently organised by ODIMM and are widely advertised online and offline. The current initiatives provide an excellent opportunity to bring this existing infrastructure under a central umbrella with dedicated co-ordination, monitoring and evaluation, allowing for truly evidence-based and targeted policy making.

Pillar D – Access to markets

Public procurement

Public procurement in Moldova is regulated by the public procurement law (PPL) adopted on 3 July 2015 and in force since 1 May 2016, with some subsequent amendments. While it was drafted to reflect the EU's public procurement directives of 2004, Moldova's Association Agreement with the EU now requires further amendments in order to conform with the 2014 directives, which add new provisions for facilitating SME participation in public procurement. The same objective is also covered in the SME Development Strategy 2012-2020, e.g. through corresponding training.

The main policy-making institution in the field of public procurement is the Ministry of Finance, with the Public Procurement Agency, subordinated to the Ministry,[9] in charge of policy implementation. Review of complaints is handled, free of charge, by the National Agency for Settlement of Complaints, reporting to the Parliament of Moldova.

The PPL prohibits discriminatory qualification or award criteria and requires them to be proportionate to the nature and value of the procurement. With specific reference to the interests of SMEs, the PPL allows contracting authorities to divide contracts into lots and obliges them to explain the reasons if this is not done. The PPL also allows the use of declarations of conformity with qualification requirements at the time of tendering. Although not specifically aimed at SMEs, explicit provisions in the PPL for preliminary market consultations give them opportunities to learn about business opportunities and present their possibilities and limitations as potential tenderers; measures are envisaged for improving contracting authorities' knowledge of what SMEs can offer. However, a lack of updated secondary legislation, standard documents and guidelines mean that many of the mentioned provisions in the PPL are not yet effective.

The use of simplified procedures or direct agreement is possible in certain, defined circumstances. Small-value contracts are not covered by the PPL, with the threshold for this raised from MDL 80 000 to 200 000, and data on such procurement is not readily available. In principle, notices and tender documents are available free of charge on a single public procurement website.[10] However, gaps may occur in the publication of notices and effective access to the information is limited (e.g. by the use of .pdf files with no search

possibilities). Although no specific data are available, these factors seem to limit the openness and competitiveness of the public procurement market for SMEs. A new e-procurement system is in operation but is suffering from various shortcomings.

While recognising the developments since 2016 as set out above and the current plans for further improvements, the following reform needs with respect to SMEs can be highlighted:

- updating of secondary legislation, standard documents and guidelines to fully match the PPL;
- appropriate regulation and increased transparency of small value procurement;
- enhanced training for contracting authorities and SMEs in their respective roles in the full public procurement cycle;
- enhancement of e-procurement to bring it in line with EU requirements and good practice; and
- enhanced generation and analysis of public procurement data, in particular by wider and more efficient use of e-procurement.

Standards and technical regulations

Moldova's Association Agreement with the EU implies approximation with the relevant EU quality infrastructure framework – including EU standards, technical regulations and conformity assessment procedures – to reduce technical barriers to trade. This process equally entails withdrawing conflicting national standards, in particular Soviet-era GOST standards developed before 1992, from the corpus of national standards.[11]

Major progress since 2016 has taken place in the areas of standardization, accreditation, conformity assessment and metrology. Moldova's legislative and institutional framework, which was reformed during the EU AA/DCFTA negotiations, is operational and now needs regular evaluation to allow for policy refinement and institutional learning. In terms of standardisation, Moldova has adopted about 24 500 European standards and expects full completion of the harmonisation by the end of 2019, which is an outstanding performance among EaP countries; when the harmonisation is complete, SMEs will benefit from a presumption of conformity when exporting to the EU. In addition, about 7 000 conflicting standards from the GOST system have been withdrawn. The Institute for Standardisation is a companion standardisation body member of CEN and CENELEC, and an observing member of ETSI. The Institute for Standardisation has adopted a series of best practices (e.g. a new communication strategy, an online standard search catalogue, a hotline) and cooperates with the national SME agency (ODIMM) to encourage take-up of such tools.

Regarding accreditation, the National Accreditation Centre of the Republic of Moldova (MOLDAC) was recognized as an associate member of European co-operation for Accreditation (EA), a signatory of the EA Bilateral Agreement (BLA) in October 2017, and a signatory of an International Accreditation Forum (IAF) Multilateral Recognition Arrangement (MRA) in February 2019. This should increase international trust towards and reduce costs for conformity assessment of Moldovan SMEs. Moreover, Moldova has aligned its metrology legislation with the EU *acquis* since the last assessment in 2016.[12] The National Institute of Metrology participates in comparisons organized by the International Committee for Measurements and Weights (CIPM) and became an associate member of the European Organization for Legal Metrology Cooperation (WELMEC) in 2017 and a full member of the European Association of National Metrology Institutes (EURAMET) in 2019.

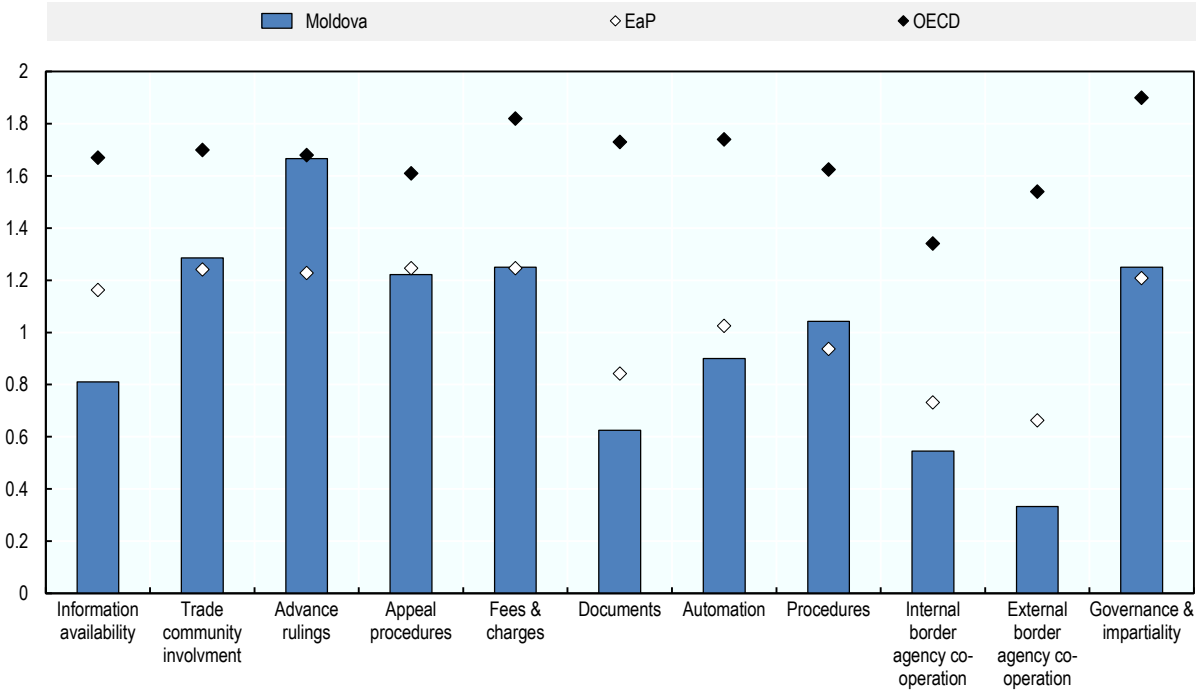
Moldova has made substantial progress towards approximation with the EU Single Market rules over the last three years. Moldova's future challenge is to further develop, based on regular evaluation and feedback from SMEs and civil society, the new quality infrastructure system to ensure that business opportunities generated through the EU AA/DCFTA, and EA BLA (and potentially an EU ACAA) actually materialise. For this purpose, the Ministry of Economy and Infrastructure should expand its existing efforts to help SMEs incorporate EU standards into their business operations and access international markets, e.g. through deepening the co-operation with ODIMM, the Moldovan Investment Agency. Given the complexity of market surveillance, and taking into account the transition from an ex-ante to a mostly ex-post system of market surveillance of products, Moldova should continue to engage in knowledge exchange and capacity building with other regional and international market surveillance authorities.

SME internationalisation

Since signing the AA (including a DCFTA) with the European Union in 2014, Moldova's exports have increased by 15% and currently 70% of Moldova's export goes to the EU markets. However, available data and interviews with the private sector suggest that Moldovan SMEs have not fully exploited the opportunities arising from these agreements. In particular, concerns about food safety and quality of animal-origin food production, prevents Moldovan producers from accessing the EU market. Moreover, sanctions imposed by the Russian Federation in 2014 have had a negative impact on the internationalisation of Moldovan SMEs.

According to the 2020 World Bank *Doing Business* report, Moldova ranks 38th on trading across borders, up from 152nd in 2015 (World Bank, 2019[6]). According to the 2017 OECD Trade Facilitation Indicators, Moldova performs slightly below the EaP regional average, and moving forward could focus on improving information availability related to trade regulations and increasing the involvement of the trade community (OECD, 2017[20]). Moldova's relatively modest performance in the TFIs, newly added in the scoring of the SME internationalisation dimension, contributes to the drop of the score respect to the previous assessment.

Figure 11.6. OECD Trade Facilitation Indicators for Moldova, 2017



Note: TFIs take values from 0 to 2, where 2 designates the best performance that can be achieved.
Source: OECD, Trade Facilitation Indicators Database, https://oe.cd/tfi.

StatLink http://dx.doi.org/10.1787/888934087724

The SME Development Strategy 2012-2020 and the Investment Attraction and Export Promotion Strategy 2016-2020 are the main strategic documents guiding policy developments in the area of SME internationalisation in Moldova. The recently restructured Moldovan Investment Agency (formerly MIEPO) is responsible for a wide range of export support services, but its activities have been mostly limited to supporting the participation of Moldovan companies in international trade fairs. Despite its broad mandate, limited capacity and staffing have prevented the agency from expanding its range of services to encompass more-complex advisory services for exporting SMEs, such as training, market intelligence and consultancy services. ODIMM, with the help of the Enterprise Europe Network, currently provides informational advice for SMEs that are interested in exporting, and the Ready to Trade project (financed by the EU and implemented by the ITC) seeks to improve the international competitiveness of SMEs in the apparel sector. Overall, evidence suggests that SMEs are lacking comprehensive forms of support intended to deal with challenges associated with access to foreign markets. However, there is a plan to launch a comprehensive export-readiness training programme in early 2020. Moving forward, Moldova could ensure that the Moldovan Investment Agency has sufficient capacity to implement its targets and help operationalise the export readiness support programme by ODIMM. It is important to ensure that institutional responsibilities of the two agencies, MIA and ODIMM, are well defined and complementary to one another.

In general, there is a lack of systematic effort to better integrate local SMEs into global value chains. Nonetheless, in 2018, ODIMM, with the help of the Technical Assistance and Information Exchange (TAIEX) instrument of the European Commission, launched two

clusters focusing on the textile and creative sectors. In co-operation with the OECD, the agency is currently designing a pilot programme to stimulate the creation of supply chain linkages between local food producers and food retail chains operating in Moldova.

With regard to SME access to trade finance, there is no specific programme providing financial support for exporting SMEs, with the exception of the Women in Business programme implemented by ODIMM. There is also a limited provision of support programmes promoting SME access to e-commerce.

Pillar E – Innovation and Business Support

Business Development Services

The Government of Moldova has a well-defined vision of business development services (BDS) that is integrated into the relevant policy planning framework and documents, such as the SME Development Strategy 2012-2020 and the corresponding Action Plan 2018-2020.

ODIMM is the main institution in charge of developing and implementing SME support programmes and projects according to the action plan. The various programmes – which target a wide range of beneficiaries including women, young entrepreneurs and rural start-ups – consist of training and mentorship, tools for improving access to finance, and BDS infrastructure (11 business incubators with 180 residents in 2017). However, no study on supply and demand of BDS or SME skills has been carried out in recent years, which would offer insights for a more targeted delivery of support services to enterprises.

General information on business development, financial support and specialised BDS programmes is disseminated through two ODIMM online portals (https://businessportal.md and https://odimm.md), which now include a list of private BDS providers and the option to rate the services received. While general information and advice are provided by ODIMM's staff, training is carried out via subcontracted private providers and is currently free of charge.

Box 11.1. The Organisation for Small and Medium Enterprises Sector Development (ODIMM)

The Organisation for Small and Medium Enterprises Sector Development (ODIMM) is a public institution acting as an executive agency in charge of the implementation of programs and projects for the development of the SME sector in the Republic of Moldova. Established in 2007, ODIMM operates under the supervision of the Ministry of Economy and Infrastructure and currently has 52 fulltime employees.

By providing information, business support services, incentives and financing opportunities to potential and existing SMEs, ODIMM is the leading agency in promoting and sustaining entrepreneurship and SMEs competitiveness in Moldova. ODIMM also maintains the network of 11 business incubators currently operating in country. It administrates seven state programs and a State Credit Guarantee Fund (FGC). Until now, ODIMM trained more than 25 000 potential and existing entrepreneurs, offered more than 2 000 grants, which generating more than EUR 66 million investments, and guaranteed about 380 credits, which facilitated business loans amounting to EUR 21 million.

ODIMM co-operates with a number of international organisations on design and delivery of its services and it acts as the national contact point of the Enterprise Europe Network. It closely collaborates with the Moldovan Investment Agency (MIA), the Chamber of Commerce and Industry (CCI), the National Agency for Research and Development (NARD), regional development agencies, and business-related non-governmental organisations and associations.

Source: ODIMM, https://www.odimm.md/en/; https://businessportal.md/; IOM, http://www.iom.md/organization-small-and-medium-enterprises-sector-development-odimm.

Several programmes, such as *Women in Business* or *Moldova start-up*, now include a co-financing component to spur demand for private consultancy services, with ODIMM covering up to one-third of the consultancy cost. This co-financing mechanism could be further expanded to other support programmes. In addition, quality certification programmes for private providers should be envisaged so that SMEs can access reliable information about BDS providers and select them accordingly.

While there is no independent impact evaluation of government-provided BDS, there are annual reports on strategy implementation published by the Ministry of Economy and Infrastructure as well as monitoring and evaluation results presented in ODIMM's annual activity reports. ODIMM publishes data on SME participation in BDS programmes, as well as on their perception of available programmes. Monitoring could be further improved by complementing basic implementation indicators (number of training events conducted, budget spent, materials distributed) with key performance indicators to better capture programme impact on SME performance.

Innovation policy

Moldova's Innovation Strategy for 2013-2020 ("Innovation for Competitiveness") continues to be rolled out, with the three-fold objective of facilitating technological development of enterprises, building the infrastructure for innovation, and creating the conditions for a knowledge-based economy. Elements of innovation policy are also present in other government strategies, such as the SME Development Strategy 2012-2020 and the

National Strategy for Investment Attraction and Promotion 2016-2020. These documents contribute to a rather well-developed policy framework for innovation – a framework that nonetheless could be further enhanced by 1) including specific targets for innovation in the SME sector and 2) introducing reporting mechanisms to evaluate economic impact beyond implementation of action plans.

The establishment of the National Agency for Research and Development (NARD) is an important development to the institutional setting for innovation since the latest SBA assessment. NARD is the successor of three previously existing bodies implementing state policy in the fields of science, innovation and technology transfer. Among its responsibilities, the Agency should manage national funds for innovation, increase public knowledge of R&D and scientific resources, and develop the activity of the innovation infrastructure. With regard to the latter, a 2018 "Law on Scientific-Technological parks and Innovation Incubators" brings clarity to their objectives, technical requirements and criteria for selecting resident companies. As of early 2019, one scientific-technological park and eight innovation incubators are present in Moldova.

The Government of Moldova offers grants and tax incentives to SMEs to support innovative projects. The most relevant programme is managed by NARD and provides grants for technology transfer projects. These grants require some co-financing from the beneficiaries and are awarded through a competitive selection process that takes into account the degree of innovation of the project, its potential impact and the recipients' capability to implement it. The reach of this programme, however, remains limited: only eight SMEs received funding in 2017 (Ministry of Economy and Infrastructure, 2018[21]). To complement this, the government has introduced VAT and tax exemptions for investment in R&D, which amounted to just below EUR 4 million for 2017.

Lastly, Moldova performs relatively well with regard to the policy framework for non-technological innovation and diffusion of innovation. Both organisational and marketing innovations are recognised in the national strategy as part of the objective of building a more competitive economy, and thematic workshops are periodically organised by ODIMM and NARD to raise awareness and increase entrepreneurs' capacity to manage innovation in SMEs.[13] Furthermore, demand-side policies also play a role in Moldova's innovation ecosystem. Among them, the recent law on public procurement[14] introduces the concept of "innovation partnerships", whereby contracting authorities effectively create incentives to invest in innovation by committing to acquire a good or service that is not yet available in the market.

Moving forward, Moldova could 1) further improve its policy framework by setting specific targets for the SME sector in the national strategy for innovation, and 2) improve its monitoring system by introducing reporting mechanisms designed to evaluate economic impact beyond the simple implementation of action plans for NARD and the national strategy.

Green economy

Moldova has made strides in implementing a clear plan for supporting the greening of SMEs. The Green Economy Promotion Program for 2018-2020 includes the target of providing adequate support to SMEs so that 30% will have implemented green economy principles by 2020, including resource efficiency and cleaner production techniques. This is in line with the "Moldova 2030" National Development Strategy, which links green growth and SMEs to the Agenda 2030 Sustainable Development Goals; and with the

Strategy for SME Development 2012-2020, which includes linking SMEs to the green economy as one of its eight priorities.

However, it is not clear how these ambitious high-level goals will be translated into implementable policies. To ensure that this ambitious target of 30% of SMEs is met, the government needs to clearly define what constitutes adopting green economy principles, and how it will be measured.

Another promising development is the plan to implement sustainable public procurement. Moldova has set the goal of at least 15% of total public procurement being "sustainable" by 2020. Public procurement can be a powerful tool for sending market signals and helping make the business case for greening. However, clearly defined qualifications for what constitutes "sustainable" need to be in place, and SMEs need to be made aware of the opportunity and supplied with the tools necessary to meet the qualifications.

Sectoral analysis: SME perspectives on the agribusiness sector in Moldova

Agriculture and the food-processing sectors are the historical pillars of Moldova's economy. Agriculture accounts for 12% of GDP and more than 30% of total employment. The food-processing sector, at 37% of the value of manufactured production and 26% of the manufacturing employment, is the largest contributor to Moldova's industrial activity.

The structure of the food production is led by the processing and preserving of meat products (24% of value added), then equitably distributed between fruit and vegetables, fish and seafood products, and vegetable and animal oils and fats preparation (15-16% of value added). In 2017, 949 firms operated in the sector, among which 96 were large or medium-sized companies, accounting for 78% of total employment in the sector.

Evidence collected during private-sector focus group meetings and interviews with selected food processors, businesses associations and food retailers provides some insights into the main constraints faced by the companies operating in the sector:

- *Lack of skilled labour* is the most pressing issue for most producers. Mass emigration of the active and qualified population, combined with an education system that does not match market needs, has resulted in a labour shortage in the sector. Despite these limitations, few enterprises take advantage of dual education opportunities to train their staff.
- *Limited access to finance* prevents small producers from modernising their equipment and upgrading processing and packaging practices. As a result, limited innovation activity curtails the competitiveness of local SMEs, which are losing their traditionally strong positions in domestic and foreign markets.
- Low domestic demand and *problematic access to foreign markets* limit growth opportunities. Trade bans on fruit, canned products, and fresh and processed meat imposed by the Russian Federation in 2014, coupled with restrictions on the export of products of animal origin to the EU, prevent local producers from scaling up.

Given the aforementioned challenges, the government could consider the following next steps:

- Besides horizontal policies to improve the overall investment climate, Moldova could consider introducing targeted support programmes (or expanding existing ones) to stimulate the development of the food-processing sector. For example,

strengthening the vocational training system could help tackle the limited supply of skilled labour.

- Further progress in the implementation of AA/DCFTA provisions related to the export of products of animal origin, in addition to targeted support to enhance linkages between food producers and retailers, could expand market opportunities for SMEs.
- Further efforts to enhance the ability of food producers to obtain external financing could stimulate innovation and increase the competitiveness of the food-processing sector.

The way forward

Since 2016, the Republic of Moldova has made moderate progress in further developing a conducive business environment for SMEs. The following measures could be considered by the government to further strengthen the system:

- To ensure a level playing field for all firms, Moldova could step up its efforts in the areas of competition, contract enforcement and business integrity. Thus, Moldova could continue on its promising course to promote competition in the economy and seek to improve and refine the instruments used, paying special attention to institutional independence and improved capacities. In this regard, the CC's budget should be extended to enable the CC to attract and retain highly qualified staff. In addition, the CC's activities in the areas of market studies and competition assessment could benefit from the use of OECD expertise on market studies, and the OECD's Competition Assessment Toolkit, to bring the practices fully in line with best international practice. In order to provide for efficient contract enforcement, Moldova could accelerate the use of court automation, ensure proper qualification of judges treating IP disputes, and promote ADR use by SMEs for commercial dispute settlement. Furthermore, making the study of business integrity risks an inherent part of its anti-corruption policy, putting in place a mechanism to verify the validity of provided information on beneficial ownership, and ensuring proper enforcement of the criminal liability of legal person for corruption would all be important steps towards prevention of corruption in the private sector. In addition, the government should consider promoting business integrity principles within SMEs and introducing meaningful incentives to encourage SMEs to adopt integrity mechanisms.
- As part of its efforts to build a better institutional and regulatory framework, the government should enhance the monitoring and evaluation mechanisms in co-operation with ODIMM, in order to evaluate the impact of the actions planned in the SME strategy. Moldova should also ensure that the RIA methodology, whose mandatory application is stipulated in the 2017 Normative act, is systematically applied throughout the public administration. The country has made significant progress in the provision of e-government services, and the government should maintain this momentum by extending them even more and by introducing measures to upgrade the IT skills of small entrepreneurs. Moreover, company registration should be facilitated by making it possible to complete the whole procedure online, and the impact of the new simplified tax regime for sole proprietors and small companies should be assessed to ensure that SME growth is not discouraged. The insolvency framework and the policies for the prevention of

bankruptcy and promotion of second chance are not sufficiently aligned and proactive, and a proper early-warning system could be implemented.

- As regards the way forward for the area of entrepreneurial human capital, in *entrepreneurial learning,* the European Entrepreneurship Competence Framework should be a key reference in the 2019-2020 curriculum reform plans of the education ministry with specific consideration given to implications for teacher training. A Moldovan 'EntreComp' action plan could be considered. Secondly, the economy and education ministries should jointly call a meeting with the rectors of Moldova's 31 higher education institutions. The objective should be to determine how the higher education community could approach across campus entrepreneurship developments (beyond careers guidance centres and incubators).

  For *women's entrepreneurship,* in terms of institutional efficiency and coherence with wider SME developments, consideration could be given to transferring the mandate of the National Council for Women's Entrepreneurship to a dedicated commission of the SME Council. Meanwhile, given the high levels of poverty in rural areas, particular attention should be given to supporting women's micro-entrepreneurship, with training and finance support schemes built into local and regional development plans. The elaboration and dissemination of an annual report on women's entrepreneurship should also be considered. This would allow, inter alia, for reporting on results against objectives and targets on women's entrepreneurship established within the SME Action Plan (2018-2020) and other instruments.

  In the area of *SME skills,* more structured cooperation between stakeholders involved in SME skills development will be important, including collective analysis of skills (weaknesses, gaps and future perspectives) and forward planning. This should involve sector associations and the vocational and higher education communities and build on on-going the skills anticipation work of sector committees. Secondly, a more developed focus on training (regulatory, vocational and managerial) for SMEs in priority sectors with growth and export potential should be considered. Finally, given its capacity, consideration could be given to engaging the National Institute for Economic Research as a partner body to the economy ministry and ODIMM to both monitor and evaluate government-supported training programmes.

- As regards the promotion of SME participation in public procurement, both contracting authorities and SMEs could benefit from targeted training aimed at raising their status and skill. The e-procurement system should be enhanced and the generation and analysis of data on SME participation in public procurement should be improved. Moldova has made substantial progress towards approximation with the EU Single Market and a future challenge consists in further developing the new quality infrastructure system. SMEs should be provided with further assistance in incorporating EU standards into their business operations and accessing international markets. Finally, Moldova should continue to engage in knowledge exchange and capacity building with other regional and international market surveillance authorities. In order to stimulate SME internationalisation, Moldova should increase the capacity of the Moldovan Investment Agency (to ensure it is adequately resourced to implement its targets) and continue its efforts to integrate local SMEs into global value chains and provide financial support for exporting SMEs.

- The government should further develop the monitoring and evaluation of the current support programmes offered by ODIMM, to measure their impact on SME performance. At the same time, it should perform regular research on supply and demand of BDS in order to better meet SMEs' needs. In addition, it is important for Moldova to further expand the existing co-financing mechanism to other support programmes. To improve efforts to support SME innovation, the policy framework should be further upgraded to include specific targets about the SME sector in the national strategy for innovation. Moreover, the monitoring system should be enhanced by introducing reporting mechanisms to evaluating economic impact beyond the simple implementation of action plans for NARD and the national strategy. Despite the progress achieved by Moldova in implementing a clear plan for supporting the greening of SMEs, it is important to match the plan's ambitious goals with clearly measurable indicators and targets, to ensure that the targets are met. Finally, it is necessary to provide SMEs with clear information and direct support to ensure that they can benefit from the planned implementation of green public procurement policies.

Conclusion

Table 11.5. Roadmap for policy reforms – Moldova

Promoting a level playing field for all enterprises
• Strengthen the CC by providing an adequate budget to attract highly qualified staff, and by improving its economic and IT capacities
• Improve the CC's ability to conduct competition assessments and market studies and follow the recommendations of the CC
• Develop a risk-based business integrity policy in close co-operation with business associations
• Promote business integrity practices through awareness-raising activities and by supporting the compliance initiatives of business associations
• Promote ADR through awareness-raising campaigns and incentives for SME use
Strengthening the institutional and operation framework environment
• Upgrade monitoring and evaluation mechanisms, in co-operation with ODIMM
• Make sure that the new RIA methodology introduced in 2016 is systematically applied throughout the public administration and that RIA is performed according to what stipulated in the 2017 Normative act
• Introduce measures to upgrade the IT skills of small entrepreneurs, in parallel with the extension of the range of e-government services, in order to ensure the optimal utilisation of the e-government service platforms. Conduct regular surveys of user satisfaction
• Upgrade procedures for online registration, so that the entire registration process can be completed online
• Implement a proper early-warning system and insolvency prevention training for entrepreneurs
• Adopt a comprehensive and proactive second chance strategy for bankrupt entrepreneurs
Promoting skills and entrepreneurship development
• Ensure that the European Entrepreneurship Competence Framework features in the 2019-2020 curriculum reform plans, backed up with pre-service and in-service teacher training.
• Improve cross-ministry co-operation to reinforce micro-entrepreneurship for women, including increased options for mentoring and microfinance support
• Further support smart specialisation and vocational education
Facilitating SME access to finance
• Expand the sources of information of the credit bureaus beyond banks to include utilities and other service providers.
• Review existing governmental SME support mechanisms, focussing on the more sustainable approaches (such as the recently expanded Credit Guarantee Fund), employing stringent data capturing, monitoring and evaluation to adjust the programmes as and when needed.
• Pass the draft law regulating venture capital that has been dormant in the legislative process since 2015
Supporting SME access to markets
• Increase the capacity of the Moldovan Investment Agency to deliver export promotion services
• Introduce support programmes to enhance the export readiness of SMEs and the creation of SME-FDI linkages and ensure appropriate capacity in ODIMM to implement such programmes

- Set up a monitoring and impact evaluation system along with measures to incentivise and support SMEs/businesses to implement EU standards, including conformity assessment services to demonstrate compliance with the former
- Implement targeted measure in the field of technical regulation, including mobility subsidies for travel to TC unions, online courses for SMEs on how to read, understand and implement standards and translation of standards in priority sectors/products for external trade
- Monitor what actually happens in the public procurement system, in particular with respect to SMEs, and build the capacity of contracting authorities to apply good public procurement principles and practices

Enhancing SME competitiveness

- Further improve the policy framework by including specific targets for the SME sector in the national strategy for innovation
- Enhance the monitoring system by introducing reporting mechanisms to evaluating economic impact beyond the simple implementation of action plans for NARD and the national strategy
- Expand the existing co-financing mechanism for SME use of BDS in the framework of government support programmes; consider quality certification programmes for private providers
- Improve monitoring and evaluation of current support programmes, measuring the impact of BDS on SME performance
- Match high-level goals for greening SMEs with clearly measurable indicators and targets and actionable policies to translate goals into action
- Provide SMEs with clear information and direct support to ensure that they can benefit from the planned implementation of green public procurement policies

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[8] Leasing statistics are not fully comparable over the years as they only capture about 83% of the market. These existing numbers show a 35% increase in leasing between 2015 and 2017, though almost entirely driven by leasing of "transport means" (93% of leasing volume).

[9] See http://mf.gov.md/en/content/public-procurement and https://tender.gov.md.

[10] https://mtender.gov.md.

[11] Note that this does not involve prohibiting Moldovan businesses, in particular those that trade with EAEU member states, from using GOST or other standards. The application of standards is voluntary and based upon businesses' own decisions.

[12] Law No. 7/2016, including amendments in June 2018 (Law No. 79/2018).

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Chapter 12. Ukraine: Small Business Act country profile

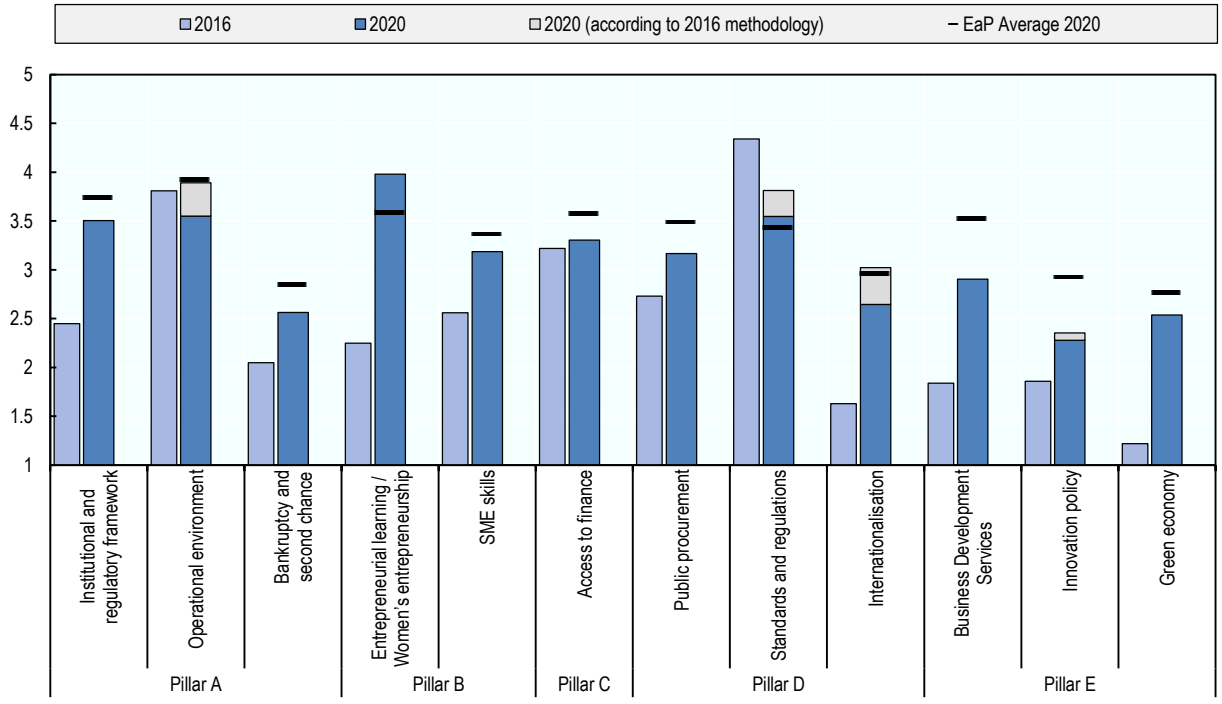
Despite ongoing economic and political challenges, Ukraine has made significant progress since the 2016 SBA Assessment, through continuous implementation of reforms in such fields as deregulation, public procurement, harmonisation with the EU acquis *and bankruptcy procedures, as well as improving its institutional and regulatory framework for SME policy and developing entrepreneurship key competence as part of its ambitious New Ukrainian School reform. In 2018, the SME Development Strategy until 2020 was adopted and the SME Development Office was established to support the Ministry for Development of Economy, Trade and Agriculture of Ukraine in implementing the strategy and expanding the infrastructure for SME support.*

Going forward, Ukraine should ensure the sustainability of its institutional and regulatory framework for SME policy, step up deregulation efforts and ensure the creation of level-playing-field conditions for SMEs through consistent enforcement of the corruption and competition legislation, as well as by granting broader budgetary autonomy to its competition authority. In addition, streamlining support for SME greening and internationalisation, and providing a range of business development services will help to improve the competitiveness of Ukrainian economy.

Key findings

Figure 12.1. SME Policy Index scores for Ukraine

Country scores by dimension, 2020 vs. 2016



StatLink http://dx.doi.org/10.1787/888934087743

Table 12.1. SME Policy Index scores for Ukraine, 2020 vs. 2016

Pillar	Dimension	UKR 2020	UKR 2016	EaP average 2020	*UKR 2020 (2016 methodology)*
A	Institutional and regulatory framework	**3.50**	2.45	3.74	3.50
	Operational environment	**3.55**	3.81	3.92	3.89
	Bankruptcy and second chance	**2.56**	2.05	2.85	2.38
B	Entrepreneurial learning / Women's entrepreneurship	**3.98**	2.25	3.58	n.a.
	SME skills	**3.19**	2.56	3.36	n.a.
C	Access to finance	**3.31**	3.22	3.57	3.23
D	Public procurement	**3.17**	2.73	3.49	3.17
	Standards and regulations	**3.55**	4.34	3.43	3.81
	Internationalisation	**2.64**	1.63	2.96	3.02
E	Business development services	**2.90**	1.84	3.53	2.90
	Innovation policy	**2.28**	1.86	2.92	2.35
	Green economy	**2.54**	1.22	2.77	2.54

Table 12.2. Implementation progress on SME Policy Index 2016 priority reforms – Ukraine

Priority reforms outlined in SME Policy Index 2016	Key reforms implemented so far
Pillar A – Responsive government	
Prepare and adopt an SME strategy and action plan adapted to Ukraine's context	SME strategy adopted in 2018, and SME Development Office established in 2018 to support its implementation
Implement a revamped RIA mechanism including an SME test	Revision of RIA methodology with integration of the SME-test; mandatory RIA application
Deepen and broaden the deregulation agenda with an SME focus	Rolling review of the regulatory acts in key economic sectors introduced in 2016
Pillar B – Entrepreneurial human capital	
Ministry of Education to assume a greater leadership role for entrepreneurial learning; appoint an entrepreneurial learning "ambassador"	Education reform, led by the Ministry of Education, included the New Ukrainian School concept based on 10 key competences, including "sense of entrepreneurship"
Conduct an independent evaluation of the key activities of the School Academy for Entrepreneurship	The School Academy for Entrepreneurship project has been finalised and evaluated, with the evaluation report serving as the basis for developing the New Ukrainian School concept
Improve data collection and intelligence on high-potential women's entrepreneurs	No systematic data collection system on women entrepreneurs is in place
Collect SME skills intelligence through regular surveys and sectoral working groups.	
Pillar C – Access to finance	
Strengthen creditors 'rights by allowing them to seize collateral	Major clean-up and consolidation in the banking sector carried out
Set up an online platform for the collateral registry	Registry for security interests over movable assets became more accessible through integration of online registration and searchability functions
Improve the legal framework for venture capital	
Introduce an SME guarantee scheme	
Pillar D – Access to markets	
Continue to develop systematic market surveillance; adopt the 'Strategy of Technical Regulation System Development'	Continued harmonisation with EU standards and transposition of EU technical regulations into national legislation
Consider a new institutional framework and the introduction of export finance and targeted promotion initiatives	Export Promotion Office and Export Credit Agency established
Promote SME participation in public procurement	Public procurement mechanism enhanced through introduction of ProZorro
Pillar E – Innovation and Business Support	
Support the development of the private BDS market and consider potential public support schemes	Strategy on development of innovation activity until 2030 approved
Introduce regulatory and financial incentives for SME "greening"	SME strategy 2020 included actions aimed at increasing SME greening and developing green technologies

Context

Economic snapshot and reform priorities

In 2013-15 Ukraine experienced a 15.7% contraction in GDP against the backdrop of a slowdown in major trading partners, a domestic political crisis, and the Russian seizure of Crimea and the eruption of armed conflict in the east of the country. Since 2016, however, Ukraine has experienced a modest recovery supported by private consumption, a solid increase in wages, strong consumer credit growth and high inflows of remittances. Fixed investment, fuelled by residential construction, also contributed to the return to growth (EBRD, 2018[1]). Despite 3.3% growth, GDP in 2018 was still 14.4% below the peak reached in 2008, just before the global crisis.[1] Fiscal pressures remain acute and medium-term growth prospects are uncertain (Table 12.3).

Ukraine's fragility is reflected in FDI inflows, which in recent years have been both weak and volatile. In 2017, they stood at USD 2.37 billion, well down from the levels of USD 10-11 billion a year seen a decade earlier. Following a few years of expansion, exports of

goods and services decreased modestly in real terms in 2017 (-3%) and continued falling in 2018 (-6%) in the face of weaker external demand *(according to the table below)*. Exports continue to be dominated by low-value-added sectors and commodities: in 2018, vegetables and metals accounted, respectively, for 32% and 23% of total exports (WITS, 2019[2]). This renders Ukraine vulnerable to volatility in commodity prices and regional development trends.

Despite these extremely difficult internal and external challenges, successive governments succeeded in restoring macroeconomic stability after the shocks of 2013-14: the introduction of a flexible exchange rate regime, disciplined fiscal and monetary policies, and significant energy and financial sector reforms all played a part. The recovery was also underpinned in part by improved access to European Union markets following the signing of the EU-Ukraine Association Agreement in 2014 and the creation of a Deep and Comprehensive Free Trade Area (DCFTA), though this came into force only in late 2017.

Ukraine has also made real progress on a number of structural reforms. A substantial clean-up of the banking system was undertaken that began to tackle related-party lending, resolved many undercapitalised banks and restored a degree of confidence in the sector. The country introduced e-government for procurement and VAT repayments, and a small number of critically important state-owned enterprises (SOEs) now have professional governance. With donor support (including that of the OECD), a Business Ombudsman Council was created and is operating effectively, and new anti-corruption institutions were established such as the National Anti-Corruption Bureau. Ukraine's decentralisation reforms have resulted in a major overhaul of territorial governance and are among the steps that polls suggest are viewed by citizens as bringing real benefits.

Table 12.3. Ukraine: Main macroeconomic indicators, 2013-18

Indicator	Unit of measurement	2013	2014	2015	2016	2017	2018
GDP growth*	Percentage, y-o-y	0.0	-6.6	-9.8	2.4	2.5	3.3
Inflation**	Percentage, average	-0.3	12.1	48.7	13.9	14.4	10.9
Government balance[1]**	Percentage of GDP	-4.8	-4.5	-1.2	-2.2	-2.2	-2.2
Current account balance*	Percentage of GDP	-9.0	-3.4	1.8	-1.4	-2.2	-3.3
Exports of goods and services*	Percentage of GDP	43.0	48.6	52.6	49.3	48.0	45.2
Imports of goods and services*	Percentage of GDP	52.2	52.1	55.2	56.2	55.7	53.8
FDI net inflows*	Percentage of GDP	2.5	0.6	3.4	3.7	2.5	1.9
General government gross debt**	Percentage of GDP	40.5	70.3	79.5	81.2	71.6	60.2
Domestic credit to private sector*	Percentage of GDP	73.5	75.2	56.7	47.3	38.3	34.1
Unemployment[2]*	Percentage of total active population	7.2	9.3	9.1	9.4	9.5	9.4
Nominal GDP*	USD billion	183.3	133.5	91.0	93.4	112.2	130.8

[1] General government net lending/borrowing.
[2] Data includes population aged 15-70. For 2013-2014, temporarily occupied territories of the Autonomous Republic of Crimea and Sevastopol are not taken into account; after 2015, the data do not include the temporarily occupied territories in Donetsk and Luhansk regions.
Source: *World Bank (2019[3]), World Development indicators; **IMF (2019[4]), World Economic Outlook, both accessed on December 2019.

Sustaining growth over the medium-to-long term will require further implementation of structural reforms and continued support from the international community, which will be contingent on further fiscal consolidation. In 2018, the IMF approved a 14-month, USD 3.9 billion Stand-by Arrangement. The country also benefits from EUR 4.4 billion in EU

Macro-Financial Assistance and an EUR 349 million loan under a Policy-Based Guarantee from the World Bank (EBRD, 2019[5]).

Business environment trends

Since 2014, the government has embarked on an ambitious reform agenda envisaging structural reforms in all sectors of economy in order to meet its obligations under the EU-Ukraine Association Agreement and DCFTA. Key priorities have included deregulation, reforms of the justice sector, reforms in tax administration and a strengthened anti-corruption agenda. Progress has been palpable, albeit uneven, and resistance to some of the most sensitive measures has been strong.

However, the recognition of this progress has come with Ukraine's improved scores in the *trading across borders, getting electricity, dealing with construction permits* and *protecting minority investors* indicators of the World Bank's *Doing Business* exercise, in which Ukraine ranked 64th in 2020, 19 positions higher than in 2016 (World Bank, 2019[6]).[2] The country ranked lower, at 85th, on the World Economic Forum's Global Competitiveness Index (GCI) 2019, which in part reflects the wider range of issues covered by the index (World Economic Forum, 2019[7]).[3] The GCI highlights persistent weaknesses in Ukraine's institutions, financial system, and innovation capability.

Since 2016, Ukraine has taken important steps to improve the environment for small and medium-sized enterprises. In May 2017, the Cabinet of Ministers approved Ukraine's first SME Development Strategy for the period until 2020. An SME Development Office within the Ministry for Development of Economy, Trade and Agriculture (MDETA) of Ukraine was established the following year, with a mandate to assist MDETA in the implementation of the SME Strategy, in particular with regard to business support infrastructure. However, despite these efforts, a recent survey of SMEs showed that tax administration, regulatory pressure and corruption remain important challenges for SMEs (EBA, 2019[8]).

SME sector

Ukraine's legal definition of SMEs, introduced in 2012, remains unchanged. It defines micro, small and large enterprises based on employment and turnover criteria, which is broadly in line with the EU definition[4] (Table 12.4). When compiling statistics on SMEs, the State Statistics Service of Ukraine (Ukrstat) uses both the existing legal definition of SMEs and one based on employment only (State Statistics Service of Ukraine (Ukrstat), 2017[9]) to allow for comparability with EU countries.[5]

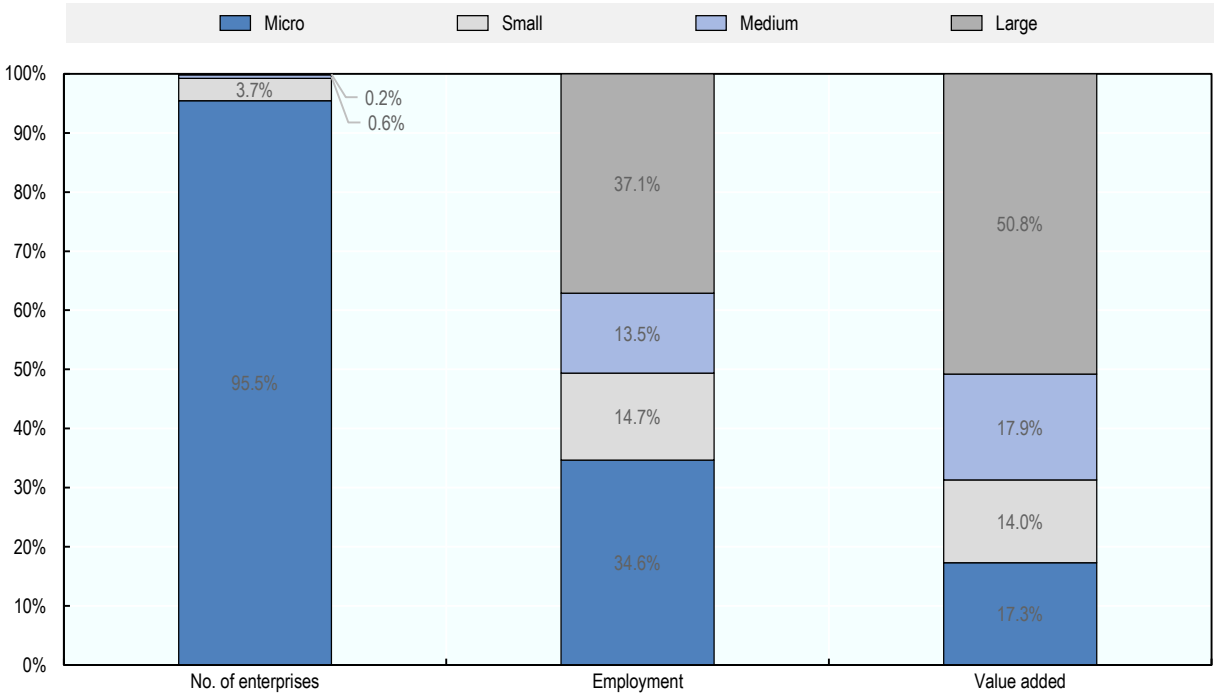
Table 12.4. SME Definition in Ukraine

	Micro	Small	Medium	Large
Employment	≤ 10 employees	≤ 50 employees	All enterprises that do not fall into the category of small or large enterprises	≥ 250 employees
Annual income	≤ EUR 2 million	≤ EUR 10 million		≥ EUR 50 million

Source: Commercial Code of Ukraine Art. 55, as of 22 March, 2012.

In 2018, SMEs made up 99.8% of all enterprises in the business sector, 96% of them being microenterprises. SMEs accounted for 63% of the total business employment in Ukraine and generated 49% of value added in the business sector (Figure 12.3).

Figure 12.2. Business demography indicators in Ukraine by company size, 2018

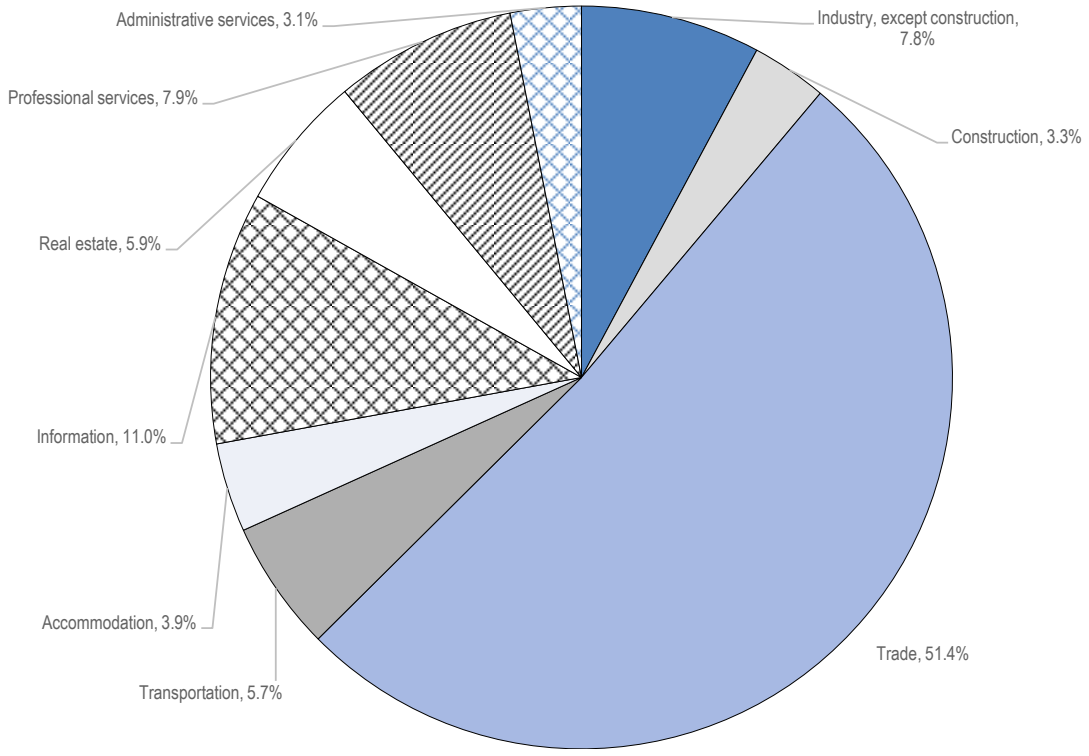


Source: State Statistics Service of Ukraine.

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The majority of SMEs in Ukraine still operate in the wholesale and retail trade (51.4%) and thus remain concentrated in low-value-added sectors. However, recent years have seen a growing number of SMEs in the IT sector (9% in 2018 versus 5% in 2015).

Figure 12.3. Sectoral distribution of SMEs in Ukraine, 2017



Notes: Sectors entail B-N (ISIC Rev. 4) excepting financial and insurance activities. Data do not include the agriculture sector.
Source: State Statistics Service of Ukraine, OECD (2018).

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SBA assessment by pillar

Level playing field pillar

Competition

Ukraine has made significant progress in competition policy, and competition law and enforcement now incorporate most of the relevant building blocks and practices of an effective competition law regime. The Antimonopoly Committee of Ukraine (AMCU) has most of the required powers and instruments at its disposal, and uses them for active enforcement against unlawful cartels, mergers, and abuses of dominance. The AMCU, being an autonomous and independent body, is authorised to compel undertakings to provide information for infringement investigations, conduct surprise on-site inspections (so-called "dawn raids"), apply financial penalties to all types of undertakings, offer remedies and block anticompetitive mergers.

The AMCU is certainly the most active enforcer in the EaP region, with a high level of merger enforcement activity (almost 1200 mergers reviewed in 2016-18) and cartel investigations (more than 400 in 2017-18), resulting in total fines of almost EUR 53 million, and a high number of *abuse-of-dominance* cases. In addition, the AMCU uses its powers to conduct market studies and to review state actions and regulations with regard

to unnecessary restrictions to competition. This will benefit SMEs in particular, as it helps to decrease barriers to entry and competition imposed by law or by state action, which is all the more important in an economic environment with large SOEs. Many of the AMCU's recommendations are taken into account in the process of amending draft laws and regulations. In addition to the competition enforcement powers, the AMCU is also the designated public-procurement appeal body and supervises the state aid system.

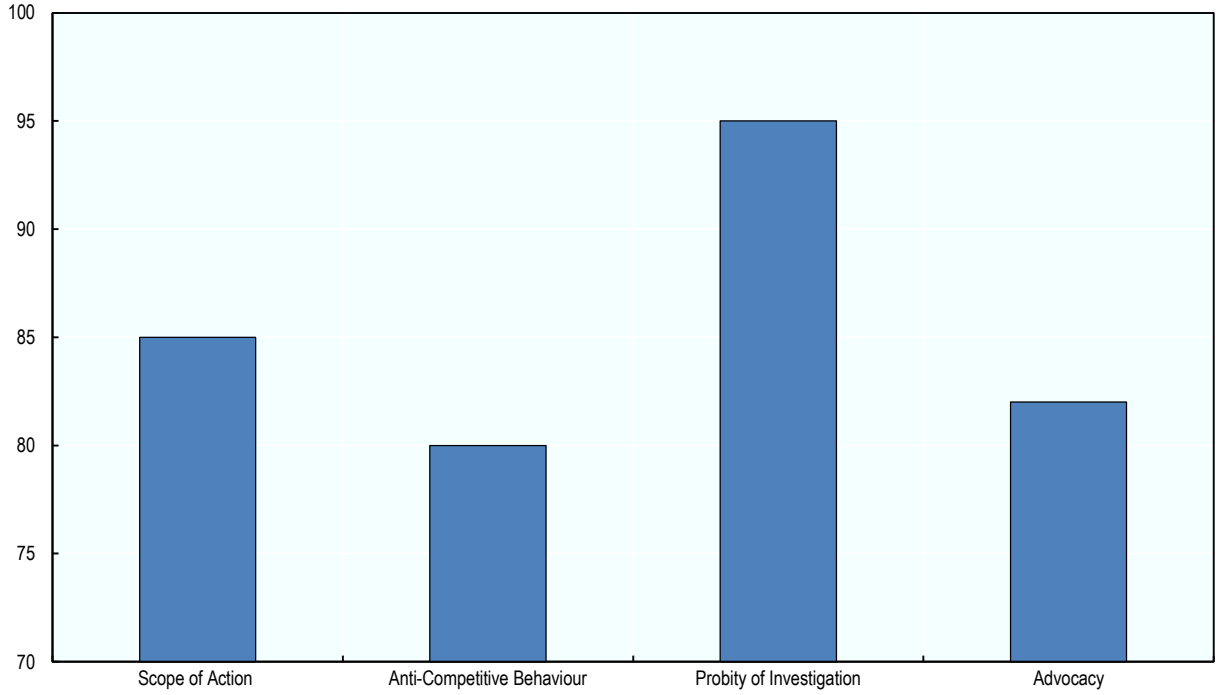
Ukrainian competition law has undergone many positive changes in recent years. Merger thresholds were increased and a local nexus was introduced, and a simplified review procedure was established, as well as the possibility of consultations with the AMCU. Block exemptions for vertical supply agreements and technology transfer agreements have been put in place. Transparency has been increased with the publication on its website of the AMCU's decisions, annual reports, and guidelines (on the assessment of horizontal and non-horizontal mergers, the calculation of fines, and the concept of control). Pending amendments include the exclusion of the seller's turnover from the calculation of merger notification thresholds, a methodology for relevant market definition, and a methodology for determining dominance of undertakings. The revised leniency programme allows for reduction of fines for subsequent applicants, and a settlement procedure has been introduced.

Nonetheless, some important challenges remain:

- In an economy with a high level of SOE activity, a significant degree of distrust in state institutions, and high corruption risks, the independence and qualification of the AMCU staff is of utmost importance. Only independent enforcement by highly qualified lawyers and economists can ensure that the AMCU fulfils its mandate in a neutral and effective way, to benefit all undertakings and consumers in the economy, regardless of their size, ownership or political affiliation. While the AMCU's budget experienced a significant increase over 2018-19, this may still be insufficient to attract and retain the kind of staff that is needed. The salaries and budget should be equivalent to other independent agencies' budgets and/or the judiciary, and they should not be subject to annual negotiations.
- The AMCU's extended responsibilities not only for competition enforcement, but also for public procurement and state aid, risk diluting its competition mandate and also expose it to strong resistance and political pressure from public and private stakeholders. Solutions to address this problem need to be found very soon, and at the least, it should be ensured that budget and staff allocation for the additional tasks is in line with the significant additional burden.
- The AMCU still lacks discretion to decide on and eventually dismiss incoming complaints based on their relevance and enforcement priorities. This occupies resources that could be used in a more meaningful way. Bureaucratic obstacles hinder effective enforcement, when the AMCU needs to seek a court authorisation to have fines enforced by the relevant authorities. This delays fine collection for 2. 5–3 years.
- The decentralised organization of the AMCU (with a high number of staff in the regional offices) could be an obstacle to more-effective priority setting and staff distribution to the AMCU's various responsibilities, as well as to enforcement based on best practices.

Figure 12.4. Competition Policy in Ukraine

Percentage of formally adopted criteria, as of June 2019



Note: The chart above refers to the percentage of competition policy criteria formally adopted in the legal framework. It gives equal weight to all criteria. This does not illustrate actual enforcement activity in terms of relevance or quantity, and about the relevance of the criteria lacking or met.

Source: SBA questionnaire, interviews with AMCU representatives and business associations.

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Contract enforcement and alternative dispute resolution

The government has streamlined contract enforcement procedures under the Judicial Reform Strategy for 2015-2020. In 2017, a simplified procedure for small claims was introduced for the resolution of contractual disputes. The claim value for the simplified procedure must not exceed 100 subsistence minimums, i.e. around EUR 5 500, which is largely in line with the EU practice. However, a number of inconsistencies in terminology applied by the legislator leaves important room for judge's discretion that may lead to consideration of cases with EUR 25 000 claim value as a small claim.[6]

In order to enhance single judicial information system, responsible for documentation flow and exchange of information between the judicial system bodies and other institutions, as well as for publication of judgements and automatic distribution of cases, the government has worked on the Single Judicial Information and Telecommunication System since 2016. The System introduces a full-fledged e-court, enabling electronic communication between courts and litigants that includes e-filing, e-service of process and e-payment – along with a single register of court decisions, upgraded case-management tools for judges and lawyers, and enhanced automatic distribution of cases. In the beginning of 2019, a pilot version of e-court was launched in all local and appeal courts.

Another important development towards stronger contract enforcement was the adoption in 2016 of laws on "On Enforcement Proceedings" and "On Institutions and Persons that Enforce Decisions of Courts and Other Bodies" that introduced the enforcement of court decisions by private bailiffs. That was followed by the establishment of an online register of private enforcers, which in 2018 comprised 120 bailiffs. Going forward, it will be important that the government support the activity of private bailiffs by ensuring proper oversight of their operations while allowing them sufficient autonomy.

These considerable improvements have been reflected in the *Doing Business* score in enforcing contracts, as the quality of judicial process progressed from 8/18 in 2016 to 11.7/18 in 2020. However, the cost of enforcement remains the highest among the EaP countries, standing at 46.3% of the claim value (World Bank, 2019[6]).

Ukraine has also taken steps to strengthen its property rights protection. The existing criminal offences framework was enhanced in 2017 to tackle IP violation, and the legal provisions regulating IP rights in Ukraine are largely in line with international standards. The Concept Note on intellectual property policy guides IP policy development and implementation. In the framework of the judicial system reform, the High Court on Intellectual Property was established in September 2017. However, specialisation in IP law was not among the requirements for selecting the Court's judges, which is a major shortcoming for the efficiency and quality of the future court operations. As of this writing (mid-2019), the court is not yet functional and the final decision on judges' appointment is still pending approval.

Businesses facing malpractice by the public authorities, state-owned or state-controlled bodies in their regard, can recur to the Business Ombudsman Council (the Council),[7] which acts as an alternative dispute resolution (ADR) mechanism protecting the legitimate interests of businesses. At present, Ukraine lacks a quality legal framework for administrative procedure to provide for impartial, comprehensive and fair consideration of appeals filed by businesses against actions or inactions of public authorities (Business Ombudsman Council, 2019[10]). Established in 2014 with the support of EBRD and OECD, the Council benefits from multi-donor funding which enables it to operate independently and provide high-quality services. Out of 1792 complaints received by the Council in 2018, 73% came from SMEs and most concerned tax issues (Business Ombudsman Council, 2018[11]). Going forward, the government should ensure that the Business Ombudsman institution is embedded into the law to provide for the institution's sustainability.

In addition to the Council, other ADR mechanisms are accessible for SMEs in Ukraine. Despite the absence of a dedicated law on mediation, mediation services to resolve commercial disputes are provided by private companies and business associations. In August 2019, Ukraine adhered to the UN Convention on International Agreements on the Settlement of Disputes by Mediation (Singapore Convention on Mediation). In order to meet the requirements of Article 9 of the Law of Ukraine "On International Treaties" and to prepare proposals for ratification of the Singapore Convention on Mediation, the Ministry of Justice established a working group to prepare proposals for ratification of Convention, as well as to prepare a draft Law of Ukraine "On Mediation". The National Association of Mediators of Ukraine comprises more than 120 mediators and promotes mediation through awareness-raising and capacity-building activities, while the Ukrainian Mediation Centre provides training and carries out the certification of mediators. Moreover, the profession of the mediator was included into the national occupational standards framework. However, there is generally low awareness among SMEs of the benefits of ADR when resolving commercial disputes, and the government should step up its efforts

to promote ADR within the business community through awareness-raising campaigns, including in co-operation with the Council and other business associations.

Business integrity

Since 2014, Ukraine has achieved modest but gradual progress in Transparency International's Corruption Perceptions Index, moving from a score of 26/100 in 2014 to 32/100 in 2018 and ranking a still-low 120th out of 180 countries (Transparency International, 2018[12]). The government introduced a comprehensive anti-corruption framework that included the adoption of the Anti-Corruption Strategy for 2014-2017 and the Law on Corruption Prevention in 2015. Ukraine has also established a number of anti-corruption institutions, such as the National Agency on Corruption Prevention (NACP), the National Anti-corruption Bureau (NABU), the Specialised Anticorruption Prosecutor Office (SAPO), the Agency for Recovery and Management of Assets (ARMA), and the High Anti-corruption Court (not operational yet). While external assessments point to some progress, it has been difficult to ensure the independence, effectiveness and even integrity of these new institutions (ACN, OECD, 2019[13]).[8]

In May 2018, a new draft Anti-Corruption Strategy for 2018-2020 that includes a component on business integrity was submitted to the Parliament but has not been adopted yet. However, so far the government has not conducted a study of corruption risks in the private sector in co-operation with companies and business associations, which could help guide business integrity measures within the new strategy.

Prevention of corruption in the private sector has also been strengthened. The Amendments to the Law on State Registration of Legal and Physical Persons and Public Entities adopted in 2014 introduced mandatory disclosure of beneficiary owners of all companies in Ukraine. In 2017, a data set titled "Unified State Register of Legal Entities, Individual Entrepreneurs, and Public Formations" (containing information on beneficial owners of legal entities) was set up within the government's Unified State Open Data Portal, which enables easy access to and automatic processing of data. In 2019, the NACP established a register of persons, including legal entities, who have committed corruption-related offences.[9] While this is an important development towards a more efficient corruption prevention in the private sector, the enforcement of the liability remains weak in the context of the overall poor prosecution of corruption. Going forward, the government should analyse and address the reasons of weak prosecution of criminal liability of legal persons. Furthermore, a verification system to check the validity of submitted data by companies should be put in place to provide for an accurate disclosure of beneficial ownership (ACN, OECD, 2019[13]).

Businesses can report corruption using a variety of tools, such as a dedicated government hotline for entrepreneurs (launched in 2016) or direct reporting to law enforcement or anti-corruption bodies and the Business Ombudsman Council (BOC). A fairly comprehensive whistle-blower protection draft law generally in line with international good practices was developed in 2016 and submitted to Parliament. However, despite the rising number of reports on corruption by businesses reported by NABU[10] and the BOC (Business Ombudsman Council, 2018[11]),[11] the inefficient prosecution of corruption has undermined trust in the newly established institutions and could discourage further reporting (National Anti-Corruption Bureau of Ukraine, 2018[14]).[12] Against this backdrop, the government should step up its efforts to reform the judiciary in order to provide for an efficient and impartial adjudication of corruption cases in Ukraine.

To promote business integrity, the NACP cooperates mostly with the Ukrainian Network for Integrity in Compliance (UNIC), an initiative supported by EBRD and OECD. UNIC has become an important institution promoting integrity policy, joining businesses' efforts for collective action against corruption and advocating for the introduction of measures to support compliance principles. In addition, UNIC plans to develop its internal Code of Conduct, carry out a certification of companies adhering to the network, and establish a monitoring system for business integrity and compliance. As next steps, the government should ensure that the NACP has enough capacities and resources to carry out the awareness-raising activities on business integrity, and provide for support of UNIC initiatives.

Pillar A – Responsive government

Institutional and regulatory framework for SME policy

Since the last SBA assessment in 2016, Ukraine has taken important steps to build an institutional and regulatory framework for SME policy. Policy changes have been driven by a combination of institutional reforms and substantial financial and technical support from international and bilateral donors. All those policy changes are reflected in the relevant increase in the score relative to the previous assessment. However, a few important SME policy building blocks should be further improved (i.e. the policy coordination mechanisms), while decisions on the structure of implementing institutions will have to be taken before the end of the current SME development strategy and re-negotiations of donor support in 2020-2021.

In 2015, the SME policy mandate was assigned to the Ministry for Development of Economy, Trade and Agriculture (MDETA), which led the elaboration of the country's first SME development strategy 2020, which was approved in 2017 after a process of consultations involving private sector organisations, state institutions and donors. The strategy sets six strategic directions: 1) development of a favourable business environment for SMEs, 2) enhancing access to finance, 3) simplifying tax administration, 4) promoting entrepreneurship, 5) promoting SME internationalisation and 6) improving competitiveness while developing innovation potential. The related action plan was approved in 2018, leaving limited time to achieve the pre-set objectives and targets.

The approval of the strategy and action plan set the conditions for stepping-up donor support. In October 2018, with the financial support of the EU and within the framework of EU Forbiz project, the SME Development Office (SMEDO), an advisory body within MDETA, was established. The Office is tasked with supporting the Ministry in implementing the SME strategy, co-ordinating activities on SME policy with other public authorities, developing SME support infrastructure and ensuring public-private dialogue. At the end of the current donor support cycle, a project evaluation will be conducted and the government will decide on the future of SMEDO. One option would be to transform the Office into a full-fledged SME Development Agency responsible for the implementation and monitoring of entrepreneurship development policy, with policy-making functions performed by MDETA.

SME support implementation is currently conducted mainly at the regional level and it relies largely on donor support (i.e. EU, USAID, GIZ), while SMEDO and the MDETA conduct regional pilot projects aimed at integrating regional initiatives with the national strategy. The MDETA has also put in place a monitoring mechanism for SME policy, producing regular monitoring reports on the implementation status of the SME Strategy.

SME policy co-ordination takes place through regional co-ordination councils and an inter-ministerial council established in April 2019.

The informal sector in Ukraine is relatively large and its share is estimated by the MDETA at 32% of the country's GDP in 2018. In this regard, actions have been taken to reduce labour informality, increase tax enforcement measures and simplify administrative procedures. A draft Action Plan to increase the transparency of labour relationships is under development and a new procedure for state supervision and control of compliance with labour legislation[13] by companies was adopted by the government. However, a comprehensive strategy to fight labour and enterprise informality is still missing.

Ukraine has made good progress in creating more business-friendly regulations and updating its RIA methodology in line with OECD standards. The government should now make sure that the new methodology is systematically and consistently applied at all levels. The MDETA has elaborated two deregulation plans, 2015-2016 and 2016-2017, the latter extended until 2019; by the end of 2018, 57% of the planned measures had been implemented. The State Regulatory Service, as an authorised body, approves draft regulatory acts developed by executive bodies. Going forward, Ukraine should continue working towards consistent RIA application across all levels of government, ensuring that the public authorities are well-trained to conduct a quality assessment.

According to the Law on Basic Principles of State Regulatory Policy, 2015, public consultations must be conducted prior to the approval of new laws and regulations in the field of economic relations. A draft schedule of public-private consultations for the upcoming year is available on MDETA's website[14]. The Ministry also holds ad hoc consultations, including through its website. In addition, since 2014, the government has introduced a series of amendments to the Resolution of the Cabinet of Ministers of Ukraine "On ensuring public participation in the development and implementation of State policy" to revamp the mechanism of public councils (formed earlier under executive authorities) by expanding civil society participation in the decision-making process. Thus, public councils operate at the levels of ministry, other central executive authority, region, Kyiv city, district state administrations, and perform advisory and expert functions. For instance, in 2018, the public council under MDETA comprised 56 representatives of various associations, 70% of them representing business associations. For these processes to generate real policy improvements, the government must make sure that the public-private dialogue is inclusive and that feedback and recommendations from the private sector representatives are taken into account properly when SME policy issues are discussed.

Operational environment for SMEs

Ukraine has made some progress in improving the operational environment for SMEs, particularly via the provision of e-government services, the allocation of business licences and the simplification of tax administration. Albeit the improvements, the only modest performance in these two last sub-dimension, newly introduced in the assessment, contribute to the decrease in the score. Starting a business in Ukraine has become easier, if compared to the county's performance on the relevant indicator of World Bank's *Doing Business* in 2016. Regulatory reform in Ukraine has proceeded at an erratic pace over the last ten years and a medium-term regulatory reform strategy is not yet in place.

Since the introduction of the first e-government services in early 2000s, Ukraine has not had a comprehensive e-governance plan. The approval in September 2017 of the Concept on e-Governance was a turning point in this regard, with coordination and implementation roles assigned to the State Agency for e-Governance, in operation since 2014. To date, the

number of available e-government services in Ukraine stands at 120, with further plans to introduce an electronic signature system and to develop mobile services. Ukraine has also made significant progress in promoting open data, with the establishment of a Unified State Open Data Portal (http://data.gov.ua), which contributed to an improvement of 45 positions on the Open Data Barometer in 2017 (World Wide Web Foundation, 2018[15]). In addition, Ukraine established a regional network of Centres for Administrative Services (CAS), acting as one-stop shops for the provision of a variety of administrative services (e.g. company registration, permits and property-related transactions). MDETA is now planning to leverage CAS's wide regional outreach, users' trust, and their understanding of the local context to offer more-advanced and tailored services for SMEs.

After having significantly simplified the company registration process through a number of reforms introduced in 2014-16, Ukraine reverted to this trend by introducing two additional administrative requirements, i.e. obligations 1) to certify the authenticity of signatures on documents submitted to the state register for state registration of legal entities (using a notarized signature card) and 2) to register employees with the State Fiscal Service. Thus, the number of procedures increased from four in 2016 to six in 2018 and the time required to complete the process grew from 5 to 6.5 days, while the overall cost marginally increased from 0.5% to 0.6% of the country per capita income. More recently, steps have been taken to simplify and broaden access to online registration, including the options to register legal entities and to select the applicable tax system online. The system has been operational since April 2019 and the process can now be completed in a matter of minutes. In addition, individual entrepreneurs can use an online service to register their company free of charge.

Ukraine has made incremental progress in the area of business licences and permits. Since 2014, 3 708 legislative and regulatory acts were reviewed under the deregulation action plans (Ministry for Development of Economy, 2019[16]). The number of economic activities which are subject to licencing decreased from 56 to 33, and the number of activities requiring permits was reduced from 143 to 85.

Ukraine has introduced tax exemptions and a simplified tax regime for individual entrepreneurs and small companies. Consequently, the number of small enterprises and individual entrepreneurs benefitting from the simplified regime has significantly increased, reaching more than 1.3 million taxpayers as of 1 June 2019. In 2015, Ukraine also modified the social contribution regime by moving to a system fully based on employer contributions. Tax administration remains overall quite complex. According to the 202019 *Doing Business* report, the number of required tax payments per year is low (5), but the number of hours required to complete tax administration procedures is high (328), well above the regional average of 220. The post-filing index, which measures the efficiency of VAT reimbursement procedures and tax auditing procedures, is relatively good, measuring 86 over a scale of 100. Responding to the demand of the private sector organisations, the tax administration has recently improved VAT refund procedures, which now take on average 16 days (World Bank, 2019[6]).

Bankruptcy and second chance

In April 2019 the Government of Ukraine reformed the insolvency framework with the publication of the new Bankruptcy Code of Ukraine, enhancing significantly its compliance with international standards. Ukraine currently holds the 146th rank in resolving insolvency in *Doing Business 2020*, but some experts expect an improvement of up to 80 places once the new Code enters into force (autumn 2019).

The new Bankruptcy Code notably 1) introduces the notion of personal bankruptcy for individuals, 2) enhances the protection of secured and unsecured creditors' rights and their participation to the decision-making process, 3) simplifies and expedites bankruptcy procedures while reducing the scope for appeal, and 4) introduces more-transparent sales procedures through e-platforms. Specialised institutions efficiently support the insolvency framework, i.e. commercial courts dealing with insolvency cases, the national bankruptcy register system with public access since 2015 or the Credit Registry of the National Bank introduced in 2018.

However, further efforts are required to promote and monitor the preventive measures and more systematically detect financially distressed companies. Although entrepreneurs fearing failure have access to pre-insolvency information through self-test websites and the "Start-Ukraine" seminar, no early-warning system is in place.

Moreover, Ukraine should consider implementing a dedicated policy strategy or information campaign to promote second chance for entrepreneurs seeking a fresh start. Relieving economic disabilities after bankruptcy – entrepreneurs seeking a fresh start cannot apply for a bank loan for 3 years and file for bankruptcy for five years – would also enhance market re-entry after bankruptcy.

Pillar B – Entrepreneurial human capital

This section focuses on the human capital dimensions of the Small Business Act for Europe. It first examines how entrepreneurial learning is addressed in the education system, focusing on entrepreneurship as a key competence – a factor in Ukraine's wider drive for competitiveness, growth and employment. It then discusses developments in women's entrepreneurship. Finally, both policies and support for SME training are addressed.

This assessment underlines the good progress of Ukraine has made in the area of entrepreneurial learning, women's entrepreneurship and enterprise skills. This stems from the fact that in recent years Ukraine has been putting skills and human capital at the centre of government's policies.

Led by the Ministry of Education and Science of Ukraine (MES), the government has invested significant resources in reforming the education system (primary, lower and upper secondary education) by making it competence-based. Continuity of efforts to implement the "New Ukrainian School" and the reforms aiming at the modernisation of the Vocational Education and Training system should be strongly supported with a particular focus on investment in teachers. The SME Strategy 2020 recognises the importance of investing in entrepreneurship skills for greater economic growth and competitiveness, and highlights the rise of women's entrepreneurship on the national political agenda.

Entrepreneurial learning

Since 2016, Ukraine has made good progress by integrating entrepreneurship as a key competence into the key policy documents guiding the national education agenda throughout all levels of education. Since 2016, the "New Ukrainian School" (NUS) concept has been put forward by the government and endorsed through the parliamentary adoption of the Law of Ukraine "On Education" in September 2017. The law supports the principles of lifelong learning, giving a central place to learning outcomes and key competences. New educational standards have been developed to support the implementation of the New Ukrainian School concept, which includes eleven key competences fully that are fully aligned with the European framework for key competences for lifelong learning (EC,

2018[17]). The European competence frameworks for entrepreneurship and digital key competences, EntreComp (Bacigalupo et al., 2016[18]) and DigiComp (Carretero, Vuorikari and Punie, 2017[19]), were used to develop the new state education standard, the curricula framework and the teacher training programmes. The promotion of an entrepreneurial culture and development of enterprise skills is also part of the Action Plan that supports the SME Strategy 2020.

Implementation of the NUS government reform was launched in 2017. The national pilot programme started from the first grade of primary school in the academic year 2017/2018, covering 100 primary schools across all regions. The pilot programme was followed by full national implementation in the academic year 2018/2019, while the pilot started for grade 2 simultaneously, following the same model; the reform will continue in the future to cover a full 12-year education, applying a competence-based approach. At the same time, teachers are being retrained to enable them to teach the new competence-based curricula, including entrepreneurship as a key competence. In 2018, with the support of the European Training Foundation (ETF), 50 master trainers from all in-service Teacher-Training Institutes around the country and 25 regional NUS coordinators underwent training in the key competence approach, with further cascading into retraining of other teachers. It is important that the in-service teacher training is scaled up and focuses on the effects of competence-based curricula by applying more student-centred teaching methods. In parallel, future teachers also need to be fully prepared in the new way of teaching under NUS reform. The existing instruments used to monitor the implementation of the key competences served as a basis for developing reports outlining the impact student-centred teaching on students, teachers and schools. Rigorous monitoring takes place through surveys and focus groups with teachers, parents, school directors and other stakeholders who were involved in the New Ukrainian School reform. However, a systematic monitoring and evaluation framework for the key competences development within the whole education system (general education, VET and Higher Education) is not yet in place.

In Vocational Education and Training (VET), implementation towards a competence-based curriculum has yet to start at the system level. The new concept for modernised VET foresees updating the content and competences provided by the vocational education. It will include such key competences as entrepreneurship and financial literacy, general and vocational competences. Currently, the course "Basic principles of market economy and entrepreneurship" is part of the standard curricula. A new project funded with EUR 58 million from the EU is about to start and will support the modernisation of the VET system with the aim of delivering motivated, active and qualified graduates aspiring to permanent professional development, self-realisation and career growth (Ministry of Education and Science of Ukraine, 2018[20]).

The new Standard of Higher Education includes the entrepreneurship key competence but it is not yet implemented across all faculties in all universities. However, there are many good examples in higher education where students get some entrepreneurial experience.

In order to ensure the development of innovative, entrepreneurial culture among students, MES together with NGO "Innovation Partnership Platform" established business clubs in 25 higher education institutions. MES regularly holds advisory activities for SMEs, e.g. an Information Day for SMEs “Opportunities and Challenges of Project Activities for Development of Small and Medium Enterprises in the Region" in 2018 (EUREKA[15] Info Day). The 4th All-Ukrainian Innovation Festival in 2019, included a round table on the Development of Academic Entrepreneurship in Higher Education Institutions and Scientific Institutions of Ukraine. To increase the number of partnerships between higher

education institutions and businesses annual national forum "Business and Universities" was organised by MES and the Corporate Social Responsibility Centre.

To promote self-employment and entrepreneurship, a new action plan on the Concept of the State System of Career Counselling was approved in 2018. The plan includes entrepreneurship in career counselling for youth and envisages the establishment of youth centres to stimulate youth entrepreneurship through consultancy services, networking events and contests between young entrepreneurs. In addition, the State Employment Service provides career guidance services and courses on entrepreneurship, including the provision of professional education on entrepreneurship basics to the registered unemployed. Overall, Ukraine is investing in creating a more entrepreneurial spirit among its citizens through formal and non-formal education and training (e.g. through the organisation of different awards and competitions for the best entrepreneurial idea or best business plan for start-ups).

Women's entrepreneurship

According to Ukrstat, the women's employment rate in Ukraine is lower than the men's (52% and 62%, respectively). In terms of self-employment, men are more likely than women to work as employers or individual entrepreneurs: women account for 42% of all self-employed persons and for 33% of employers (UNDP, 2017[21]).

Ukraine has made good progress on this dimension compared to the 2016 assessment, especially in terms of policy developments. The SME Strategy 2020 pays particular attention to the promotion of entrepreneurship among disadvantaged social groups, internally displaced persons (IDPs) and women. To avoid duplication, the Action Plan of the SME strategy does not include specific actions for supporting women entrepreneurs. Instead, it refers to two other strategic documents 1) the Ukraine's Export Strategy 2017-2021, which includes measures to enhance the competences of SMEs led by women and young people; and 2) the concept of the National Social Program for Equal Rights and Opportunities for Women and Men until 2021, which covers training and counselling for women start-ups, in particular in rural areas. A Decree of the Cabinet of Ministers on "Gender Expertise of Legislation", adopted in 2018, ensures equal rights and approaches to men and women across all legislation. Gender focal points exist in most public institutions at national and regional levels to ensure equal rights and opportunities for women and men, including in the area of business creation.

Although women's entrepreneurship measures are addressed within several strategic documents, the need to coordinate implementation of various cross-ministerial policies and to undertake systematic monitoring and evaluation has not yet been addressed. While there is no formal partnership at the national level promoting women's entrepreneurship, several active partnerships exist at local and regional levels that support and connect women entrepreneurs. For example, the Chambers of Commerce and Industry in Donetsk, Lviv, Chernihiv and Vinnystia have set up Businesswomen's Committees that represent interests of women entrepreneurs. Several NGOs are actively promoting women's entrepreneurship, for example, the "League of Professional Professional Women" and the "Ambassador of Women Entrepreneurs". However, despite the increased collective efforts from the non-governmental partners, there is still a need to raise awareness at the policy level to increase women's engagement and leadership as a contribution to economic growth at the national, regional and local levels.

A wide range of training courses targeting women entrepreneurs do exist through different programmes, mainly co-financed by donors. The "Women in Trade" programme

implemented under the "Canada-Ukraine Trade and Investment Support Project" (CUTIS) is helping women entrepreneurs overcome barriers in international markets. In terms of governmental programmes, several initiatives to support women entrepreneurs exist at the regional and local levels – the "Women's Business School" in Bila Tserkva, for example. Moreover, the Export Promotion Office, with the support of the Canadian government and in partnership with the Embassy of the Netherlands, has developed a "Training Course for Women Business Owners" that prepares women entrepreneurs for international business, taking into account the principles of innovative entrepreneurship and the UN sustainable development goals. However, despite the existence of various training and business support programmes, sector-specific support for women is underdeveloped, especially in the creative industry, textile and fashion sectors that were identified as key areas for women's entrepreneurship development by the SME Strategy.

Enterprise skills

With its new SME Strategy 2020, the Ukrainian government has clearly put human capital development at the centre of its business reforms. A recent study on "Skills for a modern Ukraine" from the World Bank refers to the importance of skills development in increasing employability and enabling workers to carry out their jobs more efficiently, use new technology, and innovate. Moreover, investment in skills allows firms to move up the value chain as they hire a more skilled labour force (Del Carpio et al., 2017[22]). In 2018, when SMEDO was established under the MDETA, developing business support programmes for SMEs was stated as one of the Office's objectives.

In general, Ukraine has started to invest well in developing the skills of entrepreneurs, and a variety of training programs now exist. At the national level, the Ukrainian Innovation Development Fund was created in 2018 with an annual budget of UAH 50 million (approx. 1.9 million EUR) and now provides financial, technical and advisory assistance to start-ups. Furthermore, the government is giving sufficient attention to supporting companies preparing for export – through an Export Promotion Office initiative called the "Export Revolution Programme". At the regional level, skills development for SMEs is ensured through regional development strategies and provision of training services targeting youth, start-ups, women entrepreneurs and growing SMEs. After the start of the decentralisation reform in 2017, regional youth centres were established to provide financial and non-financial support for start-ups locally.

Regarding training for digital skills development, Ukraine does not fully utilise its unique positioning in online platform work in order to invest more in the development of digital skills of entrepreneurs beyond the ICT sector. Ukraine occupies the first place in Europe and the fourth place in the world, in terms of amount of financial flows and the number of tasks executed on digital labour platforms (ILO, 2019[23]; Graham, Hjorth and Lehdonvirta, 2017[24]). According to the same study, tasks such as graphic design, website development and programming are among the most popular tasks. If the government wishes to keep its leading position, it will be necessary to increase the digital skills of its citizens through training.

To efficiently invest in Ukraine's human capital, a systematic SME skills analysis should be carried out on a regular basis. While no such analysis takes place regularly in Ukraine, some stand-alone initiatives are filling the gap. For example, the 2015-2016 Annual Business Climate Assessment (ABCA) project, funded by USAID, showed that lack of skills is one of the top barriers to SME growth. This finding was addressed through the 2020 SME Strategy, which envisages the provision of training and consultancy services in

export promotion, starting a business, and doing business in Ukraine. In addition, the Export Promotion Office collects information on the training needs of exporting SMEs at the national level, while at the regional level, training needs assessments are carried out through interviews with local SMEs. In the future, SMEDO would need to take the responsibility to collect and analyse data on the demand and supply of skills, as well as on future skills perspectives.

Furthermore, with the adoption of the smart specialisation approach in 2018, Ukraine should work to identify the future skills needs of SMEs in specific sectors and regions. The pilot programme carried out in three regions (Kharkiv, Odessa and Zaporizhia) was able to map the regions' economic, innovative and scientific potential, representing a good start toward a full-scale mapping. The reports, however, do not sufficiently cover the skills-development aspects.

Pillar C – Access to finance

Progress in facilitating access to finance for SMEs has been relatively slow since the last SBA assessment in 2016, partly on account of the need first to address the wider financial and macroeconomic challenges that Ukraine faced. More recently, though, the banking sector has stabilised and lending activity is picking up. In addition, a number of new initiatives by the government are underway to stimulate lending to SMEs. Many of these initiatives are still at an early stage but, if the government manages to bring them to implementation, they could contribute to improved availability of finance for SMEs. Efforts have been made to raise levels of financial literacy among the population, and this has also become an objective for entrepreneurs in particular.

Legal and regulatory framework

A legal framework for secured transactions is in place, including registries for security interests over both movable and immobile assets. Even though Ukraine scores relatively well in the World Bank's *Doing Business 2020* report in terms of the *Strength of creditor rights* index (8 out of 12), enforcement in particular remains an issue. For example, the recovery rate in insolvencies is only 9 cents on the dollar, by far the lowest in the region with an average of 33.45 cents, and significantly below the rate of OECD members at nearly 67.87 cents (World Bank, 2019[6]). Reforms to strengthen both secured transactions and insolvency proceedings were initiated in 2016 and 2017, respectively. As a result, a new Bankruptcy Code came into effect on 21 October 2019. The new legislative framework will strengthen secured creditors' rights and participation vis-à-vis unsecured creditors and simplify the bankruptcy procedure. The new Code is an important step in the effort to improve Ukraine's insolvency framework, but its effectiveness remains to be tested.

A private credit information bureau is in place. Coverage increased rapidly between 2011 and 2014 (from 17% of the adult population to 48%) but has been stagnant since. Currently, only information from banks, credit unions, and other finance providers is collected. Retailers or utilities do not report any information. With regard to banking regulation, the National Bank of Ukraine (NBU) has begun implementing Basel III standards, with new requirements to be successively put into place over the coming years. Given the negative impact of foreign currency (FX) loan exposures after 2008, the NBU established strict requirements for FX lending; these were loosened in 2019 with a new Law on Currency and Currency Operation. FX lending to households continues to be prohibited, but it is possible to lend to businesses in FX and currently there are no mandatory requirements in place for banks to disclose and explain foreign exchange risks to unhedged business

borrowers. A number of licensed stock exchanges are in place in Ukraine, but the capital market infrastructure is fragmented and very little primary or secondary market activity exists. Market capitalisation as a percentage of GDP remains low.

Sources of external finance for SMEs (bank financing, non-bank financing, venture capital)

Between 2014 and 2017 Ukraine's banking sector went through a major transformation characterised by bank insolvencies, restructurings and consolidation. The number of banks operating nearly halved during that period and balance sheets shrank from USD 83.5 billion in assets in 2014 to USD 49.6 billion in the first half of 2018,[16] leading to a major decline in credit availability (EBRD, 2018[25]). Credit conditions were tightened, which severely affected SMEs' access to finance. Recovery is underway, and there are signs that loan conditions for SMEs are improving (according to a lending survey conducted by the NBU[17]), but interest rates remain high (18.8% for SMEs in 2018). As a result, according to an NBU enterprise survey, over 30% of SMEs report problems accessing finance for working capital. Furthermore, availability of longer tenors is an issue.

Measures to support SME access to finance are mainly IFI-led programmes or regional initiatives. Regional programmes mainly offer interest rate subsidies or guarantees to support SMEs, or subsets thereof such as small-scale farmers. Plans to establish a national credit guarantee scheme exist, but the exact design and timeline are still unclear. In 2018 and 2019, however, the government launched a number of financing support schemes for specific companies and purposes. One of them is the creation of a State Invention Incentive Fund with a budget of UAH 100 million. The fund's aim is to support the development and commercialisation of inventions. A pilot has been launched and is set to run until the end of 2019. In July 2019, the government also launched a new Innovation Development Fund. The fund's size is UAH 400 million and its structure is that of a grant programme to support start-up projects.

Non-bank financing could benefit from an improved regulatory framework to reduce fragmentation, and the sector is underdeveloped. Because no legal definition of microfinance exists, no dedicated microfinance institutions (MFIs) operate in the country. Microfinance is therefore primarily provided through credit unions (CUs), of which there were nearly 600 (active) at the time of the last assessment; but the number of CUs and their assets have been in decline since the onset of the financial crisis in 2008, partly due to efforts by the regulator to clean up the sector and withdraw licenses from insolvent or illiquid entities (Klimenko, Sokolova and Hasii, 2017[26]). As of September 2018, 358 active credit unions were registered with the National Commission for State Regulation of Financial Services Markets (National Commission for the State Regulation of Financial Services Markets (Natcomfin), 2018[27])A new law to reform the regulatory framework for non-bank financial institutions has been adopted on 12 September 2019.[18] A legal framework for leasing activities is in place and leasing is offered by major banks. Equipment leasing is prevalent, in particular for agricultural equipment (around one-third of leasing assets as of Q1 2019). Nevertheless, overall penetration remains low at less than 1% of GDP, compared to 4-14% in countries in Central Europe. Factoring is regulated through provisions in the Civil Code and the Commercial Code. As part of a co-operation project with the EU (FINREG), current legislation is being reviewed and the government is looking into ways to increase awareness and ease of use, but initiatives are at an early stage.

Access to equity capital is scarce. This includes venture capital, for which no specific legal framework exists. Instead, venture capital activities are governed by the Law "On Co-financing Institutions", which does not contain a definition of venture activities. A new law for investments funds is being drafted to align Ukrainian legislation with EU regulation; this could provide an opportunity to clarify definitions and provide a more specific legal framework for venture activities. Activities are further inhibited by restrictions on institutional investor participation and limited shareholder protection (according to the *protecting minority investors* index of the World Bank's *Doing Business* report). Nevertheless, according to the Ukrainian Venture Capital and Private Equity Association, activity has been picking up in recent years, with 115 investments for a total of more than USD 330 million in 2018, an increase of approximately 30% over 2017 (Ukrainian Venture Capital and Private Equity Association, 2019[28]). A number of business angel networks have formed but activity is still at a nascent stage for a country of Ukraine's size.

Financial literacy

Since the last SME Policy Index, no financial literacy assessment has been conducted by the government. However, a recent study by USAID and the National Bank of Ukraine (carried out using the OECD/International Financial Education Network methodology) suggests that more than half of the population lack a sound understanding of banking-related concepts, showing little improvement compared to a similar survey conducted in 2010. Financial education is particularly low among young people and women and in more remote regions. In 2012, financial literacy was introduced into school curricula as a pilot programme teaching the basics of business activity and personal finance management. Since then, supported by a new law on education passed in 2017 that recognises financial literacy as a key competence, the subject has been rolled out to an increasing number of schools and pupils, but full coverage has not been reached yet.

Improving financial literacy is also an objective of the SME Strategy 2020. A number of government-sponsored training programmes exist – for example, through the State Employment Service of Ukraine (SES) and international donors – but a coherent provision of training programmes that target entrepreneurs seems to be missing. In addition, there is a distinct absence of monitoring and evaluation mechanisms for the various initiatives that are already in place.

Pillar D – Access to markets

Public procurement

During the period covered by the assessment, public procurement was regulated by the public procurement law[19] (PPL) promulgated on 25 December 2015, as amended. A new PPL,[20] including measures for supporting SME participation, has been prepared in order to meet Ukraine's obligation[21] to gradually align its legislation with the EU's public procurement directives, including provisions for facilitating access by SMEs. In addition, the SME strategy includes recommendations on SME access to public procurement, but these have not been fully implemented yet.

The Ministry for Development of Economy, Trade and Agriculture (MDETA) has a Public Procurement Department (PPD) with regulatory, advisory and supervisory functions. The Anti-Monopoly Committee of Ukraine (AMCU) acts as the independent review body, and it has made it easy to submit complaints (and set strict time limits for their processing) – but the system's effectiveness is hampered by a large number of complaints, many of which

are frivolous. In co-operation between the PPD and a number of institutions of higher education, training is available, mainly covering the formal requirements of the PPL and the use of ProZorro (see below). However, it does not yet fully match the needs of the large number of contracting authorities, many of which suffer a shortage of skilled and experienced staff and find it difficult to properly identify and describe needs, draft clear and unbiased specifications and set appropriate qualification requirements and award criteria.

The regular use of an e-procurement system called ProZorro[22] is compulsory for all public authorities for procurement above the thresholds of UAH 200 000 for goods and services and 1 500 000 for works. Simplified procedures are foreseen for low-value contracts. ProZorro comprises a publicly owned and managed central public procurement data repository with facilities for publishing notices and accessing data, as well as an e-auction module (essentially, with price as the main award criterion), all accessible through a number of public procurement platforms. The latter, operating on a commercial basis, have to be used by contracting authorities and tenderers for carrying out public procurement procedures. A related website[23] is intended to facilitate monitoring of public procurement, but data on SME participation are not easy to extract. (See Box 12.1 for more details on both systems).

The PPL and related regulations currently include provisions on division into lots. Tender securities can be required but must not exceed 0.5% of the estimated contract value. Until the entry into force of the new PPL six months[24] from the date of its publication, there are no requirements for proportionality and contracting authorities can set qualification requirements as they deem appropriate, including none at all. There are also no limits on subcontracting. This has increased the risk of contracts being awarded to unqualified firms, thus distorting competition. Opportunities for wider SME participation, in fair competition, also suffer from frequent tendencies to reduce the value of individual contracts to amounts below the thresholds, and participation rates remain fairly low, also above the thresholds.

Addressing some of the current shortcomings mentioned, the new PPL introduces improved provisions likely to strengthen SME participation, such as:

- widening the range of award criteria, to include e.g. life cycle cost;
- regulations and procedures for simplified procurement of low-value contracts;
- rules for market consultations during procurement planning;
- clearer and more-explicit rules for the negotiated procedure; and
- more specific rules on qualification criteria and their application.

Its successful implementation will call for continued attention to regulatory and institutional development and, above all, improvement of current practices with respect to SMEs, as follows:

- strengthen and focus the review function and render it more effective;
- raise the knowledge and skill levels of contracting authorities, including aspects relevant for SMEs; and
- ensure proper application of requirements for proportional and adequate (but not excessive) qualification requirements, and promote the use of more specific award criteria other than price only.

Box 12.1. Ukrainian electronic public procurement system ProZorro and DoZorro

In December 2015, the government of Ukraine adopted amendments to the Law on Public Procurement to improve the transparency, efficiency and fairness of procurement systems through the use of electronic public procurement mechanisms. This reform had become particularly urgent given the significant losses in the state budget from corrupt practices in public procurement (estimated at 10-15% or UAH 35-52.5 billion of state budget annual expenditures) and as a part of fiscal consolidation measures. The electronic system ProZorro (https://prozorro.gov.ua) thus became obligatory for procurement procedures for all government authorities and natural state monopolies. ProZorro was built on an open data source and is the result of a collaboration between the government, the business sector, and the civil society, with important contributions of Transparency International experts and financial support from EBRD, USAID and other international donors.

According to the Ministry for Development of Economy, Trade and Agriculture (MDETA), the introduction of ProZorro is responsible for an estimated 7.53% of savings in government procurement, made possible via an open bids system that anyone can access. Since its launch in 2016, ProZorro has received wide international recognition, being awarded first place by both the World Procurement Awards and the Open Government Awards in 2016.

To complement this important innovation, improve transparency, and prevent theft at all stages of public procurement, Ukrainian civil society also introduced Dozorro (https://dozorro.org), an online platform designed to enable civil society to have some degree of control over public procurement. It offers the option to leave feedback, comments and information about a state customer, supplier, public and law enforcement authorities and about the procurement procedure. Moreover, as of today, the Dozorro community unites 24 professional civil society organisations across Ukraine that identify and submit complaints concerning violations in over 1 500 procurement processes every month.

Source: (Institute for Economic Research and Policy Consulting, 2018[29]), (OECD, 2018[30]).

Standards and technical regulations

Ukraine signed an Association Agreement (AA) including a Deep and Comprehensive Free Trade Area (DCFTA) with the European Union in 2014; the AA provisionally applied as of 2016 and fully entered into force in 2017. According to the DCFTA tariffs between Ukraine and the EU are set to gradually be removed and non-tariff barriers, such as technical barriers, are tackled through legislative approximation with the EU. Therefore, Ukraine adopted a series of laws in 2014 and 2015 that were aimed at bringing its institutional and legislative framework into closer to that of the EU. Approximation of technical regulations with the EU is almost completed (25 out of 27 technical regulations foreseen in the EU AA have been adopted). Out of the total number of national standards (around 22 000), almost 65% are aligned with international and European standards. At the same time, conflicting national standards, including GOSTs developed before 1992, have been abolished. Mandatory production certification, which was applied to 70% of products in 2009, has been abolished on 1 January 2018. A roadmap for initiating negotiations with the EU on an Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA) has been set up.

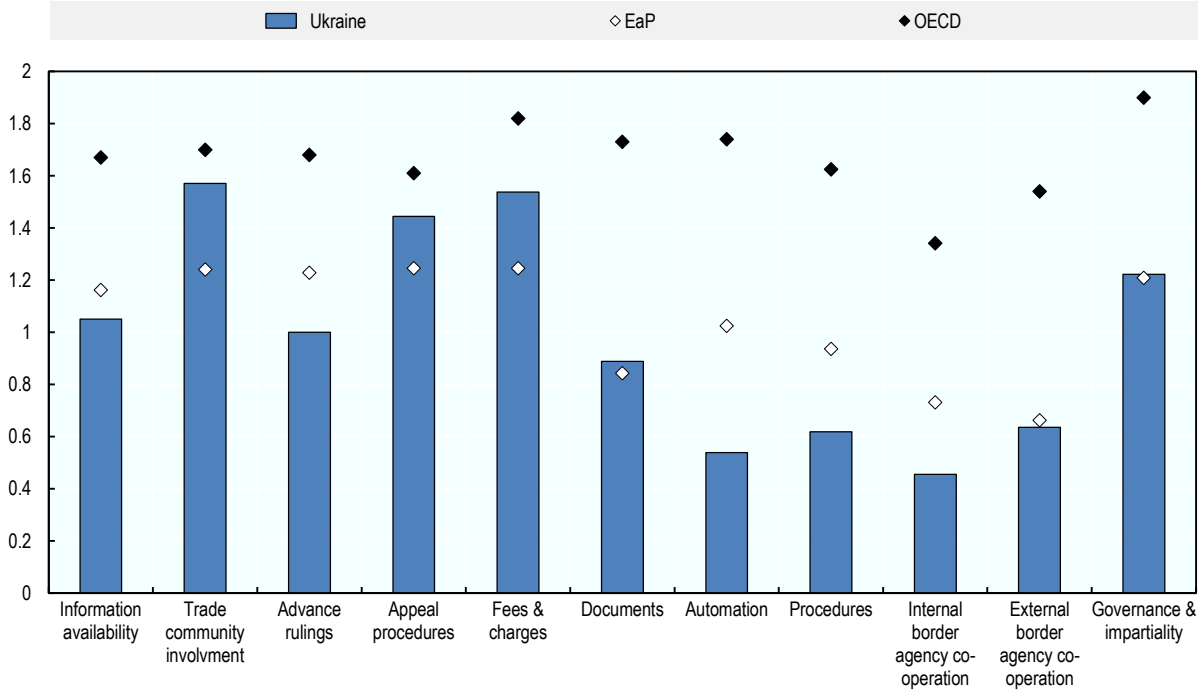
Given that SMEs point to low domestic demand as one of main challenges for their development, access to foreign markets, such as the EU Single Market, can offer additional business opportunities for small and medium firms.[25] To tap into trade opportunities, the government should help SMEs understand that the new quality infrastructure (QI) system can be beneficial. For example, some evidence suggests that most SMEs retain an idea of the mandatory character of certification and are unfamiliar with the concept of self-declaration. MDETA, the ministry responsible for the country's QI, has coordinated the adoption of a series of policy initiatives (with the support of international donors) that aim to support SMEs. Among them is the website "Communication Platform for Technical Regulation in Ukraine" (www.techreg.in.ua), which provides a platform SMEs can use to inform themselves about technical regulations and enter into online dialogue between businesses and state authorities; training is offered to SMEs on the use of standards in a train-the-trainer approach. The MDETA should continue its support for and commitment to the consistent implementation of these measures, while also working to coordinate and integrate promising policy initiatives – e.g. by the national SME development agency (SMEDO) or the Export Promotion Office (EPO) – to ensure that SMEs' costs for information search are low. One of the good practices would be to link SMEs and export web-portals, as well as to invite UkrNDNC (see below) and the National Accreditation Agency of Ukraine (NAAU) to contribute to the newly developed websites.

Finally, the country's QI institutions are gradually switching from a "control of compliance" mission towards the "feedback, participation-driven industrial service provision". For instance, the Ukrainian Scientific Research and Training Centre for Standardization, Certification and Quality (UkrNDNC), which has performed the functions of a national standardization body since 2015, sells standards online, publishes information on national standard projects, coordinates technical committees and engages in international twinning projects. UkrNDNC also encourages SMEs to participate in standardization and ensures SMEs have access to the texts of standards.[26] In a similar manner, the market surveillance authorities (the State Service on Food Safety and Consumer Protection established only in 2016) are currently working on policies to encourage citizens' participation in market surveillance and to raise citizens' awareness about consumer protection.

SME internationalisation

Ukraine's exports decreased by 12% from 2014 to 2017, mainly due to the drop in exports to the Russian Federation. However, the EU share in Ukraine's total exports stood at 42.1% as of mid-2018.[27] SMEs generated 27.0% of total exports in 2017, well below the EU average of 50%. Among key barriers for export, Ukrainian enterprises[28] mention insufficient quality of transport infrastructure, unpredictable trade policy of Ukraine, high levels of bureaucracy at customs and large number of permitting documents (Institute for Economic Research and Policy Consulting, 2019[31]).In addition, the one-stop shop recently introduced within the customs services appears to be lacking expected efficiency in terms of length and automation of procedures[29]. According to the World Bank's 2020 *Doing Business* report, Ukraine ranks 74th on trading across borders, up from 154th in 2015, with the time and costs needed to export significantly higher than the EaP and OECD average (66 hours and USD 192 in Ukraine compared to 2.77 hours and USD 35.46 in OECD countries). According to the 2017 OECD Trade Facilitation Indicators, Ukraine performs slightly below the EaP regional average and would benefit from continued improvements in the areas of *Information availability* and *Involvement of trade community* (OECD, 2017[32]).

Figure 12.5. OECD Trade Facilitation Indicators for Ukraine, 2017



Note: TFIs take values from 0 to 2, where 2 designates the best performance that can be achieved.
Source: OECD, Trade Facilitation Indicators Database, https://oe.cd/tfi.

StatLink http://dx.doi.org/10.1787/888934087819

Ukraine's 2017-2021 Export Strategy is the main strategic document guiding policy developments in the area of SME internationalisation. In 2016, with support of international donors, Ukraine established the Export Promotion Office (EPO), which was later restructured and since 2018 operates under the Ministry of Economy and Trade. The EPO provides a broad range of services such as training, export consulting, informational support (with the help of the EU's online tool Trade Helpdesk[30]), and facilitation of the SME participation in trade missions. Moving forward, it is important that the EPO be adequately resourced and build internal capacity to expand the provision of support services in line with the Export Strategy and SME demand.

In 2018 Ukraine took steps to enhance SME access to trade financing by establishing an Export Credit Agency, which aims to provide enterprises with export insurance services. Moving forward, the government should ensure not only sufficient funding for the agency, but also accountability and application of transparent criteria for the export support that it will provide, as the preconditions for its sustainability and trust from the business community.

With the exception of a few isolated initiatives, there is no systemic approach to the development of supply chain linkages between SMEs and large investors. Concerning the usage of e-commerce among SMEs, the Export Strategy addresses this issue, and the legislation has been mostly harmonised with the EU acquis; however, lack of awareness among SMEs and limited training and support services in this area have prevented uptake of e-commerce in Ukraine.

Pillar E- Innovation and Business Support

Business Development Services

Ukraine has made significant progress both in delivering support services to SMEs and in modernising the SME support infrastructure, and both items have become a priority of the recently adopted 2020 SME strategy.

In October 2018, the SME Development Office (SMEDO) was established as an advisory body under the Ministry for Development of Economy, Trade and Agriculture (MDETA), with plans to set up and co-ordinate regional SME support centres and improve access to SME support infrastructure. Until the launch of the dedicated information portal for SMEs (www.sme.gov.ua) by MDETA and SMEDO in October 2019, USAID's Leadership in Economic Governance programme has offered the most comprehensive catalogue of business support institutions. Thus, the established SME portal met an urgent need of entrepreneurs in terms of availability of information on starting and developing a business in Ukraine.[31]

Most of the current SME support programmes are donor funded, while others are provided by commercial partners. For instance, the state bank Oshchadbank offers a programme called "Build Yours" (Будуй своє) in which firms can apply for mentoring support from CEOs of successful companies, as well as test their entrepreneurship skills and take study courses online. At the national level, the Ministry of Agriculture and Food (MAF), the State Agency on Energy Efficiency and Energy Saving (SAEE) and Anti-Monopoly Committee of Ukraine (AMCU) offer targeted BDS to SMEs through their offices or websites. In addition, the State Employment Service provides free individual and group consultations on starting and running a business, and issues a one-time payment to an insured unemployed person wishing to launch a business.

It is at the local level, however, that most support for SMEs is administered. Since 2008, following the adoption of the national programmes for industrial development and other strategic documents,[32] Ukraine has been promoting innovation in economic sectors with high potential through the transfer of scientific innovation, the creation of industrial clusters in high-tech industries, and the establishment an effective ecosystem of technological parks, scientific and industrial clusters. Thus, to date, the vast array of SME support infrastructure includes business centres (329 as of January 2019), business incubators (62), techno/science parks (79) and industrial clusters, including 20 national clusters.[33] In 2018, all of the foregoing conducted 19 000 training events and seminars and 4 600 forums, round tables and conferences, attended by 330 000 participants. The EU via EBRD has also set up a network of Business Support Centres (BSCs) in 15 Ukrainian cities, providing training, seminars, consultations and other support services for businesses in the regions. In all regions of Ukraine, the State Employment Service is also leading the establishment of business development and consulting centres that providing advice and assistance in the planning and conduct of entrepreneurial activity.

The government publishes basic statistics on the number of business support institutions as well as on their activities (number of training events, seminars); these would, however, benefit from the use of result-oriented key performance indicators in order to measure the impact of BDS on participating SMEs and assess the effectiveness of the current support infrastructure. Furthermore, no demand-and-supply studies of the BDS market have been conducted and only a few (outdated) surveys, partially covering entrepreneurial skills among SMEs, have been carried out with donor support.

A first co-financing mechanism was developed by the MAF in early 2018, stimulating the uptake of BDS delivered by private providers and reimbursing up to 90% of the cost of advisory services in the agribusiness sector. Furthermore, the SME Strategy 2020 stipulates the expansion of the spectrum and quality of BDS provided to SMEs. Part of this is to be achieved through the provision of support to private consultancies in order to increase their professional standards and enhance their offer towards higher-value-added services. In the future, more could be done to develop a private BDS market – by, for instance, expanding the co-financing mechanism beyond the agribusiness sector and considering quality-certification programmes for private providers.

Innovation policy

Ukraine's policy framework for innovation has seen some moderate improvements since the 2016 SBA assessment. In late 2018, the government launched a public discussion on a draft "Strategy for Innovation Development for the period until 2030" which was approved in July 2019 and contains a focus on SMEs. Meanwhile, the most significant policy development has been the adoption of the "SME Development Strategy until 2020", where support for SME innovation appears as one of its six strategic directions.

On the institutional side, the competencies for designing and implementing innovation policy are shared between MDETA and the Ministry of Education and Science (MoES); while the MoES is responsible for creating an innovative environment at educational and scientific institutions, MDETA has a leading role in facilitating the commercialisation of inventions in the business sector. Also, in April 2017 the Cabinet of Ministers established the National Council for Science and Technology, with the objective of stimulating co-operation between researchers, government, and businessmen to provide inputs to state policy on science and technology. The very limited representation of the business sector in the Council, however, raises doubts on its ability to function as a meaningful advisory body for policy development. An alternative channel for the government's co-operation with the private sector is the annual All-Ukrainian Innovation Festival, organised by the MoES in partnership with Enterprise Europe Network, which seeks to identify and direct funding into innovative projects with significant commercialisation potential.

The innovation infrastructure benefits from a rather complete legal framework, with recently adopted laws regulating the activities of the numerous business incubators, industrial parks, and technology transfer offices (TTOs). While this is a welcome feature of Ukraine's innovation ecosystem, the actual performance of these facilities varies considerably. As an example, many of the new industrial parks appear to have only one single company among its residents, and the TTOs are rarely involved in technology commercialisation through licensing or formation of academic spin-offs (Stanković and Aridi, 2017[33]). To overcome these limitations, the government has launched several Technology and Innovation Support Centres (hosted by universities, research institutions, innovation structures, and technology parks) in an attempt to offer advanced intellectual property rights management services, and to help bridge the gaps between research institutions and the real economy.

Financial support for innovation remains low. State resources have historically been directed to public research organisations through basic competitive mechanisms and with few incentives to collaborate with industry. Nevertheless, in 2018 Ukraine introduced a new mechanism for financing research on a competitive basis managed by the National Research Foundation, which selects and grants support to research and development of Ukrainian scholars with a budget of EUR 9 million for 2019. In the same year, the

government plans to start offering tools to support innovation in the private sector: the Innovation Development Fund will issue grants to provide financial, technical and consulting support for high-tech start-ups with the potential to scale-up internationally. The Fund's limited budget (EUR ~1.7 million for 2019), however, appears to represent only a small step towards a policy objective of a much grander scale.

Since 2015 Ukraine has been an associated member of Horizon 2020, the eighth EU's Framework Programme for Research and Innovation. To date, 117 Ukrainian organisations have participated in calls for proposals, unlocking funding of around EUR 17.2 million for 90 projects. In addition, with the support of the EU, Ukraine joined the European Innovation Council (EIC)[34] (with a total budget of over 2 billion EUR for 2019-2020, in pilot phase until 2021) to support the innovation activities of entrepreneurs and researchers. Furthermore, since 2015, 12 Ukrainian companies have taken part in the "EIC Accelerator (previously SME Instrument)"[35] (part of the pilot EIC pilot programme), a competition for SMEs that provides funding of EUR 50 thousand to assess the feasibility of an innovation idea and continues to provide EUR 2.5 million for development of a business plan and the subsequent commercialisation of the invention, respectively.

Overall, Ukraine has made some progress in the area of innovation policy. The government should sustain its reform efforts and further orient them towards increasing innovation activity in the SME sector. To do so, it could 1) introduce stronger incentives to commercialise publicly-funded research and ensure that TTOs perform their bridging role between science and industry and 2) closely monitor the impact of the new innovation grants and gradually phase-in additional tools so as to reach a larger set of beneficiaries.

Green economy policies for SMEs

Ukraine has made significant strides in expanding its approach to supporting the greening of SMEs. The SME Strategy 2020 calls for greening SMEs and developing green technologies. More specifically, Direction 2, which deals with access to finance, calls for encouraging financial institutions to provide long-term and low-interest credit for the development of green products and implementation of green technologies. The associated Action Plan has specific steps for greening SMEs, including developing ecological regulations and supporting the implementation of green practices, sustainable production, and Environmental Management Systems (EMS).

The next step will be ensuring that these plans translate into concrete and implementable policy. Currently Ukraine does not offer specific regulatory incentives for SMEs, although it is implementing risk-based environmental assessments. For SMEs seeking assistance in adopting greener practices, both the Ministry of Ecology and Natural Resources and MDETA are currently deemed responsible in the SME Strategy. Ensuring that there is one point of access for SMEs – a single entity that can support them in developing their business, including the adoption of sustainable and competitive practices – will aid in uptake.

Green public procurement, an effective tool for incentivising the uptake of green practices by industry, has been supported through a number of projects in Ukraine. These include "Transferring Experience with Green Public Procurement in Slovakia and Ukraine" (co-financed by SlovakAid), which ran from 2017-2019, and an EU-funded project on "Harmonization of Public Procurement System of Ukraine with EU Standards" implemented in 2014-17. In the framework of the SlovakAid project, an online educational course on green public procurement was developed. However, to ensure SME participation

in green public procurement, requirements need to be accessible and clear, and support in meeting them should be provided.

Sectoral analysis: SME perspectives on the agribusiness sector in Ukraine

Agriculture has historically been one of the main sectors in Ukraine's economy, while agribusiness has recently moved to the forefront of Ukrainian economy. In 2018, agriculture generated 10.1% GDP (State Statistics Service of Ukraine (Ukrstat), 2019[34]), accounted for 5.9% of total employment (State Statistics Service of Ukraine (Ukrstat), 2019[35]), and around 76 300 entities operated in the sector (State Statistics Service of Ukraine (Ukrstat), 2019[36]). In 2017, agriculture accounted for 33.9% of total exports (Growth Lab, Harvard University, 2019[37]). Under the DCFTA agreement, Ukraine has seen its quotas for agricultural products increased, which boosted agriculture exports to the EU (National Investment Council of Ukraine, 2018[38]).

Evidence collected during the private sector focus group meetings[36] provided important insights on the main barriers faced by SMEs operating in the agribusiness sector in Ukraine:

- *Difficulties in getting financing*: The mechanism of agricultural receipts, introduced in 2014 in several regions to ease SME access to finance, has attracted only 9% of available funding in the industry. A number of SMEs still find it hard to benefit from the mechanism without having a credit history and face difficulties in meeting the conditions for obtaining the receipts.
- *Low productivity with high underlying costs* – namely inadequate use of technologies, techniques and modern varieties and breeds. This may ay seriously affect the competitiveness of Ukrainian agricultural products in the long run. While internationally accredited state laboratories for testing various agriculture food products exist, there is still a lack of specialised laboratories for certain product groups mainly produced by small businesses. Hence, small businesses have to use the services of foreign certification bodies, therefore facing higher costs.
- *Lack of SME capacity to implement voluntary certification*: Recent legislative amendments in the area of technical regulation introduced voluntary certification for a large number of products. In force since 2018, voluntary certification requires awareness and careful choice of the quality standards able to increase product competitiveness in the market. However, most SMEs report not having enough knowledge, skills and resources for its successful implementation.
- *Gaps in SME skills when it comes to non-technological innovation*: SMEs report having limited knowledge and resources to invest in marketing, branding or management, which leads to decreased competitiveness potential of the company and the product it sells.

Given the aforementioned challenges, the government could consider the following next steps:

- Update technical and technological capacities and processes according to export priorities through R&D stimulation, training and introduction of modern techniques in processing and farming.
- Identify laboratories' tests that are missing and develop the basis for a viable testing market by encouraging state and non–state players to become accredited laboratories in specific areas.

- Enhance the agricultural receipt facility and promote its use by SMEs.
- Promote voluntary certification mechanisms among companies through a series of awareness-raising and capacity-building activities on EU quality standards; encourage sectoral business associations to develop templates or lists of quality standards for different type of products to better leverage the products' competitive advantages.
- Conduct training events, seminars, and workshops on development of marketing, branding and management skills for SMEs, with focus on the agribusiness sector.

The way forward

Despite ongoing economic and political challenges, Ukraine has achieved substantive progress since the 2016 SBA Assessment. The government should maintain the momentum and continue implementing effective SME policies as follows.

- Ukraine has directed considerable effort towards creating a level playing field for all firms, but more could be done to ensure the effectiveness of undertaken reforms. In the area of competition, Ukraine needs to guarantee the independence of the AMCU and provide it with a clear and realistic mandate, while also enlarging AMCU's budget so it can attract and retain highly qualified lawyers and economists. In addition, AMCU's extended mandate – competition enforcement, public procurement and state aid – risks diluting its core competition mandate, and also expose it to strong resistance and political pressure from public and private stakeholders. Therefore, it is recommended ensure that budget and staff allocation for the additional tasks are in line with the significant additional burden. In order to provide for efficient contract enforcement, Ukraine should put in place a mechanism to monitor and effectively address the deficiencies of the e-court system. In addition, to provide for effective protection of the international intellectual property rights (IPR) of businesses, the government should ensure that the newly established High IP Court contains qualified judges, trained in IP law. Embedding mediation into the legal framework and promoting ADR use by SMEs for commercial dispute resolution would be important steps towards building ADR culture within Ukraine's business community. Furthermore, conducting a study of business integrity risks (with the active engagement of civil society and business associations, and a focus on SMEs) would be essential in the crafting of an efficient policy of corruption prevention in the private sector. Ensuring proper enforcement of criminal liability for corruption offences could be done through an initial analysis of deficiencies in the application of the liability mechanism in practice, given the low number of court cases in this regard. Finally, to provide for efficient protection of business rights against public authorities, the sustainability of the Business Ombudsman institution should be ensured through the adoption of a respective draft law.
- Many steps have been taken to improve the SME institutional and regulatory framework, including the establishment of SMEDO and the update of the RIA methodology. Next steps would be to carry out regular evaluations of SMEDO's effectiveness and advance its further integration into MDETA, as well as ensuring that the new RIA methodology is systematically and consistently applied at all levels of government. The Ukrainian bankruptcy systems would benefit from the introduction and monitoring of preventive measures. A proper early-warning

system for detection of insolvency at an early stage should be implemented. Moreover, Ukraine should consider implementing a dedicated policy strategy or information campaign to promote second chance for entrepreneurs seeking a fresh start.

- Ukraine has made good progress in the area of *entrepreneurial learning* given the focus on key competence developments within the New Ukrainian School reform, which includes entrepreneurship as a key competence. To put a particular emphasis on the development of the entrepreneurship key competence, the country would benefit from an entrepreneurial learning network of stakeholders to share experience, knowledge and good practices. A set of performance indicators should be developed, and a tracking system put in place for graduates. Continuous investment in the teacher force is critical by further upgrading teacher qualifications and providing internships for teachers in companies as well as giving rewards for "entrepreneurial" teachers at the system level.

  A common and comprehensive vision is required to further promote *women's entrepreneurship*. National authorities should collect gender sensitive statistics (individual-level data in sex-disaggregated format, ex. when registering a new company) for a strong, evidence-based policy implementation. Existing action plans should include performance indicators in order to measure progress, and an overarching action plan could bring together all actions taken by the government and by NGO's. The government could strengthen the capacity of NGOs supporting women's entrepreneurship, to allow them to actively participate in the policy dialogue at local, regional and national level.

  In the area of *SME skills*, SMEDO could take a lead in developing a regular and systematic skills intelligence system at national level, in close cooperation with education and training providers, the employer's organisations and other key stakeholders. Training needs analysis (TNA) for SME's should become a regular practice. In terms of training provision for SME's, authorities could consider to invest more in training in the area of green skills, resource efficiency, digital skills, supply chains and investment readiness.

- Going forward, bringing the large number of initiatives that are currently at drafting stage to fruition will be an important step towards strengthening the legal framework underpinning the various financial services that SMEs could benefit from. This includes the reform of the regulatory framework for non-bank financing instruments, the adoption of a specific legal framework for microfinance activities, the reform of factoring legislation, and the legislation on investment funds. Expanding the range of sources from which credit information can be collected can be helpful in increasing the coverage of the private credit bureau and allowing a larger number of individuals to build a credit history. In addition, a range of new financing support programmes have been put in place or are being developed; apart from a timely realisation of the various plans, it will be important to establish appropriate monitoring and evaluation mechanisms for them. These processes are an important step in determining the effectiveness of, and drawing lessons from, the reform of existing programmes so as to inform the design of future ones. Another area of focus would be increasing efforts to improve the financial literacy of the general population so that bank-related concepts are widely understood. For example, initiatives could be implemented through the Financial Literacy Strategy, if the document is adopted by the government. In addition, the availability of

entrepreneur-specific training in business planning, budgeting and different financing instruments should be widened to allow for easy access across the country. This will be important to provide SME owners and managers with the necessary skills to improve their accounting and business planning capacity and enable them to take advantage of different financing products.

- The introduction of the new public procurement law has led to great advancement and facilitates SME access to internal markets. However, the government could strengthen the review function of public procurement activities, focusing on the proper application of reasonable award and selection criteria other than price, on reducing frivolous complaints, and on the full correspondence of contracts and their execution with the terms of the tenders. Moreover, it would be important to strengthen the capacity of central institutions, investing in the knowledge and skills of contracting authorities, with a specific focus on aspects relevant to SMEs. With the aim of facilitating SME access to foreign markets, the government should support SMEs in understanding and using the new quality infrastructure (QI) system. It should also ensure that SMEs have easy access to available information (i.e. the techreg platform) and training in the use of standards in order to lower their costs for information search. In regard to SME internationalisation, Ukraine should ensure that the Export Promotion Office (EPO) is adequately resourced and builds the internal capacity necessary to expand its provision of support services in line with the Export Strategy and SME demand. It should then make sure that the Export Credit Agency is guaranteed sufficient funds and that its trade financing programme is transparent and accountable. Finally, the government should invest in SME integration into GVCs as well as in SME training in, and support services related to, the use of e-commerce.

- In order to further promote the performance in Innovation and Business Support, the government could, first of all, consider establishing a single information portal on entrepreneurship. The government could then measure the impact of BDS on participating SMEs and assess the effectiveness of the current support infrastructure, using result-oriented key performance indicators. Moreover, demand and supply studies of the BDS market could be conducted to align the BDS service offer with the actual needs of SMEs. Finally, more can be done to develop a private BDS market – for instance, by expanding the co-financing mechanism beyond the agribusiness sector and considering quality-certification programmes for private providers. Some steps have already been taken to improve the policy environment for innovation, and the government could now focus on introducing stronger incentives to commercialise publicly-funded research and ensuring that TTOs perform their bridging role between science and industry. In addition, the impact of the new innovation grants could be closely monitored and the government could gradually phase-in additional tools to reach a larger set of beneficiaries. Ukraine has recently developed many plans supporting the greening of SMEs, and these now need to be implemented. The government could provide information and direct support to SMEs on the benefits of the planned green public-procurement policies, and could develop a single window that SMEs can use to access information and support on greener practices and programs.

Conclusion

Table 12.5. Roadmap for policy reforms – Ukraine

Promoting a level-playing field for all enterprises
• Increase the budget and the budgetary autonomy of the AMCU, to ensure recruitment of highly qualified staff and to ward off corruption risks
• Reduce the number of tasks given to the AMCU so it can focus on the enforcement of competition law
• Ensure proper enforcement of criminal liability for corruption offences through an initial analysis of deficiencies in the application of the liability mechanism in practice
• Embed mediation into the legal framework and promote ADR use by SMEs for commercial dispute resolution
• Conduct a study of risks for business integrity with the active engagement of civil society and business associations
• Ensure the sustainability of the Business Ombudsman institution through adoption of a respective draft law
Strengthening the institutional and regulatory framework and operational environment for SMEs
• Ensure that the elaboration of the new SME strategy is carried out based on inter-governmental and public-private consultations, building on the evaluation findings of the current SME strategy and ensuring proper monitoring mechanisms as well as sufficient resources for its effective implementation
• Evaluate the effectiveness of SMEDO and decide on its place in the institutional framework for SME policy
• Make sure that the new RIA methodology is systematically and consistently applied at all levels of government
• Expand the regulatory reform process, focusing on areas where regulatory performance is particularly low (i.e. resolving insolvency and getting electricity)
• Implement an early-warning system for detection of insolvency
• Adopt a comprehensive and proactive second-chance strategy for bankrupt entrepreneurs
Promoting skills and entrepreneurship development
• Consolidate the current monitoring and evaluation (M&E) actions and create an M&E framework for the key competence developments within the New Ukrainian School reform, the VET modernisation reform, and Higher Education reforms
• Have SMEDO take the lead in developing a systematic approach to gathering SME skills intelligence data (skills demand, skills supply and skills forecasting) on a regular basis
• Put in place an overarching policy framework for women's entrepreneurship and develop a plan for awareness-raising, information and communication activities regarding women's entrepreneurship at both national and local levels
• Ensure gender-sensitive data collection on business activities
Facilitating SME access to finance
• Complete reforms to strengthen the legal framework for non-bank financing instruments such as microfinance, factoring and venture capital
• Complete the review of SME financing support mechanisms and ensure appropriate mechanisms are included to review and evaluate programmes
Supporting SME access to markets
• Ensure the Export Promotion Office (EPO) has sufficient funding and internal capacity to provide export support services and expand its services at the regional level
• Ensure transparency and accountability of the trade financing programme provided through the Export Credit Agency
• Introduce policy measures to support SMEs in using the EU standards and conformity assessment services in selected priority sectors
• Continuously improve the effectiveness of market surveillance to make sure unfair competition on low-quality products is adequately sanctioned
• Strengthen the review of public procurement activities, with a focus on the proper application of reasonable award and selection criteria, on reducing frivolous complaints, and on the full correspondence of contracts and their execution with the terms of the tenders
• Conduct capacity-building activities to raise the knowledge and skills of contracting authorities, including SME-related aspects of public procurement
Enhancing SME competitiveness
• Monitor the impact of the new innovation grants and gradually phase-in additional tools to reach a larger set of beneficiaries
• Introduce stronger incentives to commercialise publicly-funded research and ensure that technology transfer offices perform their bridging role between science and industry
• Establish a single information portal on starting and developing a business in general, and on (quality-assured) BDS availability in particular; consider quality-certification programmes for private providers
• Improve the monitoring and evaluation of current support programmes (particularly BDS programmes), measuring their impact on SME performance and assessing the effectiveness of the current support infrastructure
• Provide information and direct support to SMEs on the benefits of the planned green public-procurement policies

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Notes

[1] Per capita GDP was down only 6.4%, an indicator of how much population Ukraine lost over the decade.

[2] In 2016, Ukraine ranked 83rd.

[3] In 2016, Ukraine ranked 85th.

[4] The legal definition of SMEs in the EU is based on employment, asset and turnover thresholds, with the additional obligation of satisfying an "independence from other entities" criterion.

[5] For statistical purposes, the EU recommendation of 6 May 2003, C (2003) 1422, indicates the size of employment as the only identifying criterion for a micro, small, medium or large firm.

[6] https://zib.com.ua/ua/print/134471-koli_spravi_neznachnoi_skladnoschi_stayut_maloznachnimi_.html.

[7] For more details, see the "Business integrity" section in the "Level Playing Field in EaP countries" chapter.

[8] See the "Business integrity" section in the "Level Playing Field in EaP countries" chapter.

[9] Legal entities can go online and, by means of an electronic seal, receive a statement certifying absence of criminal penalty, which is obligatory for permission to participate in public procurement.

[10] From 15 August 2016 to 21 January 2019, the NACP received 2,632 notices regarding possible facts of committing corruption or corruption-related offenses.

[11] In particular against actions of National Police and Security Service of Ukraine.

[12] As of December 2018, out of 635 opened cases on corruption, only 176 were directed to court by NABU, and 36 obtained a court decision.

[13] Resolution of Cabinet of Ministers of Ukraine No. 823 from 21.08.2019 "On s ome issues on State Supervision and Control over Compliance with Labour Legislation"; Decree of Cabinet of Ministers of Ukraine Decree No. 649-p "On measures to unshadow employment relations".

[14] http://me.gov.ua/Documents/List?lang=uk-UA&id=f73ee34d-89b5-4dd5-886e-8a5ad6e41eda&tag=OrintovniPlaniProvedenenniaKonsultatsiiZGromadskistiu.

[15] EUREKA is an intergovernmental network promoting innovative entrepreneurship within small and large enterprises, research institutes and universities, and acting as a platform for international R&D cooperation.

[16] Net of FX effects.

[17] NBU Bank Lending Survey Q3 2019, https://bank.gov.ua/doccatalog/document?id=99904480

[18] Draft law No. 1069-2 On Amendments to Some Legislative Acts of Ukraine on Improving Functions in State Regulation of Financial Services Markets – "split law".

[19] See https://zakon.rada.gov.ua/laws/show/922-19.

[20] Adopted on 19 September 2019; see http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=66307

[21] As set out in the Association Agreement between the EU and Ukraine.

[22] See https://prozorro.gov.ua.

[23] See https://dozorro.org.

[24] The chapter on restricted tendering will only come into force after 12 months.

[25] In 2015, 38.5% of businesses experienced low demand for their products and services. However, this share grew by almost a half in 2016 and reached 58.5% (according to ABCA 2015 and 2016 surveys). More than half of Ukrainian SMEs operate only in the regional (local) market (52.8% in 2015 and 50.3% in 2016). Altogether, demand problems stimulated entrepreneurs to search for new customers. According to the survey, every second business was planning to expand its market (domestic and foreign). More than one-fifth of SMEs wanted to find new markets in the EU or other countries (21% in 2016, but 16.9% in 2015) and non-compliance with international standards was one of the export barriers for 10% of entrepreneurs.

[26] Law of Ukraine "On Standardization" Article 11.

[27] Data from State Fiscal Service of Ukraine.

[28] The enterprises sample consists of micro-enterprises (37.9%), small (30%), medium (20.1%) and large enterprises (12%).

[29] Only half of surveyed enterprises that have undergone customs procedures through the one-stop-show report that the time spent to fulfil the formalities at the border did not exceed the expected four hours. At the same time, more than half of enterprises that have electronically filed necessary documents within customs services had to submit those in paper format additionally.

[30] https://trade.ec.europa.eu/tradehelp.

[31] "Many entrepreneurs expect from the government measures that would increase their knowledge on entrepreneurship: about 78% of respondents needed a single information portal about entrepreneurship." F. Natalia, B. Victoria, F. Iryna and K. Oksana (2016), *Annual Business Climate Assessment Survey 2016* (Kyiv, Ukraine: Institute for Economic Research and Policy Consulting).

[32] The National goal-oriented program for industrial development in Ukraine until 2017; The Concept of "State Target Economic Program of industrial development for the period until 2020"; The Concept of the "Strategy of development of high-tech industries by year 2025".

[33] ECCP.eu, EaP PLUS Eastern Partnership+, Review of the state development of clusters in EaP countries, March 2017, pp. 31-35

[34] https://ec.europa.eu/commission/news/european-innovation-council-2019-mar-18_en

[35] https://ec.europa.eu/easme/en/eic-accelerator-sme-instrument

[36] Focus groups with the private sector representatives were held on 30 May 2018 and 20 May 2019, the latter gathering representatives from agribusiness, including from berries sector.

Annex A. Methodology for the Small Business Act assessment

Scoring methodology

The SME Policy Index 2020 contains scores at the level of dimensions and sub-dimensions and uses two separate scoring methodologies depending on the dimensions being assessed: one for the human capital dimensions (Pillar B – Entrepreneurial human capital) and another for the remaining dimensions. When relevant (e.g. at country profile level), the Index also shows 2020 scores according to 2016 methodology, to maintain comparability of the scores disregarding additions of new sub-dimensions, as described below. For more detailed information on the assessment framework and process, please refer to the chapter "Policy framework, structure of the report and assessment process".

Scoring methodology

For all other dimensions, the detailed questionnaires comprising approximately 500 questions, filled out by national governments and independent experts, have been used. These questionnaires allow more precise information to be obtained and cross-checked, in particular on the actual implementation of policies and measures.

Like the 2016 assessment, the 2020 questionnaires have been structured by dimensions and sub-dimensions, the sub-dimensions having been divided into thematic blocks, each with their own set of questions (Table A.1). These thematic blocks are typically broken down into the three components or stages of the policy process (design, implementation, monitoring and evaluation), with some deviations in certain dimensions. This approach allows for better monitoring of policy progress and enhances the depth of policy recommendations, while addressing systemic policy issues in a more detailed manner.

Recent change in the methodology for the Entrepreneurial human capital dimensions

For this assessment, the methodology for the three human capital sub-dimensions – entrepreneurial learning, women's entrepreneurship and enterprise skills – has been harmonised with the remaining dimensions. Previously, these dimensions were assessed using 5-level qualitative indicators. Moving to the questionnaire – with its binary (yes/no), multiple-choice and open questions – has harmonised the assessment methodology across all the SBA dimensions (the other dimensions were first assessed in this way in 2016). Thus, comparison of the scores on the human capital dimensions between the 2016 and 2020 assessments need to be made with caution because of this change.

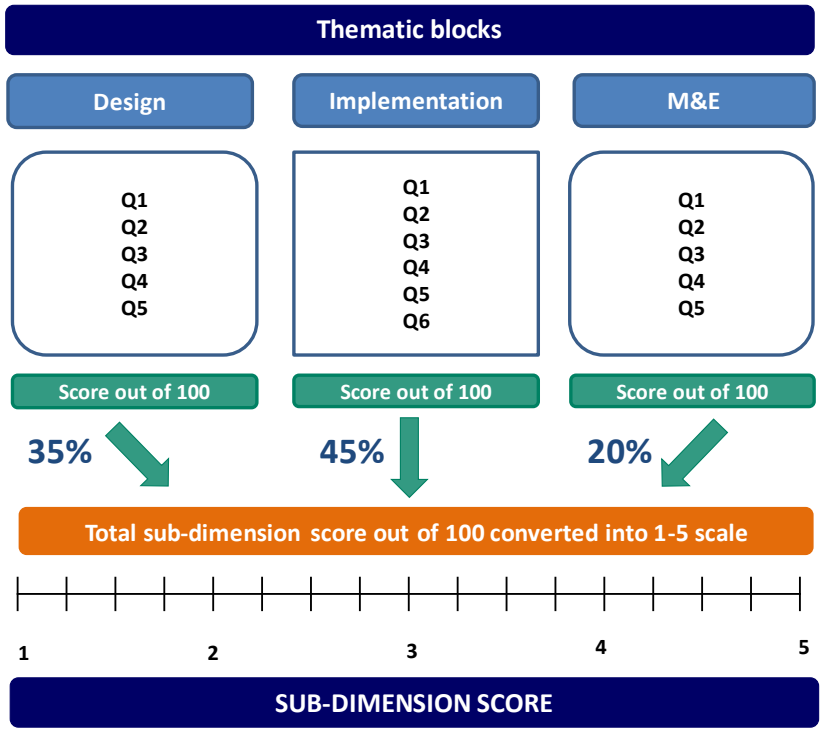
Table A.1. Example of thematic blocks for the "Institutional framework" sub-dimension

Design	Implementation	Monitoring & evaluation
Is there a multi-year SME strategy in place?	Has budget been mobilised for the action plan?	Are there any monitoring mechanisms in place for the implementation of the strategy?

Each questionnaire contains two types of questions: 1) core questions to determine the assessment score; and 2) open questions to acquire further descriptive evidence.[1] Each of the core questions (Q1, Q2, Q3, etc.) is scored equally within the thematic block. For binary questions, a "Yes" response is awarded full points and a "No" response receives zero points. For multiple choice questions, scores for the different options range between zero and full points, depending on the indicated level of policy development.

The core questions are scored individually and then added to provide a score for each thematic component. Scores are initially derived as percentages (0-100) and then converted into the 1-5 scale (Figure A.1). Scores for the thematic blocks are then aggregated to attain a score for the sub-dimension, with each component being assigned a weight based on expert consultation. In general terms, a 35-45-20 percentage split has been attributed to emphasise the importance of policy implementation. The sub-dimensions are then aggregated using expert-determined weightings (based on the relative significance of each policy area) to reach an overall 1-5 level per dimension (see below).

Figure A.1. Questionnaire scoring at the level of sub-dimensions



Since 2016, several dimensions in the assessment have been revised in order to assess a broader range of SME policies (e.g. promoting second chance, policy framework for non-technological innovation and diffusion of innovation) and address potential gaps in measurement (e.g. trade facilitation indicators) as well as to undertake a minor

reorganisation and streamlining of the sub-dimensions. The weightings of the sub-dimensions have been adjusted to allow for these additions whilst maintaining comparability with the 2016 assessment as much as possible.

Moreover, the SME Policy Index 2020 comprises an additional set of scores based on the 2016 methodology in order to track progress countries would have made had the assessment framework not changed (i.e. had the new sub-dimensions not been added). These scores are shown in the respective country profiles and the "Overview" chapter. An. An overview of the changes to the dimensions is provided in Table A.2.

Table A.2. Overview of changes to the SBA assessment sub-dimensions

Dimension	Changes introduced since the 2016 assessment
Bankruptcy and second chance	Sub-dimension on bankruptcy prevention measures added.
Operational environment	Sub-dimensions on business licencing and tax compliance procedures for SMEs introduced. The sub-dimension on digital government was expanded to take into account the introduction of e-government services.
Access to finance	Financial literacy sub-dimension expanded to encourage SMEs to improve financial reporting and IFRS adherence. OECD SME financing scoreboard data included to expand the core indicators assessing SME access to finance.
Standards and technical regulations	Overall co-ordination and general measures – previously a building block – is now a sub-dimension. Other existing building blocks were fully restructured into the new sub-dimension Approximation with the EU Acquis. Sub-dimension on SME access to standardisation was added.
Innovation policy	Policy framework for innovation expanded through the sub-dimension on policy framework for non-technological innovation.
Internationalisation	Sub-dimensions on trade facilitation measurement with the use of OECD indicators and on SME use of e-commerce added to better capture internationalisation of SMEs.

Supplementary data

The 2020 SME Policy Index has also tried to supplement the formal assessment framework with additional data and statistics. While it was not incorporated into the scores (except for the Internationalisation Dimension, *OECD Trade Facilitation Indicators*), this information was used to support the policy narrative with additional details on policy outcomes and SME perceptions. Two types of additional data have been collected:

- Structural business statistics and business demography data (on enterprise birth, death and survival rates) were requested from the six national statistics offices, along with statistics on policy outputs related to the SBA policy dimensions based on the EU SBA fact sheets, which benchmark EU countries based on the principles of the SBA. Remaining gaps in data collection and inconsistencies in data collection methodologies in the EaP countries prevent the regional comparison of statistics. However, structural and business demography statistics are included in the country profiles.
- Data from international databases (e.g. World Bank's *Doing Business*, World Economic Forum's *Global Competitiveness Index* and Transparency International's *Corruption Perception Index*) were also instrumental in completing information gaps and assessment findings for the *Level Playing Field* pillar, in particular on the *contract enforcement and dispute resolution*, and *business integrity* dimensions.

In addition, the country profiles include an in-depth analysis of the key reforms achieved so far reflecting on the 2016 recommendations, key challenges still facing the SME sector, as well as detailed recommendations to help EaP countries implement and monitor reforms. Profiles do not only present the main findings of the SBA assessment, but also cover broader macroeconomic and business environment challenges affecting SMEs and SME policy making that may not be directly captured by the different SBA dimensions. Furthermore, the "Way forward" section of the country profiles includes a detailed reform roadmap outlining each country's short-, medium- and long-term policy priorities.

Notes

[1] Core questions include: 1) binary or yes-no questions (e.g. "Does a legal definition of SMEs exist in your country?"); and 2) multiple choice questions (e.g. "Does a multi-year SME strategy exist?", for which various responses are available, e.g. "Strategy is in the process of development", "Draft strategy exists but yet not approved by the government", "Strategy exists, has been approved by the government and is in the process of implementation", or "There is no strategy in development").

In either case, countries are requested to provide evidence (source and/or explanation) for the answers. Open questions (e.g. "What is the budget for the SME implementation agency?"; "How many people work in the agency?" or "How many ministries are represented in the governance board?") are used to provide further details on the responses to the core questions, but are not directly scored.

Annex B. Organisation profiles

Organisation for Economic Co-operation and Development (OECD), Eurasia Competitiveness Programme

The OECD is a unique forum where governments work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies. The OECD member countries are: Australia, Austria, Belgium, Canada, Chile, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Lithuania, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The European Union takes part in the work of the OECD.

The OECD Eurasia Competitiveness Programme, launched in 2008, helps accelerate economic reforms and improve the business climate to achieve sustainable economic growth and employment in two regions: Eastern Europe and South Caucasus (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine), and Central Asia (Afghanistan, Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, Turkmenistan and Uzbekistan).

The programme works to improve the business climate through a comprehensive approach to evaluate policy, define priorities and support capacity building and implementation of reform. It achieves impact by helping countries align to OECD standards, such as the "OECD Declaration on International Investment and Multinational Enterprises". It helps foster the implementation of OECD tools and instruments, such as the "Policy Framework for Investment" and supports countries in the Eurasia region in conducting OECD flagship reviews in collaboration with respective committees. OECD experts work closely with public authorities, the private sector and civil society to design and implement tools and instruments that lead to policy reforms and improve the business climate.

European Commission, DG NEAR and DG GROW

The Directorate-General for Neighbourhood and Enlargement Negotiations (DG NEAR) aims to promote the EU's neighbourhood and enlargement policies, as well as to coordinate the relations with EEA-EFTA countries insofar as Commission policies are concerned. DG NEAR works closely with the European External Action Service and the line DGs in charge of thematic priorities. It is responsible for:

- Supporting reform and democratic consolidation, and strengthening the prosperity, stability and security around Europe, by implementing assistance actions in Europe's eastern and southern neighbourhood;

- Assisting those countries with a perspective to join the EU in meeting the criteria defined by the Treaty of European Union and the European Council and managing the bilateral relations of the Union with candidate and potential candidate countries on their path to the EU, frontloading reforms on rule of law, economic governance and public administration reform;
- Managing the bulk of the Union's financial and technical assistance to the neighbourhood and enlargement countries.

The Directorate-General (DG) for Internal Market, Industry, Entrepreneurship and SMEs is the European Commission service responsible for:

- Completing the internal market for goods and services,
- Helping turn the EU into a smart, sustainable and inclusive economy by implementing the industrial and sectorial policies of the flagship Europe 2020 initiative;
- Fostering entrepreneurship and growth by reducing the administrative burden on small businesses, facilitating access to funding for small and medium-sized enterprises (SMEs), and supporting access to global markets for EU companies (all of these actions are encapsulated in the Small Business Act);
- Generating policy on the protection and enforcement of industrial property rights, co-ordinating the EU position and negotiations in the IPR system, and assisting innovators in learning how to use IPR effectively;
- Delivering the EU's space policy via the two large-scale programmes, Copernicus (European Earth observation satellite system) and Galileo (European global navigation satellite system), as well as research actions to spur technological innovation and economic growth.

The SBA assessment project is implemented within the EU4Business Initiative. EU4Business is an umbrella initiative that covers all EU support for small and medium-sized enterprises (SMEs) in the region of the Eastern Partnership which brings together the EU, its member states and six partner countries: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. It breaks down barriers SMEs face in their progress, such as limited access to finance, burdensome legislation and difficulties entering new markets, with finance, support and training, to help them realise their full potential. EU4Business support is delivered together with other organisations such as the European Bank for Reconstruction and Development and the European Investment Bank.

European Training Foundation

The European Training Foundation (ETF) helps transition and developing countries harness the potential of their human capital through the reform of education, training, and labour market systems, in the context of EU external relations policies.

The ETF supports 29 countries bordering the EU to improve their vocational education and training systems, analyse skills needs, and develop their labour markets. By doing so, the ETF helps them to improve social cohesion and achieve more sustainable economic growth, which in turn benefits Member States and their citizens by improving economic relations.

The ETF collaborates on a country-specific as well as multi-country basis, building frameworks for continuity in policy and promoting the design of evidence-based policy and implementation. It frequently operates in uncertain and, at times, unstable contexts. Yet it is one of the few agencies called on by successive governments with changing policy priorities, because of its reputation for independent, high-quality work and positive engagement.

The ETF's activities with partner countries cover a range of related areas:

- Skills and employment needs analysis,
- System governance, including stakeholder engagement,
- Social dialogue and private sector participation,
- Qualification systems and quality assurance,
- Work-based learning,
- Teacher training,
- Entrepreneurial learning and core competences, and
- Career guidance.

The European Training Foundation was established by Council Regulation No. 1360 in 1990, recast as No. 1339 in 2008. The recast regulation specifies the ETF's role in contributing to human capital development in the context of EU external relations policies. In this context, human capital development is defined as *work that supports countries to create lifelong learning systems providing opportunities and incentives for people to develop their knowledge, skills, competences and attitudes throughout their lives to help them find employment, realise their potential and contribute to prosperous, innovative and inclusive societies.*

European Bank for Reconstruction and Development

The EBRD is an international financial institution that supports projects in Central and Eastern Europe, Central Asia and, since September 2012, the Southern and Eastern Mediterranean. Investing primarily in private sector clients whose needs cannot be fully met by the market, the bank fosters the transition towards open and democratic market economies. In all its operations the EBRD follows the highest standards of corporate governance and sustainable development. Owned by 64 countries and two intergovernmental institutions, the EBRD maintains a close political dialogue with governments, authorities and representatives of civil society to promote its goals.

SME Policy Index

Eastern Partner Countries 2020

ASSESSING THE IMPLEMENTATION OF THE SMALL BUSINESS ACT FOR EUROPE

The *SME Policy Index: Eastern Partner Countries 2020 – Assessing the Implementation of the Small Business Act for Europe* is a unique benchmarking tool to assess and monitor progress in the design and implementation of SME policies against EU and international best practice. It is structured around the ten principles of the Small Business Act for Europe (SBA), which provide a wide range of pro-enterprise measures to guide the design and implementation of SME policies. This report marks the third edition in this series, following assessments in 2012 and 2016. It provides a comprehensive overview of the state of play in the implementation of the ten SBA principles, and monitors progress made since 2016. It also identifies remaining challenges affecting SMEs in the Eastern Partnership (EaP) countries and provides recommendations to address them based on EU and international good practice examples. The 2020 edition also features a novelty: An assessment of three new dimensions going beyond core SME policy (competition, contract enforcement and business integrity) looking at key structural reform priorities that are critical to establishing a level playing field for enterprises of all sizes and ownership types.

Consult this publication on line at ***https://doi.org/10.1787/8b45614b-en***.

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