Small and Medium Sized Enterprises in Economies in Transition: Challenges, Opportunities, and UNECE Tools

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Acknowledgments

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<td>Asian Development Bank Institute</td>
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<tr>
<td>CAREC</td>
<td>Central Asia Regional Economic Cooperation</td>
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<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
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<td>ECTD</td>
<td>Economic Cooperation and Trade Division</td>
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<td>EESC</td>
<td>Eastern Europe and South Caucasus</td>
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<td>Empretec</td>
<td>Entrepreneurship Development Programme</td>
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<td>ISMIT</td>
<td>White Paper in Integrated Services for MSMEs in International Trade</td>
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<td>IHGEs</td>
<td>Innovative High-Growth Enterprises</td>
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<tr>
<td>MSMEs</td>
<td>Micro, small, and medium-sized enterprises</td>
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<tr>
<td>NTMs</td>
<td>Non-tariff measures</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
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<td>SMEs</td>
<td>Small and medium-sized enterprises</td>
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<tr>
<td>SPECA</td>
<td>Special Programme for the Economies of Central Asia</td>
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<td>UNECE</td>
<td>United Nations Economic Commission for Europe</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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I. Introduction

Small and medium-sized enterprises (SMEs) are a driving force for countries’ economic development. This particularly counts for the economies in transition in the United Nations Economic Commission for Europe (UNECE) region (Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Georgia, Kazakhstan, Kyrgyzstan, Montenegro, North Macedonia, the Republic of Moldova, the Russian Federation, Serbia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.\(^1\)

The goal of this paper is to provide a general overview of SMEs in the economies in transition in the UNECE region, to outline challenges for SMEs, and to support UNECE tools. To this end, in Section II, the role of SMEs in economic development is explained. Section III provides an overview of economic sectors within SMEs and the challenges for SMEs are presented in Section IV. A possible way forward for supporting SMEs in the economies in transition, including through the use of UNECE tools, is identified in Section V.

II. Role of small and medium-sized enterprises in economic development

In most economies in transition,\(^2\) SMEs represent more than 90 per cent of non-financial businesses (see Table 3). The Russian Federation is the only country where SMEs account for around a quarter of all businesses. Throughout countries with economies in transition, the number of SMEs continues to grow in many regions. In the Balkan economies, the number of SMEs increased by 10 per cent from 2013 to 2016.\(^3\)

In line with a general trend in emerging economies, in 10 out of 17 UNECE programme countries, SMEs account for half of the employed population in the private sector (Figure 1). Overall, the contribution of SMEs to GDP is relatively low, indicating the low value-added in the SME sector. In just seven countries is the percentage of GDP from SMEs 60 per cent or higher. In five economies,\(^4\) despite the fact that SMEs represent more than 90 per cent of companies, the shares of employment and GDP are significantly lower (Figure 2). This can be explained by the exclusion of self-employed people and small farms from the definition of SMEs.\(^5\)

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1: These countries underwent a transition from a centrally planned economy to a market economy. Several of them fall into the category are defined by UNECE as the 17 “programme countries” and are referred to as “economies in transition” or “transition economies”.
2: This paper does not undertake a comparative review of the definitions for SMEs and MSMEs used in different transition economies. Importantly, some countries have aligned (parts of) their definitions with European Union standards. Others resort to definitions established long ago.
3: Albania (31.6 per cent), Montenegro (12.4 per cent), and Kosovo (Serbia and Montenegro) (8.9 per cent) witnessed the largest growth over the period 2013-2016 (OECD, 2020a).
4: Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, and Tajikistan.
5: For example, in Azerbaijan, only 1.1 per cent of all SMEs are based on agriculture, because small farms do not fall under the definition of SMEs. Also, in Uzbekistan, only 9 per cent of all SMEs are based on agriculture, as a great number of farms do not fall under the SME definition.
Figure 1: Percentage of employment in the SME sector in selected UNECE member States with economies in transition


Figure 2: Percentage of GDP derived from SMEs, in selected UNECE member States with economies in transition

III. Economic sectors within small and medium-sized enterprises

There are various economic sectors in the 17 economies in which SMEs are active. The key sectors where SMEs are concentrated include the trade sector; the manufacturing sector; the transportation and storage sector; the construction sector; and the professional, scientific, and innovative activities sector (Table 1).

Most SMEs operate in the trade and retail sector. The share of SMEs in this sector ranges from 26 per cent in Serbia to 64.2 per cent in Armenia. The manufacturing sector is the second largest sector for SMEs. In the majority of states, most SMEs are active in relatively low value-added activities, in areas such as retail trade, wholesale and manufacturing.

Table 1: Key SME sectors in selected UNECE member States with economies in transition

<table>
<thead>
<tr>
<th>Country</th>
<th>Economic sectors within the SMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Trade</td>
</tr>
<tr>
<td>Albania</td>
<td>29%</td>
</tr>
<tr>
<td>Armenia</td>
<td>64.2%</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>34%</td>
</tr>
<tr>
<td>Belarus</td>
<td>36.1%</td>
</tr>
<tr>
<td>Bosnia &amp; Herzegovina</td>
<td>33.6%</td>
</tr>
<tr>
<td>Georgia</td>
<td>39.1%</td>
</tr>
<tr>
<td>Montenegro</td>
<td>50.6%</td>
</tr>
<tr>
<td>North Macedonia</td>
<td>40.4%</td>
</tr>
<tr>
<td>Republic of Moldova</td>
<td>37.5%</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>23.2%</td>
</tr>
<tr>
<td>Serbia</td>
<td>26%</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>38%</td>
</tr>
<tr>
<td>Ukraine</td>
<td>51.4%</td>
</tr>
</tbody>
</table>


6: In Belarus, 36.1 per cent of SMEs operated in manufacturing and trade combined.
IV. Challenges for small and medium-sized enterprises

SMEs in economies in transition experience several common challenges impeding the development of their full potential in terms of contribution to economic growth and sustainable development (Figure 3). These challenges are the following: (a) a cumbersome regulatory and institutional framework; (b) challenges accessing domestic and foreign markets; (c) lack of an innovation culture/system; (d) shortcomings in access to finance and technology; and (e) shortages in human capital: low skill levels, gender gap and financial illiteracy among SMEs’ entrepreneurs.

Figure 3: Key challenges for SMEs

(a) Weaknesses in regulatory and institutional framework

A well-functioning regulatory and institutional framework, while important for all enterprises, is particularly critical for SMEs.

Almost all transition economies made significant progress in improving the regulatory and institutional framework for SMEs. Noticeable progress has been made by Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova, and Ukraine.
These countries have been active in establishing a solid institutional basis for SME policy making by designing SME strategies, creating operational agencies to provide support programmes to SMEs, simplifying business legislation and reducing institutional barriers.\(^7\) Georgia made significant improvement by creating one of the most favourable business environments for SMEs among the transition economies.\(^8\) The Republic of Moldova and Armenia developed a systematic public-private consultation process for SMEs. The Russian Federation introduced two federal programmes to encourage the development of SMEs. The first aims at the creation of SMEs' infrastructure (support for microfinancing, business incubators, etc.). The second subsidizes interest rates on commercial bank loans to SMEs. In all countries, ineffective systems for insolvency resolution remain a key obstacle for SMEs to stay in and re-enter the market.

Regulatory and institutional frameworks are also crucial for facilitating SMEs' participation in international trade.\(^9\) Non-tariff measures (NTMs) underpin trade facilitation and quality infrastructure systems (technical regulations, standardization, conformity assessment and metrology). Their harmonization is essential for post-COVID recovery to complement expansionary monetary and fiscal policies and relief measures in particularly in SMEs sector.

**(b) Challenges with access to domestic and foreign markets**

Due to size limitations, SMEs experience challenges entering both domestic and foreign markets. Procurement provides an opportunity for SMEs to enter the domestic market. However, most transition economies\(^10\) have not implemented enabling procurement practices for SMEs (for example, systematic division into lots, the proportionality of qualification criteria, and simplified rules for demonstrating conformity with formal requirements). While most SMEs focus on domestic or even local markets, for some SMEs, access to foreign markets can offer opportunities and contribute to their long-term viability. Exports of crafts by Central Asian SMEs, as documented during the Geneva Trade week, serve as an example.\(^11\) SMEs' participation in international trade can lead to greater innovation through increased competitiveness, productivity, and economic performance.

However, most of the SMEs in transition economies are underrepresented in international trade because of such barriers as lack of access to finance, and shortage of skills and know-how. To this are added challenges to comply with regulatory and procedural requirements, and harness the benefit from trade facilitation initiatives.

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\(^8\): Georgia introduced simplified administrative regulations, reduced the tax burden, fought corruption, facilitated free trade, and promoted privatization (OECD, 2020b).


\(^10\): For example Belarus, Ukraine, Armenia, and Azerbaijan.

\(^11\): As an example of successful entrepreneurship and beautiful regional crafts, see a Central Asian Trade Craft Panel on the possible export and SMEs related opportunities for Central Asia at the UNECE hosted session at Geneva Trade Week in November 2021 [https://www.youtube.com/watch?v=MJyWyHDr6tg](https://www.youtube.com/watch?v=MJyWyHDr6tg).
How to promote the participation of SMEs in international trade is also discussed in the multilateral trading system, where members of the World Trade Organization (WTO) have created a WTO informal working group on micro, small, and medium-sized enterprises (MSMEs) and drafted a WTO declaration on MSMEs (Box 1).

**Box 1: WTO draft declaration on MSMEs**

The WTO informal working group on MSMEs was launched at the 11th Ministerial Conference, in December 2017, with the objective of promoting the participation of MSMEs in international trade. Among countries with economies in transition, Albania, Kazakhstan, Kyrgyzstan, the Republic of Moldova, Montenegro, the Russian Federation, North Macedonia, and Ukraine are the members of this working group (WTO, 2017).

On 24 September 2021, the members of the WTO informal working group on MSMEs finalized a draft ministerial declaration which was due to be adopted at the WTO’s 12th Ministerial Conference in late November 2021. However, due to COVID-19, the conference was postponed. The draft ministerial declaration on MSMEs emphasizes the importance of addressing the challenges of dealing with MSMEs in attempting to trade internationally. The declaration also acknowledges the adverse impact of the coronavirus disease on MSMEs and the need for global assistance to facilitate the recovery of small businesses. Importantly, the declaration welcomes the work conducted by the working group since 2017, including the adoption in December 2020 of a package consisting of six recommendations and declarations for MSMEs (such as a recommendation on trade facilitation and MSMEs, and a declaration on access to information).

Source: UNECE based on WTO.

**c) Lack of an innovation culture/system**

Innovation is instrumental for economic growth and SMEs can play a key role in this regard. Innovative High-Growth Enterprises (IHGEs), for example, is a specific type of SME. IHGEs contribute to jobs and value creation. They experiment with new ideas and respond to new incentives, while also contributing to structural economic change by creating new markets and better domestic integration into the global economy.

Similarly, specific frameworks and initiatives are needed to support SMEs in their efforts to engage in innovative activities. Business incubators, for example, can nurture SMEs and start-up enterprises to grow and become sustainable competitive companies. Business incubators are key elements of a country’s innovation support infrastructure, supporting the initial stages of the innovation life cycle – pre-seed, seed, start-up, and scale-up – and providing the incentives, support, networks, and enabling environment needed by would-be-innovative entrepreneurs. In addition, fair competition is instrumental for the economic growth of SMEs. In Belarus, the Russian Federation, Azerbaijan, and Georgia, SMEs often operate in a disadvantaged position vis-à-vis state-owned or large enterprises.

12: Ukraine joined the working group in 2020 (WTO, 2020).
Effective competition law enforcement (tackling cartels and anti-competitive mergers) is needed for ensuring a level playing field for SMEs. Ukraine and the Republic of Moldova made significant progress in competition law enforcement through increased cartel prosecution and control of merger activities.13

(d) Shortcomings in access to finance and technology

The access to finance for SMEs,14 in particular access to non-banking financial instruments, remains challenging in all countries. However, many transition economies have made significant progress in this area. Among the Balkan States, Montenegro improved access of SMEs to non-banking finance by introducing new legislation in 2018.

Armenia, Azerbaijan, and Belarus made progress in the development of a regulatory framework by launching registers to facilitate the use of movable assets as collateral. Many countries established credit guarantee funds to assist SME lending.

Access to finance has been especially challenging for SMEs during the COVID-19 pandemic. In particular, access to private equity, venture capital, and business angels as sources of finance has been limited for SMEs in all transition economies.

Access to technology is instrumental for SMEs to facilitate quick access to information, improve communication, and enhance their access to finance, as well as domestic and international markets. Furthermore, digital technology is a key driver for innovation. All economies in transition realize the evolving significance of technology for SMEs. Armenia, Belarus, Georgia, and the Republic of Moldova provide opportunities for entrepreneurs from SMEs to receive training on digital skills, thereby promoting access to new technologies. Azerbaijan provides funds for SME training on how to integrate into global value chains.

Several structural challenges prevent digitalization for SMEs in most economies in transition: for example, limited access of SMEs to digitalizing their business, outdated technology and lack of information technology skills.

(e) Shortages in human capital: low skill levels, gender gap and financial illiteracy

Entrepreneurial human capital is central to innovation and the economic modernization of SMEs. Two key areas for supporting entrepreneurial human capital include: support of women's entrepreneurship; and promotion of skills development for SMEs, including promotion of financial literacy among entrepreneurs.

14: Through improvement in a legal and regulatory framework, access to bank and non-bank financing, enhancing venture capital systems, and supporting financial literacy (OECD, 2019).
Women’s participation in small and medium-sized enterprises

In most countries, the participation of women in SMEs has been growing. In Albania and Montenegro, the growth has been slow but steady. About 30 per cent of microenterprises in Albania are currently owned or managed by women. The share of SMEs owned by women in Montenegro has grown from 14.9 per cent in 2013 to 19.2 per cent in 2016.

Armenia, Azerbaijan, Georgia, and the Republic of Moldova support women’s entrepreneurship through the strengthening of gender-responsive partnerships at the national level, and communication policies for raising awareness of the importance of support for women entrepreneurs.

However, Governments can increase the share of SMEs owned by women by facilitating training for start-ups and scaling up, as well as setting up more gender-supportive programmes that can assist, for example, women entrepreneurs to access public procurement contracts.

Promotion of skills development and entrepreneurship for small and medium-sized enterprises

Countries continue to struggle with fostering entrepreneurial learning among SMEs (Box 2). However, some states have introduced initiatives directed at the promotion of business and financial literacy. Ukraine included financial education into its SME 2020 strategy, and Georgia established an inter-agency working group on entrepreneurial learning and started a financial education programme for SMEs in 2018. Business education has been promoted in Armenia since 2020, through the introduction of an entrepreneurship module for primary and secondary schools.

Box 2: Specific challenges for economies in transition – selected examples

One common challenge for SMEs in transition economies is the lack of entrepreneurial knowledge. The selected countries share a history of planned economies, with the legacy of State ownership, and thus historically a lack of entrepreneurial culture. While entrepreneurial knowledge in many countries often results in a fear of failure and low self-confidence, this is even more acute in economies in transition (for example, Albania and Belarus). This partially explains why entrepreneurship in these countries is perceived to be a less attractive opportunity in comparison with “traditional” employment by the Government.

In some transition economies, state-owned companies continue to play a dominant role (for example, in the Russian Federation, Belarus, and Kazakhstan). This in turn has an adverse impact on the competitiveness of SMEs, as it may not lead to a level playing field, thus reducing incentives for entrepreneurship. The lack of innovativeness in the SME sector is another challenge for the economies in transition. As the study by Dallago (2017) demonstrates, the entrepreneurs in the post-communist transition States, which are active mostly in manufacturing and retail, primarily focus on surviving, rather than on investing, upgrading, innovating, and growing, in contrast to SMEs in the European Union member states.

Source: UNECE based on OECD (2020a) and Dallago (2017).
Table 2: Challenges for SMEs and supporting UNECE tools
(For more details see Table 4 in the annex)

<table>
<thead>
<tr>
<th>Challenges</th>
<th>UNECE SME-specific tools</th>
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</thead>
</table>
| Weaknesses in regulatory and institutional framework                      | • Economic and Social COVID-19 Impact Assessments on MSMEs in selected countries  
• Toolkit on Enhancing Transparency and Traceability of Sustainable Value Chain in the Garment and Footwear Sector |
| Challenges with access to domestic and foreign markets, including trade facilitation | • White Paper on Integrated Services for MSMEs in International Trade (ISMIT)  
• White Paper on Blockchain in Trade Facilitation  
• Regional Report on Digital and Sustainable Trade Facilitation  
| Lack of an innovation culture/system                                       | • Policy Handbook on Supporting IHGEs in Eastern Europe and South Caucasus (EESC)  
• Handbook on Business Incubators for Sustainable Development in the sub-region of the Special Programme for the Economies of Central Asia (SPECA) |
| Shortages in human capital (skills, gender, and financial literacy)       | • Online training on the use of international standards to help MSMEs better recover from COVID-19  
• Online training course on agricultural quality and food loss (forthcoming)  
• Inter-agency training and interventions highlighted in the Economic and Social COVID-19 Impact Assessments on MSMEs in Central Asia |

Source: UNECE.
V. The way forward

In many countries with economies in transition, SMEs are key drivers of economic growth. They significantly contribute to job creation, including for women, and in so doing, can effectively support economic growth. Nevertheless, they face unique challenges that need to be addressed to facilitate their maximum contribution to sustainable development.

UNECE's ECTD offers a number of tools that can support countries in this endeavor. These are specific tools, emanating from ECTD's long-lasting workstreams in the field of trade and economic cooperation. They include some tools, specifically targeted to SMEs (e.g., ISMIT or five Economic and Social Impact Assessment as well as other tools of cross-cutting nature, but with particular relevance to SMEs.

UNECE tools, therefore, are by no means comprehensive, nor do they address all the challenges SMEs face in today's economic environment. However, they can offer specific entry points, and in so doing, they support broader initiatives such as Policy Framework and Implementation Guidance by the United Nations Conference on Trade and Development (UNCTAD) and other initiatives by international organizations, notably the International Trade Centre.

1. Strengthening the entrepreneurial spirit and supporting female-owned SMEs

Typically, SMEs in the transition countries operate in low value-added areas of the economy, such as retail and certain areas of manufacturing. Hence, many of the SME entrepreneurs in the post-communist transition States are mostly focusing on surviving, instead of investing, upgrading, innovating, and growing. To increase the SMEs' contribution to GDP, employment, and economic development, the improvement of entrepreneurial skills is crucial. To enhance entrepreneurial skills and financial literacy, and to help bridge the gender gap among SME entrepreneurs, continuous training is required.

UNCTAD has launched the Entrepreneurship Development Programme (Empretec), a capacity-building programme for the promotion of entrepreneurship and MSMEs. The objective of the programme is to help entrepreneurs in developing countries and economies in transition to start or expand their businesses, focusing on fostering sustainable development and inclusive growth.

The Empretec programmes have been established worldwide, including in the Russian Federation. The Empretec Entrepreneurship Training Workshops, through a methodology of behavioural change, assist entrepreneurs to put their ideas into action.

15: For more information, please see https://unctad.org/topic/enterprise-development/entrepreneurship-policy-hub
16: Available at https://empretec.unctad.org/
2. Supporting the green agenda

Many economies in transition continue to rely on heavy industries that generate a high carbon footprint and have an adverse impact on the environment. Transition economies are facing the challenge of complying with the Paris Agreement and attaining its emission reduction targets.

However, a green agenda has started to emerge in some transition economies also for SMEs. Montenegro adopted the MSME Strategy 2018–2022, which emphasizes the significance of environmental sustainability for SMEs’ competitiveness. Bosnia and Herzegovina is planning to introduce financial incentives for green SMEs. While a green agenda is emerging, the greening of SMEs remains limited. In terms of SME-specific issues, the first steps frequently aim at improving resource efficiency. The measures and policies aimed at the promotion of a circular economy for SMEs are scattered, if not absent, in economies in transition. The financial barrier for green SMEs is also high. Among the common challenges faced by green SMEs is the lack of green finance or credit, which is especially problematic for small and micro-sized companies.

The green agenda for SMEs would benefit from increased awareness-raising, policy, and stakeholder dialogue. This in turn would benefit from an increased evidence base, among others, on questions related to SMEs and the circular economy, and SMEs and climate change:

UNECE has developed tools and products to support countries in strengthening gender-responsive policies for SMEs through training programmes and systems supporting the start-ups and upscaling the female-owned SMEs (Table 4). For example, since 2015, UNECE – together with the United Nations Development Programme, Deutsche Gesellschaft für Internationale Zusammenarbeit and Hilfswerk International – has been helping women and entrepreneurs in (Central Asia), Armenia, Belarus, Georgia, Moldova, and Serbia. through carrying out an economic and social impact assessment and organizing training programmes to address the challenges revealed during the assessment.

17: UN Secretary General, UNCTAD, Entrepreneurship for sustainable development: report of the Secretary-General (27 July 2020), p. 7.
• The role of the circular economy\(^\text{18}\) in transition economies and its impact on SMEs is an area that requires further research and exploration. It would be beneficial to investigate what are the external barriers and enablers for SMEs in implementing the circular economy initiatives. It would be useful to assess which UNECE tools and instruments could be applied in helping the economies in transition to better integrate circular economy principles into their SME promotion policies.

• Climate change mitigation policies and their impact on SMEs is another area for future research. SMEs are instrumental in adapting to climate change in various economic sectors. SMEs often are in a disadvantageous position when it comes to their ability to make their operations more sustainable. Also, SMEs frequently lack the capacity and confidence to invest in new environmentally friendly technologies. More research is required on the climate change agenda of transition economies and its effect on SMEs in contributing to tackling climate change.

3. Supporting the agricultural sector

Agriculture is the dominant sector in many transition economies. The presence of SMEs in agriculture is, however, limited in these countries. The sector is often dominated by State ownership in transition economies. This can lead to low productivity and contributes to a lack of innovation and investment.

UNECE is host to over 100 agricultural quality standards, which are used in international trade, including on European markets. Subject to resources, the secretariat provides capacity-building to key actors in the agricultural supply chain on the use of these standards. UNECE also works to reduce food loss and waste in fresh fruit and vegetables supply chains, which can also support SMEs.

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Considering the importance of SMEs in the transition economies government, stakeholders, and international organizations should work intensively to strengthen the role of SMEs and their visibility in the local economies. By providing Impact Assessments, White Papers, Regional Reports, Toolkits, Policy Handbook, and various training, UNECE aims to strengthen human capacity and provide upskilling, especially to the most vulnerable ones, build a more substantial and more resilient economy, offer policy recommendations, including SMEs in access to global value chains, and provide guidance on innovative solutions (read more in Table 4). The cooperation between private and public sector is crucial to showcase best practices and build a resilient, sustainable, and inclusive economic environment in which smaller players can participate and provide value to the economy, society, and the planet.

\(^{18}\) According to UNECE ‘The circular economy is a new and inclusive economic paradigm, that aims to minimize pollution and waste, extend product lifecycles and enable broad sharing of physical and natural assets. It strives for a competitive economy that creates green and decent jobs and keeps resource use within planetary boundaries.’ https://unece.org/trade/CircularEconomy
## VI. Annex

Table 3: Role of SMEs in 17 countries with economies in transition

<table>
<thead>
<tr>
<th>Country</th>
<th>Contribution of SMEs to GDP [%]</th>
<th>% of SMEs in the total number of companies (businesses)</th>
<th>Share of workers employed in SMEs [% of total workforce]</th>
<th>Year</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>70.0</td>
<td>99.8</td>
<td>79.8</td>
<td>2018</td>
<td>Albanian statistical report on SMEs, 2018</td>
</tr>
<tr>
<td>Armenia</td>
<td>60.0</td>
<td>99.8</td>
<td>68.0</td>
<td>2020</td>
<td>OECD, SME Policy Index: Eastern Partner Countries: Armenia, 2020</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>6.4</td>
<td>95.0</td>
<td>18.5</td>
<td>2020</td>
<td>OECD, SME Policy Index: Eastern Partner Countries: Azerbaijan, 2020</td>
</tr>
<tr>
<td>Belarus</td>
<td>28.8</td>
<td>78.3</td>
<td>30.7</td>
<td>2020</td>
<td>OECD, SME Policy Index: Eastern Partner Countries: Belarus, 2020</td>
</tr>
<tr>
<td>Bosnia &amp; Herzegovina</td>
<td>60.0</td>
<td>99.1</td>
<td>64.0</td>
<td>2017</td>
<td>OECD, European Training Foundation, European Union, EBRD, SME Policy Index: Western Balkans and Turkey, 2019</td>
</tr>
<tr>
<td>Georgia</td>
<td>61.6</td>
<td>99.7</td>
<td>67.0</td>
<td>2020</td>
<td>ABDI, Report on Central Asia Regional Economic Cooperation (CAREC) Program Landlocked Countries, 2021</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>26.0</td>
<td>96.0</td>
<td>33.0</td>
<td>2017</td>
<td>ABDI, Report on CAREC Landlocked Countries, 2021</td>
</tr>
<tr>
<td>Montenegro</td>
<td>70.5</td>
<td>99.8</td>
<td>80.1</td>
<td>2018</td>
<td>OECD, European Training Foundation, European Union, EBRD, SME Policy Index: Western Balkans and Turkey, 2019</td>
</tr>
<tr>
<td>North Macedonia</td>
<td>63.8</td>
<td>99.7</td>
<td>75.0</td>
<td>2017</td>
<td>OECD, European Training Foundation, European Union, EBRD, SME Policy Index: Western Balkans and Turkey, 2019</td>
</tr>
<tr>
<td>Republic of Moldova</td>
<td>70.7</td>
<td>98.7</td>
<td>59.8</td>
<td>2018</td>
<td>OECD, SME Policy Index: Eastern Partner Countries: Republic of Moldova, 2020</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>19.8</td>
<td>27.0</td>
<td>18.8</td>
<td>2020</td>
<td>Report of the commission for the protection of the rights of entrepreneurs, Russian Federation, 2021</td>
</tr>
<tr>
<td>Serbia</td>
<td>57.4</td>
<td>99.0</td>
<td>65.0</td>
<td>2018</td>
<td>OECD, European Training Foundation, European Union, EBRD, SME Policy Index: Western Balkans and Turkey, 2019</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>30.0</td>
<td>N/A</td>
<td>35.0</td>
<td>2017</td>
<td>ADBI, Leveraging SME Finance through Value Chains in Tajikistan, 2019</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>N/A</td>
<td>98.9</td>
<td>N/A</td>
<td>2016</td>
<td>EBRD, Turkmenistan Diagnostics, 2019</td>
</tr>
<tr>
<td>Ukraine</td>
<td>49.0</td>
<td>99.8</td>
<td>63.0</td>
<td>2018</td>
<td>OECD, SME Policy Index: Eastern Partner Countries: Ukraine, 2020</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>54.9</td>
<td>90.0</td>
<td>78.0</td>
<td>2017</td>
<td>ADBI, Report on CAREC Landlocked Countries, 2021</td>
</tr>
</tbody>
</table>


19: Data have been extracted from different policy documents and reports. Therefore, there is variation in the years from which the percentages are taken. Please also note that there is no single definition of SMEs across the countries reviewed.
Table 4: Challenges for SMEs and supporting UNECE tools

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Weaknesses in regulatory and institutional framework</th>
<th>UNECE SMEs specific tools</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>UNECE tool</strong></td>
<td>Economic and Social Impact Assessment targeting MSMEs in Central Asia Five country-specific and one summary report (June 2021)</td>
<td>A well-functioning regulatory and institutional framework is necessary for all aspects of SME activities. Considering the new regulatory and procedural barriers to trade imposed by the Covid-19 pandemic assessments of trade, structural transformation, and economic development are crucial to build stronger and more resilient economies in a post-pandemic environment.</td>
</tr>
</tbody>
</table>
| **UNECE tool** | Toolkit on Enhancing Transparency and Traceability of Sustainable Value Chains in the Garment and Footwear Sector (April 2021) | • NTMs underpin trade facilitation and quality infrastructure systems (technical regulations, standardization, conformity assessment, and metrology). Their harmonization is vital for post-COVID recovery to complement expansionary monetary and fiscal policies and relief measures, particularly in the SMEs sector.  
| | | • UNECE impact assessments trace how NTMs governing trade in goods influenced end-to-end supply chains. The assessments also highlighted the lingering effects on trade and economic development that should be considered for building stronger and more resilient economies post-pandemic and the achievement of the 2030 Sustainable Development Goals (SDGs). |
| | | Available at [https://unece.org/sites/default/files/2021-06/ECE_CTCS_2021_4E_0.pdf](https://unece.org/sites/default/files/2021-06/ECE_CTCS_2021_4E_0.pdf) |
| | Toolkit on Enhancing Transparency and Traceability of Sustainable Value Chains in the Garment and Footwear Sector (April 2021) | • Transparency and traceability frameworks can help SMEs harness export opportunities, among others, by creating sustainable, circular, and inclusive value chains; however, they can also be costly and become a barrier to trade, if they lack specific support measures for SMEs and vulnerable groups.  
| | | • The UNECE toolbox offers solutions to assert and verify claims about sustainable and ethical production in the garment and footwear sector, i.e. for tracking any garment or item of footwear from raw components to point of purchase. It also includes implementation guidelines, a call to action, and a standard on traceability of information exchange. The UNECE policy recommendation suggests adopting a flexible approach that incorporates financial and non-financial incentives, promotes multi-stakeholder collaborative initiatives, and supports the training and use of open-source instruments. |
Table 4: Challenges for SMEs and supporting UNECE tools (continued)

<table>
<thead>
<tr>
<th>Challenge</th>
<th>UNECE tool</th>
<th>UNECE SMEs specific tools</th>
</tr>
</thead>
</table>
| Access to international markets can be a difficult process for MSMEs due to a lack of staff or budget to research and comply with all the regulatory and procedural requirements, including from a trade facilitation perspective. SME participation in international trade can lead to greater innovation through increased competitiveness, productivity, and economic performance. Thus, is it vital to foster the MSMEs sector to adapt and thrive in a more inclusive trading environment and to participate in the digital transformation. | White Paper on Integrated Services for MSMEs in International Trade (ISMIT) (October 2020) | • Technological progress, through the expansion of e-commerce and the evolution of global value chains, is opening new trading opportunities for MSMEs. eService platforms can help MSMEs provide services required in a single place, such as transport services, finance services, and border-clearance services, at the same time boosting their potential in participating in the international trade.  
• The UNECE White Paper responds to the challenges of MSMEs with international trade e.g., logistics data harmonization and data sharing/protection. It establishes the principles of platforms called “Integrated Services for MSMEs in International Trade (ISMIT) and the benefits they can provide e.g., high quality of information, reduction of the time, risk, and cost of customs clearance, and control over the trade transition.  
| Blockchain applications are providing new ways of exchanging data in a secure manner and may change the way information is shared in the future. Blockchain technology can help SMEs by offering opportunities to increase the reliability and security of trade transactions, it can facilitate trade and related business processes.  
• The UNECE White Paper discusses how blockchain can facilitate cross-border trade, increase access to global value chains for small businesses in developing economies, support the effectiveness of government services that support more inclusive economic and social progress, as well as contribute to the achievement of the Sustainable Development Goals from the United Nations 2030 Agenda. | White Paper on Blockchain in Trade Facilitation (April 2019) | • Blockchain applications are providing new ways of exchanging data in a secure manner and may change the way information is shared in the future. Blockchain technology can help SMEs by offering opportunities to increase the reliability and security of trade transactions, it can facilitate trade and related business processes.  
• The UNECE White Paper discusses how blockchain can facilitate cross-border trade, increase access to global value chains for small businesses in developing economies, support the effectiveness of government services that support more inclusive economic and social progress, as well as contribute to the achievement of the Sustainable Development Goals from the United Nations 2030 Agenda.  
Available at https://unece.org/DAM/cefact/cf_plenary/2019_plenary/ECE_TRADE_C_CFFACT_2019_08E.pdf |
### Table 4: Challenges for SMEs and supporting UNECE tools (continued)

<table>
<thead>
<tr>
<th>Challenge</th>
<th>UNECE tool</th>
<th>Access to international markets can be a difficult process for MSMEs due to a lack of staff or budget to research and comply with all the regulatory and procedural requirements, including from a trade facilitation perspective. SME participation in international trade can lead to greater innovation through increased competitiveness, productivity, and economic performance. Thus, it is vital to foster the MSMEs sector to adapt and thrive in a more inclusive trading environment and to participate in the digital transformation.</th>
</tr>
</thead>
</table>
| **Challenges with access to domestic and foreign markets, including trade facilitation** | **Regional Report on Digital and Sustainable Trade Facilitation** (October 2021) | • Recognizing the specific challenges of SMEs in terms of harnessing the benefits of trade facilitation initiatives, the UN's Global Survey on Trade Facilitation added a category on “trade facilitation for SMEs”. This category includes access to trade-related information for SMEs, their participation in National Trade Facilitation Committees, their access to Single Windows or Authorized Economic Operator schemes, and others. These measures can help reduce trade costs, thus contributing to greater inclusion of SMEs in global value chains, job creation, and, ultimately, sustainable economic growth.  
• The UNECE Regional Report consolidates the findings from the United Nations Global Survey on Digital and Sustainable Trade Facilitation for the UNECE region. The survey covers a total of 42 member States and includes a revamped section on trade facilitation measures related to the 2030 Sustainable Development Agenda including SMEs, women participation, and sectors like agriculture. Available at [https://unece.org/sites/default/files/2022-01/ECE_TRADE_467E.pdf](https://unece.org/sites/default/files/2022-01/ECE_TRADE_467E.pdf) |
| **UNECE tool** | **Report on Post-pandemic COVID-19 Economic Recovery: Harnessing E-commerce for the UNECE Transition Economies** (April 2021) | • The accelerated shift to digital platforms in response to the pandemic led to an increase in online retail but also unmasked challenges to harness the benefits of e-commerce such as a moderate level of internet connectivity and a considerable digital divide. Nevertheless, increased digitalization of trade brought numerous opportunities for SMEs in economies in transition.  
• The UNECE report explores the impact of COVID-19 on e-commerce in the transition economies, including SMEs. It highlights key areas for the attention of policymakers, including raising awareness and assisting SMEs in developing their skill sets, enhancing access to finance, and developing the enabling environment by way of incentives to encourage SMEs to go digital. Available at [https://unece.org/sites/default/files/2021-04/ECE_TRADE_C_CEFACT_2021_15E_RegReport-eCommerceTF.pdf](https://unece.org/sites/default/files/2021-04/ECE_TRADE_C_CEFACT_2021_15E_RegReport-eCommerceTF.pdf) |
### Table 4: Challenges for SMEs and supporting UNECE tools (continued)

<table>
<thead>
<tr>
<th>Challenge</th>
<th>UNECE SMEs specific tools</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lack of an innovation culture/system</strong></td>
<td>Innovation is instrumental for economic growth. SMEs often operate in a disadvantaged position vis-à-vis State-owned or larger enterprises. The effective competition law enforcement (tackling cartels and anti-competitive mergers) is needed to ensure a level playing field for SMEs.</td>
</tr>
<tr>
<td><strong>UNECE tool</strong></td>
<td><strong>Policy Handbook on Supporting IHGEs in EESC</strong> (March 2021)</td>
</tr>
</tbody>
</table>
| | - IHGEs are a specific type of SME. IHGEs have a crucial in jobs and value creation. They experiment with new ideas and respond to new incentives, while also contributing to structural economic change by creating new markets and better domestic integration into the global economy.  
  - The UNECE Handbook supports policymakers to design effective policies and institutions to further enable and foster the potential of IHGEs as an invaluable driver for innovation-led sustainable development. The Handbook is currently available in a version focused on the Eastern Europe and South-Caucasus (EESC) sub-region; an edition for the SPECA countries is under development.  
  Available at: [https://unece.org/sites/default/files/2021-11/2111834_E_ECE_CECI_28_WEB_0.pdf](https://unece.org/sites/default/files/2021-11/2111834_E_ECE_CECI_28_WEB_0.pdf) |
| **UNECE tool** | **Policy Handbook on Business Incubators for Sustainable Development in the SPECA sub-region** (October 2021) |
| | - Business incubators can nurture SMEs and start-up enterprises to grow and become sustainable competitive companies. Business incubators are key elements of a country’s innovation support infrastructure, supporting the initial stages of the innovation life cycle – pre-seed, seed, start-up, and scale-up – and providing the incentives, support, networks, and enabling environment needed by would-be-innovative entrepreneurs.  
  - The UNECE Handbook supports national and local governments and universities, as well as those who are developing and running business incubators and similar institutions. It covers key steps and considerations to set up, run, and evaluate business incubation programmes to support entrepreneurship and catalyze innovation-led growth. The Handbook is currently available in a version for SPECA countries; an edition for EESC countries is in the making.  
  Available at [https://unece.org/sites/default/files/2021-10/Business%20incubators%20for%20sustainable%20development%20in%20SPECA-2021-ENG.pdf](https://unece.org/sites/default/files/2021-10/Business%20incubators%20for%20sustainable%20development%20in%20SPECA-2021-ENG.pdf) |
### Table 4: Challenges for SMEs and supporting UNECE tools (continued)

<table>
<thead>
<tr>
<th>Challenge</th>
<th>UNECE SMEs specific tools</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Shortages in human capital (skills, gender, and financial literacy)</strong></td>
<td>Entrepreneurial human capital is central to the innovation and economic modernization of SMEs. Key areas for supporting entrepreneurial human capital include: training on specific substantive topics, such as international standards and market access, entrepreneurship training (including promotion of skills’ development) for SMEs; and training in support of women's entrepreneurship.</td>
</tr>
</tbody>
</table>
| **UNECE tool** Online training on the use of international standards to help MSMEs recover better from COVID-19 (March 2021) | • MSMEs are more susceptible to shocks and disruptions than large enterprises. International standards can help MSMEs to recover from COVID-19 disruptions by providing powerful tools for bolstering economic resilience while enabling enterprises to improve their productive capacity.  
• This UNECE self-paced online training course helps MSMEs build back better from the crisis by showing how international standards can improve business resilience, both in terms of preparedness and recovery. It helps to select and implement international standards that equip MSMEs with the required skill sets and production capacities to withstand a crisis and engage with transnational corporations.  
Available at [https://e-learning.unece.org](https://e-learning.unece.org) |
| **UNECE tool** Online training course on agricultural quality and food loss (forthcoming) | • The COVID-19 pandemic has exposed the world's fragilities, including the weakness of our food systems which exacerbate hunger, obesity, poverty, political instabilities, and economic crisis. Many SMEs struggle to build inclusive supply chains in the post-COVID-19 realities.  
• As part of the COVID-19 SME Surge project, UNECE is developing an online training course on agricultural quality and food loss, to help SMEs recover and reset more inclusive supply chains, targeting the Central Asia region. The course materials were developed in early 2021 and have recently undergone peer review. The materials will now be converted into an online self-paced training course, to be finalized before the end of March 2022. |
| **UNECE tool** Inter-agency training and interventions highlighted in the Economic and social COVID-19 impact assessments on MSMEs in Central Asia (2015 to 2021) | • Competitiveness, integration of local producers into the domestic and international market, and knowledge about sustainable production patterns are important for SMEs to develop sustainably and efficiently. Integration of women and young entrepreneurs is essential for the development of fair and prosperous markets. This also applies to agriculture, a key sector in Central Asian economies.  
• Since 2015, the UNECE inter-agency training has helped Central Asia transition to more sustainable production patterns and food supply chains for better quality products, increased incomes, and new market access. The focus was given to the most vulnerable, women in informal employment, young entrepreneurs, and local communities. The training consisted of 500 participants who helped local producers better integrate into domestic and international markets, and shared knowledge of UNECE agricultural quality standards.  
Available at [https://unece.org/media/Trade/press/1069](https://unece.org/media/Trade/press/1069) |

Source: UNECE.
VII. Bibliography


