

<p>ANNEX I TO THE EUROPEAN UNION DELEGATION AGREEMENT NUMBER</p>
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**Support to SME Development in Armenia**  
Description of Action

## **Table of Contents**

## ABBREVIATIONS

ADS	Armenia Development Strategy
COSME	Competitiveness of Enterprises and Small and Medium-sized Enterprises
EBRD	European Bank for Reconstruction and Development
EIF	Enterprise Incubator Foundation
EU	European Union
EUD	European Union Delegation
FEZ	Free Economic Zones
GDP	Gross Domestic Product
GIZ	Gesellschaft für Internationale Zusammenarbeit
HORIZON 2020	EU Research and Innovation programme
IMG	Innovation Matching Grants
MoE	Ministry of Economy
MSME	Micro, Small and Medium Enterprises
OECD	Organization for Economic Cooperation and Development
PAGODA	Pillar Assessed Grant or Delegation Agreement
PMU	Project management Unit
PPD	Public Private Dialogue
PSC	Project Steering Committee
PSO	Private Sector Organisation
SME	Small and medium-sized enterprises
SMEDNC	Small and Medium Enterprise Development National Center
STEP	Science & Technology Entrepreneurship Programme

Annex I - Description of Action  
2015/368-828

## 1. Background

Support to small and medium-sized enterprises (SME) development is in line with the EU Single Support Framework (SSF) 2014-2017 for Armenia. As related to the private sector development, it corresponds to the specific objective (1.1) to improve the national business and investment climate for SMEs.

In terms of Armenian strategic framework, the Armenia Development Strategy (ADS) and the SME State Support Strategy are the main documents the implementation of which this programme aims to support,

There are several problems to be addressed to improve economic development of SME:

- The lack of cohesion and coordination of different SME support programmes is an issue. Different programmes are considered as guideline and there is no overview. Steering mechanisms for the whole SME development process is not in place or not working. The landscape of actors is fragmented and thus dialogue decision processes not efficient and not coherent. The donor coordination process in different intervention areas is currently dominated by donor organisations but not government-driven.
- The involvement of private sector in SME development strategies is formally possible but not effective. The interests of SME are in fact not reflected in decision making processes. Supporting services are insufficiently available both in quality and quantity. Underdeveloped capacities within the organised private sector are main obstacles and barriers to the required development.
- Innovation and ideas are hardly developed and even less find their way to business. There is a strong lack of research activities, in particular in the SME sector. The cooperation of business and research entities does almost not exist. The innovative and creative potential of young specialists which do exist in Armenia is not exploited.
- Access to finance is also a major problem for SME. Following the expansion of credit in the lead up to the global financial crisis and a 14% decline in GDP in 2009, many Armenian SMEs have accumulated high levels of debt, and thus their owner/managers do not have sufficient financial resources or access to further borrowing. In general, the lending policy of most banks does not enable SME to get the loans they would need for their development.

Therefore, this project will be part of a comprehensive support programme funded by the EU and implemented by different partners aiming at strengthening the organised private sector, SME coordination mechanism, link between research and economy as well as access to finance for SME as the most relevant fields necessary for their adequate development.

### 3. Detailed Description of intervention

#### 3.1 Objectives and Indicators

The activities of this project are in line with the principles set out in the recent Commission Communication on "A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries"<sup>1</sup>.

In the first three months of inception phase will be carried out an assessment of the situation related to objectives and results. The indicators also will be specified in detail and data collected.

##### Inception phase activities

- Establishment of the project office and securing support staff;
- Initial meetings with relevant staff of the beneficiary and the Contracting Authority (EUD);
- Preparation and organisation of the kick-off meeting;
- Familiarisation with the project environment, including all relevant stakeholders, initiatives and documentation;
- Prepare a communication and visibility plan (the plan will be prepared jointly with the other EU funded projects implementing partners EBRD, Business France etc.);
- Developing terms of reference for the Governance structure and more particularly for the Steering Committee (see section 5.2; 5.3 and annex)
- organisation of the first Steering Committee meeting and other technical coordination meetings;
- Draft and submit Draft Inception Report for review by the EUD and Project Partners;
- Preparation and submission of the Inception Report with finalised annual work plan and project logical framework.

The **overall objective** is to create employment opportunities by enhancing private sector development in Armenia

*Within the framework of the programme the progress made in the country will be monitored according to policy oriented targets as per the following indicators:*

- Increase the proportion of SME within the overall economy : increase the share of small and medium enterprises (SME) from 7% to 15%<sup>1</sup> in the overall number of micro, small and medium enterprises (MSME) in Armenia
- Increase share of SME in employment from 25% to 30%
- Increase share of SME in GDP from 27% to 35%
- Increase of add value created by SMEs (OECD)

The **specific objective** is to improve the national business and investment climate and support the creation and development of SMEs to enable broad based growth.

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<sup>1</sup> COM(2014) 263 of 13 May 2014

## Annex I - Description of Action 2015/368-828

*Within the framework of the programme the progress made in the country will be monitored according to policy oriented targets as per the following indicators:*

- Number of businesses that benefited (increased turnover, reduction of operating cost e.g. RIA) from the support provided by the project (estimated 10,000 a year)
- Number of new businesses created within the framework of this project (disaggregated by targeted sectors and by sex: targeting from 10% to 30% of businesses led by women and increasing overall ratio of businesses led by women ) (estimated 450 a year)
- Number of new jobs created within the framework of this project (disaggregated by targeted sectors and by sex: targeting from 10% to 30% of women)

Within the framework of the project implementation five results should be achieved.

### **Result 1: Improved policy making process and coordination of supports to SME development for a conducive business development framework**

Technical assistance will strengthen the institutional capacities of the Ministry of Economy (MoE) and the Small and Medium Enterprise Development National Center (SMEDNC) to elaborate and implement respectively the SME strategy and its action plan. To this end, a stocktaking of existing strategies, programmes and initiatives for SME development and also activities from other implementing partners in that field will ensure a mapping of what has already been elaborated in order to avoid duplications and generate synergies. The activities under this result are based on impact-oriented assessments of the existing programmes relevant for SME development and the capacities of involved institutions. Together with the main implementing partners, a priority plan will be set-up comprising major needs of involved institutions and relevant fields that should be supported as a matter of priority. The ADS will be the guiding document in this respect.

Based on this, capacity development concepts for involved institutions will be worked out including the planning of particular training, seminars, workshops and backstopping. Content-wise support will be provided mainly along the identified priorities while including good practices and expertise from other European countries. This will also lead to SMEDNC's enhanced capacities and knowledge how to improve their current supporting toolset for SME development and to develop new ones in relation to other EU SME support mechanisms such as COSME.

Since one of the essential requirements for designing systematic and coherent SME development activities, the SME definition used in different Armenian public services will be reviewed at an early stage in a way that it is harmonized with existing Armenian law and agreed across all involved stakeholders. The reliable statistical data on SMEs is critical for designing and measuring performance of SME support programmes and initiatives. One of the priorities of programme intervention is therefore to improve statistical data collection and dissemination on SMEs. Capacity development will be provided to increase analytical capacities of relevant institutions and selected staff members. They will receive support through training and coaching to effectively participate in gathering and interpreting data on SME and for applying a coherent methodology. The outcome of the activities should be used to refine and/or set new baselines for the indicators within this project and beyond.

## Annex I - Description of Action 2015/368-828

Moreover, on all other major SME related issues – i.e. dispute settlement mechanism or business ombudsman institution – specific cooperation and coordination mechanisms will be developed at the beginning of implementation and improved throughout the whole period, ensuring in particular the effective participation of private sector organisations. This will mainly rely on the setup and/or improvement of existing public-private dialogue (PPD) platforms towards a more result-oriented format. This includes the setup of a result-based monitoring system and steering mechanism, which will enable Armenian Authorities to better address the issues raised by the business community.

### Output(s):

- Analysis of institutional framework of key stakeholders and mechanisms of cooperation
- Qualitative Assessment of involved partners capacities and their cooperation
- Monitoring system for SME support in place (i.e. RIA for SME) and properly functioning
- Catalogue of priority initiatives regarding SME development
- Definition of SME in Armenia reviewed
- Improved systems for data collection and monitoring.
- Published statistical yearbook on SME
- Interactive help-desk for SME (a web-based interactive information portal based on a single-window-approach and considering EU best practice)<sup>2</sup>
- PPD platform in place and functioning with transparent feedback and monitoring system

### Indicators related to Result 1:

- 1. At least 50 % of business organisations confirm a better involvement of private sector in policy making and legislative processes*
- 2. At least 50% of respondent SME enterprises which participated in state SME support measures can name the improvements made as a result of the perceived measures (respondent will be disaggregated by sex)*
- 3. Number of recommendations on improving doing business for SME elaborated in PPD mechanisms have been introduced in policy/legislative decision processes*
- 4. All programme and policy indicators to monitor SME development are properly set up with corresponding data and baselines*

Source for measurement: focus-groups interviews, representatives survey

### **Result 2: Strengthened private sector organisations to implement SME policies**

The project aims at strengthening the capacities of local private sector organisations (PSO, i.e. business associations and other business support organisations) in a) participating in public-private dialogue platforms related to presenting SME's interest by means of effective policy advocacy b) to extend membership to MSMEs and c) providing more and better services to companies. This includes also the increased ability of Private Sector Organisations in generating incomes to sustain their functioning. These competencies will be developed by trainings, seminars/networking events on particular topics and also study tours/ Academies that will show

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<sup>2</sup> The financial contribution by EU requires a written approval by EU



Annex I - Description of Action  
2015/368-828

the particular experience on service offer development, financing schemes or client acquisition/retaining.

An assessment in the beginning will help to identify suitable institutions. This mapping will reveal the function and services for SME both that are in place and those which are needed for development of companies' performance. The assessment will also show the particular needs of the respective institutions with regard to capacity development. Consulting and capacity development measures will target those needs and will support the organisational set-up and administrative procedures of the organisations as well as the development of particular services. The capacity development is enhanced through training or coaching of selected staff members and also study tours to similar institutions of EU member states. These activities will have to be closely coordinated with East-Invest in order to avoid duplications.

As one focus under this result, GIZ will manage funding and provide action grants to the private sector organisations in order to additionally provide project-based support in the above mentioned areas. The announcements or calls for proposals will be prepared, project ideas assessed, and all contractual and financial aspects regarding those grants and their proper implementation will be managed and respective consultancy provided by GIZ.

The selection of suitable private sector organisations will be done in a transparent announcement/call for proposals, applying selection criteria such as capacities of staff, willingness of the organisation to participate, availability of required accounting mechanisms, willingness of organisation to team up with each other, plausibility of suggested projects, contribution to this project etc. (non exhaustive). Organisations will be involved during the whole grant implementation process including announcement, evaluation and awarding procedure, monitoring and accounting. Capacity development activities (trainings, seminars, on-the-job-training, coaching) will be implemented in order to equip staff members of those selected organisations with the necessary organisational and technical skills to implement grants in the future in a self-reliant way. The project will encourage private sector organisations to work more closely together on joint activities. The grants will support the development of a whole range of capacities and competencies (see logical framework) within the organisations and can i.e. enable the implementation of suitable pilot projects. The fields of support will be elaborated in details in the grant's terms of reference as part of grant procedure. These fields correspond to particular areas that should be supported within this project and are indicatively listed in the logical framework. The support on the respective topics will be provided by international expertise.

Output(s):

- Mapping on PSO and their capacities
- Needs assessment of services for SME
- Training programmes
- Manuals and guidelines on grant procedures
- Study visit abroad
- Seminars/conferences/matchmaking events in Armenia
- One call for grants completed
- Projects successfully implemented by PSO

Annex I - Description of Action  
2015/368-828

Indicators related to Result 2:

1. The range of services that are provided and used has increased by at least 30%.
2. Increased membership of min. 20% in at least 3 business associations
3. Number of recommendations of SME policy/strategy implemented

Source for measurement: data of baseline study with PSO

**Result 3: Improved process of commercialisation of ideas linking research institutions and businesses via cooperation networks**

The project, through technical assistance, will provide assistance and advice to the relevant Armenian authorities and bodies on EU best practices in supporting cooperation and linkages between research institutions and businesses. The project will support to the creation of a platform linking research institutions and SMEs as well as set-up working groups to help to establish effective collaboration mechanism in the field of innovation and “research to business”. This includes also creating incentives for generating ideas that could be transferred into business but as well to promote research projects that would respond to specific technological gaps/business opportunities.

At first, existing practices, relevant stakeholders, members of working groups in this platform as well as their capacities and needs will be identified through an assessment. This assessment should also provide important information on potential cooperation between stakeholders in common areas but as well specify the existing bottlenecks in the process from research and development to commercialisation.

The cooperation mechanism and necessary skills of respective stakeholders will be strengthened by trainings, seminars and workshops. Coaching for selected staff members of the relevant units will also help to build the needed capacities. A tailor-made study tour to get acquainted with EU best practices will further support this process.

The aim is to provide more and better services to SME in order to facilitate innovation in economy. This includes i.e. to facilitating the creation of more environment that is conducive to innovative activities and will be supported by public and private sectors. Organising competitions for innovative cooperation between SME and research institutions/universities, supporting internships of scientists in SME or spin-off programmes at universities will be assessed as to their feasibility at the beginning of the programme.

Through technical assistance the Project will also support MoE to elaborate and implement a comprehensive strategy to build innovation enabling environment and infrastructures based on best EU practice.

The capacity of the SMEDNC, the Academy of Science, the State Committee of Science, the Enterprise Incubator Foundation (EIF) and other relevant bodies will be strengthened to effectively participate in EU programmes COSME and Horizon 2020 and efficiently utilize the resources made available through those two programmes. This will facilitate building joint research platforms between European multinationals or institutions and local Armenian research community leveraging on existing successful models of cooperation.

Annex I - Description of Action  
2015/368-828

Output(s):

- Assessment of most important stakeholders
- Review of current policies and existing practices and challenges of innovation support
- Set up priority plan
- Establish working groups
- Action plan with relevant units in MoE
- Training and coaching programmes to support participation in COSME and Horizon 2020
- Study tour/Academy including visits to relevant institutions i.e. in Europe
- Conference

Indicators related to Result 3:

- 1. Number (estimated between 5 and 10) of cooperation fora including MoE and research organisations/universities in particular economic sectors have been established and work on a sustainable and regular base (at least 4 times a year)*
- 2. Number of recommendations of these fora as to how to improve link between business and research have been implemented by the respective partners*
- 3. Number of new joint cooperation projects between companies and universities (requires monitoring system in universities)*
- 4. Success rate of Armenia in EU calls for proposals related to innovation in science and technology (H2020)*

Sources of measurement: baseline study, interviews

**Result 4: Improved design and management of economic clusters (business incubators, technoparks and Free Economic Zones)**

The project, through technical assistance, will provide support to MoE and/or respective local institutions to better implement economic clustering initiatives through exchange and/or twinning with EU peers. It will contribute to an improved management and more efficient coordination of the different related initiatives in order to provide better services to companies. It will also foster the expansion of sectoral coverage of those initiatives and creating a more conducive environment. An assessment to see whether companies could be included in upstream or downstream value chains - like making use of fall-out products or building-up on products of other companies – and also provide environmental benefits will be carried out. An impact oriented monitoring system will be set up in order to follow and – if necessary readjust - the effectiveness of particular measures.

To that end, an inventory of existing economic clusters, respective support programmes for companies and initiatives for their management and development will assess the capacities of relevant stakeholders, existing cooperation mechanisms and current responsibilities. A need assessment of the involved stakeholders will show the particular needs and necessary measures to improve their capacities to provide services and managed administrative procedures of cluster initiatives.

## Annex I - Description of Action 2015/368-828

Together with the main implementing partners action plan will be set-up for relevant areas that should be supported. Training as well as international expertise on cluster initiatives will be provided along the identified needs of support. A study tour/GIZ-Academy to comparable European institutions could be conducted based the outcomes of the need assessment. Also, conducting topic-related seminars or supporting a roadshow for bringing in potential investors could be appropriate. A monitoring system and a review of mechanism will be developed to measure the results achieved and enable corrective measures.

Those activities will be closely coordinated with the twinning on investment promotion implemented by Business France in 2016 and with the SME Finance and Advice Facility implemented by EBRD.

### Output(s):

- Inventory
- Needs assessment
- Capacity development to clusters
- Result-based monitoring system including review mechanisms
- Study Tour
- Seminar/Roadshow

### Indicators related to Result 4:

- 1. The concept for the design and improved management of economic clusters (business incubators, technoparks, FEZ) has been elaborated or reviewed with close cooperation of private sector and government.*
- 2. Number of economic clusters have improved their management practices (income growth rate has increased or cost of management have decreased)*
- 3. Number of SME that has been registered in economic clusters and are using services*

Sources of measurement: proof of evidence (concept), interviews

## **Result 5: Diversified access to finance for innovative start-ups and small businesses**

The project will be provide technical assistance to support EIF and SMEDNC in designing and implementing business acceleration/mentorship/coaching programmes for entrepreneurs and developing innovation toolkit targeting SMEs, such as “Innovation Vouchers.

The technical assistance will more particularly reinforce the capacity of the EIF (involving SMEDNC) in managing and expanding two start-up grant schemes "Science & Technology Entrepreneurship Programme (STEP)" and "Innovation Matching Grants (IMG)", which should increase the provision of financial services to innovative enterprises and start-ups. An assessment of EIF on tasks and available capacities will help to identify the priority areas that have to be strengthened. Training and coaching to selected staff members will be provided in these areas. An assessment of business start-ups responsiveness and absorption capacities to the support

Annex I - Description of Action  
2015/368-828

schemes will help to design the appropriate measures of training, consultancy and expertise that will be provided.

In addition to the technical assistance and to complement these activities, GIZ will fund, provide and manage an action grant to EIF together with technical assistance to further support technology start-ups and innovative SMEs via topping-up existing support grant schemes aiming at promoting new products/services (through STEP) and to further support development and growth of companies and their underlying business idea (through IMG).

Such grants aim at stimulating the rate of technology absorption, technology transfer, innovation and commercialization of research ideas in the private sector, and also fostering the collaboration between research centres and SMEs. The project will assist the implementation of business acceleration/mentorship/coaching programmes for innovative start-ups/SMEs to get them mature for engaging early stage seed funding and managing their business idea in practise. This includes support by providing respective international expertise on mentoring start-ups and innovative business ideas. An assessment at the beginning will also show the most critical issues that have to be supported from business side to successfully realising business ideas. These areas where enterprises need assistance to learn how to deal with them, i.e. project presentation, marketing or issues of intellectual property rights, will be agreed and included in the preparatory and complementary support activities.

A monitoring system will enable an assessment of effectiveness of the grant schemes and support activities.

Necessary steps related to the Calls for Proposals will be prepared jointly with EIF, SMEDNC and other stakeholders. This means a working group will be set up to design criteria for eligibility of grant beneficiaries and evaluation of project proposals. Evaluation and the decision of grant disbursement will be taken jointly.

For further explanation on applied grant procedures please refer to chapter 5.

Those activities will be closely coordinated with the SME Finance and Advice Facility implemented by EBRD.

**Output(s):**

- Needs assessment
- Training and coaching support activities
- 2 grants cycles accomplished (STEP)
- 2 grants cycles accomplished (IMG)
- Monitoring system established

**Indicators related to Result 5:**

- 1. Number of grants/financial services provided to industry and researcher's joint collaboration*
- 2. Number of new/innovative ideas that have been applied by private sector and lead to the establishment of a company.*

*3. 15% of newly registered companies (30% of them are women) are operating for at least 2 years*

Sources of measurement: EIF statistics/monitoring

## **4. Risks and assumptions**

### 4.1 Assumptions

A prerequisite to achieve expected results is that the RA Government in particular the MoE or related bodies like SMEDNC remain firmly committed to its reform agenda (as set out in the ADS).

At the same time, private sector organisations will have to remain involved by the Armenian authorities in the process of reforms and show their capacities to be effectively engaged.

Besides the political will from all parties, the implementing institutions need to allocate the necessary human, financial and technical resources to support the implementation of the project.

At the level of involved institutions and their staff, a sufficient level of technical, organisational, and managerial capacity is needed. The project's approach to implementing activities highly involves partner institutions and their staff. Although all institutions and staff are supported by the project through capacity development measures such as on-the-job training, backstopping, coaching, etc. they need to have certain experiences and skills to be built upon. This is of particular importance through early stages of project implementation since the positive effects of capacity development measures will not have materialised, yet.

### 4.2 Risks and mitigation measures

The following risks can be listed:

- Lack of capacity and high turnover of civil servants and other relevant staff undermines the implementation and coordination of the programme activities;
- Lack of political will to implement policies and reforms to improve the business climate for SME;
- Private sector not interested in policy participation aspects;
- Low interaction between RA Government, ministries, organisations, representatives from the private sector and other stakeholders;
- Corruption, fraud and lack of public sector reform;
- Duplication with other initiatives financed by the EU and other development partners;
- Windfall gain on part of enterprises which get financial support in areas they would be able and obliged to finance themselves

The main mitigation measures are:

- Capacity assessment of key stakeholders to ensure that the assistance to be provided responds to the needs and requests from beneficiaries;
- Enhanced policy dialogue with the government, at various levels, involving civil society and business associations;
- Awareness raising on the importance of active participation in policy making processes;
- Consultations at an early stage of project implementation with private sector representatives;
- Provide relevant coordination capacities to ensure increased flow of information aimed at increasing the awareness on public private dialogue processes;
- Enhanced donor coordination mechanisms between all development partners.

## **5. Implementation**

### **5.1 Methodology**

The methodology for implementation is based on several key principles that are at the heart of GIZ's approach to cooperation projects, as summarized in GIZ's Capacity WORKS manual (<https://www.giz.de/en/downloads/giz2012-en-Capacity-WORKS-manual.pdf>). The key points of reference for Capacity WORKS are the objectives and results jointly agreed with partners. In development cooperation projects, the procedure to be applied is reviewed, designed, monitored and corrected on an iterative basis, in relation to five success factors: strategy, cooperation, steering structure, processes, and learning and innovation.

A further GIZ tool for developing capacities of partners are the topic-based Academies in Germany. The Academies last about 1 week and include not only exposure visits to good practices and examples in the relevant field but also substantial inputs of experts in that particular topic as well as workshops with the partners to reflect or elaborate practical applications of these inputs within the context of home-country.

These Academies and also Study Tours will be carefully followed up and respective implementation measures will build-up on experience.

### **5.2 Project Management**

In line with the principles of Delegated Cooperation (PAGODA), the Project “SME Development in Armenia” (the Action) is implemented within the framework of the GIZ programme “Private Sector Development South Caucasus” but as well in line with the principles of coordination of EU funded projects in the sector of Private Sector Development. GIZ is the implementing partner for this action.

The responsibility for carrying out the Action in compliance with the (PAGODA) Delegation Agreement and GIZ internal regulations lies with the GIZ Team Leader responsible for the “EU funded” project. The Team Leader reports to the GIZ Programme Director of “PSD Programme South Caucasus” and ensures a strong coordination with the Team Leader of the GIZ Private Sector Development programme which is implemented in Armenia. The Team Leader for the EU

Annex I - Description of Action  
2015/368-828

funded project is also responsible for coordinating the project with the other EU funded projects supporting private sector development in Armenia. Those are listed below in 5.3.

The project shall be implemented by the **Project Management Unit (PMU)** comprised of 7 long-term staff members as follows:

- International Expert on Private Sector Development/ Team Leader (TL)
- International Expert on Innovation/Deputy TL
- Local Expert on Private Sector Development
- Local Expert on Innovation
- Local Expert for Visibility and Communication
- Local Expert for Financial Administration/Procurement
- Local Support: Office Manager/Driver

The TL will have overall responsibility for the management of the Project activities including coordination of the work of the project staff, proper reporting to the Contracting Authority and continuous communication with the Project beneficiaries and the EU Delegation.

The Long-term Experts will provide continuous technical advice to beneficiaries. They will further be responsible for concept development of study tours/academies and also accompany the partners in the respective measures if reasonable. Further, they shall coordinate activities related to the results in the respective areas. They will support short term expert missions that take place in the respective areas, prepare projects activities such as workshops, trainings, study trips and also hold contact with project stakeholders at all levels.

The Long-term Expert for Financial Administration and Procurement will be providing capacity development to grant recipients and advisory for proper grant management. In addition, the expert will be in charge of overall administrative and financial management of the project.

Support staff will facilitate daily project management by providing logistical, administrative and research services as well as driving etc.

According to GIZ's procedures for administration of projects, contracting, procurement and financial management, the PMU will be supported by GIZ office Armenia, GIZ headquarters in Germany and, if applicable, other GIZ offices and units in the region.

**Main beneficiaries** in this project are MoE as being responsible for designing the SME development policy and SMEDNC, its subordinated organisation, which is mandated for its implementation. Also other related policies like supporting innovation or trade are developed within the MoE. The responsible units will also benefit from respective support provided within this project. Other business related actors like the Armenian chamber of Commerce, EIF, sector associations and designated SME support organisations are to be named as beneficiaries as well.

**A Technical Project Steering Committee (PSC)** to steer and advise the management of the project will be established. The terms of reference of the PSC will be drafted and validated



## Annex I - Description of Action 2015/368-828

during the inception phase along the lines prescribed in the Financing Agreement and according to the following:

The PSC will be composed of

- a representative of the EU Delegation (co-chair)
- a representative of the beneficiary country (co-chair)
- a representative of GIZ (as member)
- representatives of relevant beneficiaries of the action (as members)
- representatives of EU Member States, development partners, business associations, other major beneficiary institutions and civil society organisation might be invited (as observers) in order to monitor the programme implementation

The members of the Steering Committee on behalf of these institutions shall be identified during the inception period.

The main function of the PSC will be to provide advice for the Project implementation. It shall agree on the annual work plan, provide comments on technical and financial reports, discuss and validate them.

The implementing partner (GIZ) will be responsible for the organisation of the PSC meetings and preparation of the minutes. It might also chair the meetings if not decided differently during the inception phase.

The meetings of the PSC will be held twice a year; the first meeting will be conducted after the finalisation of the inception phase and submission of inception report. If there is a need, i.e. where the members of the PSC request so, additional or separate (ad hoc) PSC meetings can be scheduled.

In order to ensure effective coordination between key actors and appropriate partnership, the PSC, other relevant line Ministries, state and private agencies as well as other organisations and institutions may be invited to take part in the PSC meetings.

### 5.3 Technical Coordination (activity-oriented)

Seen the multiplicity of EU funded projects, other donor funded projects and Armenian bodies supporting private sector development in Armenia, a **Technical Coordination Committee (TCC)** to coordinate the implementation of EU funded projects and other non EU funded projects will be established and meetings will be organised on regular basis and back-to-back with the PSC.

The TCC will be composed of all the representatives (at technical level) of relevant EU funded projects supporting private sector development on a compulsory basis and on a voluntary basis for non EU funded projects.

## Annex I - Description of Action 2015/368-828

The terms of reference of such committee should be drafted during the inception phase and agreed with the Armenian implementing bodies (SMEDNC).

A non-exhaustive list of EU funded projects and respective implementing partners is presented below and will require their involvement in the above mentioned coordination.

1. The main complementary EU action is a project called SME Finance and Advisory Facility implemented by EBRD that will be launched in parallel to this project. The project will allow companies to access private equity finance and will help them to improve their financial management capacity.
2. A Twinning on Investment Promotion implemented by Business France in cooperation with MoE and the Development Foundation of Armenia was launched in 2015 and will last until the end of 2016. It will help Armenian support bodies to implement measures in order to retain and attract foreign investors.
3. Other bilateral complementary EU programmes include two ongoing programmes that started in 2015: (1) in the area of agricultural and rural development – ENPARD3 Armenia (budget support) with support to farmer cooperatives implemented by UNIDO, UNDP, FAO and ADA (under another source of funding); and a regional development programme (project approach) that will help to establish a regional development fund with the Ministry of Territorial Administration to support economic and social infrastructure development in the Marzes. A new programme under preparation will support the improvement of the labour market efficiency with strong focus on Vocational Education and Training (VET) for the agricultural sector.
4. At the regional level, East Invest phase II with a main focus on strengthening business associations and chambers as well as the public private dialogue, specifically focusing on SME associations and support to local structures representing the smallest segment of SMEs started in 2015. The project is implemented by the EuroChambre. The EU also delivers other regional assistance mainly through EBRD and other European Financial Institutions (EIB, KfW, ...) that will require some coordination.

Other development partners also providing support are:

1. The World Bank (WB) including IFC, under its Development Policy Operation loan scheme, is supporting access to finance, financial sector development, customs, tax revenue mobilisation, and business inspection reforms. A regional WB programme (Strengthening Auditing and Reporting in the Countries of the Eastern Partnership - STAREP) also aims at creating a transparent policy environment and effective institutional framework for corporate reporting.
2. The project will also have to coordinate with USAID and ADB activities.

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<sup>3</sup> European Neighbourhood Programme for Agriculture and Rural Development

#### 5.4 SME Policy Dialogue Advisory Panel (result-oriented)

In order to monitor policy performance and assess the progress made on SME development a **SME Policy Dialogue Advisory Panel** will be set up and will be chaired by the Ministry of Economy. Representatives from all development partners working in the sector as well as the business representatives will be invited to monitor and discuss the progress made in the implementation of Government policies. Such monitoring should be based on indicators specified in the different national strategies (such as SME development strategy) and in the overall and specific objectives mentioned in the logical framework (in line with relevant indicators specified in the Armenia SSF 2014-2017).

GIZ will support the Ministry of Economy with the organisation of such mechanism.

#### 5.5 Summary of the Sector Management and Coordination Structure<sup>4</sup>

The organisational chart attached is indicative and will be subject to approval by the Armenian authorities and Development partners during the inception phase.

#### 5.6 Grant and Procurement planning and Management

GIZ will manage EU funding to providing a direct grant to EIF to top-up existing grant schemes provided by EIF that aim at supporting innovative start-ups and existing innovative businesses. Furthermore, funding will be provided by calls for proposals to private sector business organisations in order to promote and develop particular business ideas (related to Result 2 and Result 5).

Under Result 2 during the implementation period of the project up to 10 action grants are envisaged to be disbursed to business membership organisations after calls for proposal.

Under Result 5 the EU financed grant to EIF will finance the conduction of one call per year per grant programme (Step and IMG) in addition to the call which are conducted by EIF respectively. The two grant programmes, again, foresee an up-to number of grants to be disbursed to innovative enterprises with an up-to amount. This can be seen in the attached overview.

GIZ applies the grant implementation procedures, which are outlined in GIZ's orientation and rules (O&R). Criteria for assessing the recipient's commercial capability which have to be fulfilled are set out there. Particularly for large contracts can be involved commercial staff at the Office, departments for Contracting, Procurement, Logistics, or a national external auditor for advice and assistance.

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<sup>4</sup> See appendix 3

## 5.7 Time Planning

The overall project time duration will be 48 months including inception and closure period of 3 months each. An indicative overall work plan is provided below; this should be updated in the initial phase, on annual basis and according to relevant project developments.

The first phase of the project will be dedicated to an inception phase for starting the project and establishing all necessary implementation structures and contacts based on a thorough baseline analysis including extensive stakeholder mapping. A kick-off event with the participation of all relevant stakeholders involved in the implementation of the project will be held in order to ensure their participation and familiarize them with the aims and contents of the project.

As a key task in the initial phase, a full baseline study and needs' assessment relating to the SME sector in Armenia will be carried out to determine the latest developments in the beneficiary institutions and reconfirm the factors relevant to project implementation success, including reviewing assumptions and risks (particularly government commitment in terms of resources). The project reviews will assess the current situation and capacities in institutional set up and administrative capacities, but also the development regarding the overall policy framework. This activity will result in the preparation of the annual operational planning.

In the initial phase, the project office will be set up. Recruitment of the project team will be initiated after the start. Close coordination and cooperation with other relevant donor projects will be established during early stages of the project..

The baseline study and needs' assessment relating to the SME sector will be used to refine and update the overall work plan and performance indicators in line with the existing strategies containing:

- Baseline information and needs' assessment;
- Detailed activity plans for the project components including resources;
- Specification of the expected output of the activities;
- Timetable for the project activities;
- Cross-check of the achievement of performance indicators;
- Eventual revision and update of the logical framework.

The overall activity based work plan supplementing this DoA (and its **Fehler! Verweisquelle konnte nicht gefunden werden.** – Logical Framework of the Project and **Fehler! Verweisquelle konnte nicht gefunden werden.** – The Project Implementation Timeline) will be subject to revisions on annual (calendar year) basis and in an ad-hoc manner in order to adapt foreseen activities according to the progress made and the decision made within the different monitoring and coordination mechanisms (see sections 5.2, 5.3 and 5.4).

## 6. Reporting

Reporting process will follow the respective EU guidelines and as agreed in the special and general conditions of the Delegation Agreement.

The reporting period will be aligned with the mechanisms specified in section 5.2, 5.3 and 5.4.

## **7. Monitoring, Evaluation and Audit**

GIZ PSD SC will apply its own technical and financial monitoring system to the project, which will be used to elaborate the progress reports but will also comply with the Commission on specifically established terms of reference for external evaluations (mid-term, final and ex-post) if launched by the EU Delegation.

All project activities will be closely monitored and evaluated throughout the project cycle in close coordination with the Contracting Authority, the main beneficiaries and the project team. The main responsibility will rest with the team leader to implement appropriate monitoring, validation and evaluation procedures. Thorough supervision of short-term expert missions will be one tool among others. Furthermore, the team leader will continuously communicate with the beneficiaries with regards to the results of the different project activities which will ensure the complementary of this programme with other relevant actions.

All information and data gathered during the Project implementation for the purpose of monitoring and evaluation will be compiled using an IT-based M&E-system. Back to office reports and reports on workshops and trainings will be used for capturing data and feeding it into the M&E system. Training and capacity building activities will be validated and evaluated by means of evaluation sheets. Other monitoring tools will be applied when appropriate.

The programme may be subject to external evaluations in order to assess the relevance, efficiency, effectiveness, impact and sustainability of its achievements. Independent evaluators may be contracted by the European Commission.

Audits will be carried out respectively by the implementing partners according to the provisions set out in the respective agreements. The EU may decide to carry out external audit of the grant contracts.

## **8. Visibility**

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU and will be an important part of the Project management.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Strategy for the Action, to be elaborated at the start of implementation.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations. In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities.

Annex I - Description of Action  
2015/368-828

This strategy will include concrete measures such as conferences including the private and public sector, manuals, websites aiming at the dissemination of the Project Activities. The communication and visibility management strategy will duly consider respective requirements of the EU and the BMZ and, among other things, will provide for measures to maintain high visibility of the Project Activities and the effective exchange of information about the Project related issues among the Project Team, stakeholders and beneficiaries.

In order to ensure coordination with other EU funded projects in the sector listed in section 5.3, the strategy will be also developed jointly with the other project implementing partners and with the EU communication project team, featuring joint activities.

The strategy will be implemented under one brand: "EU4BUSINESS".

**Appendices**

- a. *Fehler! Verweisquelle konnte nicht gefunden werden.* – Logical Framework of the Project
- b. *Fehler! Verweisquelle konnte nicht gefunden werden.* – The Project Implementation Timeline
- c. *Appendix 3 – Summary of Management Structure*
- d. *Appendix 4 – Indicative overview of call for innovation grants*