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**Programme:** Private Sector Development South Caucasus (PSD SC): EU-Co-financing  
“Support to SME Development in Armenia” (SMEDA)

**PN:** 13.2144.7.010.00

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**Activity:** Evaluation exercise for SME Strategy 2016-2018

**Period:** 16.07.2018 – 01.10.2018

## 1. Brief Introduction

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The private sector in Armenia faces several challenges such as the lack of cohesion and coordination of different small and medium-sized enterprises (SME) support programmes, inefficient steering mechanisms for the SME development process, a fragmented landscape of stakeholders, and an inefficient public private dialogue as well as an inefficient decision-making process. The donor coordination process in different intervention areas is currently not government-driven.

The involvement of the private sector in SME development strategies is not effective and interests of SMEs 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 envisaged development.

Innovative ideas are hardly developed and are rarely transferred into business cases. Research and development are limited, in particular in the SME sector with hardly any cooperation of businesses and research entities. The innovative and creative potential of young specialists is not employed.

Access to finance is another major challenge for SMEs. Due to high debts – accrued during the global financial crisis and an associated decline in GDP (estimated 14% in 2009) – many Armenian SMEs have only limited access to further credits and loans. In general, lending policies of most banks and financial institutions do not encourage investments in SMEs.

With this situation for the private sector in Armenia, the EU-co-financed, GIZ-implemented project “Support to SME Development in Armenia” (SMEDA) was initiated in 2016. The project is in line with the EU Single Support Framework 2014-2017 for Armenia. It is furthermore consistent with the strategic framework documents of Armenia (Armenia Development Strategy and SME State Support Strategy) in order to facilitate their implementation.

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

The SMEDA-Project is part of the Regional Private Sector Development in South Caucasus Programme, which is operating in the three countries of the South Caucasus, Armenia, Azerbaijan, and Georgia. This umbrella programme faces the challenge of generating broad based inclusive growth to reduce the urban-rural gap and poverty above all in rural regions. In view of the small domestic markets with low purchasing power, the primary aim is to strengthen private sector development.



The PSD SC Programme is currently divided into 4 components with a budget as follows:

- PSD SC Programme (regional programme): EUR 8.6 Mio for four years (2017-2020).
- Project “Economic Integration of Syrian Refugees in Armenia”: EUR 2.5 Mio EURO for two years (2015-2018).
- EU-co-funded Project “DCFTA and SME Development” in Georgia: EUR 5 Mio EURO for four years (2015-2019).
- **EU-co-funded Project “Support to SME Development in Armenia”: 6.4 Mio EURO for four years (2016-2019).**

The “Support to SME Development in Armenia” (SMEDA) Project is focusing on the following result areas:

- (1) Improved policy making process and coordination of supports to SME development for a conducive business development framework,
- (2) Strengthened private sector organisations to implement SME policies,
- (3) Improved process of commercialization of ideas linking research institutions and businesses via cooperation networks,
- (4) Improved design and management of economic clusters (business incubators, techno parks, and Free Economic Zones),
- (5) Diversified access to finance for innovative start-ups and small businesses.

The project is co-funded by the European Union and implemented by the GIZ Programme Private Sector Development South Caucasus (PSD SC) and its country component in Armenia. The PSDSC-Programme is commissioned by the German Federal Ministry for Economic Cooperation and Development (BMZ). The SMEDA-Project is designed for four years from 2016 to 2019 with a total budget of EUR 6.400.000.

### **SMEDA Overall Objective**

Create employment opportunities by enhancing private sector development in Armenia.

### **SMEDA Specific Objective**

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.

### **SMEDA Indicators**

1. Increase the proportion of SME within the overall economy: increase the share of SME from 7% to 15% in overall number of micro, small and medium enterprises in Armenia.
2. Increase share of SME in employment from 25% to 30%.
3. Increase share of SME in GDP from 27% to 35%.
4. Increase of added value created by SMEs.

### **Partner structure: executing agencies and intermediaries**

The project is guided in its implementation by a Technical Project Steering Committee



(PSC), which is co-chaired by representatives of the EU Delegation and the Ministry of Economic Development and Investments (MEDI).

### **Target Group and Implementing Partners**

The target group is composed of all relevant stakeholders involved in the development of SMEs in Armenia. This includes the political lead partner, the Ministry of Economic Development and Investments in Armenia, and the Small and Medium Entrepreneurship Development National Centre (SMEDNC), related sector associations, the Armenian Chambers of Commerce and designated SME support organisations.

An important project partner is the Armenian Enterprise Incubator Foundation (EIF), which implements parts of the project activities related to managing and monitoring of funds for start-ups and small businesses.

Another important target group is females and males, owners and employees of SMEs.

### **Planned Activities of SMEDA-Project**

- Support to policy making by assisting the Armenian government to implement the SME strategy and to introduce a review mechanism for the SME development strategy and its action plans
- Support to policy implementation by strengthening the institutional capacities of the Ministry of Economic Development and Investments and the SMEDNC in terms of coordinating the implementation of the SME strategy and related action plans as well as developing an information portal to support business performance on foreign trade transactions
- Support to Public-Private Dialogue (PPD) by strengthening the capacities of the Ministry of Economic Development and Investments to manage the PPD process as well as to assess and recommend on dispute settlement mechanisms and platforms
- Provide technical assistance to private sector organisations to improve and expand services and to increase their network with European businesses
- Strengthening the capacities of private sector organisations to participate in PPD platforms and to utilize the opportunities of technology transfer as well as to promote entrepreneurial skills, clusters and value chain development
- Support to linking research institutions and the private sector to foster innovation
- Support to state bodies and the private sector to access EU innovation support resources and platforms such as the new EU Framework Programme for Research and Innovation (Horizon 2020)
- Strengthening capacities of the Ministry of Economic Development and Investments to design, implement and promote clusters
- Support to improving cluster management, linking clusters to European networks as well as developing and promoting new areas for business incubation
- Supporting the provision of grants to support technology start-ups and SMEs promoting new services/products
- Support to EIF and SMEDNC to design and implement business acceleration and coaching programmes for entrepreneurs and grant recipients



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## 2. Context and current situation in the field of assignment

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Government of Republic of Armenia provides variety of programs to assist small- and medium-scale enterprises. However one can admit that the impact of of the SME development programs on enterprise performance has been less satisfactory. In order to improve situation and further develop SME sector it is very important to have SME development strategy is in reality just a “private sector development strategy” recognising that the majority of companies are small, that they may face different constrains and opportunities than large companies, and types of instruments best suited to their needs may be underprovided in unfair and segmented markets. The major of the Government it to ensure that SME promotion strategy creates an enabling environment for SME competitiveness.

EU - SMEDA project in its total five result areas focus on improving the business and investment climate in Armenia. Small and Medium Scale Enterprises (SMEs) are the main target group for the Project, and as Project’s Political Partner: Ministry of Economic Development and Investment (MEDI) search for more effective ways of assisting SMEs, EU-SMEDA project seeks to contract a company/expert to asses instruments; tools and implementation of existing SME Strategy (2016-2018). The outcome of this exercise should be the report which should suggest a framework for SME intervention and should be a base for new SME development Strategy.

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## 3. Conditions of the assignment

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### 3.1 Objective and tasks

The SMEDA-Project seeks to contract a company/expert to conduct an analytical study to evaluate the implementation of SME Strategy for Armenia 2016-2018.

The assignment starts from 16.07. 2018 and lasts until 01.10.2018.

The assignment should be implemented in the tandem of International Expert + National expert(s).

The analytical study should provide an appropriate information about the following aspects:

- I. **Analysis of the SME sector** - In this section a profound analysis of the following points should be provided:
  - a. SME Strategy analysis: The Contractor should go through the SME Strategy approved by the Government and the relevant action plan and interview appropriate State officials responsible for the sector to identify:
    - i. the priorities of the Government related to the sector and expectations for the future development of this field
    - ii. which activities and strategies were implemented in the past, what is still pending and what actions have been planned by the Government



- iii. In addition, in this section contractor should give an appropriate analyses about the Institutions responsible for Implementation of SME Strategy.
- b. Analysis of development trend in SME sector: The Contractor should identify the SME development trends in Armenia and present an overview of them.
- c. Analysis of existing challenges for SME sector: The Contractor should identify the main challenges and barriers for the development of economic activities for SMEs. He/she should analyse those challenges and point out existing strategies, structures, instruments and offers, which support companies and start-ups to overcome challenges. Furthermore, he/she should briefly review those and made suggestion for improvement of the existing approaches; tools and instruments and suggest new ones.
- d. Assess Business Environment: Contractor should analyse the following issues:
  - i. Barriers to entry and non-competitive behaviour in market
  - ii. Expensive and time consuming regulatory requirements such as licensing and registration
  - iii. The legal framework for commercial transactions and resolution of disputes
  - iv. Government procurement procedures
  - v. Infrastructure that opens access to information and markets: transportation, communication infrastructure; etc.
- e. Analysis of the access to Finance: The Contractor should address the challenge “How much the existing SME development strategy for improving SME access to finance focuses on reducing the risks and transaction costs; strengthening the capacities of financial institutions to serve SMEs, and increasing competitive pressure in financial market.
- f. Business Development Services: Contractor shell assess the wide variety of non-financial services such as management trainings, consultancy, marketing and information services; mechanisms to improve business linkages; etc. These services form an important part of the “Market Support Structure” that helps build SME Competitiveness. We are interested to know - are those services supply-driven, have good quality and finally have sufficient cost control.

## **II. Evaluate the existing SME Development strategy**

- a. Institutional performance, according to the indicators of (1) coverage in terms of numbers of individuals, enterprises and organisations reached by intervention. (2) Cost effectiveness, with the objective of providing service at the lowest possible cost.
- b. Market Development, according to the indicators of (number, distribution and quality of Service providers, (2) types and quality of instruments



available in the market, (3) the structure and degree of competition in the market, (4) the price of services and (5) awareness and willingness to pay for services from SME side.

- c. Economic Impact, according to indicators of (1) The magnitude and durability of the effect of the services on SME performance (sale, exports, productivity, etc.) and (2) the developmental impact of the interventions at a social or economic level.

- III. Recommendations** - In this section the Contractor should highlight the most important findings and challenging issues in the field and should present recommendations how to address them in the new SME Development Strategy.

The above mentioned sections do not define the entire structure of the sector study, but only point out its main components. The Contractor in his proposal may suggest additional topics for study, which will be decided by the EU-SMEDA team and MEDI.

The contractor should examine all the existing studies in this field to avoid duplication.

Information should be collected through both secondary sources and meetings/interviews for communicative validation conducted with existing SMEs, Start-ups, relevant business support organizations, existing public Institutes and appropriate state officials and other stakeholders.

The analytical study has to be provided in English in electronic version on 1 October 2018.

### 3.2 Deliverables and resources

The following deliverables are to be submitted during the assignment period:

Tasks & Deliverables	Timeline	Man days (max)
Draft concept for the study design, structure, contents and research (part I & II): to be discussed with EU-SMEDA team and MEDI  <b>Deliverable:</b> Draft written description (3-4 pages)	30 July 2018	3





Tasks & Deliverables	Timeline	Man days (max)
Conduct the study  <b>Deliverables:</b> , Interim Report	02 August – 16 Sep 2018	60
Draft Final Report to be discussed with EU-SMEDA team and MEDI  <b>Deliverable:</b> Final Report, including comments and remarks	20 September 2018  <u>1 October</u>	7
<b>Total</b>		<b>70</b>

### 3.3 Conditions and payment terms

The Contractor's offer must include:

- The **Technical offer** requires the Contractor to submit details concerning to the Contractor's organization; the Contractors' experience in the above-mentioned field; comments/suggestions on the Terms of Reference, description of approach, methodology and work which must include activities and deliverables as indicated in above table.
- The **Financial offer** requires the Contractor to submit for consideration a summary of costs with respect to the above sections

### 3.4 Coordination and communication

The Contractor reports to the Team Leader of the EU-SMEDA project and closely collaborates with the responsible Project Expert as well as with the administrative support team in Armenia.

All deliverables need to be provided in English language.

### 3.5 Submission Requirements

The Contractor must fulfil the following requirements:

- Strong proven expertise and profound knowledge in the area of assignment
- Proficiency in English languages (written and spoken)



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### **3.6 Additional Documentation**

- EU-SMEDA Communication and Visibility Plan



Contribution of above-mentioned mission\* to SMEDA indicators:

Overall Objectives & indicators	The <b>overall objective</b> is to lay the ground for the creation of employment opportunities by enhancing private sector development in Armenia; measured through following indicators:	
1)	Increase the <b>contribution of SMEs to the overall economy</b> : increase the share of small and medium enterprises (SME) from 7% to 15% in the overall number of micro, small and medium enterprises (MSME) in Armenia.	x
2)	Increase share of SME in <b>employment</b> from 25% to 30%.	x
3)	Increase share of SME in <b>GDP</b> from 27% to 35%.	x
4)	Increase of <b>added value</b> created by SMEs (OECD/statistics)	x
Specific objective & indicators	The <b>specific objective</b> is to improve the national business and investment climate and support the creation and development of SMEs to enable broad based growth; measured through following indicators:	
1)	The specific number of businesses that benefited (increased turnover, reduction of operating cost e.g. RIA) from the support provided by the project (estimated 2,000 a year).	x
2)	Number of new businesses created within the framework of this project (disaggregated by targeted sectors and gender: targeting from 10% to 30% of businesses led by women and increasing overall ratio of businesses led by women) (estimated 100 a year).	x
3)	500 new jobs created within the framework of this project (disaggregated by targeted sectors and gender: targeting from 10% to 30% of women).	
Indicators R1	Result Area 1 – Policy Making Processes (Source for measurement: focus-groups interviews, representatives' survey)	
1)	At least 50 % of business organisations confirm a better involvement of private sector in policy making and legislative processes	x
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)	x
3)	8 recommendations on improving doing business for SME elaborated in PPD mechanisms have been introduced in policy/legislative decision processes	x
4)	All programme and policy indicators to monitor SME development are properly set up with corresponding data and baselines	
Indicators R2	Result Area 2 – Strengthening Business Organisations (Sources of measurement: data of baseline study with PSO)	
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)	6 recommendations of SME policy/strategy implemented	
Indicators R3	Result Area 3 – Linking Science and Private Sector (Sources of measurement: baseline study, interviews)	
1)	5 cooperation platforms including (MEDI and) research organisations/universities, in particular economic sectors, have been established and work on a sustainable and regular base (1 to 4 times a year)	
2)	15 recommendations of these platforms as to how to improve the link between businesses and research have been implemented by the respective partners	
3)	4 new joint cooperation projects between companies and universities or research institutes (requires monitoring system in universities) are established	
4)	Up to 4 successful proposals with Armenian participation to H2020 - Success rate of Armenia in EU calls for proposals related to innovation in science and technology (H2020)	
Indicators R4	Result Area 4 – Improving Management of Economic Clusters (Sources of measurement: proof of evidence (concept), interviews)	
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)	4 economic clusters have improved their management practices (income growth rate has increased or cost of management have decreased)	x
3)	40 SME have been registered in economic clusters and are using services	x
Indicators R5	Result Area 5 – Improving Access to Finance (Sources of measurement: EIF statistics/monitoring)	
1)	50 start-ups and existing small businesses are using new financial services (innovation grants, crowd funding, angel investments etc.)	
2)	30 new/innovative ideas that have been applied by private sector and lead to the establishment of a company or new products and services.	
3)	15% of newly registered companies (30% of them are women) are operating for at least 2 years	

\*this should guide the contractor in the focus of the mission on activities relevant to actively contribute directly or indirectly to the fulfilment of the indicators and to report accordingly to SMEDA.