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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:** Business Membership Organisations (BMOs) Development Initiative in Armenia

**Period:** March 10, 2017 to May 18, 2017

## **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 has a total budget of EUR 29.693 Mio EURO, which is divided as follows:

- PSD SC Programme: EUR 15.76 Mio EURO for four years (2013-2017).
- Project “Economic Integration of Syrian Refugees in Armenia”: EUR 2.5 Mio EURO for two years (2015-2017).
- 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 Economy 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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Business Member Organisations (BMO) play an important role in promoting entrepreneurship, advocating for business topics, and supporting business development. In Armenia BMOs are poorly developed and are not yet representing the business sector adequately. Roughly 50 BMO are existing currently in Armenia with very different levels of services provided, structural performance, functions for their members, and lobbying activities. Also, the denomination of Business Member Organisations (BMO)/Business Associations, Business Representative Organisations (BRO), etc. is unclear as well as the legal background for the work and existence of these organisations.

These aspects need to be strengthened – among others within the result area II of the SMEDA project focusing on strengthening the business environment and business associations in Armenia. A call for proposals had been launched in September 2016 and two consortia of business membership and support organisations had been selected to develop improved services and support for the business sector in Armenia.

Within result area II of the SMEDA project technical assistance will be provided to strengthen business associations in Armenia supporting to improve and expand their provided services and to increase their network with European businesses.

During the workshop “**Skills for SME-Development**” organised by SMEDA within the PLATFORM 2: “Economic Integration and Convergence with EU Policies” 8th BUSINESS DEVELOPMENT PANEL (formerly SME Panel), in October 2016 the first indications were revealed: ***The provided services are described as often not being relevant, not sustainable and not complete or fragmented.***

In order to have a full picture of the business organizational environment (with a focus on BMO; to a lesser extent on BRO) and provide tailor-made solutions responding to service needs, a feasibility study will be conducted.

There is a follow up activity envisaged, which will compare the findings of this report with the international best practices, analyse selected existing models of BMO/BRO in Europe (and not only), and present recommendations for future development of sustainable business (member) organizations.

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## **3. Conditions of the assignment**

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### **3.1 Objective and tasks**

The overall objective of the current contract will be to collect all existing information regarding Business Membership Organisations (BMO) and Business Representative Organisations (BRO) in Armenia, in order to have a full picture of the field and provide tailor-made solutions responding to service needs. The stock-taking exercise will:

- (i) Identify all BMO/BRO in Armenia including a viable definition and utilisation of concepts of business organisations in Armenia – following an approved



- questionnaire and categorising the organisations according to international concepts as BMO, BSO and BRO, and provide information on the (a) legal frame for the various concepts in Armenia and (b) structure and members of those organisations;
- (ii) Identify the most common services they are offering (lobbying; business development services (BDS); Technical Assistance to the members; etc.) – following an approved questionnaire;
  - (iii) Make recommendations on the quality of existing BDS;
  - (iv) Submit recommendations how offered BDS packages could be improved (including new services) based on SME's demand in Armenia;
  - (v) Identify all BMO/BRO who are able to provide targeted BDS packages.
  - (vi) Serve as a baseline study for SMEDA – focusing on result area II with its indicators on services provided and membership within Business Membership Organisations (The range of services that are provided and used has increased by at least 30%; Increased membership of min. 20% in at least 3 business associations).

The final report of this intervention will provide key inputs for the fine-tuning of the development of BDS packages, as well as recommendations on new services.

The methodology that will be used in the stock-taking report will be a qualitative assessment consisting of interviews with local and international organizations that offer BDS in Armenia. The specific activities that will be carried out include the following:

- I. BMO/BRO Sector Mapping - In this section a database with profound information shall be provided on:**
  - a. Map of the Business Organisations (BMO/ BRO) landscape in Armenia
  - b. Identify services offered to members and enterprises. Services can include the following among others:
    - Lobbying / advocacy;
    - Business training;
    - Business coaching;
    - Technical training;
    - Market development services;
    - Product development services;
    - Mentoring;
    - Technical assistance for the development of business plans;
    - Creation of business networks and business cooperation schemes;
    - Micro-financing or specific financial tools;



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- Legal services;
- c. Assess the quality of existing services by collecting the following information for each service:
- *General information: Title and description of the service,*
    - area where services are implemented, identification of how their services support SME,
    - total cost of the services and source of funds,
    - management of the programme and modalities of implementation,
    - number and background of trainers, coaches, advisers, consultants, lawyers etc.
    - duration of the programs,
    - size of the group training classes,
    - frequency of visits/supervision by trainers (if applicable),
    - link with micro-finance or credit schemes,
  - *Information on users/clients:*
    - Number of actual and potential users (including disaggregated by specific service if programme has different steps and/or training modules),
    - type of business activity and sectors, and average years in existence of user enterprises
- II. Analysis of the BMO/BRO sector** - In this section a profound analysis of the following points should be provided:
- a. Analysis of existing and future challenges for BMO/BRO sector: The Contractor shall identify the main challenges and barriers for the development of economic activities in the field. He/she should analyse those challenges and point out existing strategies, structures, instruments and offers, which support BMOs/BROs to overcome challenges. Furthermore, he/she should briefly review those and make suggestions for the improvement of the existing and suggest new approaches.
  - b. The Contractor shall first identify the sector in which the business association operates and then analyse the actual challenges and how they are taken care of, their future perspective and eventual obstacles and how to address them.

The Contractor in his final proposal may suggest additional topics for further study to the SMEDA team.





Data should be gathered through both secondary research and individual and focus group meetings/interviews with existing business organizations, relevant state officials, SME representatives, service providers and other stakeholders.

### 3.2 Deliverables and resources

The stock-taking exercise will be done between March 10, 2017 and May 18, 2017. The deliverables will include:

Tasks & Deliverables	Timeline	Man days (max)
Draft concept for the study design, structure, contents and research (part I & II): to be discussed with SMEDA team  <b>Deliverable:</b> Draft written concept (3-4 pages) to be discussed with SMEDA team	10 – 14 March 2017	3
Conduct the study & mapping <i>(The effort of the work should be directed as following Part I: 35%; Part II 55%; Part III 10%)</i>  <b>Deliverables:</b> Database of Mapping, Interim Report  Draft Final Report to be discussed with SMEDA team	14 March – 15 May, 2017  1 May 2017  15 May 2017	40
<b>Deliverable:</b> Final Report (in English language), including SMEDA comments	18 May 2017	3
<b>Total</b>		<b>46</b>

### 3.3 Conditions and payment terms



The Contractor's offer must include:

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

Payment terms:

- Interim payment;
- Final payment upon fulfilment of the contract.

### **3.4 Coordination and communication**

The Contractor reports to the Team Leader of the EU SMEDA-Project, Ms. Eva Maria Näher and closely collaborates with the responsible Project Expert, Mrs Mariam Babayan, as well as with the administrative support team in Armenia.

### **3.5 Submission Requirements**

The Contractor must fulfil the following requirements:

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

### **3.6 Additional information**

- All relevant studies/reports will be provided by the Project