

Evaluation of

SMEDNC/ UNDP joint project

Support to SME Development in Armenia

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The views expressed in this document are those of the consultant and do not necessarily reflect those of the UNDP

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Acronyms

AMD	Armenian Dram
B&B	Bed and Breakfast
BSP	Business Support Provider
EBRD	European Bank for Reconstruction and Development
GDP	Gross Domestic Product
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
IRR	Internal Rate of Return
OSCE	Organization for Security and Co-operation in Europe
SDC	Swiss Agency for Development and Cooperation
SME	Small and Medium Enterprise(s)
SMEDNC	Small and Medium Enterprise Development National Center of Armenia
UN	United Nations
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme
USAID	United States Agency for International Development

Executive Summary

Introduction

1. This evaluation has been carried out by Roderick Ackermann (Evalutility Ltd.) for the United Nations Development Programme (UNDP) in Armenia. It was carried out between August and October 2010. The main purpose of this evaluation, as stated in the terms of reference, is to define further directions of work for small and medium enterprise (SME) development in Armenia building on the past experience and lessons learned. The terms of reference further state that the evaluation will focus on effectiveness, efficiency and sustainability, with a particular focus on effectiveness. The evaluation is based on a review of numerous documents from the UNDP, the Small and Medium Enterprise Development National Center of Armenia (SMEDNC), another organisations, meetings with 42 stakeholders in four marzes and Yerevan, and analysis of statistical information provided by the SMEDNC.

Background

2. Armenia is geographically and economically isolated. It has been badly affected by the global economic crisis, with gross domestic product (GDP) having fallen by 14.4% in 2009. Much of the country's economic activity revolves around Yerevan. As a result, there has been migration from the marzes to Yerevan, and to other countries, which has led to concerns about the level of population in the marzes. Poverty levels have fallen, but much of the wealth generated in recent years has been concentrated in relatively few hands.
3. Almost 50% of registered SMEs are located in Yerevan. SMEs are particularly active in trade and services. Small and micro enterprises account for approximately 20% of GDP, with a few large enterprises (especially in the mining sector) accounting for approximately 65% of GDP. SMEs account for just 20% of exports.
4. Government policy currently prioritises enterprises with export and/ or import substitution potential. It also envisages diversification of the economy and increased numbers of SMEs. Development of the marzes, and reduction of the shadow economy are also prioritised. For the past few years, the Government has emphasised the need to simplify the legislative and regulatory framework for SMEs, including simplification of tax and customs formalities. The SMEDNC was established in 2002 to implement government SME policy.

Findings

5. The operating environment for SMEs in the marzes is challenging. There has been little progress in improving the enabling environment. There is limited access to credit, especially for businesses outside Yerevan. A significant proportion of all business activity in Armenia takes place in Yerevan, and there is therefore a lack of critical mass in the marzes. Businesses outside the capital have limited exposure to new trends and technology.
6. The project commenced in 2004. The total cost to date, excluding the revolving fund capital, is approximately \$2 million, of which the UNDP has provided 50%, and the Government, through the SMEDNC, the remaining 50%. All activities are implemented through the SMEDNC and its branch offices in the marzes, The UNDP, through its two staff in the SMEDNC, is responsible for all project-related procurement and contracting.

7. At the centre of the project, is the start up programme, which incorporates bed and breakfast (B&B) cluster activities, and the revolving credit fund, which is accessible only to registered enterprises that have participated in the start up programme. Start up training is carried out by business support providers (BSP), mainly from Yerevan. Since 2006, 845 entrepreneurs, in all marzes, have participated in the programme. Since 2006, the revolving fund has disbursed 166 loans amounting to approximately \$621,000.
8. Other project activities include financial support to Armenia's participation in the Enterprise Europe Network, and promotion of the SMEDNC's activities in the media.

Conclusions

9. **Relevance** The start up programme, including the revolving credit fund and B&B cluster activities, is highly relevant. It supports the establishment and growth of micro and small enterprises in the marzes. It helps to generate income and create new jobs in economically depressed regions, and thus helps to limit migration away from the regions. While women and youth are not specifically targeted, it is evident that these groups are benefiting. The project is delivered through existing structures and thus avoids duplication.
10. However, overall, the project lacks clear strategic direction and objectives. The budget, which is not large, is fragmented and it is difficult to justify UNDP funding activities, such as support to Armenia's participation in the Enterprise Europe Network, and promotion of the SMEDNC's activities in the media, which between them account for 19% of the project budget in 2009 and 2010, and 22% of the UNDP's financial contribution.
11. **Effectiveness, impact, and efficiency** The start up programme, including the revolving credit fund and the B&B cluster activities, has been instrumental in the establishment of 212 micro and small enterprises in all marzes of Armenia since 2006, of which 103 are still in business. These businesses have created 284 new jobs and their combined turnover since 2006 is estimated at \$2.5 million. The revolving fund provides micro and small enterprises with access to affordable credit, which is not otherwise available. Delivery of the programme through the SMEDNC has helped to develop its capacity and enhance its profile in the marzes.
12. However, there has been little engagement with marz and municipal authorities, and this is likely to have constrained effectiveness and impact of the start up programme.
13. Since the relevance of some activities to the target group is unclear, it could be argued that the same start up results could have been achieved at lower cost, or alternatively, that the project could have been more effective, if more of the budget had been allocated to the start up programme and revolving fund.
14. Nevertheless, the overall investment is justified by the results, which have been achieved in highly a challenging environment.
15. **Sustainability** The survival rate of businesses participating in the start up programme is good. The revolving fund has a very high repayment rate and it is now able to increase the number and size of loans using interest income. However, it is unclear to what extent the start up programme can be continued without long-term financial support from the UNDP or other international agencies.

General recommendations

16. It is recommended that the SMEDNC continues to implement the start up programme in view of its effectiveness.
17. It is recommended that consideration be given to the possibility of inviting other donors to contribute capital to the revolving credit fund, and at the same time giving beneficiaries of their support activities access to loans from the fund
18. It is recommended that the UNDP and the SMEDNC explore possibilities for enhanced engagement of marz and municipal stakeholders in local economic development to enhance the effectiveness and impact of the start up programme.
19. It is recommended that the UNDP's extensive international experience, expertise, and networks in the area of SME and local economic development be more effectively leveraged.
20. It is recommended that consideration be given to transferring the function of B&B marketing centres to organisations such as local tourism offices, which might also act as independent quality controllers.
21. It is recommended that key strategic project planning documents are reviewed from time to time and updated as necessary to enhance clarity and to take account of changes in the project purpose and environment.
22. It is recommended that future UNDP projects in support of SME and local economic development have clearer objectives and incorporate a clearly specified project duration, expiration date, and exit strategy.
23. It is recommended that financial contributions to SME and local economic development activities be focused more on activities that are directly relevant to the target group(s).

Recommendations for future UNDP support

24. It is recommended that future support focus on local economic development, rather than only on enterprise development. This will help to ensure that all relevant actors are involved, including marz and municipal authorities.
25. Future support could be concentrated on tourism and leisure, which offer considerable potential for generating income in the marzes from Armenian and foreign visitors. The project should aim to diversify the tourism market by making better use of natural assets, such as landscape and climate.
26. The project should involve not only catering and accommodation enterprises, but any regional or local enterprises and other organisations that contribute (or should contribute) to regional and local tourism and leisure infrastructure and services. The project should also engage with actors at national and international levels, such as tour operators.
27. At least initially, the project should focus on one or two marzes that offer the best possibility for effective engagement of key marz and municipal actors, and other relevant stakeholders. The selected authorities should demonstrate real commitment to local economic development, and a readiness to work with other actors in an efficient, transparent, and collaborative manner, while respecting agreed project management and decision making structures.
28. Possible areas for technical support include: general business skills; energy efficiency and renewable energy; product and service quality; and environmental protection.

Report

Overview of the assignment

Purpose

29. The main purpose of this evaluation, as stated in the terms of reference, is *to define further directions of work for SME development in Armenia building on the past experience and lessons learned*.
30. The terms of reference further state that the evaluation will focus on *effectiveness, efficiency and sustainability, with a particular focus on effectiveness*.
31. The evaluation should:
 - measure the change in the mentioned output and its contribution to the overall outcome;
 - measure the project's contribution to the changes in the small and medium enterprise (SME) situation in Armenia;
 - attribute observed changes to the project interventions;
 - measure how inputs are converted to results;
 - measure effectiveness of developed sustainability mechanisms (if any);
 - define lessons learned and recommendations based on the observations;
 - translate lessons learned and recommendation into a project concept for future.

Methodology

32. The evaluation has four main elements:
 - Desk review;
 - Inception report;
 - Mission to Armenia;
 - Report drafting (including outline project proposal)
33. During the course of the desk review, numerous documents were reviewed, including those relating directly to the project itself, documents of other international organisations, and government documents, etc. As list of documents referred to is provided in Annex 3. The desk review led to the development of a preliminary overview of the project, which was documented in the inception report.
34. This was followed by a two week mission to Armenia (20 September to 01 October 2010). During the course of this mission, the consultant met with 42 stakeholders in four marzes,¹ and Yerevan (see Annex 2). Meetings were held with staff of United Nations Development Programme (UNDP), staff of the Small and Medium Enterprise Development National Center of Armenia (SMEDNC) in Yerevan and its branch offices, project beneficiaries, marz officials, business support providers (BSP), a member of the SMEDNC board of trustees, and the Deputy Minister of Economy.
35. These meetings focussed on the following key questions:
 - What difference has the project made to beneficiaries;
 - What has been the value added by the UNDP;

¹ Shirka, Lori, Syunik, and Vayots Dzor. Marzes are administrative divisions. There are 10 in total. The city of Yerevan is a separate administrative unit. <http://www.gov.am/en/regions/>

- What are the main obstacles to the establishment and growth of small enterprises outside Yerevan;
 - How best can limited UNDP resources be utilised in the near and medium term future to accelerate the development of the small business sector, building on results and experience to date.
36. During the course of the mission in Armenia, project statistics were provided, and analysis of these is incorporated into this evaluation.
37. At the end of the mission, the consultant developed an outline of the main findings, conclusions, and recommendations, and these were presented to the Resident Representative and Deputy Resident Representative of the UNDP, the Director of the SMEDNC, and to UNDP staff. This was to provide key stakeholders with an opportunity to comment on the main findings, conclusions, and recommendations, prior to development of the draft report.

Overview of current and historical project context

Socio-economic background

Armenia is geographically and economically isolated. It has been badly affected by the global economic crisis, with gross domestic product (GDP) having fallen by 14.4% in 2009. Much of the country's economic activity revolves around Yerevan. As a result, there has been migration from the marzes to Yerevan, and to other countries, which has led to concerns about the level of population in the marzes. Poverty levels have fallen, but much of the wealth generated in recent years has been concentrated in relatively few hands.

38. Armenia is a largely mountainous, landlocked country with an area of 29,743km². It's borders with Turkey and Azerbaijan are currently closed. It has limited trade relations with its southern neighbour, Iran. Thus most imports are and exports are transported through Georgia, to the north.
39. The UNDP's 2009 Human Development Report² ranks Armenia 84 out 182 countries (2007 data), with a score of 0.798. It is classified as "Medium Human Development" country. Although this is higher than its 2002 score (0.754), Armenia's current ranking is lower than it was in 2002 (82).
40. The UNDP's 2009 Human Development Report indicates that US\$846 million of remittances were sent to Armenia. At \$282 per capita, this was the 27th. highest remittance rate of any country, and higher than countries such as Poland and Slovakia. This is equivalent to approximately 5% of per capita GDP. Thus remittances are an important source of income for Armenia.
41. Annual GDP growth rates for the years 2005 to 2008 were 13.9%, 13.2%, 13.7%, and 6.8% respectively. GDP is reported to have fallen by 14.4% in 2009.³ The dramatic drop in annual growth is attributed to the global financial crisis. Similarly, exports of goods and services fell from 29% of GDP in 2005 to 15% in 2008.⁴
42. The CIA World Factbook gives an estimated (mid-2010) population of Armenia of 2.967 million.⁵ This is approximately 10% lower than the 2008 figure given by the Statistical

² <http://hdr.undp.org/en/reports/global/hdr2009/>

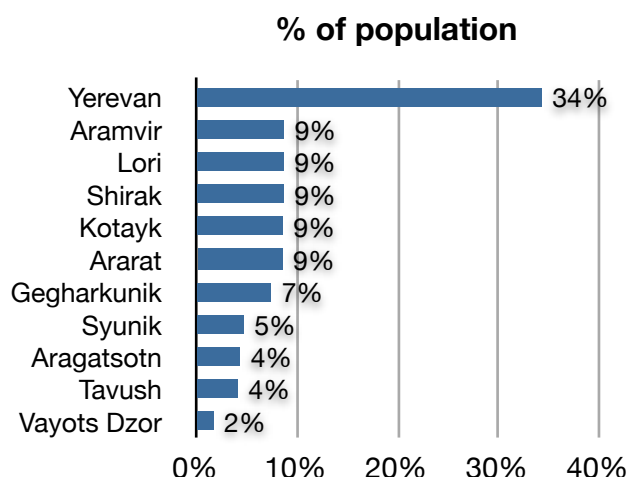
³ http://armenia.usembassy.gov/uploads/Nf/H/NfH_XWTan3xHMji4k9yAJQ/ccg_2010.pdf

⁴ <http://data.worldbank.org/indicator/NE.EXP.GNFS.ZS/countries>

⁵ <https://www.cia.gov/library/publications/the-world-factbook/geos/am.html>

Service of Armenia in its 2009 yearbook.⁶ This indicates that the population increased from 3.216 million in 2004 to 3.238 million in 2008. The former also gives an estimated population growth rate for 2010 of -0.03%, and an estimated migration rate of -4.56 per 1,000 population.

43. At the beginning of 2008, Yerevan was home to approximately 34% of the population, with individual marzes each accounting for between 9% and 2% of the population.⁷ Official data indicate that these proportions have not changed significantly over the past few years. However, stakeholder feedback during the course of this evaluation suggest that there is a continuing movement of people and business activity to Yerevan at the expense of the marzes.



44. The rural economy remains heavily dependent on agriculture, which is currently highly fragmented and reliant on old technology. While there is significant scope for increasing the productivity and profitability of agriculture, this will take many years and will require much investment. At the same time, reducing the gap between rural and urban incomes will require consolidation of production, and a reduction in the number of people dependent on agriculture. In order to avoid depopulation of Armenia's already thinly populated marzes, diversification of the rural economy is urgently needed.
45. The United Nations Development Assistance Framework (UNDAF) 2005 - 2009 noted that despite impressive growth rates, Armenia was subject to mass impoverishment, declining access to public services, inadequate governance and environmental degradation. Wealth was increasingly concentrated in the hands of a small stratum of people able to capture the benefits of growth. A large underclass had limited access to employment and quality social services. There were high rates of emigration, and corruption, and Armenia was increasingly vulnerable to external factors.
46. Amidst concerns for political stability and national security, the Poverty Reduction Strategy Paper adopted by the Government and civil society in August 2003 sought to address mass impoverishment and social injustice through high rates of economic growth, and redistribution of growth to social programmes for the poor and socially disadvantaged.
47. The 2010 - 2015 UNDAF provides the following contextual background.
- From 2001-2008, growth rates in Armenia averaged 10% per annum. The proportion of population living below the poverty line fell from 56 percent in 1999 to 25 percent in 2007. Nevertheless, about one quarter of the population in Armenia was still poor in 2007. The current poor are those who benefited very little, if at all, from economic growth and enhanced social assistance of the last eight years.

⁶ <http://www.armstat.am/file/doc/99458058.pdf>

⁷ Calculated from data of the Statistical Service of Armenia <http://www.armstat.am/file/RegStat/default-eng.html>

- The global economic crisis seriously threatens the economic growth and poverty reduction achievements of Armenia in recent years. The World Bank forecasts indicate a possible reduction in GDP of 8% in 2009 and 2% in 2010. Overall poverty incidence could increase by about 5.2 percentage points between 2008 and 2010.
 - The global economic slowdown is likely to reduce remittances that are responsible for poverty reduction outside Yerevan.⁸
 - Poverty rates are consistently higher in regions that are at risk of earthquakes or in regions with unfavourable agricultural conditions and a lack of basic infrastructure, as well as those who live in border regions of the country.
 - 36% percent of the population live in rural areas, rely on subsistence agriculture, and have significantly below average income levels.
 - Small and medium towns have limited employment opportunities and have not attracted new investment. There have been only marginal declines in poverty rates.
 - Unemployment remains a significant problem, especially among young people.
 - In 2007 the unemployment rate for economically active women was 1.6 times higher than for men.
 - There has been limited progress in attracting new capital and corruption remains a problem.
48. The UNDAF concludes that the issue of unemployment is attributable to deficiencies in the business environment, especially for SMEs, and to inadequate skills among the unemployed. Emphasis is placed on increasing the employability of youth through vocational training and academic credits rewarding youth engagement in professional activities in remote areas and regional cities of Armenia.

Overview of the SME sector in Armenia

Almost 50% of registered SMEs are located in Yerevan. SMEs are particularly active in trade and services. Small and micro enterprises account for approximately 20% of GDP, with a few large enterprises (especially in the mining sector) accounting for approximately 65% of GDP. SMEs account for just 20% of exports.

49. The SMEDNC's Reference Book Small And Medium Entrepreneurship Sector in Armenia 2007-2009 defines micro enterprises with as those with up to five employees. Depending on the sector, the definition of small ranges from 15 to 50 employees, and for medium it ranges from 30 to 100 employees.
50. Approximately 47% of all registered SME units are located in Yerevan. The share of the marzes ranges from 8% in Kotayk to 2% in Vayots Dzor.
51. From 2007 to 2009, SMEs have been responsible for approximately 40% of GDP. They contribute most to GDP in trade (approximately 50% in 2009) and services (45%) of GDP. SME contribution in the construction sector fell from 49% in 2008 to 37% in 2009. SME contribution to GDP is lowest in the transport and communications (28%) and industry (31%) sectors.
52. Overall, micro enterprises contribute approximately 10% to GDP, and small enterprises 11%. The contribution of medium enterprises increased from approximately 12% in 2007 to 14% in 2009. Thus, a few large enterprises account for approximately 65% of GDP.

53. The majority of SMEs involved in trade and services are micro enterprises. In other sectors, while micro enterprises still tend to be the most prevalent (when considering only SMEs), small enterprises are more evident. However, there are few medium enterprises in any sector, with the exception of transport and communications where they account for approximately 17% of all SMEs.
54. SMEs account for less than 20% of exports. Their share of imports is larger, although this fell 38% in 2008 to 26% in 2009.

Overview of government policy

Government policy currently prioritises enterprises with export and/ or import substitution potential. It also envisages diversification of the economy and increased numbers of SMEs. Development of the marzes, and reduction of the shadow economy are also prioritised. For the past few years, the Government has emphasised the need to simplify the legislative and regulatory framework for SMEs, including simplification of tax and customs formalities. The SMEDNC was established in 2002 to implement government SME policy.

55. In 2000, the Government adopted the Concept for SME Development Policy and Strategy in Armenia.⁹ In this document, the Government identified the key objectives of:
- Increasing the number of SMEs;
 - Shifting SME activity from trade to production;
 - Diversifying production;
 - Reducing the shadow economy;
 - Improving quality;
 - Increasing competition;
 - Developing the marzes.
56. In turn, these developments were expected to have profound social benefits, including job creation, increased purchasing power, reduction in migration away from the marzes, development of strong middle class, and strengthening of democracy.
57. In support of these objectives, it was envisaged that the legal and regulatory framework would be improved. The document goes so far as to say that the *paramount obligation of the Government is to provide favourable legal and regulatory framework for the normal development of businesses*. In particular, it recognised the impact of high tax rates and the heavy administrative burden of the tax system on SMEs.
58. As far as business finance was concerned, the Concept aimed to address the following problems:
- High interest rates;
 - Lack of medium and long term loans;
 - Lack of collateral;
 - Complicated loan application procedures;
 - Inadequate quality of business plans.
59. Of particular significance, the Concept envisaged the establishment of an SME Development Agency, with regional branches, to implement SME policy.

⁹ <http://www.smednc.am/download.php?f=337&fc=SME%20state%20policy%20Eng.pdf>

60. It was also envisaged that the Chamber of Commerce and Industry *together with its regional chambers of commerce and industry should become one of the main links conducting SME development policy and strategy in Armenia.*
61. The principles outlined in the Concept were enshrined in law by the Law On State Support of Small and Medium Entrepreneurship, which was signed by the President in December 2000. This listed the following areas of support for SMEs:
- *Formation of favorable legal environment;*
 - *Financial and investment support and provision of guarantees;*
 - *Assistance for creation and development of support infrastructures;*
 - *Business information and consultancy support;*
 - *Promotion of foreign economic activities;*
 - *Support for application of innovations and modern technologies;*
 - *Performance of favorable tax policy;*
 - *Vocational education and training;*
 - *Creation of simplified systems for statistic reports and accountancy;*
 - *Support for procedure for performance of state purchasing.*
62. In response to the global financial crisis, the Government launched an Anti Crisis Action Plan.¹⁰ In its November 2009 Summary Report on Progress and Status of the action plan, the Government noted that the following steps had been taken to support the SME sector:
- Reform and simplification of the tax system, including value added tax;
 - Simplification of customs procedures;
 - Simplification of establishment of a legal entity;
 - Development of a project to establish a techno-park in the town of Gyumri;
 - Establishment of the "Operative Staff" to review business proposals and determine the type and level of assistance to be provided to individual enterprises. Instruments include subsidies, loan guarantees, equity investments, and loans.
 - Additional funds to be channeled through banks and lending organisations for boosting exports, procuring and processing agricultural produce, air transport, fostering tourism, and for loans to consumers and buyers of cars and housing, and to SMEs;
 - Establishment of a lending entity under the direct control of the SMEDNC, with loan capital of approximately \$20 million for the provision of loans to SMEs. The rationale for the establishment of this entity is to *provide for higher efficiency in the lending process.*
63. Feedback from the Ministry of Economy indicates that, while the Government considers start up enterprises to be important, it is especially focussing on companies with export and/ or import substitution potential. Therefore, adaptation to international markets and standards is a high priority.
64. The introduction of new technology is particularly important, to improve the efficiency, and to meet quality and reliability standards demanded by international markets. In particular, the Government is currently negotiating a trade agreement with the European Union, and this will require Armenian exporters to meet high quality and safety standards.
65. In order to improve the competitiveness of small producers, the Government is encouraging them to establish formal groups that will support economies of scale, the

¹⁰ http://www.gov.am/u_files/file/home_files/hakachgnajamayin/AntiCrizProg-eng.pdf

achievement of common quality standards, and the marketing of their products under a single, recognised brand.

Overview of SMEDNC

66. The SMEDNC was established in 2002 to implement Government SME policy through annual SME State Support Programs.¹¹
67. The SMEDNC website states that the *Small and Medium Entrepreneurship Development National Center Fund (SME Development National Center of Armenia)* was established by Government of Armenia in 2002. *SME Development National Center is authorized to provide state support to small and medium entrepreneurship (SME) in the country. The support is provided through implementation of annual SME State Support Programs with resources allocated from State budget.*
68. The SMEDNC is governed by a Board of Trustees headed by the Minister of Economy. The website lists 13 members, including representatives of the Government and private sector representative organisations.
69. Its activities are implemented through a network of regional branches and representative offices in all of Armenia's marzes, and these are co-ordinated by the central office in Yerevan. At the time that Support to SME Development in Armenia was launched, in 2004, the SMEDNC had branches in just three marzes, Shirak, Tavush, and Syunik. It now has 10 branch offices (one in each marz) and 10 representative offices (in six of the marzes).
70. At its central office, the SMEDNC has a staff of 22.
71. The SMEDNC Fund's 2009 annual activity report lists the following objectives:
 - Ensuring a dialogue between SMEs and state;
 - Increasing efficiency and competitiveness of SMEs;
 - Ensuring availability of business development services for SMEs;
 - Expanding financial opportunities for SMEs;
 - Promoting innovations and R&D activities of SMEs;
 - Assistance to establishment of new SMEs;
 - Supporting internationalization of SMEs' activities.
72. Support is provided through technical and financial assistance.
73. Technical assistance:
 - Provision of information on all the aspects of doing business in Armenia;
 - Provision of business consulting and training;
 - Sales promotion;
 - Supporting Start-ups;
 - Supporting R&D activities.
74. Financial assistance:
 - Provision of loan guarantees;
 - Equity financing;
 - Seed capital;
 - Partial subsidising of credit interest rates.
75. Its services are provided mainly through specialised private companies selected by tender procedures. Services provided to SMEs are co-financed by the SMEDNC.

¹¹ <http://www.smednc.am/?laid=1&com=module&module=menu&id=265>

Current situation

The operating environment for SMEs in the marzes is challenging. There has been little progress in improving the enabling environment. There is limited access to credit, especially for businesses outside Yerevan. A significant proportion of all business activity in Armenia takes place in Yerevan, and there is therefore a lack of critical mass in the marzes. Businesses outside the capital have limited exposure to new trends and technology.

76. During the course of this evaluation, stakeholders highlighted several critical obstacles to the establishment and development of SMEs.

Enabling environment

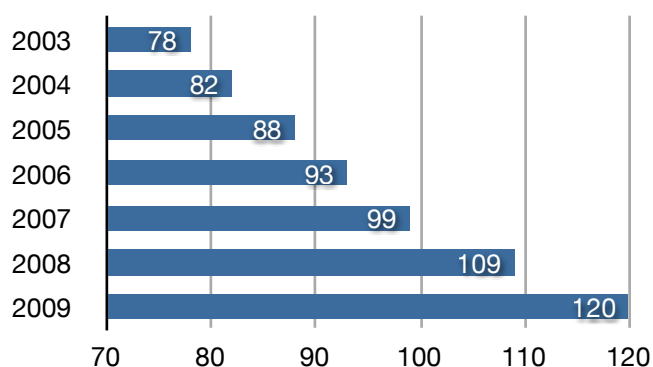
77. Despite some progress towards easing administrative and tax burdens, stakeholders indicate that the operating environment remains highly problematic. The Doing Business project¹² notes that, from 2009 to 2010, there have been significant improvements in Armenia's ranking with respect to starting a business and trading across borders. There have also been small improvements in Armenia's ranking with respect to dealing with construction permits and registering property. However, in several other areas, Armenia has slipped in the rankings. These areas include:

- Employing workers;
- Getting credit;
- Protecting investors;
- Paying taxes;
- Enforcing contracts.

78. As far as taxation is concerned, the system, as it is currently applied, is reported to be highly problematic.

79. Armenia's ranking in the Transparency International Corruption Perception Index has declined each year since 2003. The 2009 index¹³ ranks Armenia 120 out of 180 countries, alongside Bolivia, Ethiopia, Kazakhstan, Mongolia, and Vietnam, and just above Eritrea. This compares with a ranking of 78 in 2003, the first year in which Armenia was included. The website of the United Kingdom Department for International

Armenia Corruption Perception Index Ranking



Development notes that there are *major issues concerning poor governance, endemic corruption and lack of civil society access to the process of policy development*.¹⁴

80. There appear to be few, if any, substantive strategies at marz or municipal level to promote SME development.

Credit

81. There is continuing difficulty in accessing affordable credit.

- Interest rates for loans to small enterprises are as high as 24%;

¹² <http://www.doingbusiness.org/ExploreEconomies/?economyid=10>

¹³ http://www.transparency.org/policy_research/surveys_indices/cpi/2009

¹⁴ <http://www.dfid.gov.uk/Where-we-work/Europe/Armenia/>

- Outside Yerevan, there is almost no property market. This means that property outside Yerevan has no value as collateral. This situation is unlikely to change in the foreseeable future;
- Currently available instruments do not offer a grace period;
- The loan amounts are often not sufficient to meet investment needs.

Concentration of business in Yervan

82. A significant proportion of business activity is centred on Yerevan. This means that there is a lack of critical mass in the marzes upon which to build economic activity. The case of BSPs provides a good example. There are very few BSPs based outside the capital, and they struggle to survive.

Access to new technology and to market information

83. Stakeholders in the marzes indicated that they lack information about new technology. This is particularly important, since current systems and equipment in the marzes appear to be extremely basic and are unlikely to be able to provide services and products that can compete in Yerevan, let alone on international markets.
84. There is internet access in towns all over Armenia, although speeds and reliability are reported to be inconsistent. In more rural areas, the only means of accessing the internet is by means of the mobile telephone network. This is not available in all areas and is expensive.
85. Commodity market information is not available to SMEs in the marzes. This applies both to daily prices and to longer term strategic analysis. Thus, according to stakeholder feedback, there was over-production of potatoes in 2009, while in 2010 there is under-production and they are being imported from Georgia.

Activities of other donors and agencies in the sector

At present, there are few other sources of business start up and development support for micro and small enterprises in the marzes.

86. In the four marzes visited during the course of this evaluation,¹⁵ it was reported that, with the exception of the project evaluated here, there are currently no other projects being implemented in support of the same target group, namely micro and small enterprises, in particular, start up enterprises. Moreover, since early 2010, the SMEDNC has been unable to cost-share consultancy for SMEs.
87. The USAID¹⁶ CAPS project¹⁷ and the EBRD¹⁸ TAM/BAS programmes¹⁹ support SMEs throughout Armenia directly and indirectly. However, they tend to target larger enterprises, and direct support is provided only to enterprises that have been operational for some time (two years in the case of BAS).
88. USAID is in the process of tendering a new five year, \$22 million, programme that will focus on value rather than cluster development, which has been the approach of the CAPS project.

¹⁵ Lori, Shirak, Vayots Dzor, and Syunik.

¹⁶ United States Agency for International Development

¹⁷ http://www.caps.am/index.php?cat_id=192

¹⁸ European Bank for Reconstruction and Development

¹⁹ <http://www.ebrd.com/pages/workingwithus/tambas/where/armenia.shtml>

89. The GTZ²⁰ PROSME project,²¹ provided support to the SME sector from 1998 until early early 2010. In particular, it provided extensive capacity building support to the SMEDNC and its branches, and transferred various products. It introduced a highly systematic, integrated business start up programme, which was subsequently adopted by the UNDP project, Support to SME Development in Armenia (the subject of this evaluation). From early 2010, the activities of the PROSME project have been incorporated into GTZ's Municipal and Economic Development Programme, which focuses on two marzes, Tavush and Gegharkunik. Rather than focusing only on SMEs, GTZ's current approach emphasises the importance of all stakeholders in local economic development, including, for example, municipalities and banks. GTZ has continued to implement its business start up programme in these two marzes. Examples of other activities include a small pilot scheme to encourage lending by local banks, and a micro-franchise system that will start with IT clubs and will possibly be extended to other types of activity.
90. The OSCE²² has supported some activities in Syunik marz, but it is understood that this has been limited to the provision of finance to carry out activities, such as such as bed and breakfast (B&B) training, utilising existing methodology and structures.
91. It is understood that SDC plans to launch a new project in Syunik marz that will support start up enterprises run by women. In particular, the project will focus on focus on families involved in livestock production.

Findings

The project commenced in 2004. The total cost to date, excluding the revolving fund capital, is approximately \$2 million, of which the UNDP has provided 50%, and the Government, through the SMEDNC, the remaining 50%. All activities are implemented through the SMEDNC and its branch offices in the marzes. The UNDP, through its two staff in the SMEDNC, is responsible for all project-related procurement and contracting.

At the centre of the project, is the start up programme, which incorporates B&B cluster activities, and the revolving credit fund, which is accessible only to registered enterprises that have participated in the start up programme. Start up training is carried out by BSPs, mainly from Yerevan. Since 2006, 845 entrepreneurs, in all marzes, have participated in the programme. 212 have gone on to register business, and 103 are still in business as of late 2010. Since 2006, the revolving fund has disbursed 166 loans amounting to approximately \$621,000.

Other project activities include financial support to Armenia's participation in the Enterprise Europe Network, and promotion of the SMEDNC's activities in the media.

Objectives

92. The main aim of the project given in the project document, dated 2004, was to *create/reinforce SME support infrastructures*, especially in the regions of Armenia. Support was to be delivered through four components:
- Capacity building of SME DNC and it's regional branches, especially in Tavush and Syunik regions;
 - Introduction and development of business information and consulting services;

²⁰ Deutsche Gesellschaft für Technische Zusammenarbeit

²¹ <http://www.prosme.am/>

²² Organization for Security and Co-operation in Europe

- Business education and training. This had two sub-components: (a) SME business education and training, including start-up businesses, and (b) development of business service providers' qualifications and skills;
- SME support infrastructures.

93. The following table represents the consultant's understanding of the main envisaged activities, and expected outputs and outcomes of each component or sub-component, as stated or implied in the project document (see Annex 5).

	Capacity building of SMEDNC	Introduction of business information & consulting services	SME business education & training	Development of business service providers' qualifications and skills	SME support infrastructure
Expected outcomes	<ul style="list-style-type: none"> • Increased traffic through • Improved communication between central office and branches • Improved co-operation between SMEDNC branches • Improved skills and performance of SMEDNC branch staff 		<ul style="list-style-type: none"> • Increased SME awareness of current vocational and training programs • Increased demand for vocational courses • Increased price for vocational training courses • New businesses established • New jobs created • Enhanced business skills and knowledge 	<ul style="list-style-type: none"> • Improved BSP skills • BSPs are more flexible and focus more on issues that are most important for SMEs 	<ul style="list-style-type: none"> • Establishment of techno-park • Establishment of business incubator
Activities	<ul style="list-style-type: none"> • Train SMEDNC staff • Contract outside service provider to develop branch capacity • Clarify remit of SME DNC branch remits • Install quality management standards based on recognised principles • Create incentives conducive to enhanced intra-marz efficient performance 	<ul style="list-style-type: none"> • Development and implementation of investment and promotion programs • Assessment of SME needs for counselling services • Legal advice • Analysis of business performance of enterprises • Management and marketing advice • Accounting and financial management advice • Tax and customs advice • Advice on innovations, modern technology and protection of intellectual property rights • Other areas related to the promotion of goods and services in the market 	<ul style="list-style-type: none"> • SME DNC will cost-share the participation of SMEs in regular training courses regularly delivered by specialised companies • Raise awareness of SMEs for current vocational and training programs • Carry out an SME training needs assessment • Develop training modules and materials • Assist entrepreneurs to develop business concepts and plans • Training for SME's, including start-ups • Counselling for start-ups 	<ul style="list-style-type: none"> • Training of BSPs by USAID MEDI programme • Training of Trainers" for regional staff of the SMEDNC and BSPs 	
Outputs	<ul style="list-style-type: none"> • New offices established in Lori, Kotayk, & Aragatsotn • SMEDNC branch staff qualifications • Quality management system • Clear, documented SMEDNC branch office remit approved and applied 	<ul style="list-style-type: none"> • Investment promotion programmes • SME counselling needs assessment • Online manuals and guides • Online database • Company websites 	<ul style="list-style-type: none"> • SME training needs assessment • Training modules & materials • Business plans developed • Certified trainees 		
Regions	<ul style="list-style-type: none"> • Lori • Kotayk • Aragatsotn • Yerevan • Tavush • Syunik • Shirak • Gegharkunik 	<ul style="list-style-type: none"> • Lori • Kotayk • Aragatsotn • Yerevan • Tavush • Syunik • Shirak • Gegharkunik 	<ul style="list-style-type: none"> • Lori • Kotayk • Aragatsotn • Yerevan • Tavush • Syunik • Shirak • Gegharkunik 	<ul style="list-style-type: none"> • Lori • Kotayk • Aragatsotn • Yerevan • Tavush • Syunik • Shirak • Gegharkunik 	<ul style="list-style-type: none"> • Yerevan

94. The project results and resource framework and annual work plan included in the project document indicated a budget of approximately \$400,000 to be utilised over

three years (2004 - 2006). However, the project document gives no explicit project duration.

Activities

95. The UNDP describes the main activities of the project as the business start-up programme, development of the B&B cluster, provision of loans by the revolving credit fund, and ad-hoc capacity development for the SMEDNC.
96. The start up programme is delivered in the marzes by commercial BSPs from Yerevan. Organisation is undertaken by the SMEDNC's branch offices, and the UNDP is responsible for all contracting.
97. Project implementation commenced in 2004 and has continued up to the present (mid 2010). The progress report covering the first six months of 2010 indicates that it is expected to continue, at least until the end of 2010, if not beyond. The project covers all regions of Armenia.
98. According to annual project progress reports for the years 2005 to 2009, and the report covering the first six months of 2010, the total project budget from 2004 to 2010 has been approximately \$1.9 million, of which 49% was allocated by the UNDP, and 51% by SMEDNC. Actual expenditure up to 30 June 2010 amounts to approximately \$1.8 million, of which the UNDP has provided 49%, and SMEDNC 51%.

	Total			UNDP			SMEDNC		
	Budget	Actual	Actual as % of budget	Budget	Actual	Actual as % of budget	Budget	Actual	Actual as % of budget
2005	222,353	209,072	94%	106,100	106,048	100%	116,253	103,024	89%
2006	210,935	203,935	97%	87,317	80,317	92%	123,618	123,618	100%
2007	310,000	314,000	101%	155,000	155,000	100%	155,000	159,000	103%
2008	362,074	352,131	97%	181,430	173,094	95%	180,644	179,037	99%
2009	400,000	390,960	98%	200,000	191,276	96%	200,000	199,684	100%
2010	400,000	288,304	72%	200,000	149,458	75%	200,000	138,846	69%
Totals	1,905,362	1,758,402	92%	929,847	855,193	92%	975,515	903,209	93%

For 2010, the actual figure is for January to June only.

99. Annual progress reports group activities under the headings given in the table below. These headings have changed over time. The 2007 progress report lists the provision of SME financial support services as a separate activity heading, although this does not appear in subsequent reports. From 2008 onwards, there are three activity headings, as opposed to four in previous years. Cluster development and improvement of knowledge and business skills of start-up SMEs is introduced as a new heading, and are others are rearranged. Thus, relating annual activities to specific components given in the project document is somewhat problematic.

Year	Annual activities
2005	Activity 1. Support the capacity development and performance efficiency of SME DNC Activity 2. Support the delivery of business information and consulting services to SMEs at central and regional levels Activity 3. Support the improvement of knowledge and business skills of SMEs Activity 4. Support the research of the opportunities for SME support infrastructures establishment and development

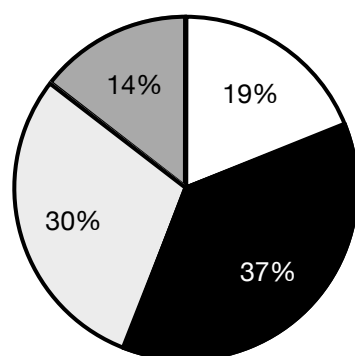
Year	Annual activities
2006	Activity 1. Support the capacity development and performance efficiency of SME DNC Activity 2. Support the delivery of business information and consulting services to SMEs at central and regional levels Activity 3. Support the improvement of knowledge and business skills of SMEs Activity 4. Support the research of the opportunities for SME support infrastructures establishment and development
2007	Activity 1. Provide financial support services to SMEs at central and regional levels Activity 2. Improve knowledge and business skills of start-up SMEs, particularly in the regions Activity 3. Provide information and consulting services to the SMEs at central and regional levels Activity 4. Strengthen the capacity of the SME DNC of Armenia and development of SME support infrastructure
2008-2010	Activity 1. Development of SME support mechanisms and strengthening the capacity of SME DNC Activity 2. Cluster development and improvement of knowledge and business skills of start-up SMEs Activity 3. Provide information, consulting and promotional services to the SMEs at central and regional level

100. The total budget for the years 2008 to 2010 is indicated in the following table. During these three years, of the total \$1,206,913 budget, the UNDP has contributed approximately \$581,000 (48% of the total), with SMEDNC contributing the remainder.

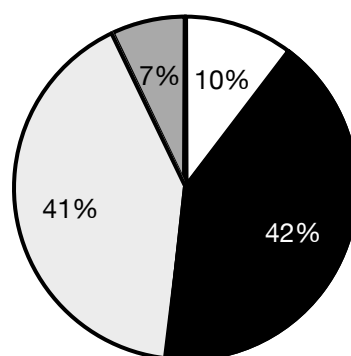
Budget 2008-2010 (USD)	SMEDNC	UNDP	Total
Development of SME support mechanisms and strengthening the capacity of SME DNC	64,516	164,000	228,516
Cluster development and improvement of knowledge and business skills of start-up SMEs	259,730	186,500	446,230
Provide information, consulting and promotional services to the SMEs at central and regional level	257,237	100,000	357,237
Project Implementation/monitoring/ evaluation	44,000	130,930	174,930
	625,483	581,430	1,206,913

101. The following charts indicate the division of the budget between these activity groups for the years 2008 to 2010, for the entire project, and for the SMEDNC and UNDP individually.

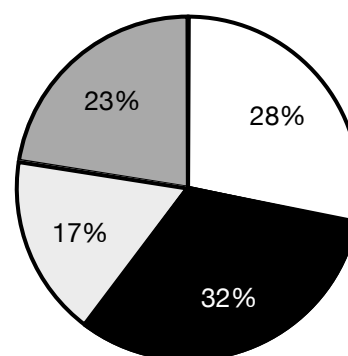
Total budget 2008-2010



SMEDNC budget 2008-2010



UNDP budget 2008-2010



- Development of SME support mechanisms and strengthening the capacity of SME DNC
- Cluster development and improvement of knowledge and business skills of start-up SMEs
- Provide information, consulting and promotional services to the SMEs at central and regional level
- Project Implementation/monitoring/ evaluation

102. Thus, overall, 19% of the budget has been allocated to development of SME support mechanisms and strengthening the capacity of SME DNC, 37% to cluster development and improvement of knowledge and business skills of start-up SMEs (including the start-up programme, the revolving fund, and B&B cluster development), and 30% to provision of information, consulting and promotional services to the SMEs at central and regional level. It can be seen from these charts that the SMEDNC and UNDP have allocated different percentages of their budgets to these respective activities.
103. The following table indicates references to key activities in the progress reports. Business start-up programmes have been implemented in all years since 2005. From 2006 onwards, loans have been made from the revolving fund. And from 2008, these two activities have focused primarily on the development of B&B enterprises.
104. There are few references to real capacity development of either the SMEDNC, or business support organisations. Progress reports state that the project *has delivered technical assistance to SME DNC at central and regional levels in the form of provision of necessary technical equipment and premises*.
105. Activities relating to support infrastructure are mentioned in several progress reports, but, with the exception of 2005, these references appear to relate to the provision of consultancy services to specific companies, rather than to the development of the support infrastructure itself.

Year	Business start up programmes	Financial instruments	B&B cluster	SMEDNC training/ capacity development	BSP training/ capacity development	Support infrastructure
2005	X					X
2006	X	X				
2007	X	X				
2008	X	XX	X	X		
2009	X	XX	X			
2010	X	X	X			

Outputs

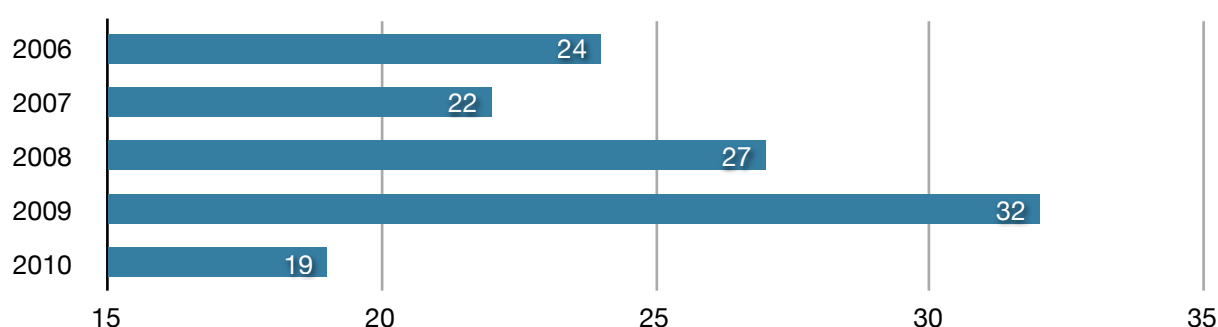
106. In practise, the main outputs are:
- The number of entrepreneurs who have participated in the start up programme;
 - The number of B&Bs (new and already operational) that have participated in B&B cluster activities;
 - The number and amount of loans that have been provided by the revolving fund.
107. Other outputs include regular television programmes promoting the work of the SMEDNC, and various publications produced for the SMEDNC.

Start up programme

108. Overall, 845 entrepreneurs have participated in the start up programme since 2006. 25% (212) of these have subsequently registered businesses, and 150 (71%) are still active. In all, some 284 new jobs have been created.²⁴

Start up programme						
Years	2006	2007	2008	2009	2010	Total
Number of participants	131	201	200	195	118	845
Number of registered businesses	31	44	53	62	22	212
Number of start-ups that received financial support	20	28	41	63	15	167
Number of registered businesses currently active	18	23	38	49	22	150
Number of currently active start-ups that received financial support	13	11	25	40	14	103
New jobs	40	55	65	98	26	284

% of start up programme participants registering businesses



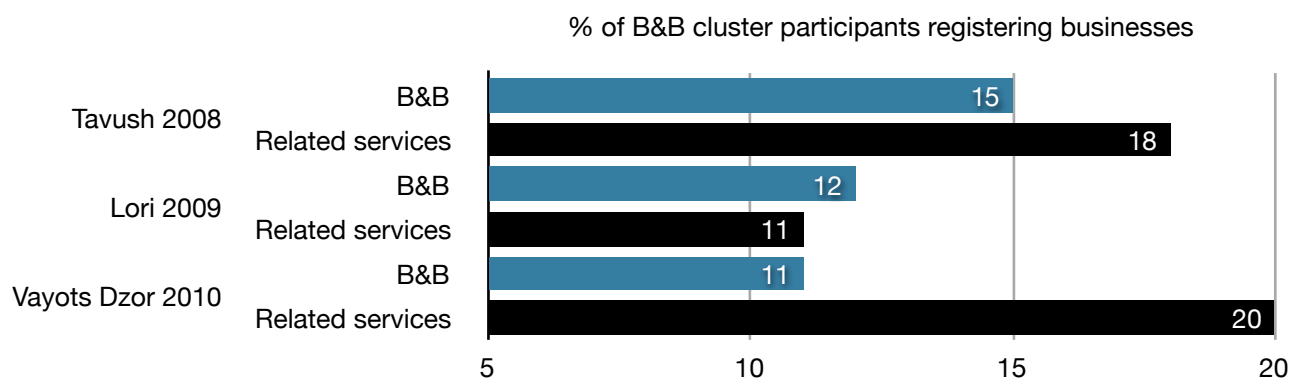
B&B cluster

109. In all, there have been 188 participants in B&B cluster activities. This includes 51 related service providers, such as cafes and restaurants.

	Tavush marz 2008	Lori marz 2009	Vayots Dzor marz 2010	Total
Total number of participants	64	53	71	188
of which:				
Start-up and operating B&Bs	47	34	56	137
Start-up and operating related services providers	17	19	15	51
Registered SMEs, of which:	10	6	9	25
- B&Bs	7	4	6	17
- Related services	3	2	3	8
Qualified B&Bs or those in the process of qualification	7	4	4	15

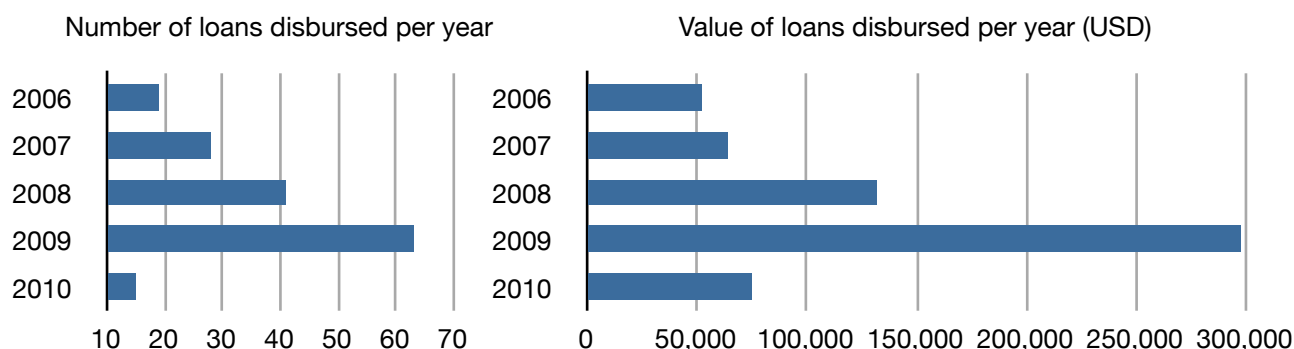
110. 12% of B&B participants, and 16% of related-services participants (e.g. cafes and restaurants) registered businesses.

²³ It is unclear, however, if the number of new jobs applies to the 212 businesses that registered, or to the 150 that are still active. If it is the former, then the number of jobs remaining is likely to be somewhat less than 284. On the other hand, some businesses have expanded and this is likely, to some extent, to counterbalance job losses caused by registered businesses going out of business.

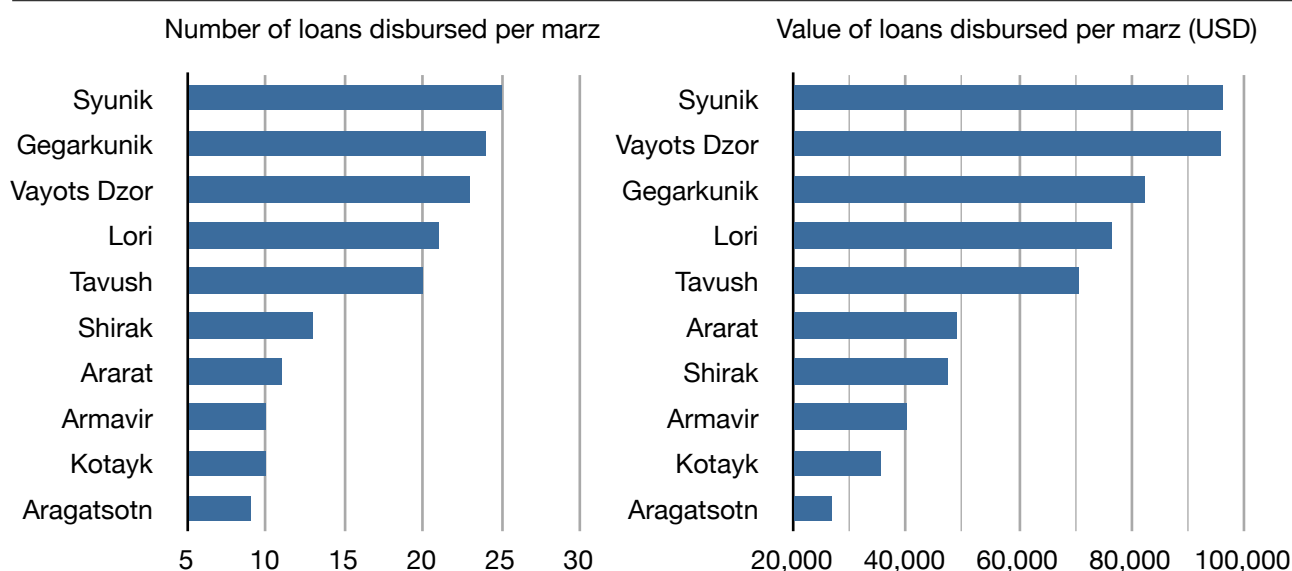


Revolving fund

111. From 2006 until September 2010, the revolving fund has disbursed 166 loans amounting to approximately \$621,000.²⁴ The number of loans varies from 25 in Syunik to nine in Aragatsotn. The value of loans disbursed ranges from \$96,000 in Syunik to \$27,000 in Aragatsotn. Significantly more loans were disbursed in 2009 than in any previous year (number of loans and value). The number and value of loans disbursed in 2010 so far (up to September 2010) is approximately 25% of the number and value for all of 2009.



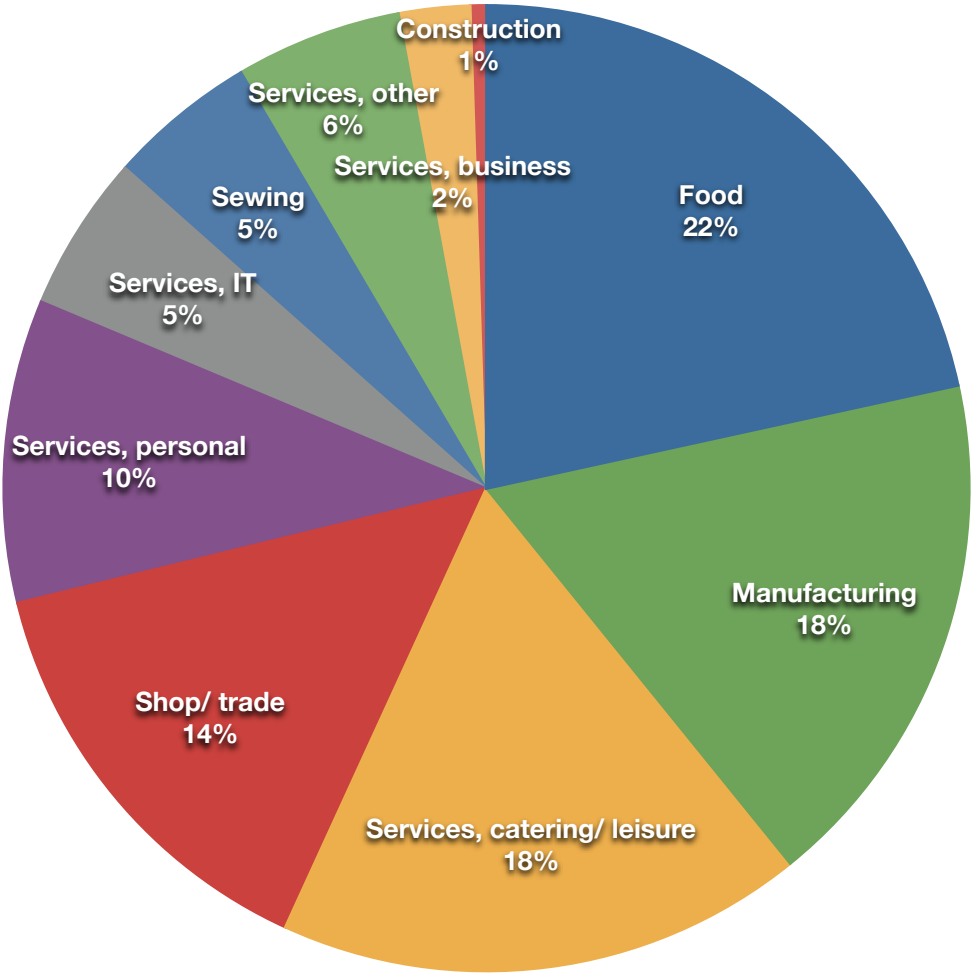
²⁴ The loan amounts are recorded in Armenian Drams (AMD). For simplicity and ease of understanding, they have been converted to US\$ using the exchange rate of AMD 359.62458 per US\$ (the exchange rate on 08 October 2010).



112. The maximum loan size in 2006 and 2007 was approximately \$3,000. From 2008 onwards, the maximum loan size increased to approximately \$6,500. The minimum loan size is approximately \$1,000. The average loan size has increased each year, from approximately \$2,700 in 2006, to \$5,000 in 2010.
113. Approximately 22% of loans (by value) have been provided for food production and processing, including 15 bakeries. Food production covers mainly fish, rabbits, poultry, and mushrooms.
114. Manufacturing and catering and leisure services each account for 18% of loans (by value). Manufacturing includes wood processing, furniture, chemicals, ceramics, and metal fabrication. Catering and leisure services include restaurants, cafes, one hotel, 14 B&Bs, travel and tourism services, and venue hire.
115. Various kinds of shops and trading enterprises account for 14% of loans. These trade mainly in non-food products. Several pharmacies and agricultural suppliers are included in this group.
116. Personal services includes mainly dental clinics, beauty salons, and various wedding-related services. This category accounts for 10% of loans.²⁵
117. Sewing, which includes the production and repair of clothing, curtains, bedding, etc., accounts for 5% of loans.

²⁵ Somewhat curiously, one loan was apparently provided for a beauty salon/ furniture production enterprise.

Value of loans disbursed by business type



Conclusions

Relevance

The start up programme, including the revolving credit fund and B&B cluster activities, is highly relevant. It supports the establishment and growth of micro and small enterprises in the marzes. It helps to generate income and create new jobs in economically depressed regions, and thus helps to limit migration away from the se regions. While women and youth are not specifically targeted, it is evident that these groups are benefiting. The project is delivered through existing structures and thus helps to further develop and reinforce them.

However, overall, the project lacks clear strategic direction and objectives. The budget, which is not large, is fragmented and it is difficult to justify UNDP funding activities (accounting for a significant proportion of the budget), such as support to Armenia's participation in the Enterprise Europe Network, and promotion of the SMEDNC's activities in the media.

Design

118. There is no clear definition of the project. The project document does not clearly describe expected outcomes, activities, and outputs, and it is difficult to relate this document with any precision to the activities that have subsequently been implemented. It is evident that some of what was envisaged in the project document has been undertaken by other agencies. The document gives no indication of duration, suggesting an open-ended financial commitment to the SMEDNC. The UNDP recognises the weakness of the original project document but it has not been updated due to the limited possibility for any strategic planning: the level of government co-financing is confirmed on an annual basis, and usually towards the end of the preceding year. Thus there are annual work plans, but there is no up to date strategy to guide these plans.
119. Before to 2008, there appears to have been a lack of consistency consistency in the project structure, as described in annual reports. From 2008 onwards, there is more consistency, but the budget, and thus also activities, are fragmented.
120. Two UNDP staff have worked full-time at the SMEDNC since 2004 or 2005, and one of these had held a senior position at the SMEDNC before joining the project at its inception. Staff costs, to which the SMEDNC has made no contribution, account for 20% of the UNDP's project budget for the years 2008-2010.
121. Approximately 10% of the UNDPs budget for these three years have been allocated to SMEDNC public relations activities.²⁶ In 2010, 13% of its budget has been allocated to this, which is more than the SMEDNC has allocated, both in terms of the actual amount and the percentage of its budget. UNDP's contribution to SMEDNC's public relations activities would be easier to justify, had it benefited from these activities itself. However, it is generally accepted that the UNDP's visibility with respect to this project has not been optimal. This appears to be due, at least in part, to the insistence of the previous SMEDNC director that the two UNDP staff be fully integrated into the SMEDNC to the extent that even their business cards give little indication of the fact that they are actually UNDP staff.

²⁶ "PR campaign on SME DNC activity (development and broadcasting of TV programs on the regular basis throughout the year)".

122. Enterprise Europe Network participation accounts for 8% of the total project budget for the years 2009 and 2010 (\$62,000). The UNDP contributed 74% of this amount (\$46,000), which is 12% of its entire project budget for these two years. Participation in this network is relevant to Armenia in its drive to promote exports and international partnerships. However, it does not address the needs of real target group of UNDP's support, which are micro enterprises in the marzes catering to the requirements of the local population.
123. 11% of the UNDP's project budget for 2008, 2009, and 2010 has been allocated to SMEDNC capacity building. The \$13,000 allocated in 2008 is clearly intended for staff training. However, the purpose of the \$50,000 allocated (in total) in the two subsequent years is unclear, and stakeholder feedback indicates that this has been used, at least in part, to cover the cost of SMEDNC equipment and facilities.
124. Overall, it could be argued that UNDP has provided support to the SMEDNC in the form of annual contributions to its regular operating costs, rather than in the form of a project with specific objectives and duration. There is a risk that some UNDP support to the SMEDNC could be viewed as capacity substitution, rather than capacity development.²⁷
125. It is important to note, however, that the UNDP has chosen deliver support to SMEs through existing structures. In doing so, it has avoided the introduction of parallel structures and systems, and is reinforcing and further developing existing structures and systems.

Relevance of start up programme

126. The start up programme represents the core of the project. This includes the B&B cluster development and the revolving credit fund. The programme is highly relevant, as it targets micro-enterprises, in particular start up enterprises, in the marzes (i.e. outside Yerevan). It therefore addresses the widely recognised needs (a) to reduce disparities between the marzes and Yerevan, (b) to create employment and business opportunities for the poor, socially disadvantaged, women, and youth, and (c) to increase business knowledge and skills. These priorities are reflected in key United Nations (UN) and UNDP documents, such as the UNDAF, the Country Programme Document, and the Country Programme Assistance Plan for the years 2005-2009, and 2010-2015 respectively.
127. The relevance of the start up programme is strengthened by the fact that, according to stakeholder feedback, there are currently few, if any, other sources of support for this target group. Feedback indicates that, with the exception of support to small scale agricultural producers, there has been limited support for the creation and development of small enterprises in the marzes in the past two to three years.

²⁷ See, for example, the UNDP's Practice Note Capacity Development During Periods of Transition. This highlights the risk of providing consultants to perform line functions. In the case of the SMEDNC, it is UNDP staff, rather than external consultants that could be seen in this light. The Practice Note goes on to say that *...if no clear exit strategy is envisaged, substitution may actually reduce pressure on governments to enact needed longer term reforms that underpin a more sustainable development agenda and achievement of long term goals.* <http://lencd.com/data/docs/239-UNDP%20Practice%20Note%20on%20Capacity%20Development%20during%20Period.pdf>

128. The revolving credit fund addresses the acute lack of access to credit for small enterprises that have come through the start up programme. It offers small loans at 12%-13% per annum for up to three years, without the need for collateral. In response to stakeholder feedback, it is now planned to introduce a six-month grace period and to increase the maximum loan size. The revolving fund is considered by all interviewed stakeholders as being of vital importance, and some consider it to be the most important contribution of the UNDP to the development of the SME sector.
129. B&B cluster activities are highly relevant, as tourism and leisure offers the best potential for boosting local economies outside Yerevan with income from both foreign and domestic visitors. Tourism currently revolves primarily around a relatively small number of historical monuments (churches) that attract visitors from all over the world. However, it is understood that international visitors tend to return to Yerevan at night due to the lack of suitable accommodation in other parts of the country. One stakeholder indicated that up to 80% of tourism income remains in Yerevan, despite the fact that tourists visit sites all over the country.
130. Besides historical monuments, other aspects of Armenia's considerable tourism and leisure potential remains untapped. For example, Armenia's largely attractive and quiet landscape and favourable climate, offer numerous possibilities for outdoor pursuits.
131. While the start up programme is highly relevant, it accounts for a relatively small part of the project budget, and a small part of the UNDP's contribution. For the years 2009 and 2010, the start up programme (excluding the revolving credit fund) accounts for approximately 20% of the UNDP's contribution, and 26% of the project budget overall (including the Government's contribution). The capital of the revolving fund currently stands at approximately \$500,000. Of this, the UNDP has contributed approximately \$30,000.

Relevance of other activities

132. For the years 2008-2010, SMEDNC promotional activities have accounted for 13% of the project budget, and 9% of the UNDP's contribution. Promotion in the media is important for the SMEDNC. However, this is a general overhead cost that should be covered by the SMEDNC itself. Contributions to overhead costs may be justified for an agreed period, where these are critical to the functioning of the target institution. However, it is unlikely that the production of promotional television programmes, for example, falls into this category.
133. Armenia's participation in the Enterprise Europe Network is also covered by the project. This has accounted for 8% of the total budget in 2008 and 2009, and 12% of the UNDP's contribution. In 2010, the SMEDNC has made no contribution to this, while the UNDP has allocated 13% of its budget to this. Participation in the Network is in line with Armenia's drive to increase exports, and to upgrade technology, through increased partnership with enterprises from other member countries. However, this is of little, if any immediate relevance to micro and small enterprises in the marzes, which are the target group for the the start up programme.

Effectiveness, impact, and efficiency

The start up programme, including the revolving credit fund and the B&B cluster activities, has been instrumental in the establishment of 212 micro and small enterprises in all marzes of Armenia since 2006, of which 103 are still in business. These businesses have created 284 new jobs and

their combined turnover since 2006 is estimated at \$2.5 million. The revolving fund provides micro and small enterprises with access to affordable credit, which is not otherwise available. Delivery of the programme through the SMEDNC has helped to develop its capacity and enhance its profile in the marzes. However, there has been little engagement with marz and municipal authorities, and this is likely to have constrained effectiveness and impact of the start up programme. Also, a significant proportion of the project budget has been allocated to activities, such as media promotion and membership in the Enterprise Europe Network, that are not directly relevant to the main target group, namely micro and small enterprises in the marzes.

Start up programme

134. Participants of the programme (including B&B cluster activities) almost all indicated that the programme had helped to develop their business ideas and planning and management skills. This view was expressed even by those with previous business experience. In a small number of cases, participants indicated that they had participated in the programme simply to obtain a loan.²⁸ Even in these cases, there was some suggestion learning.
135. Participation in the start up programme provides opportunities for networking with other local small businesses. It also provides access to business consultants from Yerevan. This is important, because much of Armenia's economic activity is concentrated in the capital, while business in the marzes, especially those furthest from Yerevan, are somewhat isolated, and several indicated the need for more information about new ideas and technology.
136. As mentioned above, the start up programme has led to the registration of 212 new businesses across the country since 2006, of which 103 are still active. 284 new jobs have been created. 166 small loans amounting to \$620,000 have been disbursed.
137. This has been achieved with a total investment of approximately \$2.5 since 2005, including both Government and UNDP contributions (including the capital of the revolving fund).
138. This results in an internal rate of return (IRR) of 5%, taking into account only those businesses that are still active, and assuming an average annual turnover per business of \$8,000, and that businesses were active for approximately six months in their first year of operation. The IRR is reduced to 0% if the average annual turnover is adjusted to \$7,500. Thus IRR is highly sensitive to average annual business turnover.²⁹
139. This calculation does not attempt to place any value on "soft" outcomes, such as the impact of project activities on the capacity of the SMEDNC, its branches, and its staff. Inclusion of some valuation of the "soft" benefits would, of course, increase the IRR.

	Total	2005	2006	2007	2008	2009	2010
Turnover	2,515,213		72,000	236,000	480,000	681,147	1046066
Project budget	1,870,098	209,072	203,935	314,000	352,131	390,960	400,000
Revolving fund capital introduced	500,000		100,000	100,000	150,000	150,000	
Net cash flow	145,115	-209,072	-231,935	-178,000	-22,131	140,187	646,066
IRR	5%						

²⁸ Access to the revolving credit fund is restricted to participants of the start up programme.

²⁹ The timing of capital inflows into the revolving fund shown here is an estimation. Changes in the timing will affect the IRR.

140. As mentioned above, a significant proportion of the project budget is used for activities that do not contribute directly to the start up programme. Excluding these costs from the calculations (e.g. Enterprise Europe Network activities) will increase the IRR of the start up programme. This implies that the same results could have been achieved with a lower overall investment, or conversely, that the start up programme could have been more effective if more or all of the budget had been focussed exclusively on this.
141. The revolving fund has not only helped micro enterprises, but it is also helping to establish commercial lending to a sector of the economy that is currently not well served by banks.
142. The B&B cluster activities are reported to have been beneficial, but it is evident that this element of the start up programme could have been more effective. In particular, the marketing centres are not functioning properly and are therefore not referring clients to B&Bs as intended. This appears to be due to the fact this activity is not the highest priority for the entrepreneurs designated as marketing centres. In one such case (and possibly also in others) the marketing centre is itself a B&B, which suggest the possibility of a conflict of interest. In at least there is no website, and the evaluator was informed that this would not be available until 2011. This is hard to comprehend, given the availability of easy to use tools for quick website creation. The B&B cluster is one area where some international expert input might have added significant value to the project.
143. By delivering the start up programme through the SMEDNC's branch offices, the project has helped to develop their capacity. The establishment of several branch offices was supported by project activities. Continuous UNDP support to the SMEDNC over a number of years has helped to maintain the profile of the SMEDNC in the marzes. In particular, it has helped the SMEDNC to support micro and small enterprises in the marzes. These are not supported to any significant extent by other SMEDNC instruments and activities, which tend to focus on larger businesses (e.g. through the loan guarantee scheme, or the Enterprise Europe Network).
144. An example of the importance of UNDP support is provided the withdrawal, in early 2010, of SMEDNC funding for the cost-sharing of consultancy for SMEs. This is likely to have a negative impact on both SMEs and BSPs.

Enabling environment

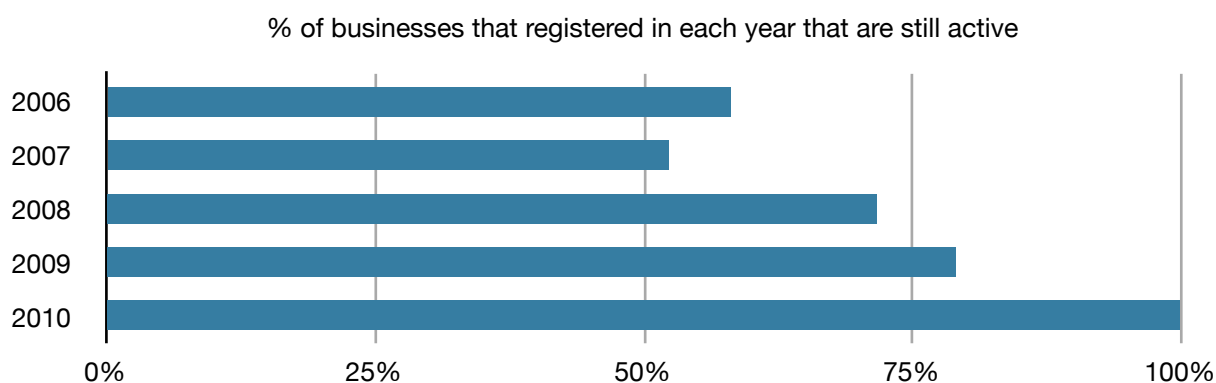
145. As mentioned above, the enabling environment remains highly problematic, and this has no doubt constrained the effectiveness and impact of the project. Given that the SMEDNC is a Government funded agency reporting to the Ministry of Economy, it would not be unreasonable to expect some progress in this area. However, stakeholder feedback does not support this.
146. Stakeholder feedback suggests that there are few, if any, substantive economic development strategies at marz or municipal level, and there appears to be little effective engagement between the project on the one hand, and marz and municipal authorities on the other hand. Local economic development efforts would be more effective if local authorities are better engaged in the process.³⁰

³⁰ It is not suggested, however, that local or regional authorities should have any direct involvement in project management, for example in the selection of businesses that receive technical and financial support.

Sustainability

The survival rate of businesses participating in the start up programme is good. The revolving fund has a very high repayment rate and it is now able to increase the number and size of loans using interest income. However, it is unclear to what extent the start-up programme can be continued without long-term financial support from the UNDP or other international agencies.

147. Overall, 71% of the businesses that registered as a result of participating in the start up programme are still active. Moreover, 30% of currently active businesses did not receive a start up loan. Thus the sustainability of enterprises participating in the programme is good, especially taking into account the difficult operating environment.



148. The SMEDNC and the UNDP report that the revolving credit fund has a repayment rate of almost 100%. This is no doubt largely attributable to the quality of the business ideas that are developed during the start up programme, and to the effectiveness of the screening process. Stakeholder feedback also indicates a highly developed sense of responsibility amongst borrowers and their communities. In one case, a loan was repaid by relatives after the borrower died. In another case, the borrower repaid the loan after going out of business.

149. The SMEDNC's branch offices are now well-established and have several years' experience of implementing the start up programme and, in three marzes, B&B cluster activities. It is understood that there is little staff turnover at branch and representative offices.

150. The director of the SMEDNC and two assistant directors recently left to work in the private sector. This is reportedly due, at least in part, to continuing uncertainty over the Government's funding of the SMEDNC. In 2010, the funding has been significantly reduced and the SMEDNC is covering its costs largely from income derived from its loan guarantee scheme and related activities.

151. One direct result of reduced Government funding is that, since early 2010, the SMEDNC has been unable to cost-share consultancy for SMEs. As a result, BSPs and some SMEDNC branch offices report that there has been little consultancy provision to small and micro enterprises in the marzes. Lack of access to such consultancy could undermine the sustainability and growth prospects of new and growing small enterprises.

152. This also suggests that, without continuous financial support from the UNDP or other agencies, the sustainability of the start up programme itself could be at risk. This could be seen as a justification for continuing UNDP financial support to the SMEDNC on the current basis. However, it could also be argued that long-term financial support simply

to ensure the continuity of well established activities does not adequately leverage the UNDP's considerable development experience and networks.

Good practise and lessons learned

Good practise

153. UNDP support is delivered through existing structures, which have been strengthened as a result. At the same time, duplication has been avoided.
154. The start up programme is based on a proven methodology, which has been modified to meet the specific requirements of the project. Thus, funding has not been used to "reinvent the wheel".
155. The linkage between the start up programme and the revolving credit fund helps to ensure that good business ideas have access to funding. Conversely, it ensures that those businesses receiving loans are well prepared and supported, and have been closely observed over a number of months. This has contributed to the revolving fund's high rate of repayment.

Lessons learned

156. There has been a lack of engagement with key stakeholders at marz and municipal levels. This is likely to have constrained the effectiveness and impact of the project.
157. The project has made limited use of the UNDP's extensive international experience, expertise, and networks in the area of local economic development. In particular, the project has relied exclusively on Armenian consultants. This has helped to minimise project costs and to develop the capacity of Armenian consultants. However, given that Armenia is an isolated country, access to the UNDP's international experience and expertise would likely have been beneficial to the project.

General recommendations

158. In view of the success of the start up programme, it is recommended that the SMEDNC continues to implement it.
159. The revolving credit fund addresses the critical lack of access to affordable credit for micro and small enterprises, and it is considered by some stakeholders to be the area where the project has added most value. However, it is currently only open to businesses that have participated successfully in the start up programme. In order to extend the reach of the fund, while maintaining the quality of new loan applicants, it is recommended that consideration be given to the possibility of inviting other donors to contribute capital, and at the same time giving beneficiaries of their support activities access to loans from the fund. Organisations that could be approached might, for example, include: GTZ, which implements business start up activities in two marzes; and SDC, which is preparing a project to support business women in Syunik marz.
160. While the project supports micro and small enterprises, the need for parallel improvement of the local operating environment is not addressed by this or other projects in the four marzes that were visited. It is recommended that the UNDP and the SMEDNC explore possibilities for enhanced engagement of marz and municipal stakeholders in local economic development with a view to enhancing the effectiveness

and impact of activities in support of the establishment and growth of micro and small enterprises.

161. It is recommended that, in future, the UNDP's extensive international experience, expertise, and networks in the area of SME and local economic development be more effectively leveraged. This is not to suggest that international consultants can or should replace Armenian experts. Rather, the introduction of targeted international expertise should act as a catalyst and as a link to wider networks. This is particularly important in view of Armenia's somewhat isolated situation at present. In order to limit the expense, consideration should be given to utilising the services of UN volunteers, and seeking cooperation with organisations such as Senior Experten Service,³¹ PUM Netherlands,³² CESO/SACO³³ and other similar organisations.³⁴
162. B&B marketing centres are not working effectively, with the result that they are not referring customers to B&B enterprises. At least in one case, the marketing centre is a B&B and this presents a potential conflict of interest. It is recommended that the B&B cluster model be reviewed. Consideration should be given to transferring the function of marketing centres to organisations such as local tourism offices, which might also act as independent quality controllers.
163. The project document has not been updated since 2004. It is unclear in many respects, and is not a useful strategic management tool. In order to maintain a clear strategic overview, it is recommended that key strategic project planning documents are reviewed from time to time and updated as necessary to enhance clarity and to take account of changes in the project purpose and environment.
164. In order to avoid open-ended financial commitments to any institution, and to promote financial ownership and sustainability, It is recommended that future UNDP projects in support of SME and local economic development have clearer objectives and incorporate a clearly specified project duration and expiration date. There should also be a clearly defined exit/ handover strategy and timetable. Independent or peer ex-ante review of strategic project documents could help in this respect.
165. The project budget is somewhat fragmented, and part of the UNDP's financial contribution has been utilised for purposes that are not directly relevant to the core target group, namely micro and small enterprises. In order to maximise the effectiveness and impact of limited UNDP funding, it is recommended that, in future, the UNDP's financial contribution to SME and local economic development activities be focused more on activities that are directly relevant to the target group(s).

Recommendation for future support

Further details are provided in Annex 4.

166. The main purpose of this evaluation, as stated in the terms of reference, is *to define further directions of work for the SME development in Armenia building on the past experience and lessons learned*.

³¹ <http://www.ses-bonn.de/en/about-us.html>

³² [https://www.pum.nl/iPublish/iPublishContent.nsf/\\$\\$Homepage?login&Language=EN](https://www.pum.nl/iPublish/iPublishContent.nsf/$$Homepage?login&Language=EN)

³³ <http://www.ceso-saco.com/Home.aspx>

³⁴ For example, the Confederation of European Senior Expert Services has 25 member organisations. <http://www.ceses.net/Pages/Member.html>

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167. The core elements of the current project are delivering worthwhile results. Nevertheless, the impact of limited UNDP funding could be greater in future with some adjustments to its approach.
 168. It is recommended that future support focus on local economic development, rather than only on enterprise development. This will help to ensure that all relevant actors are involved, including marz and municipal authorities. Future support could be concentrated on tourism and leisure, which offer considerable potential for generating income in the marzes from Armenian and foreign visitors. The project should aim to diversify the tourism market by making better use of natural assets, such as landscape and climate.
 169. The project should involve not only catering and accommodation enterprises, but any regional or local enterprises and other organisations that contribute (or should contribute) to regional and local tourism and leisure infrastructure and services. The project should also engage with actors at national and international levels, such as tour operators.
 170. At least initially, the project should focus on one or two marzes that offer the best possibility for effective engagement of key marz and municipal actors, and other relevant stakeholders.
 171. Possible areas for technical support include: general business skills; energy efficiency and renewable energy; product and service quality; and environmental protection.

Annexes

Annex 1. Terms of reference

United Nations Development Programme



TERMS OF REFERENCE

Job Title: International expert for SME Project Evaluation

Duration: 25 consultancy days within two months period

Starting Date: June 2010

Duty Station: Yerevan, Armenia

Background:

"Support to SME Development in Armenia" project (hereafter "the project") was initiated in 2004 in the framework of Socio-economic Governance portfolio. In the frames of UNDP Armenia Country Programme 2005-2009 it was contributing to the Outcome 2. Innovative income generating schemes and mechanisms are introduced. Project output as per CP was "Support services for small and medium enterprises are introduced at regional and local levels" till end 2009. In the frames of new Country programme 2010-2015 the project contributes to the CP Outcome 1.1 National policies, strategies and programmes reduce disparities between regions and specific vulnerable groups and supports CP Output 1.1.3 "Regulatory framework and mechanisms/enabling environment to revitalize SME(s) strengthened".

Key areas of project interventions are: (1) provision of business information and consultancy to SMEs (start-ups); (2) provision of business education and training to SMEs; (3) development of SME support mechanisms; (4) capacity development of SME DNC (SME Development National Center).

Geographically project covers all regions of Armenia.

Thus the project has six years of life and it is time to evaluate the changes in the socioeconomic situation of the country, particularly in the SME sector and UNDP contribution to those changes. The evaluation will be used both by the national partners to better see where we stand now and understand further actions required and for the UNDP to define possible niches for contribution.

Objective:

The main purpose of the evaluation is to define further directions of work for the SME development in Armenia building on the past experience and lessons learned.

The evaluation will focus on the following criteria: effectiveness, efficiency and sustainability, with a particular focus on effectiveness. Thus the evaluation objectives are:

- to measure the change in the mentioned output and its contribution to the overall outcome;
- to measure project contribution to the changes in the SME situation in Armenia;
- to attribute observed changes to the project interventions;
- to measure how inputs are converted to results;
- to measure effectiveness of developed sustainability mechanisms (if any);
- to define lessons learned and recommendations based on the observations;
- to translate lessons learned and recommendation into a project concept for future.

Duties and Responsibilities:

Under the overall guidance of the UNDP DRR, direct supervision of the Socioeconomic Governance Portfolio Analyst in close cooperation with the Monitoring and Evaluation Specialist the consultant will perform the following duties and responsibilities:

1. Develop detailed methodology and instruments for the evaluation and corresponding workplan;
2. Review and analyze all the materials on the socioeconomic situation in Armenia and particularly the issues of SME development, as well as project related documents provided by the M&E Specialist;
3. Interview and analyze the inputs of the project stakeholders, including direct beneficiaries;
4. Based on findings develop conclusions and recommendation on project effectiveness, cost-efficiency and sustainability;
5. Make a presentation of preliminary results of the evaluation;
6. Draft the evaluation report and a project proposal based on the findings;
7. Incorporate received comments and finalize both the report and the proposal;
8. Submit final evaluation report and project proposal.

Expected Outputs

The following products are expected from the evaluator (minimum package):

- **Detailed evaluation methodology, workplan and required instruments to be used during the evaluation**
- **Evaluation inception report**—An inception report should be prepared by the evaluators before going into the full fledged evaluation exercise. It should detail the evaluators' understanding of what is being evaluated and why, showing how each evaluation question will be answered by way of: proposed methods; proposed sources of data; and data collection procedures. The inception report should include a proposed schedule of tasks, activities and deliverables, designating a team member with the lead responsibility for each task or product. The inception report provides the programme unit and the evaluators with an opportunity to verify that they share the same understanding about the evaluation and clarify any misunderstanding at the outset.
- **Draft evaluation report**—The programme unit and key stakeholders in the evaluation should review the draft evaluation report to ensure that the evaluation meets the required quality criteria (see Annex 7).
- **Final evaluation report** (quality criteria to be included in the annexes).
- **Evaluation brief and a project proposal based on the evaluation findings.**

Qualifications

1. At least 7 years of related professional experience at international level;
2. Advanced university degree in business, economics or social science;
3. Ability to analyze problems, make recommendations and present proposals for improvement or change in policies and procedures;
4. Strong experience in dealing with policies and practices in the area of private sector, SME etc. (preferably in the Eastern European/CIS countries);
5. Knowledge of regulatory and institutional framework of the country, and of governance, civil society in Armenia is an asset;
6. Strong background in evaluations, as well as in developing assessment reports, conducting research and developing concept papers, project documents;
7. Openness to new ideas, ability to express ideas clearly and concisely, both orally and in writing, demonstrated initiative, tact and high sense of responsibility and discretion;
8. Excellent communication skills, ability to negotiate with the government and non-governmental and international entities;
9. Capacity to take initiative and good judgment in understanding of her/his responsibilities;
10. High level of integrity, professionalism and respect for diversity and gender;
11. Fluency in English is a must.

Annex 2. List of parties consulted

Name	Position	Organisation	Location of meeting	Date of meeting
Vrej Jijyan	Portfolio Analyst, Socioeconomic Governance	UNDP	Yerevan	20/09/10
Tadevos Shahbazyan	SME Development Project Manager	UNDP	Yerevan	20/09/10
Astghik Martirosyan	M&E Specialist	UNDP	Yerevan	20/09/10
Dirk Boberg	Deputy Resident Representative	UNDP	Yerevan	20/09/10
Babken Babayan	Community Development Project Manager	UNDP	Yerevan	20/09/10
Sevak Amalyan	Global Compact Project Manager	UNDP	Yerevan	20/09/10
Karen Gevorgyan	Executive Director	SMEDNC	Yerevan	22/09/10
Gayane Avagyan	Executive Director	Shirak Competitiveness Center	Gyumri	22/09/10
	Business owner	Ceramic manufacturer	Gyumri	22/09/10
	Finance expert	SMEDNC branch office	Gyumri	22/09/10
	Training & consultancy expert (female)	SMEDNC branch office	Gyumri	22/09/10
		Nougat manufacturer	Gyumri	22/09/10
Artak Tatoyan	Branch Office Director	SMEDNC	Stepanavan	23/09/10
	Deputy Head, Department for Socio-Economic Development	Lori Marz	Vandazor	23/09/10
	Business owner	Food processor	Stepanavan	23/09/10
	Business owner	Dentist	Vandazor	23/09/10
	Business owner	Bed and breakfast provider	Vandazor	23/09/10
Lilit Apujanyan	International Co-operation Programs Co-ordinator	SMEDNC	Yerevan	24/09/10
Armen Sargsyan	Financial Support Programs Co-ordinator	SMEDNC	Yerevan	24/09/10
Anahit Simonyan	Head of UNIDO Operations in Armenia	UNIDO	Yerevan	24/09/10
Karine Somonyan	Project Co-ordinator, Vocational Education and Training Projects	UNDP	Yerevan	24/09/10
Kristina Tereshchatova	Project Assistant, Support to SME Development in Armenia	UNDP	Yerevan	24/09/10
Karine Minasyan	First Deputy Minister	Ministry of Economy	Yerevan	24/09/10
Suren Khudaverdyan	Syunik Branch Director	SMEDNC	Sisian	27/09/10
Vanik Khudaverdyan	Deputy of staff manager	Vayots Dzor Governmental Center	Yeghegnadzor	27/09/10
	Business owner	Barber	Vayk	27/09/10
	Business owner	Bed and breakfast provider	Vayk	27/09/10
	Business owner	Trader	Vayk	27/09/10
	Finance expert	SMEDNC branch office	Vayk	27/09/10
	Business owner	Business support provider	Sisian	27/09/10
	Business owner	Bakery	Sisian	27/09/10
	Business owner	Bed and breakfast provider	Sisian	27/09/10
	Business owner	Tailor/ dress maker	Sisian	27/09/10
Aram Trakhchyan	President	Apricot Plus Ltd.	Yerevan	28/09/10
Detlef Barth	Programme Director, Municipal and Economic Development	GTZ	Yerevan	28/09/10
Anoush Aslanyan	Senior Advisor on Local/ Regional Development, Municipal and Economic Development	GTZ	Yerevan	28/09/10

Name	Position	Organisation	Location of meeting	Date of meeting
Artak Ghazarayan	Director, Competitive Armenian Private Sector Project	Nathan Associates (USAID Contractor)	Yerevan	28/09/10
Karina Harutyunyan	Executive Director	3R Strategy LLC	Yerevan	28/09/10
Tigran Aghabekyan	National Programme Director	Business Advisory Services Programme - Armenia	Yerevan	28/09/10
Dafina Gercheva	Resident Representative/ UN Co-ordinator	UNDP	Yerevan	01/10/10
Diana Harutyunyan	Climate Change Programme Coordinator	UNDP	Yerevan	01/10/10

Annex 3. List of documents referred to

Government of Armenia
Republic of Armenia Government Program 2008
EBRD
EBRD Strategy for Armenia, April 2009
EU
Armenia Country Report European Neighbourhood Policy 2005
EU Armenia Action Plan, undated
European Neighbourhood and Partnership Instrument Armenia Country Strategy Paper 2007 - 2013
European Neighbourhood and Partnership Instrument Armenia National Indicative Programme 2007 - 2010
IMF
Republic of Armenia Poverty Reduction Strategy Paper, November 2003, IMF
Republic of Armenia Second Poverty Reduction Strategy Paper, December 2008, IMF
Norwegian Ministry of Foreign Affairs
Projects in Armenia supported by the Norwegian Ministry of Foreign Affairs in 2007
Projects in Armenia supported by the Norwegian Ministry of Foreign Affairs in 2008
Projects in Armenia supported by the Norwegian Ministry of Foreign Affairs in 2009
OSCE
Women empowerment and cooperation in Armenia with a focus on the Syunik region, 2007, OSCE
SMEDNC
Concept for Small and Medium Entrepreneurship Development Policy And Strategy in Armenia, 2000, Ministry of Industry and Trade
Law of the Republic of Armenia on State Support of Small and Medium Entrepreneurship
Programme for Small and Medium Entrepreneurship State Support for 2004
Programme for Small and Medium Entrepreneurship State Support for 2005
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Reference Book Small and Medium Entrepreneurship Sector in Armenia 2007-2009 Sixth Edition, 2010, SMEDNC & OSCE
Report on Activities of "Small And Medium Entrepreneurship Development National Center Of Armenia" Fund In 2009
UN/ UNDP

Annual Work Plan Year 2006 Introduction of Innovative Income Generating Schemes and Mechanisms
Annual Work Plan Year 2008 Introduction of Innovative Income Generating Schemes and Mechanisms
Annual Work Plan Year 2009 Introduction of Innovative Income Generating Schemes and Mechanisms
Project Document Support to Small and Medium Entrepreneurship Development in Armenia, 2004
UN Armenia UNDAF 2005-2009
UN Armenia UNDAF 2010-2015
UNDP Armenia Support to SME Development Progress Report 2004
UNDP Armenia Support to SME Development Progress Report 2005
UNDP Armenia Support to SME Development Progress Report 2006
UNDP Armenia Support to SME Development Progress Report 2007
UNDP Armenia Support to SME Development Progress Report 2008
UNDP Armenia Support to SME Development Progress Report 2009
UNDP Armenia Support to SME Development Progress Report 2010 January to June
UNDP Armenia CPAP 2005-2009
UNDP Armenia CPAP 2010-2015
UNDP Armenia CPAP Matrix 2005-2009
UNDP Armenia CPD 2005-2009
UNDP Armenia CPD 2010-2015
UNDP Armenia UNDAF 2005-2009 Annexes
UNDP Human Development Report 2009
2007-2008 UNDP/Armenia Joint Programmes http://www.undp.am/?page=JointProgrammes
2010 Annual Work Plan for Economic Opportunities for Vulnerable Groups
2010 Annual Work Plan for Innovative Employment Schemes
Achieving the MDGs and reducing human poverty http://www.undp.am/?page=HumanPoverty
World Bank
Country Partnership Strategy for the Republic of Armenia 2009 -2012, May 2009
World Bank Country Assistance Strategy for the Republic of Armenia, June 2004

Annex 4. Proposed adjustments to the project**Local economic development rather than enterprise development**

172. The current project supports micro and small enterprises (primarily start ups) in any sector and in all of Armenia's 10 marzes.
173. In order to maximise the effectiveness and impact of limited UNDP funding, it is recommended that future support focus on local economic development rather than enterprise development. This approach will ensure that all key actors are engaged in providing an operating environment that facilitates and supports the establishment and growth of enterprises. This means engaging and supporting marz and municipal authorities, and other relevant local actors. In working with marz and municipal authorities, it is important to start with one or two that demonstrate real commitment to local economic development. These will be most likely to make a positive contribution to the project and to work with other stakeholders and the project management in an efficient, collaborative, and transparent manner. They are also the most likely to respect agreed project management and decision making structures.
174. Engaging these actors also opens the door to the possibility of public private partnerships to carry out activities such as rubbish collection and disposal, and sewage treatment.

Tourism and leisure

175. In addition to its well-known historical monuments, Armenia offers much attractive landscape, and a favourable climate. While there is currently significant international interest in Armenia's historical monuments, which are located around the country, most international tourism income is retained in Yerevan due to the lack of infrastructure and services in the marzes. Moreover, other opportunities, such as outdoor pursuits in Armenia's attractive landscape, are not currently exploited. Thus, for a relatively small investment, tourism and leisure offer considerable potential for generating income in the marzes, from both Armenian and international visitors.
176. The development of tourism and leisure should involve a wide range of existing and new enterprises, which make up local tourism and leisure infrastructure, of the depth and quality likely to be expected by visitors. These include, for example:
- Hotels;
 - B&Bs;
 - Restaurants;
 - Cafes;
 - Local food producers and processors
 - Craft product manufacturers;
 - Local speciality food manufacturers;
 - Local transport service providers;
 - Guides;
 - Writers;
 - Interpreters;
 - Suppliers and repairers of outdoor equipment
 - Etc.
 - Local enterprises that supply goods or services to any of the above.
177. Local attractions, activities, products, and services of interest to different types of visitor need to be identified and presented in a clear and coherent manner. Thus there may be

opportunities for regional branding that encompasses historical monuments, landscape features, local food products, etc. Possible markets include, for example:

- Historical and cultural tourists;
- Eco tourists;
- Adventure tourists (e.g. hiking, horse riding, cycling, camping, mountaineering, canoeing, etc.)
- Wine tours.

178. In developing local and regional tourism and leisure products, different actors need to be involved besides specific micro and small enterprises and marz and municipal authorities. These include, for example:

- Community enterprises;
- Tourism offices;
- Museums;
- Owners of local sites of interest and attractions;
- Armenian and international tour operators;
- Transport companies;
- Etc.

Geographical focus

179. When implementing the proposed tourism and leisure model, it is recommended that, rather than attempting to cover the entire country, it is recommended that the UNDP focus on one or two marzes where there is good potential for effective engagement of all relevant actors. This will help to ensure visible impact.

180. Successful examples can then be used to disseminate new methodologies and technologies to other areas, for example through the SMEDNC's network of branch offices, through suitably qualified service providers (such as BSPs involved the delivery of start up training), through other projects, and through formal and informal networks.

Technical areas for support

181. There are a number of specific cross-cutting technical areas on which future local economic development support can usefully focus. These include:

- General business management skills;
- Energy efficiency and renewable energy;
- Product and service quality;
- Environmental protection.

182. General business management skills. The UNDP should continue to support the start up programme. However, rather than contributing to the costs of the programme in all marzes, it could instead pay the SMEDNC to provide the programme for specific groups in specific geographical areas where the UNDP may in future focus its support to SME/ local economic development. The UNDP could further support the start up programme and the SMEDNC by making available, at no cost, new methodologies and products for incorporation into the start up programme (for example, energy auditing and quality control - see below).

183. Energy efficiency and renewable energy. Energy costs are increasing, and Armenia relies on unpredictable gas supplies and a nuclear power plant that is nearing the end of its operational life. Given the prevalence of old technology in Armenia, there is considerable scope for reducing energy consumption, not only micro and small enterprises, but also in other types of organisation and private householders. While the provision of large

amounts of new technology is beyond the scope a future UNDP local economic development project, it could, however, develop and disseminate a methodology for carrying out energy audits on different types of system, in different types of organisation, and in private households. For businesses, this methodology could include cost benefit analysis to determine the payback period of more energy efficient technology, and the rate of return on the investment.

184. Support is needed to help different types of organisation identify alternative, more energy efficient technologies.
185. At present, there is very little use of solar or wind energy in Armenia. While larger wind turbines are likely to be beyond the scope of individual SMEs, they may offer some opportunity for public private partnership. Micro wind generation combined with low energy technologies, such as LEDs³⁵ for lighting, may be of interest to some organisations.
186. Solar water heating offers perhaps the most interesting potential at the level of individual micro and small enterprises and households. The technology is relatively simple and Armenia has high rates of sunshine for much of the year.
187. Energy efficiency and renewable energy offer opportunities for the development of a new service sector.
188. Product and service quality. There is considerable scope for improving the quality of products and services, especially outside Yerevan. As a minimum, a future project should aim to raise awareness of international standards and provide some means of comparison. At the same time, specific areas can be identified for the provision of technical assistance to help address common quality issues, and simple quality control systems can be developed for use by different types of enterprise, such as catering and accommodation establishments.
189. Environmental protection. Sewage disposal and water purification are reported to be areas that could benefit from support. This issue was raised specifically in connection with B&Bs in rural areas, and is likely to have a significant impact on the quality of visitors' experiences. There is a need to identify and disseminate information about suitable, low cost, environmentally friendly solutions. B&B enterprises produce large quantities of sewage and other organic waste during the tourist season, which could provide a useful source of biogas during the treatment process.

Synergies with other UN activities in Armenia

190. The UNDP's climate change work in Armenia is directly relevant to the topics of energy efficiency and renewable energy discussed above. The UNDP's strategic expertise and experience in this area should be incorporated into any local economic development activities covering these subjects. This might, for example, include access to technical experts, and information about national and international grants and other sources of funding.
191. The UNDP is providing extensive support to the modernisation of the vocational education and training system in Armenia. This includes the procurement of new equipment for newly renovated vocational schools. It was suggested that basic business training would be useful for the trainees at schools. It is not suggested that

³⁵ Light emitting diodes.

they will all become entrepreneurs. Instead, a better understanding of basic business concepts will help them to engage better with employers.

192. The newly renovated vocational schools are understood to be equipped with modern equipment. In some cases, small businesses may benefit from having access to these facilities, not for production purposes, but to learn about, and try out, the latest technology.

Proposed objectives, indicators, and actions

Objectives		Indicators	Method of measurement
1	Increase tourism related income in two municipalities		
1.1	Extend the duration of the tourism season	Reduced standard deviation of total bed occupancy per month throughout the year	Statistics from local hotels and B&Bs
1.2	Diversify the range of tourism-related attractions, activities, products, and services	Increase in the number of different types of attractions, activities, products and services.	Baseline survey compared with situation at mid project implementation and end of project implementation
1.3	Increase the number of Armenian and foreign visitors	<ul style="list-style-type: none"> •Increase in number of visitors to target marz(es)/ municipalities •Increase in the number of visitors staying overnight •Increase in total bed occupancy 	Statistics from local hotels and B&Bs
1.3	Improve the quality of tourism-related services and products	<ul style="list-style-type: none"> •Increase in number of local enterprises meeting agreed quality standards •Increase in visitor satisfaction 	<ul style="list-style-type: none"> •Quality standards monitoring by project •Visitor surveys
1.4	Reduce energy costs of tourism-related enterprises		Baseline survey compared with situation at mid project implementation and end of project implementation
2	Increase employment		
2.1	Increase the number of local registered enterprises	<ul style="list-style-type: none"> •Increase in micro enterprises •Increase in small enterprises 	Project monitoring statistics combined with government registration statistics
2.2	Increase employment amongst enterprises involved in the project	<ul style="list-style-type: none"> •Increase in total jobs •Increase in average jobs per enterprise •Increase in average hours worked per job per month 	Baseline survey compared with situation at mid project implementation and end of project implementation
3	Increase engagement of marz and municipal authorities in local economic development		
3.1	Increase involvement of marz and municipal authorities in local formal and informal collaborative economic development structures	<ul style="list-style-type: none"> •Increase in effective participation in local economic development meetings •Increase in number and "size" of commitments made 	<ul style="list-style-type: none"> •Stakeholder perception surveys •Meeting minutes

Objectives		Indicators	Method of measurement
3.2	Improve implementation of agreed actions	<ul style="list-style-type: none"> • Increase in number of agreed actions implemented • Increase in quality of implementation of agreed actions • Improved timeliness of implementation of agreed actions 	<ul style="list-style-type: none"> • Stakeholder perception surveys • Project monitoring records
4	Develop the capacity of the SMEDNC and its branch offices to support local economic development		
4.1	Disseminate local economic development approach from pilot locations to other regions through the SMEDNC and its branch offices	<ul style="list-style-type: none"> • Number of SMEDNC branches engaged in dialogue with marz and municipal authorities • Effectiveness of SMEDNC branch dialogue with marz and municipal authorities 	<ul style="list-style-type: none"> • Surveys of SMEDNC branch offices • Stakeholder perception surveys

	Actions (see notes below for further definition of actions)	Lead role	Other stakeholders
1	Identify two municipalities with tourism potential in Tavush marz, or other marz, where UNDP already has good working relationship with mayors, and where strong SMEDNC branch offices exist. Priority should be given to municipalities that demonstrate real commitment to local economic development, and that are most likely to work with other stakeholders in a collaborative, transparent, and efficient manner.	UNDP and SMEDNC	
2	Refine project outcome indicators. Establish and implement a system to track outcome indicators. Carry out baseline surveys where necessary.	UNDP and SMEDNC with national and/ or international expert	
3	Analyse training needs of SMEDNC and its branch offices in the target marz(es) with regard to local economic development. Develop and implement training.	SMEDNC and UNDP with national and international experts	
4	Assess and address opportunities for supporting the enhancement of local economic development capacity at marz and municipal levels in the target marz(es)	UNDP with national and international experts	

	Actions (see notes below for further definition of actions)	Lead role	Other stakeholders
5	Establish local economic development forum (LEDf) at marz or municipal levels involving stakeholders with direct and indirect interest in tourism, including:	UNDP and SMEDNC branch office(s)	Marz and municipal authorities Local businesses and institutions with actual or potential, direct or indirect interest in tourism
6	Establish an inventory of local tourism-related assets	LEDf with support of SMEDNC branch office(s), UNDP, and international expert (s)	National and international tour operators Existing visitors from Armenia and abroad National business support providers International tourism organisations
7	Develop a vision for the development and promotion of local tourism	LEDf with support of SMEDNC branch office(s), UNDP, and international expert (s)	National and international tour operators Existing visitors from Armenia and abroad National business support providers International tourism organisations
8	Establish quality standards for different types of local tourism-related enterprises, possibly including a local quality assurance symbol for enterprises meeting agreed standards	LEDf with support of SMEDNC branch office(s), UNDP, and international expert (s)	
9	Establish and implement system for monitoring quality standards.	LEDf with support of SMEDNC branch office(s), UNDP, and international expert (s)	
10	Agree and implement action plan regarding what needs to be improved/ developed. This should include who will be responsible, and where funding will come from.	LEDf with support of SMEDNC branch office(s), UNDP, and international expert (s)	National and international tour operators Existing visitors from Armenia and abroad National business support providers International tourism organisations
11	Monitor implementation of action plan	UNDP with support of SMEDNC branch office(s)	
12	Depending on need/ demand in target marz(es), implement start up programme	SMEDNC branch office(s)	Potential entrepreneurs
13	Develop and deliver technical training modules for SMEs	UNDP with national and international experts	
14	Develop and implement promotional plan for local tourism. This should target different types of visitors from Armenia and abroad.	LEDf with support of SMEDNC branch office(s), UNDP, and international expert (s)	National and international tour operators Existing visitors from Armenia and abroad National business support providers International tourism organisations

	Actions (see notes below for further definition of actions)	Lead role	Other stakeholders
15	Develop and implement systems for tracking visitor numbers, and the quality of visitor experiences (satisfaction surveys)	LEDf with support of SMEDNC branch office(s), UNDP, and national expert(s)	
16	Document and disseminate project experiences, lessons learned, and products such as technical training modules	UNDP with the support of the SMEDNC and its branches	National business support providers Other development organisations and projects

Notes on actions	
5	<p>Pilot local economic development forums should include a range of organisations and enterprises with a director or indirect, actual or potential interest in tourism including, for example:</p> <ul style="list-style-type: none"> •Marz authorities •Municipal authorities •SMEDNC branch offices •Accommodation businesses •Catering businesses •Food producers and small scale processors •Craft goods producers •Municipal authorities •Tourism office •Museums •Owners and managers of local sites of historical, cultural, scientific, scenic interest •Local transport enterprises •Educational establishments
6	<p>The inventory of local assets should be broad, and could include, for example:</p> <ul style="list-style-type: none"> •Cultural/ historical monuments, buildings, streets, town squares, and other landmarks •Areas such as mountains, rivers, lakes, and forests that could be of potential interest to different types of visitor, for example those interested in ecology and outdoor pursuits such as hiking, climbing, orienteering, mountain biking, canoeing, horse trekking, etc. •Local craft products •Traditional local food specialities, including organic production •Museums •Vineyards •Horse riding establishments •Hotels •Restaurants •Shops •Etc.
7	<p>The "vision" should answer questions such as:</p> <ul style="list-style-type: none"> •How can different local tourism activities and experiences be "packaged"? •Is there a particular local theme? •What should the local economic development forum focus on promoting?
8	<p>Quality standards can be developed to cover, for example</p> <ul style="list-style-type: none"> •Accommodation, cafes, and restaurants, including service quality, hygiene, the quality of drinking water, and environmentally sensitive disposal of waste, including sewage. •Local food processing enterprises (quality of raw materials, hygiene, packaging, etc) •Local transport enterprises (e.g. the condition and cleanliness of taxis, the standard of driving, etc.)

Notes on actions	
10	<p>In particular, small, concrete actions should be identified for the marz and municipal authorities to support the project. Such actions might include:</p> <ul style="list-style-type: none"> • Removing rubbish from an important street, square, or monument • Improving the appearance of an important street, square, or monument • Improving access to specific local attractions and/ or services • Erecting signs to local landmarks and monuments
13	<p>Technical training modules should include, among other things:</p> <ul style="list-style-type: none"> • Energy efficiency, including how to carry out energy audits and investment appraisals to assess the feasibility and payback period of different technologies • Energy efficient technologies • Renewable energy • Water quality and safe, environmentally friendly waste disposal (mainly for accommodation and catering establishments) • Quality standards, in particular for catering, food processing, and accommodation businesses, and other tourism-related service businesses
14	<p>The promotional plan should include a local or regional tourism brand, and should consider, among other things:</p> <ul style="list-style-type: none"> • Guides and maps covering local attractions, activities, amenities, and services • Different types of Armenian and foreign target groups • How the different types of groups can be best be reached

Annex 5. Project Document



**Small and Medium Entrepreneurship Development
National Center of Armenia**

United Nations Development Program

**Support to Small and Medium Entrepreneurship Development
in Armenia**

Project Aim:

Considering the role and strategic importance of the SME sector in the country's economic growth, creation of new jobs, improvement of living standards of the population and the mandate, capacity and achievements of SME DNC in supporting SME sector, UNDP in close cooperation with other key donors in the field, in the framework of the “Annual programs on State Support to SME”, decided to implement joint programme to create/reinforce SME support infrastructures, especially in RA regions.

Implementation:

The Project will be implemented through four components:

Capacity Building of SME DNC: Under this component capacity and performance of SME DNC and its regional branches will be improved;

Business Information and Consulting Services: Under this component the quality and accessibility of business support services for SMEs will be increased; the on-line business consulting will be established.

Business Education and Training: Under this component the knowledge and skills of SMEs, regional SMEs in particular will be improved.

SME Supporting Infrastructures: Under this component the SME supporting infrastructures will be created and reinforced.

**YEREVAN 2004
ARMENIA**

Section A: Situation Analysis

After obtaining political independence Armenia has been in transition period facing many difficulties. Between 1990-1993, the country's real GDP contracted to only 46.9 percent of its 1990 level and budget deficit reached the level of 48% of GDP. Within that period, public and private savings were decimated, the economy had collapsed, the country was regionally isolated with only one main transport artery and virtually all public systems, including the heating, road and electricity grids, had broken down. Around one million people forced to leave the country in search of jobs, better living conditions and social protection.

Armenia's Government efforts regained momentum in 1994 with the adoption of a comprehensive reform programme aimed at establishing a liberal market economy and democratic regime. Although starting from an exceptionally low base, Armenia's turn-around has been remarkable. Since 1994, Armenia has experienced uninterrupted economic growth, averaging almost 7 percent GDP growth rates for the past ten years. In 2003, Armenia's growth rate was 13.9 percent.

Despite unprecedented growth rates, poverty remains very high. Almost 50 percent of the population lives in poverty and 13 percent suffer from extreme poverty. Poverty is regionally concentrated, with the poorest and most vulnerable people living in remote areas. Recognizing the threat to social stability caused by gross income equality and high levels of poverty, the Government adopted Poverty Reduction Strategy Paper (PRSP) in August 2003. The PRSP, which was prepared in consultation with civil society, aims to reduce poverty levels to around 20 percent by 2015, by ensuring sustainable and high rates of economic growth over the medium-term and by implementing efficient social protection policies.

During the past twelve years, new legislation governing the economy, foreign investments and trade, tariffs and taxes, privatization, and banking has been adopted. Armenia's investment and trade regulations are now some of the most liberal in Eastern Europe and the CIS and in 2003, Armenia successfully ascended to the World Trade Organization. A wide-range of Government programs have been introduced to support entrepreneurship, of which the most substantial are Annual programs on State Support to SME. The high-level Business Council, established under the chairmanship of the Prime Minister with the participation of private companies, to address the immediate and strategic problems affecting the business environment.

Despite this impressive progress, further reforms are still needed to improve business environment. These include measures aimed at re-orienting the economy to new markets, increasing foreign trade and export-oriented industries, promoting modern technology-based investments and small and medium enterprises (SMEs).

Overcoming the problems faced by Armenian SMEs at present will be an important step towards the social-economic development process of Armenia. The role of the SME sector in economy of Armenia is continually growing, and its current contribution to GDP is estimated at 35%. Over the last two-three years small and medium entrepreneurship is considered one of the dynamically developing spheres in the economy of Armenia. The number of micro, small and medium enterprises, as well as the number of sole proprietors increases yearly comprising more than 108,000 at present. The role of micro, small and medium-sized enterprises is and will be central in decreasing unemployment and enhancing the competitiveness of industries. Due to approximately 8 000 SMEs established in 2002 more than 19,000 new jobs were created.

Having recognized the importance of SME sector development, the Armenian Government issued the decree on "Concept for SME Development Policy and Strategy in Armenia" in July 2000, and enacted the law on "State support of small and medium entrepreneurship" in December 2000. State support programs become of crucial importance to promote small and medium businesses, especially in the regions, by improving legislative framework, creating and strengthening support infrastructures, and increasing business skills. According to the Law on "State support of small and medium entrepreneurship" SME state support programs are implemented on annual basis. The first program was elaborated and fully accomplished in 2002.

Small and Medium Entrepreneurship Development National Center of Armenia: In the scope of the SME state support 2002 program the Fund "Small and Medium Entrepreneurship Development National Center of Armenia" (SME DNC) was established. The SME DNC is the first structure at national level devoted to SMEs support and development. The SME DNC is governed by the Board of Trustees (composed of government representatives and business community) and Executive Director.

The Executive Director reports to the Board - specifically to the Chairman, who is the Minister of Trade and Economic Development. Minister represents the SME DNC in government settings (e.g. parliamentary hearings). The SME DNC of Armenia has regional branches¹ to reach out client SMEs in different regions.

SME DNC provides a wide range of services to Armenian companies, including but not limited to:

1. *Business information assistance:* such as collection, analysis and dissemination of information on SME sector; research of SMEs' demand for business services; information on innovations, IT solutions; enhance awareness of steps and benefits from certifying to ISO quality disciplines; elaboration and publication of professional materials, business manuals, brochures.
2. *Business counseling for SME units:* consulting on tax and customs legislation, accounting and finance management; marketing promotion; development of investment and promotion programs and market researching with BSPs selected through tender, consulting on available financial sources and loan guarantee mechanism; assistance on ISO Quality Management Systems implementation for SMEs.
3. *Business education and training:* organization of training courses in Yerevan and RA regions (marzes) through professional Business Service Providers selected through tender; workshops and forums covering SME problems (legislative, sector specific, other) organized jointly with interested parties; strengthening of Business Service Provider companies; implementation of business start-up support program.
4. *Financial assistance include providing loan guarantees* to expand financial opportunities for SME units, research on possible sources of financing opportunities.

Section B: Project Strategy

Considering the role and strategic importance of the SME sector in the country's economic growth, creation of new jobs, improvement of living standards of the population and the mandate, capacity and achievements of SME DNC in supporting SME sector, in close cooperation with other key donors UNDP initiated joint programme to create/reinforce SME support infrastructures and to implement other support mechanisms, such as provision of business information and consulting services, with special focus on regions of Armenia.

The Project strategy draws on four overarching national frameworks:

- **The Poverty Reduction Strategy Paper (PRSP):** Adopted by the Government of Armenia on in August 2003, the objective of the PRSP is to reduce poverty by stimulating economic growth.² Considering that the macroeconomic framework of the PRSP aims at creating 248,000 additional non-agricultural jobs in 2003-2015, the development of the private sector, especially SME sector, becomes one of the main preconditions for reducing poverty and inequality and increasing population's incomes from labor.
- **Annual programs on State Support to SME:** Programs on State Support to SME are implemented in accordance with the provisions of the Law of the RA "On State Support to SME", adopted in December, 2000. Starting from 2002 SME DNC of Armenia Fund has implemented Annual SME State Support programs of 2002, 2003 and 2004, the components of which are conformable with UNDP approaches.
- **The Millennium Development Declaration:** Adopted in 2000 by all UN member states, including Armenia, the Declaration sets out, within a single framework, the key challenges facing humanity at the threshold of the new millennium. By signing the Millennium Declaration, member states have committed themselves to the achievement of eight Millennium Development Goals.
- **The United Nations Development Assistance Framework (UNDAF) for 2005-2009:** Drafted during 2003-4, the UNDAF lays out the main objectives of the United Nations in Armenia for the next five-year period. Under the terms of the UNDAF, UNDP is committed to reducing the levels of poverty and income inequality and improving the quality and accessibility of basic social services. Drawing on the UNDAF's right-based approach, UNDP aims to pursue the following in the area of economic equity:
 - Contribute to socially-oriented and equitable economic growth by helping duty-bearers formulate and implement pro-poor policies and programmes;

¹ There are three regional offices of the SME DNC in Sisian, Ijevan and Gyumri.

² The Poverty Reduction Strategy Paper. <http://www.gov.am/enversion/programms>

- Increase employment and business opportunities for the poor and socially disadvantaged by helping to create an enabling environment that promotes market access;
- Strengthen the capacity of the poor and socially disadvantaged to contribute to the country's growth by raising awareness, enhancing business and public skills and increasing participation in the development of economic policies.

The project consists of the following four components.

Component 1: Capacity building of SME DNC and its regional branches, especially in Tavush and Syunik regions.

In an attempt to improve SME sector and ensure control over the efficiency of SME DNC ongoing programs in Armenian regions the SME DNC branches were established in Gyumri, Ijevan and Sisian. It is expected to set up three more branches in Lori, Kotayk and Aragatsotn regions.

Although SME DNC regional employees were recruited through merit-based selection, there is still necessity for raising their qualification. Essentially, activities of branches comply with requirements set forth, though there is a necessity to discuss and review their authorities, terms of reference, improve branch-to-central office communication, and create incentives conducive to enhanced intra-marz efficient performance.

It is important to develop mechanisms within the program that will contribute to SME DNC overall management system, improve working conditions and enhance the efficiency of performance.

For improvement of the SME DNC management system, and in order to empower of branch offices following should be implemented:

- Install quality management standards based on recognized principles;
- Engage all staff in training that directly addresses the operations of the SME DNC;
- Contract with an outside source (consultant or company) that can work with the branches to increase branches' capacity and therefore increase traffic through the branches.

Component 2: Business information and consulting services

Decent studies and also direct contacts with SME representatives prove that very often they are lacking necessary information to establish or conduct their business and means such as internet, professional library, legal database, and other sources, e.g. finance for high quality counseling.

To increase the efficiency of performance and competitiveness of small and medium businesses it is expedient to enable them avail operative information concerning the overall economic situation and recent developments in the country, trade and investment regimes, domestic and external markets, changes in legal framework, scientific-technical progress and high-tech applications, and other related to entrepreneurship. This type of information is being disseminated mainly through the media, which is not always complete and does not satisfy business expectations.

Unlike large companies, which can afford getting this information, the majority of small businesses, however, are deprived of the opportunity of receiving high quality business advice and information.

The SME DNC of Armenia is going to launch its information and advisory support program, which is aimed at supporting SMEs to access high grade and quality business counseling in the following key areas:

- Development and implementation of investment and promotion programs;
- Legal advice;
- Analysis of business performance of enterprises;
- Management and marketing advice;
- Accounting and financial management advice;
- Tax and customs advice;
- Advice on innovations, modern technology and protection of intellectual property rights;
- Other areas related to the promotion of goods and services in the market.

The specialized Business Service Providers (BSPs) from Yerevan and Tavush, Syunik, Shirak and Gegharkunik regions also will be included in program implementation team.

In cooperation with other regional stakeholders, regional branches of SME DNC will carry out a need assessment on SMEs demand for counseling services. The results of a Survey planned by the USAID MEDI program also will be taken into account.

In an effort to empower SMEs, both in domestic and external markets SME DNC will assist SMEs in creating company web sites and development of brochures and labels. It is expected to expand SME DNC web page, to publish a number of professional and information business manuals, brochures, to facilitate the on-line business consultation and to create an information database.

Component 3: Business education and training

This component is based on a belief, that entrepreneurs are not only born but can also be trained and developed. Potential entrepreneurs and the leaders of already established SMEs can be trained to become full-fledged entrepreneurs through well structured and professionally provided training courses. It will strengthen their capacity to start/manage new businesses, impart necessary skills and knowledge about financial technical and managerial aspects of business and provides information for identifying project idea.

Given that business services are not available to small businesses, in contrast to large ones, the SME DNC will cost-share the participation of SMEs in regular training courses regularly delivered by specialized companies.

The project is expected to raise awareness of SMEs for current vocational and training programs. Also, the demand for vocational courses will increase the price for service, which in turn will be cost shared. The project will add up to the capacity of BSPs to focus their efforts on SME mainstream problems.

For program implementation the specialized Business Service Providers (BSPs) operating in Yerevan, as well as in Tavush, Syunik, Shirak and Gegharkunik regions of Armenia will be involved. BSPs will be selected on competitive basis.

The following principal professional modules will be included in the program:

- Setting up a business;
- Human resource management;
- Time management;
- Clarifications to the RA Tax code;
- Management;
- Marketing;
- Commercial Law;
- Business ethics;
- Organization of tourism.

Participants will be provided with professional materials and awarded certificates.

In order to identify SME choices for preferable training topics, a joint needs assessment will be prepared through SME DNC regional branches in cooperation with other interested regional structures. The training courses will be designed and organized in the RA marzes based on assessment findings.

Development of Business Service Providers: To facilitate the improvement of BSP qualification and training of their skills it is expected to collaborate with MEDI program funded by USAID. The program is tailored to address the improvement of BSPs in Yerevan and marzes by making their services more adjustable and catering to SME needs, that also creates new regional BSPs. With the support of international experts from UNIDO the “Training of Trainers” will be organized for SME DNC professional staff and BSPs working in marzes.

“Successful Start” Sub-Project in support of Start-ups: A long-term program will be launched in support of creating start up enterprises. At the ground level businesspersons will be assisted in formation of a business concept and business planning. Professional training courses and personal counseling will be organized. The sub-project is targeted at start-ups in terms of stimulating the creation of new enterprises and assisting them in the preliminary period for:

- Creating new jobs
- Enhancing knowledge about entrepreneurship
- Improving business skills and expertise

Overall length of the sub-program is 6 months. So far the program “Successful Start” has been implemented in cooperation with GTZ/ProSME project: 1 group in Gegharkunik region and 1 group in Tavush region.

Component 4: Research the practice of SME support infrastructures

Supporting and promoting small and medium enterprises has a vital role to play in improving their competitiveness and improving employment situation. In spite of the fact that the supporting schemes of the advanced market economies and the countries in transition are different, both economies encourage entrepreneurship, especially by strengthening start-up and infant business, by eliminating spatial disparities and by fostering technological development and new innovative enterprises.

Among the support institutions, business incubators, innovation centers, industrial parks and techno parks have shown themselves to be effective instruments for assisting entrepreneurs in starting a new business, nurturing young enterprises and helping them to survive during the start-up period when they are most vulnerable both in developed countries and countries in transition.

The experience of advanced market economies, such as EU members, Israel and the USA, demonstrate that special emphasis should be put on beginner or start-up enterprises. In many cases a self-educated start-up entrepreneur is fully occupied with the development of her/his primary business, while she/he is badly in need of support services to implement her/his idea. Underdeveloped local and regional governments are also facing difficulties in attracting investors and SMEs to start their business in their regions. Last but not least, scientists and research & development engineers have to survive the transformation of their institutions to a market economy and are aiming to catch up with their competitors in advanced market economies.

All the above mentioned problems are typical for Armenian economy. The research of SME support infrastructures establishment and development opportunities is the most important step in the SME support policy and strategy development and implementation declared by RA government. It is important to survey the opportunities of SME development through business incubators and techno parks for the following purposes:

- Job creation
- Establishment of new companies
- Modernization, transfer of technology, commercialization of new scientific discoveries.

The research must include opportunities of business incubator and techno park establishment, which are the most important steps of above mentioned infrastructures creation.

Business Incubator is an economic development tool designed to accelerate the growth and success of start-up companies through an array of business support resources and services. A business incubator's main goal is to produce successful firms that will leave the program financially viable and freestanding.

The services provided by business incubators

- A physical infrastructure, office and workshop space on an affordable basis
- Secretarial services
- Telecommunication and information technology services
- Business planning, assistance, resources, counseling services
- Advertising and marketing services
- Financial advice services
- Training services
- Know-how services
- Networking services
- Industrial infrastructure
- Security services, etc

Techno Park is a form of technological and innovative assistance to SMEs. It is a set of newly formed groups clustered around a scientific center, which offer modern high quality counseling and information aimed at their technological development, product quality improvement. It also hands out an enormous opportunity to survey sales markets. In cities having a vast industrial and scientific potential techno parks can operate more effectively, especially in Yerevan given that industrial organizations, plant and equipment and skilled workers are all exposed to idle time. Besides all the services that are mentioned it will provide creative environment for attracting and promoting research commercialization and technology-based enterprises.

Installing innovations and new technologies will facilitate domestic production in terms of increasing competitiveness, useful exploitation of scientific and technical output, bolstering of export capacity.

Intending to set up a techno park in Yerevan the SME DNC will partner with domestic scientific and scientific-educational centers, international organizations to consider expanding the existing similar institutions or bolstering a separate techno park. Appropriate scope of work for the Techno Park throughout 2004 will be created following the implementation.

Section C: Project Structure and Execution

Committed to helping the Government implement its Poverty Reduction Strategy Paper, one of UNDP's main objectives in Armenia is to support programmes that generate jobs and create conditions at the community level for sustained growth. Proposed Project is a part of UNDP's Programme to support private sector development, which has a number of highly successful components/projects: 1) "Community Based Tourism Development"; 2) "Support to WTO post accession processes"; 3) "Partnerships for Implementation of Community Based Development Projects". By implementing a comprehensive programme with interlocking Projects, UNDP will be able to maximize impact through cost-sharing of resources and linkages between components.

To ensure broad-based participation among stakeholders and to maximize impact, UNDP will initiate partnerships in collaboration with state authorities at central and regional levels, local government bodies, civil society organizations, the private sector and donor agencies. These partnerships will reflect the priorities identified in PRSP and in Government's Programme to support the SMEs and in SME DNC Strategic Development Plans.

The Project will be implemented by UNDP and SME DNC in close cooperation with USAID funded MEDI and GTZ funded ProSEM programs. In particular, MEDI will implement its activities parallel to this project complement and raise the impact of project results.

To achieve these objectives project activities will be targeted to:

- Build and strengthen capacities of the SME DNC of Armenia;
- Enhance capacity and performance efficiency of SME DNC marz (regional) branches;
- Raise awareness of SME DNC programs;
- Improve quality of and increase access to business services for SMEs, in particular for those operating in the RA regions;
- Increase entrepreneurial knowledge and improve professional skills of SMEs;
- Assist in creating new enterprises;
- Enhance performance efficiency and competitiveness of SMEs.

Section D: Management Arrangements

The National Execution modality will be adopted for the Project. The Small and Medium Entrepreneurship Development National Center (SME DNC) of Armenia, being an implementer of SME State Support Annual programs, will be the Executing Agent.

The SME DNC will assign a National Director to supervise the Project and serve as a liaison between the SME DNC and UNDP, and a Project Coordinator. The Project Unit (PU), consisting of Project Coordinator and Project Assistants, will implement this Project. The Project Coordinator will be responsible for coordinating the day-to-day management of the Project under supervision of the UNDP Resident Representative and the National Director. The Project will recruit, through a competitive merit-based selection, qualified international and national experts.

In conformity with the provisions of Chapter Six of the UNDP Programming Manual, five percent overhead will be allocated from Implementation Support Services budget line to the UNDP Armenia Office.

Section E: Monitoring and Evaluation

The Project will be monitored using the following mechanisms:

Reporting and Analysis

Work Plan: The Project work plan will be used to set targets for the delivery of outputs and to develop a strategy for ensuring the achievement of Project objectives. The work plan will be reviewed and updated regularly by the Project Coordinator in cooperation with key stakeholders.

Quarterly Reports: Quarterly progress reports will be drafted reflecting progress towards results, factors contributing to or impeding achievement of results and lessons learnt. These reports will also analyse partnership strategies. A mid year report will also be prepared covering all relevant aspects of the Project.

Annual Project Report: The Annual Project Report (APR) will be prepared in December, 2004 and in December, 2005. The Report will include an assessment and analysis of Project performance over the reporting period, including outputs produced, constraints, lessons learnt, clear recommendations for addressing key problems and the revised detailed Workplan for next reporting period.

Combined Delivery Reports: UNDP will prepare quarterly and year-end combined delivery reports reflecting all expenditures incurred within the framework of the Project. The year-end report will constitute the official record of expenditure for the past year.

Validation

Field Visits: UNDP will conduct regular field visits to observe progress being made towards the attainment of results and to validate the results reported by the Project.

Other Tools: As appropriate, the Project may also use spot-check visits, external assessments and client surveys for validation.

Participation

Outcome Groups: To ensure the attainment of the broad outcomes to which the Project contributes and the coherence of actions of different actors contributing to these outcomes, UNDP will consult with, and bring together relevant actors.

Steering Committee: A Project Steering Committee will be established comprising representatives of UNDP, Ministry of Trade and Economic Development, SME DNC Board of Trustees, MEDI, main counterparts and partners involved in Project implementation. The Steering Committee will meet once every quarter to: a) approve the work plan and budget revisions; b) review the Quarterly Implementation Reports; c) review evaluation and assessment reports and endorse recommendations; d) review programme strategy taking into account current opportunities and risks; e) remove possible technical obstacles threatening timely programme implementation.

Annual Review: An annual review meeting will be held every twelve months based on the APR, which will assess progress towards results, analyze project performance and make recommendations for the future of the project.

Other Tools: As appropriate, the Project may also convene stakeholder meetings and special focus group meetings.

Section F: Legal Context

The Project Document will be the instrument referred to as the Project Document in Article 1 of the SBAA between the Government of Armenia and UNDP, signed on March 8, 1995. The Project Document is signed in the English and Armenian languages. The English version will be considered definitive.

All activities undertaken and decisions made by the National Programme Director will be subject to all provisions made in this Project Document, which is the international legal agreement between the Government of Armenia and UNDP.

The following types of revisions may be made to this Project document with the signature of the UNDP Resident Representative and the National Director only, provided they are assured that the other signatories of the programme document have no objections to the proposed changes:

- a. Revisions in, or addition of, any of the annexes of the Project document (with the exception of the Standard Legal text for non-SBAA countries which may not be altered, and the agreement which is a precondition for UNDP assistance).
- b. Revisions, which do not involve significant changes in the immediate objectives, outputs or activities of the project, but are caused by the rearrangement of inputs already agreed to or by cost increases due to inflation.
- c. Mandatory annual revisions, which rephrase the delivery of, agreed project inputs, or reflect increased expert or other costs due to inflation, or take into account agency expenditure flexibility.

PROJECT RESULTS AND RESOURCE FRAMEWORK AND THE ANNUAL WORK PLAN

Intended Outcome: Support services for small and medium enterprises are introduced at regional and local levels
Outcome Indicator: Number of small and medium enterprises established at regional and local levels
Applicable MYFF Service Lines: Private Sector Development
Partnership Strategy: UNDP in cooperation with the SME DNC and MEDl in the framework of "State Support to SME annual programs" and those program goals will work with SMEs to build their capacity and raise competitiveness
Project Title and Number: Support to Small and Medium Entrepreneurship Development in Armenia

Proj. ID	Expected Output	Key Activity	Timeframe			Resp. Partner	Budget							
			04	05	06		Fund	Donor	Account	Budget Description	2004	2005	2006	Total
	Strengthening SME Development National Center and its regional branches	1. Capacity and performance efficiency of SME DNC strengthened					04000	00012	72100	Service Contract Companies	12000	24000	7000	43000
			x	x	x		04000	00012	72200	Equipment	7000	9000	7000	23000
							30000	DNC	73100	Rental and maintenance	4000	8000	3000	15000
							30000	DNC	72100	Service Contract Companies	3000	17500	8500	29000
											26000	58500	25500	110000
		2. Business information and consulting services to SMEs delivered at central and regional levels	x	x			30000	DNC	72100	Service Contract Companies	19000	26000	25000	70000
							30000	DNC	71300	Local consultant	1000			1000
							04000	00012	71300	Local consultant	5000	5000	5000	15000
		ACTIVITY 2 SUBTOTAL:									25000	31000	30000	86000
			3. Knowledge and business skills of SMEs improved especially in the Tavush and Syunik regions					04000	00012	71300	Local consultant	2000		
					04000	00012	71200	International Consultant	5000			5000		
x	x	x		x	30000	DNC	72100	Service Contract Companies	14000	19000	20000	53000		
					04000	00012	72100	Service Contract Companies	2000	10000	10000	22000		

[illegible]