

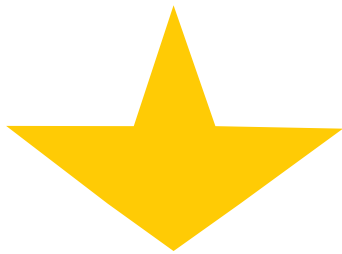


EU4Business



COUNTRY REPORT 2019

ARMENIA



WWW.EU4BUSINESS.AM

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[EXECUTIVE] [SUMMARY]

EXECUTIVE SUMMARY FOR ARMENIA:

2019 AT A GLANCE



As this difficult year draws to a close, we are proud to present the results of the EU4Business Initiative in this 2020 Country Report for Armenia. Despite the pandemic and its stark impact on business, the entire EU4Business team has worked tirelessly to expand the range of projects that we collect data on and we are pleased to say that we can now show the results that accurately reflect the entirety of EU support to SMEs in the Eastern Partnership, including Armenia.

WHAT SUPPORT DOES THE EU PROVIDE TO SMES?



Access to Finance (A2F):

- concessionary loans via national banks
- microfinancing for household businesses
- small grants to SMEs
- training staff at national banks to better serve SMEs
- training SMEs in financial literacy



Business Development Services (BDS):

- providing direct advice and training to SMEs
- training and capacity-building among national business support organisations (BSOs)
- establishing business incubators for start-ups
- developing business clusters for mutual support and development
- supporting governments in identifying new markets
- building capacities at export support organisations



Business Enabling Environment (BEE):

- promoting regulatory reform and best practices
- building capacity amongst policymakers and regulators
- encouraging public-private dialogue
- informing business about reform processes and rules/procedures

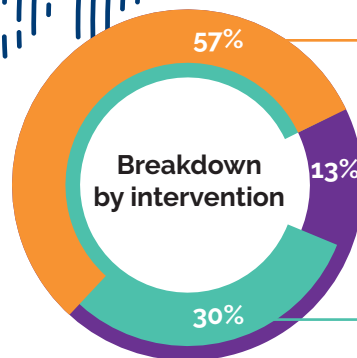
PORTFOLIO FOR ARMENIA IN 2019

26 projects

Total budget of EU
support in Armenia

€76.33
million

of which
€18.3 was
million disbursed

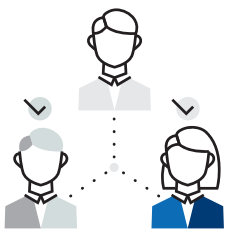


A2F
€43.58 million

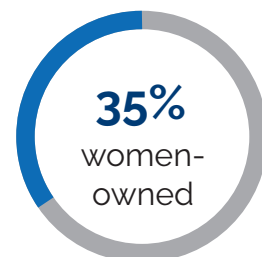
BEE
€9.68 million

BDS
€23.07 million

RESULTS OF EU SUPPORT IN ARMENIA IN 2019



8,330
SMEs supported



€895

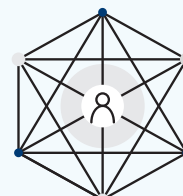
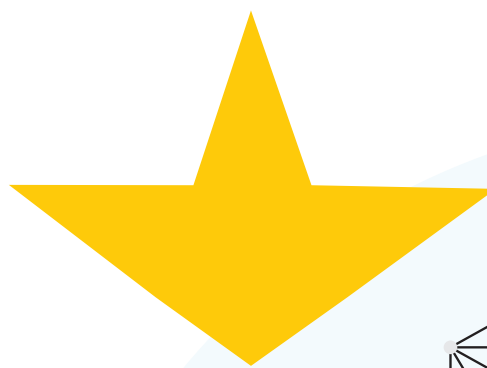
million

total turnover
of SMEs supported

€102.9

million

extra income
generated by SMEs



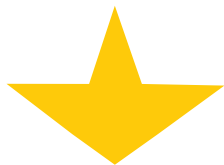
4,588
new jobs created



RESULTS OF EU SUPPORT IN ARMENIA IN 2019

35,550

employed in EU-supported SMEs



the average
SME supported
by the EU in Armenia

has

€107,000

in annual income



employs

4

individuals

WITH THE SUPPORT OF THE EU

these SMEs grew
on average by



+13.3%

more SMEs engaged
in exporting



+5.32%

expanded
their staff by



+14.8%

EU-supported SMEs
increased their exports by



+5%

For every
million euro
of EU support,

€1

million



an average of

455

SMEs
benefited



40

new jobs
were
generated



€7.9

million

increase in income
was recorded

RESULTS PER PILLARS

ACCESS TO FINANCE (A2F):



783

SMEs received loans



to women-owned SMEs

€3.8

million

total value of loans

€4,853

average loan

5

partner financial institutions supported

BUSINESS DEVELOPMENT SERVICES (BDS):

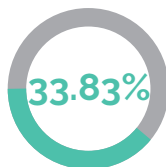


58

business support organisations improved their capacity

6,868

consultancy services delivered to SMEs



women-owned

181

SMEs participated in B2B events

BUSINESS ENABLING ENVIRONMENT (BEE):



38

laws, policies and regulations reformed

321

public-private dialogue events held

30

government institutions improved their capacity

EU4BUSINESS COMMUNICATION

EU4Business communication activities have provided an ongoing continuous effort using a structured and targeted approach. Having set out an updated vision in our communication strategy, we have aligned all processes to build a more structured system for communicating the EU4Business brand.



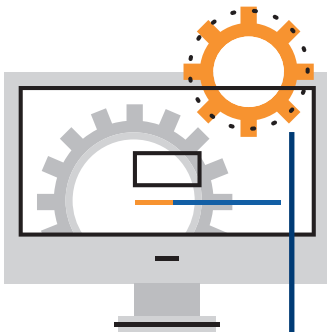
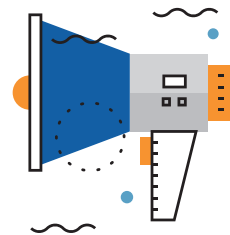
Our focus is on storytelling and putting quality of content over quantity.

Since August 2019, we have prepared more than

40
success stories
and news items

about EU support to Armenian SMEs that have been shared with the EU, our partners and the press.

Our stories have gained wide coverage in the mainstream media in Armenia.



The number of visitors to the current EU4Business website grew

17.8%

over January-August 2020, compared to the same period last year.

MODERNISING OUR WEBSITE

We have revamped our website to better match the needs of our target audiences. In December 2020, we launched the main donor-oriented platform and six country SME-focused web pages, providing a one-stop-shop for SMEs to find information about EU support.

According to Google Analytics, we received

156,975
page views

85.3%
new visitors

The initiative has eschewed paid ads, focusing instead on promoting meaningful content.

CHECK OUT



the new SME-oriented EU4Business web page for Armenia:

www.eu4business.am



the updated donor-oriented main website:

www.eu4business.eu

IN RESPONSE TO THE COVID CRISIS

our team quickly launched
COVID business help pages
for all six countries under the
EU4Business Initiative in just two
weeks.

We brought together recommendations
from the EU, governments and business.

CHECK OUT

the Covid-19 Information
Support Webpage for Armenia:
covid-19-armenia.eu4business.eu

Over May-August 2020,
we recorded more than

3,000 visits to these
Covid-19 pages



Since the pandemic
hit, we have issued
more than

25

Covid-19 Weekly
Alerts

that registered
a remarkable

40%

open rate

9%

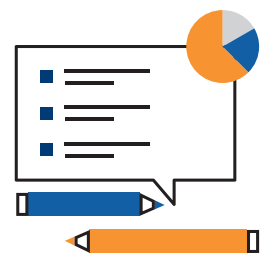
click rate

The number of
subscribers to our
digest has grown by

20%

since January
2020

To make sure that all messaging is consistent and cohesive so that a strong brand voice is established, we have upgraded the branding guidelines for the EU and our partners with easy-to-use templates and toolkits that each country will be able to adapt to its needs. The guidelines were presented to the EU, partners and projects in January 2021. Our information exchange guidelines have been widely communicated to make information flows more effortless and avoid unnecessary paper work and fully use the EU Digttool system to maximise cohesion.



Despite the challenges facing SMEs in the EaP region, and indeed the whole world, the EU's commitment to supporting Armenian businesses remains unchanged. With a new and improved vision and approach, EU4Business is ready for any further challenges 2021 might present and looks forward to reporting on yet more positive results for this year.



Mark Hellyer
Team Leader



EU SUPPORT TO SMES IN ARMENIA LIN 2019

[PORTFOLIO OVERVIEW]



EU support to SMEs is based on the joint policy between the EU and the EaP states as set out in the Eastern Partnership, 20 Deliverables for 2020, Priority I: regulatory environment, SME development and access to finance.

THE EU FOCUSES ON THREE TYPES OF INTERVENTIONS IMPROVING:



Access to
Finance
(A2F):



Business
Development
Services
(BDS):



Business
Enabling
Environment
(BEE):

26

projects provided
support to SMEs
in Armenia in 2019



with a total budget of

€76.33

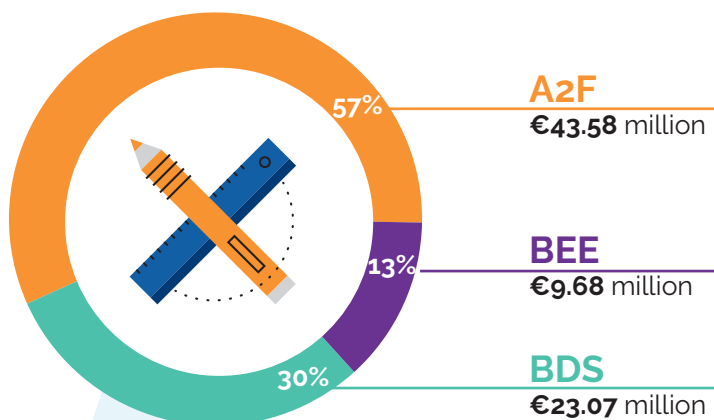
million

* This is the total value of contracts being implemented rather than disbursements in 2019.

[BREAKDOWN]

BY INTERVENTION

Breakdown of Active Projects
in Armenia by intervention
(total regional and bilateral)
in 2019

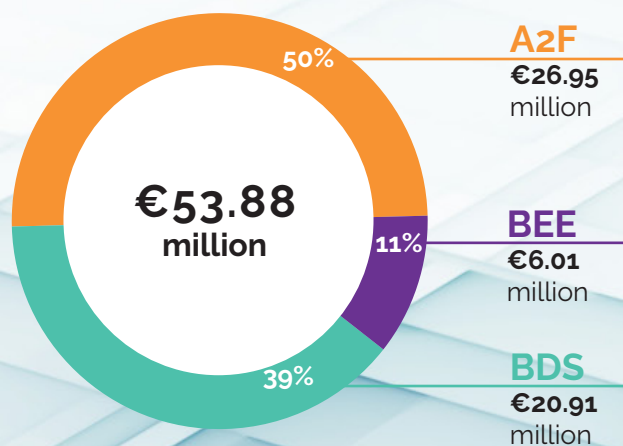


€76.33
million

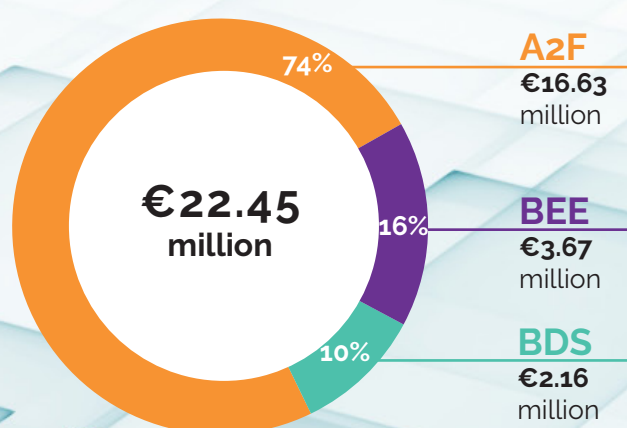
71%
of total budget

29%
of total budget

Breakdown of Bilateral
Projects in Armenia
by Intervention in 2019



Breakdown of Regional
Projects in Armenia by
Intervention in 2019



OVERVIEW

BY TYPE OF INTERVENTION

ACCESS TO FINANCE (A2F)

A2F is the largest area of EU intervention to support SMEs in Armenia.

A total of
€43.58
million

in EU support was allocated to unlock access to finance in Armenia in 2019*

3 major specific support instruments:



A7

Grants to SMEs

These grants are non-reimbursable and generally modest in order to support as many SMEs as possible. In general, SME grants are disbursed in order to target specific economic development goals, such as development in rural areas, poor communities, or a to various types of crisis. These grants are usually disbursed through Non-governmental Agencies (NGOs) with links into the targeted communities.

A8

Structured Funds

This direct finance instrument is implemented directly by EU participation as opposed to the risk sharing with IFIs. Typically, this involves direct loans or equity investment in a financial instrument or fund. As the EU does not have the capacity to disburse direct loans to SMEs, this function is assigned to an intermediary. The most important EU investment in Direct Finance is shares in the European Fund for Southeastern Europe.

A9

Equity

Equity is a direct investment instrument for funding SMEs by buying participation (shares) in the respective company. This type of support instrument involves more risk and is currently only active in Armenia, where the EU is providing a first loss guarantee for the Amber Equity Fund, which invests equity in Armenian SMEs.

* This is the total value of contracts being implemented, not disbursements in 2019.

Allocation of
A2F Budgets
in Armenia by
Instrument

* There might be some
round-off errors in some
figures throughout the
report

Grants
to SMEs

A7

€16.19
million

37.1%

Structured
Funds

A8

€16.63
million

38.2%

Equity

A9

€10.77
million

24.7%



Structured
Funds

A8

**€16.63
million**

100%

60.1%

A7

**€ 16.19
million**

Grants
to SMEs

A9

**€ 10.77
million**

Equity

39.9%

Allocation of Regional A2F
Budgets in Armenia by
Instrument in 2019*

€16.63
million

38%

Allocation of Bilateral A2F
Budgets in Armenia by
Instrument in 2019*

€26.95
million

62%

* There might be some round-off errors in some figures throughout the report

BUSINESS DEVELOPMENT SERVICES (BDS)

BDS is the second largest area of EU intervention to support SMEs in Armenia.

A total of

€23.07

million

in EU support was allocated to improving business development services in Armenia in 2019*



6

specific support instruments:

B1

Consultancy Services for SMEs

B2

Capacity Building among BSOs

B3

Incubators

B4

Clusters

B5

Trade Information

B6

B2B Activities

THE SIX SUPPORT INSTRUMENTS THE EU4BUSINESS INITIATIVE USES FOR IMPROVING BUSINESS DEVELOPMENT SERVICES AND KNOWLEDGE TO SMES IN ARMENIA ARE DEFINED BELOW:

B1

Consultancy Services for SMEs

Through this instrument, the EU4Business Initiative aims to directly increase the knowledge and skills of SMEs in EaP countries through the direct provision (fully or part paid) of non-financial business services (these can range from basic start up and registration, accounting, marketing, input supply, technology

and product development, training and technical assistance, infrastructure support and advocacy). These services can be delivered through both international and/or local consultants, in both private firms/ individuals and/or business support organisations.

* This is the total value of contracts being implemented, not disbursements in 2019.

B2

Capacity
Building of
BSOs

This instrument aims at increasing the capacity of Business Support Organisations (SME associations, professional bodies, the Sector Trade Association, training institutes, etc) to deliver BDS services to SMEs (whether members or not). The

capacity building is achieved through mentoring, training trainers, advisory services and study tours to either enhance existing services, build new ones, or improve organisational structures.

B3

Incubators

The business incubator is an organisation designed to accelerate the growth and success of entrepreneurial companies through an array of business support resources and services that could include physical space, capital, coaching, common services, and networking connections.

The EU4Business incubators instrument generally shares the cost with the local

authorities where the EU bears the cost of refurbishment and cost-sharing arrangements for the running costs and/or service provision. One of the most important aspects related to this instrument is sustainability. As operation costs are high, the initial financial set-up is crucial for keeping the incubators viable after the EU4Business intervention ends.

B4

Clusters

This instrument involves group support to SMEs involved in the same field of activity but on different positions in the value chain or with common interests. The basis of the clusters approach is the

synergy of creating a more effective value chain within the cluster. The success of the SME cluster is tightly related to the level of value added in the respective field of activity.

B5

Trade
Information

The Trade Information instrument provides SMEs already exporting, exporting infrequently, or those interested in exporting with the range of information needed to move closer to exporting. This instrument can include generating

the necessary information (brochures, guides, market reports) or developing tools for accessing online resources and intelligent searches and covers market information, marketing guides and market access requirements.

B6

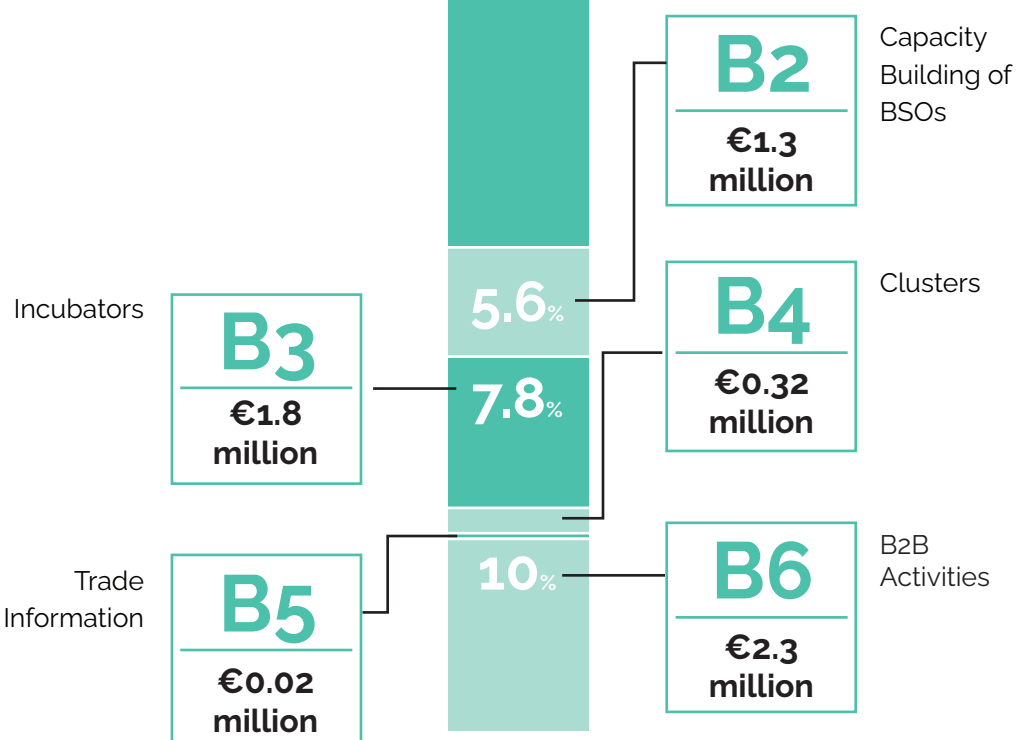
B2B
Activities

Business to Business (B2B) activities support SMEs to make specific contact with nominally interested buyers (company decision makers in target export markets who regularly buy the export on offer). These can include participation in online buyer auctions, trade fair participation,

inward and outward trade missions, buyer meetings, etc. EU4Business support can range from organisation, logistics, preparation and advice, as well as covering the costs of travel and/or stand and event costs.

BDS Portfolio by Instrument

* There might be some round-off errors in some figures throughout the report



Regional BDS projects by Instrument in Armenia*

€2.16
million
9%

Consultancy
Services for
SMEs

B1

**€1.2
million**

55.6%

Capacity
Building of
BSOs

B2

**€0.4
million**

18.5%

Incubators

B3

**€0.56
million**

25.8%

Bilateral BDS projects by Instrument in Armenia*

€20.91
million
91%

77.1%

B1

**€16.13
million**

Consultancy
Services for
SMEs

B2

**€0.9
million**

Capacity
Building of
BSOs

B3

**€1.24
million**

Incubators

B4

**€0.32
million**

Clusters

B5

**€0.02
million**

Capacity
Building of
BSOs

B6

**€2.3
million**

B2B
Activities

4.3%

5.9%

11%

* There might be some round-off errors in some figures throughout the report

BUSINESS ENABLING ENVIRONMENT (BEE)

BEE is the third area of EU intervention to support SMEs in Armenia.

A total of

€9.68

million

in EU support was allocated to improving the business enabling environment in Armenia in 2019³



4

 specific support instruments:

C1

Capacity Building among policymakers and regulators

C2

PPD (Public Private Dialogue)

C3

Regulatory Reform

C4

Information and Communication for SMEs

16%

C1

€1.55 million

Capacity Building among policymakers and regulators

70.1%

C2

€6.79 million

PPD (Public Private Dialogue)

10.5%

C3

€1.02 million

Regulatory Reform

Information and Communication to SMEs

C4

€0.32 million

THE FOUR SUPPORT INSTRUMENTS THAT THE EU4BUSINESS INITIATIVE USES FOR CONTRIBUTING TO A BUSINESS ENABLING ENVIRONMENT ARE DEFINED BELOW:

C1

Capacity Building among policymakers and regulators

Through this instrument, EU4Business interventions aim at strengthening the capacity of staff of various government agencies to ensure better, more transparent, and open policies and regulations that affect business, whilst ensuring appropriate controls in the six EaP countries. This can include making and

amending policies, laws and administrative procedures based on need and risk assessment. Through this instrument, the EU4Business interventions deliver direct advisory, mentoring services, and study tours to the relevant staff involved in policy making.

C2

PPD (Public Private Dialogue)

Public-private dialogue is an instrument for more inclusive and targeted policymaking. Specifically, it involves effective consultation and collaboration between government and the private

sector and/or its representatives, in order to achieve effective reform and administration of regulations that affect SMEs.

C3

Regulatory Reform

Through this instrument, EU4Business interventions support EaP countries to improve the regulatory environment based on best practices and most often approximation (to align their SME-related legislations, rules, and regulations with those of the EU).

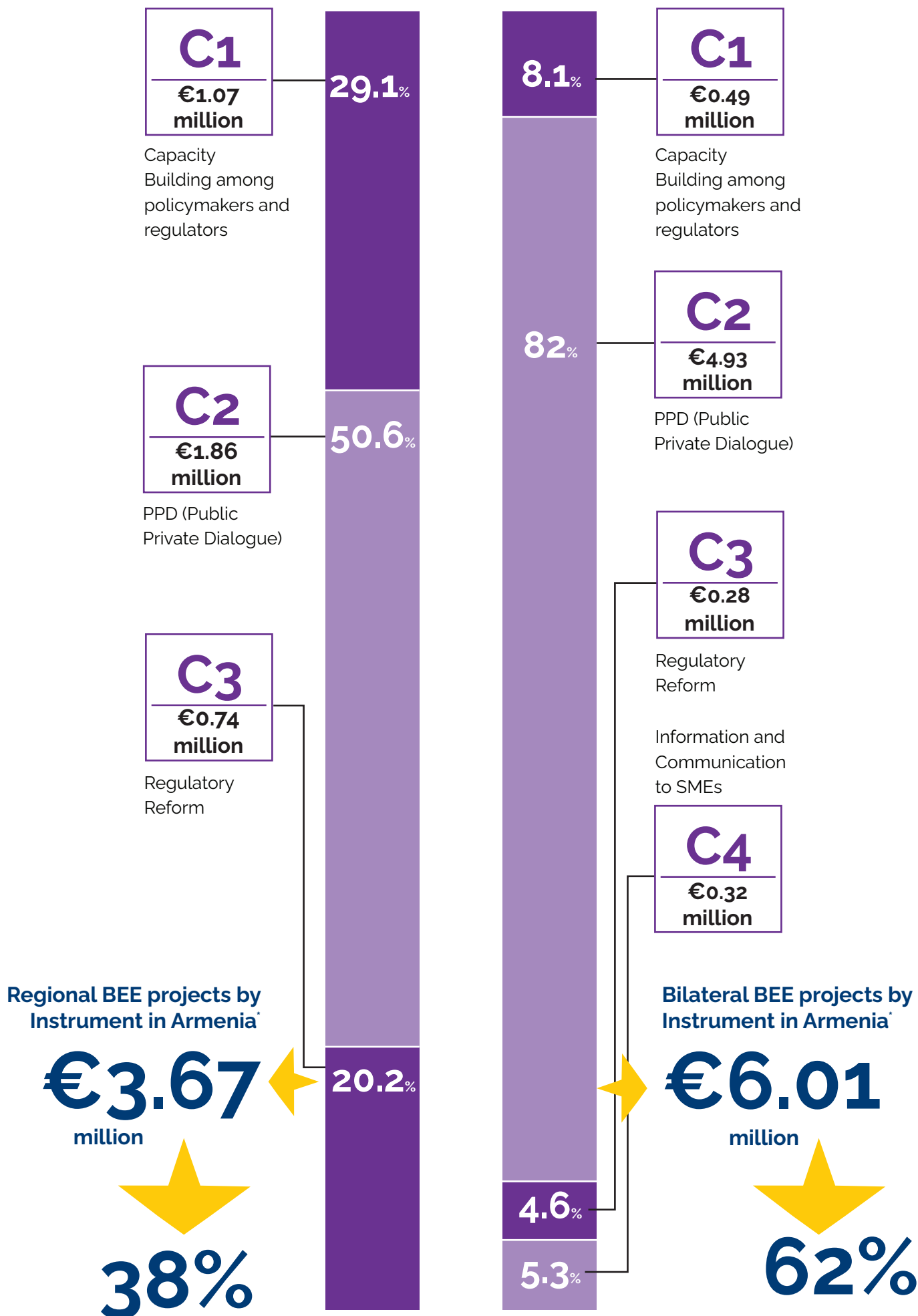
Approximation occurs in all six Eastern Partnership countries, but it is more intensely applied in the three DCFTA countries, which have committed to widespread adoption of EU business acquis under the Association Agreement (AA).

C4

Information and Communication to SMEs

Through this instrument, EU4Business interventions support government to inform SMEs on reforms and implications

for their business and steps to comply with regulatory reform.



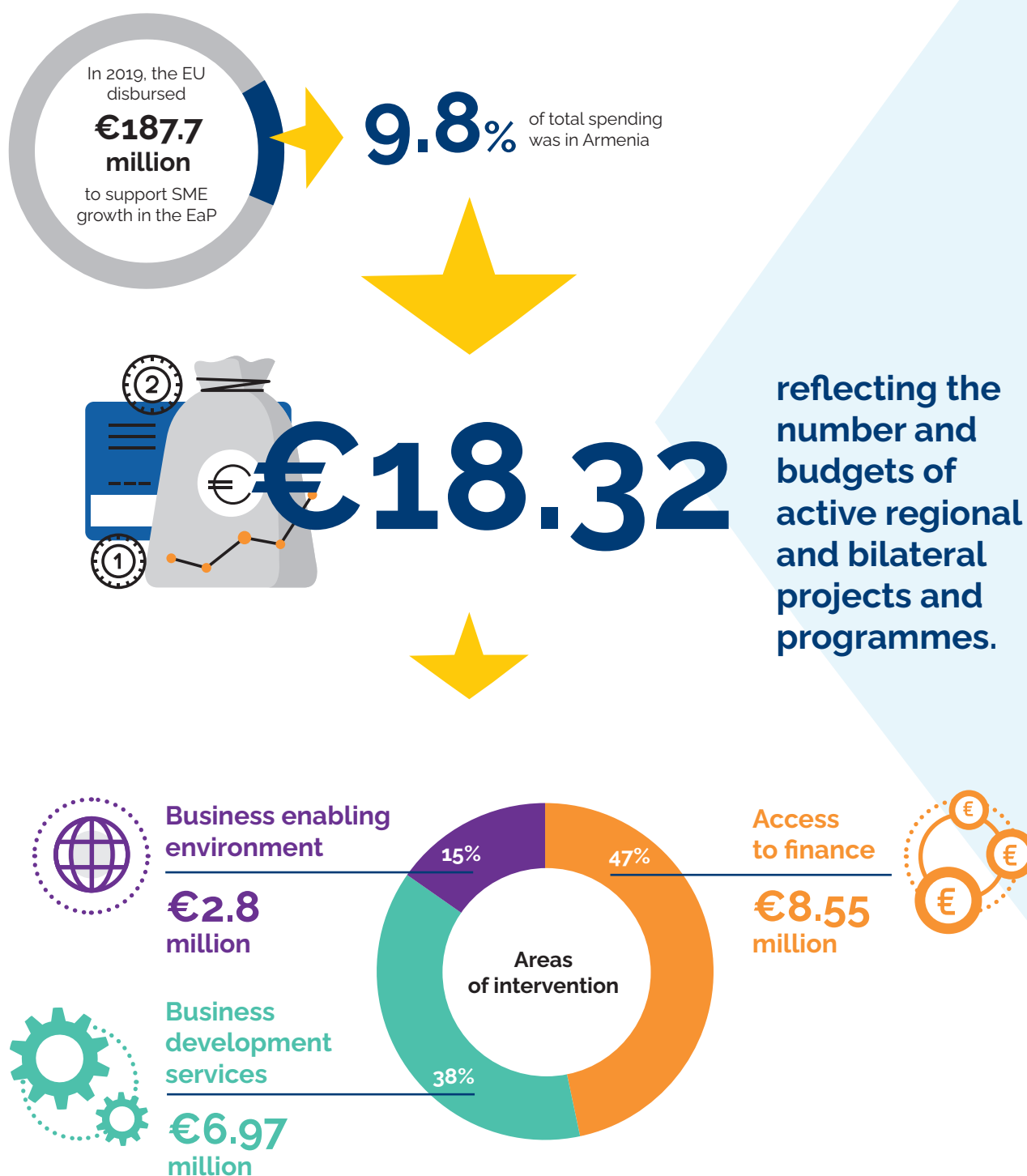
* There might be some round-off errors in some figures throughout the report



[ACHIEVEMENTS] LIN 2019_____

[AGGREGATED RESULTS] IN ARMENIA IN 2019

EU support to SMEs in Armenia is reported here under the EU4Business banner. It is a cumulation of all EU support but, unlike in previous years, we were reporting by instrument rather than by project, based on the three types of intervention (A2F, BDS and BEE). This makes it possible to isolate and present results by country, intervention and/or instrument in a more meaningful way to enable readers to analyse and assess EU support more readily.



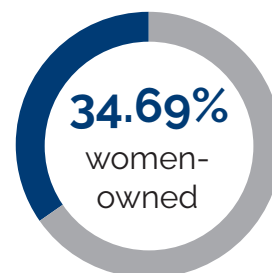
NUMBER OF SMES SUPPORTED



Overall, the EU supported a massive of

8,330

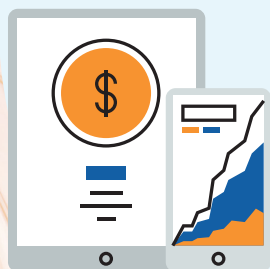
SMEs in Armenia in 2019



€895

million

total turnover
of EU-supported
SMEs in Armenia



35,550

employed in EU-supported
SMEs in Armenia

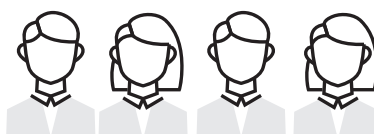


the average
SME supported
by the EU in Armenia

has

€107,000

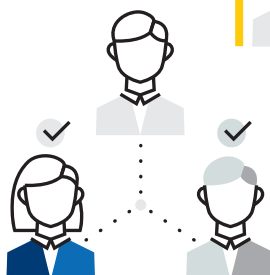
in annual income



employs

4.3

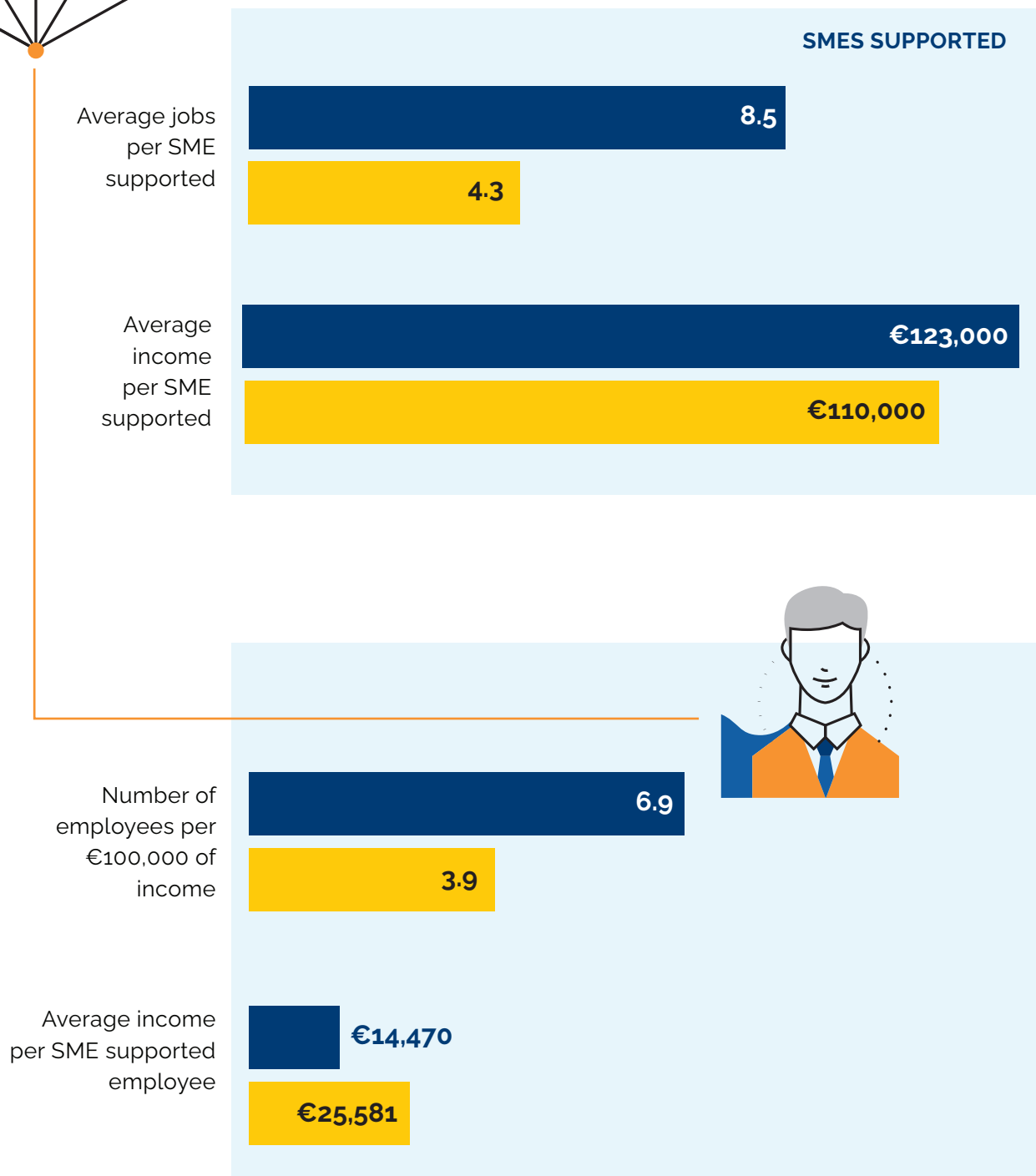
individuals



1.5 of whom
were women



This was the third largest average income per SME supported in the EaP, where the average was **€123,000**.

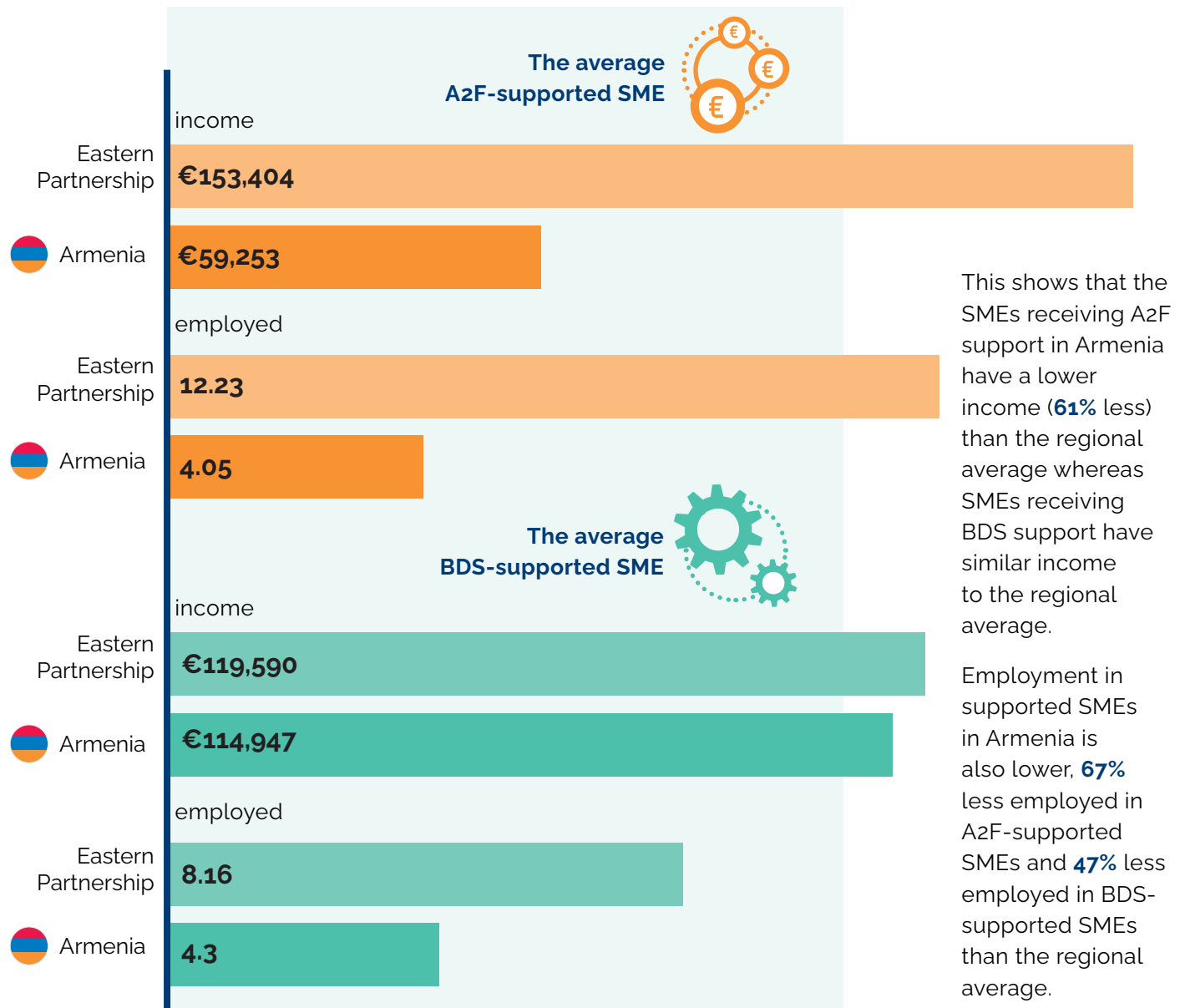
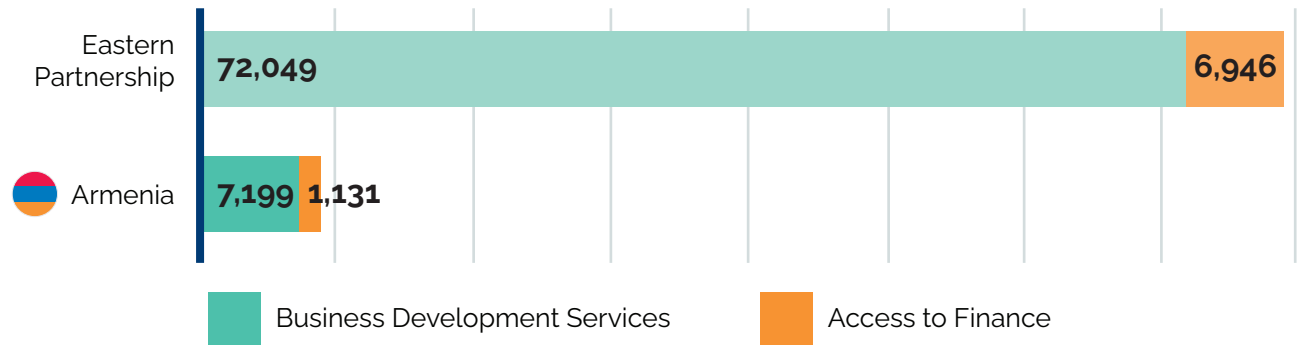


Eastern Partnership Armenia

The average number of jobs in SMEs supported in Armenia is lower per SME and per **€100,000** in income. This means that EU-supported SMEs in Armenia employ relatively fewer people than the average, but this also means that the average income per employee of SME supported in Armenia is almost **80%** higher, indicating support to higher value-added business.

THE NUMBER OF SMES SUPPORTED PER PILLAR ARMENIA VS THE EAP

The number of SMEs supported through access to finance accounted for **13.5%** of all SMEs supported in Armenia, which is higher than the average of **8.8%** across the EaP, with the remaining SMEs supported through business development services. Note that SMEs benefiting from improved business enabling environment activities were not included in the consolidated reporting of support, as potentially all SMEs in the country can benefit from reforms.



JOB CREATION PER PILLAR ARMENIA VS THE EAP

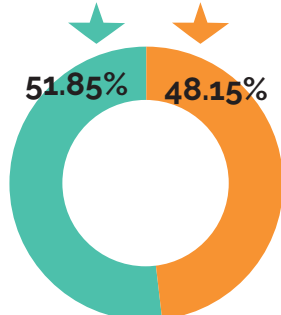
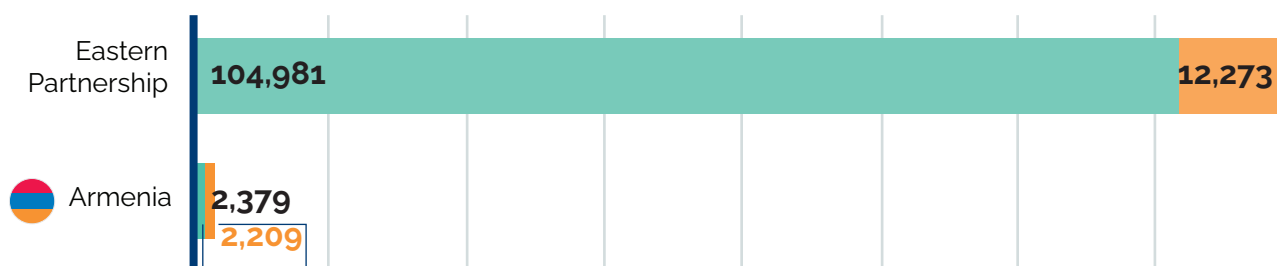
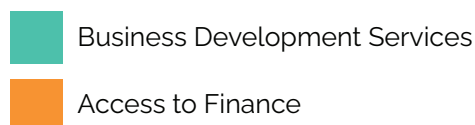
In 2019, SMEs supported by the EU in Armenia generated

4,588
jobs



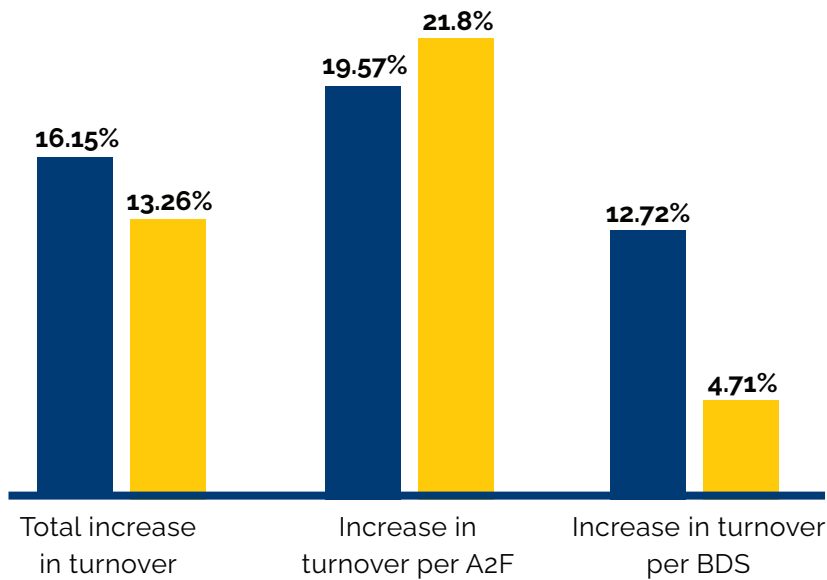
increased staff by
+14.8%
and ranked fourth
in the Eastern
Partnership region

compared to
the EAP average of
+21.1%



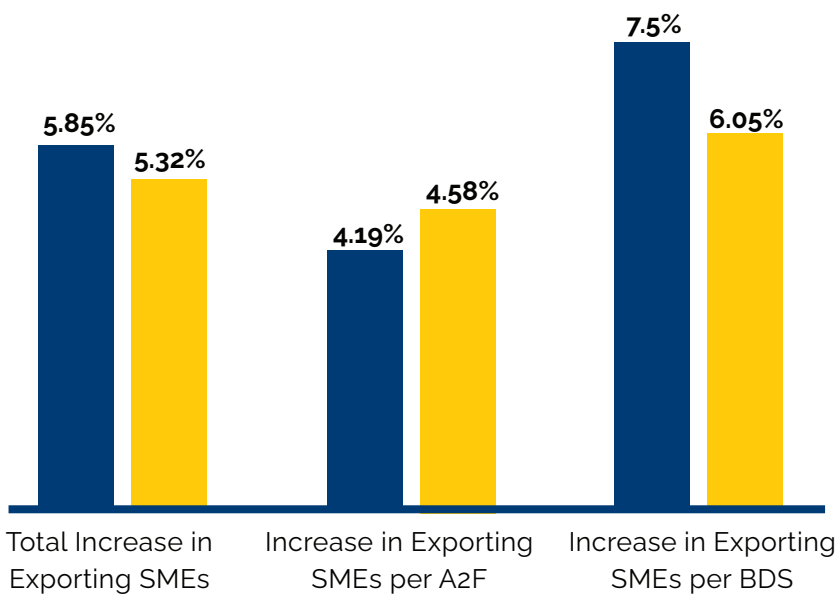
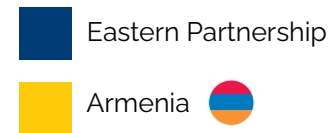
Despite significantly more SMEs supported through BDS, the distribution of new jobs was balanced between business development services at **51.85%** and access to finance at **48.15%** of all jobs generated.

This trend is different from the EaP as a whole, where the majority (**91.2%**) of SMEs supported are in BDS, with an average of **89.53%** of jobs generated coming from BDS firms.



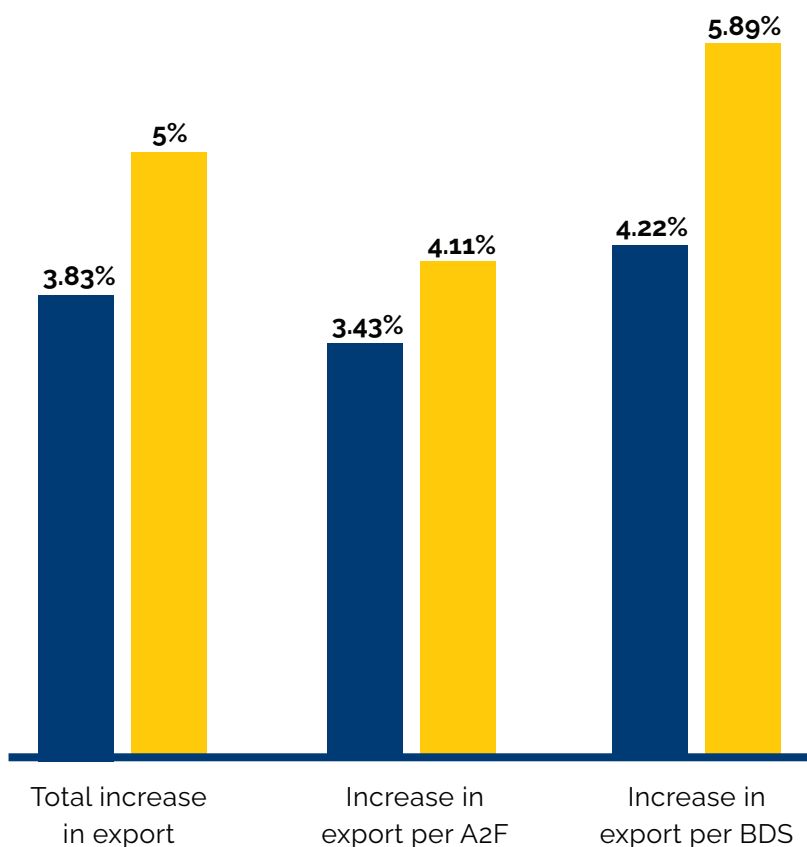
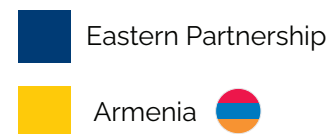
INCREASE IN TURNOVER

Supported SMEs in Armenia increased turnover by **13.2%** in 2019, which is close to the regional average of **16.15%**.



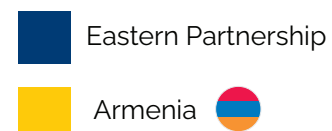
INCREASE IN EXPORTING SMEs

The number of supported SMEs in Armenia engaged in exporting grew close to the EaP average.



INCREASE IN EXPORT

Amongst supported SMEs engaged in export, there was a **5%** increase in exports, which is the highest in the region and well above the **3.8%** average growth.



ACCESS TO FINANCE

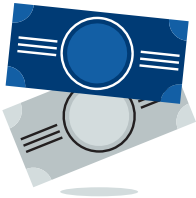
FOR ARMENIAN SMES

OVERALL RESULTS OF A2F INTERVENTIONS IN 2019 WERE:



1,131

SMEs supported with
A2F interventions



€3.8
million

in loans disbursed

€4.2
million

in grants disbursed



2,209

new jobs
generated at SMEs
supported through A2F

27.78%

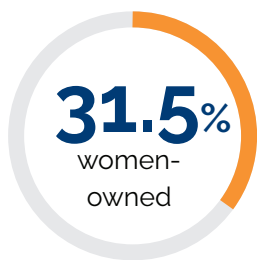
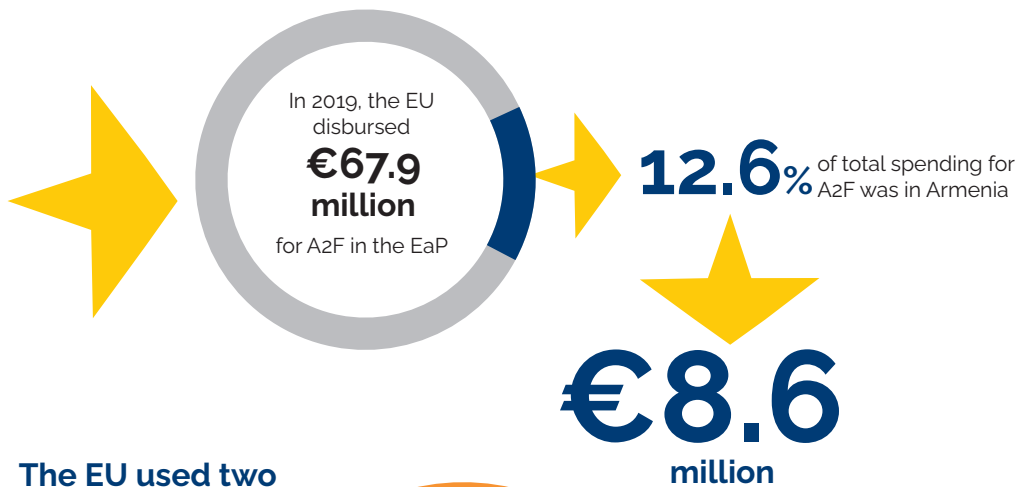
increase in income
of supported SMEs

NUMBER OF SMES SUPPORTED PER ACCESS TO FINANCE INSTRUMENTS IN ARMENIA



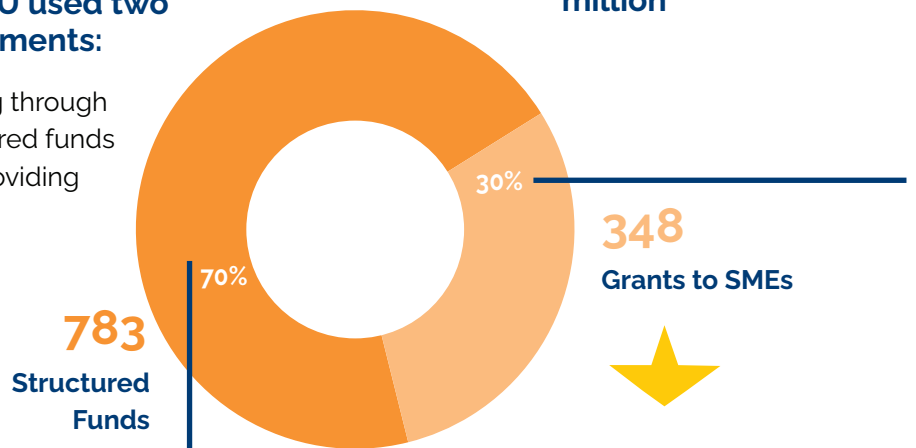
1,131

SMEs were supported with A2F interventions in Armenia



The EU used two instruments:

lending through structured funds and providing grants



€12,085
average size of grants

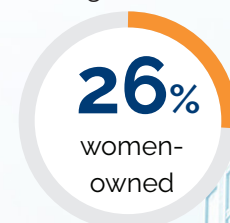


€3.8 million

was disbursed through structured funds, leading to the same amount in sub-lending via local partner financial institutions (PFIs).

Since all loans were disbursed through EU participation in structured funds, the amount of EU disbursed budget equals the value of allocated loans, namely €3.8 million in 2019.

€4,853
average size of loans



RESULTS PER A2F INSTRUMENT



	Number of SMEs supported	Income of SMEs	Jobs in SMEs	Jobs generated	Increase in turnover
Total	1,131	€67,015,008	4,580	2,209	€7,091,516
Structured Funds	783	€62,640,000	2,800	80	€5,011,200 ↑ 8%
Grants to SMEs	348	€4,375,008	1,780	2,129	€2,080,316 ↑ 47.55%

In terms of loans,

100%

were disbursed via
structured funds.

21

Structured
Funds

JOBS CREATED PER €1 MILLION LOAN IN ARMENIA

**21
jobs**

**25
jobs**

For each **€1 million**
in loans provided
through structured
funds in Armenia,
21 jobs were
generated, which is
similar to the regional
average of **25**.

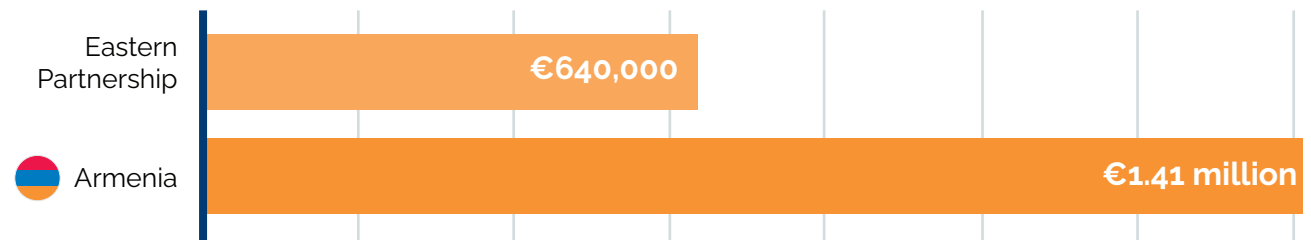
JOBS CREATED PER €1 MILLION GRANTS

In 2019, **506** jobs were generated per €1 million of EU support to SMEs in the form of grants.



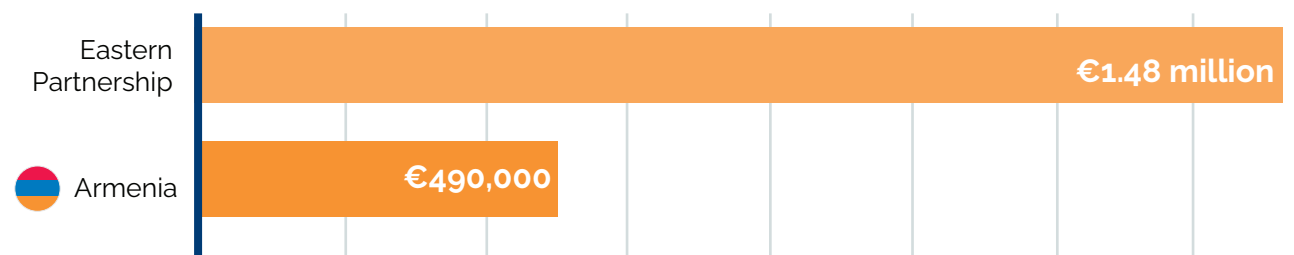
INCREASE IN TURNOVER PER €1 MILLION LOANS

Similarly, for each **€1 million** lent through structured funds in Armenia in 2019, supported SMEs increased turnover by **€1.4 million**. This is far higher than the regional average of a **€640,000** increase in turnover.



INCREASE IN TURNOVER PER €1 MILLION GRANTS

However, the increase in turnover of supported SMEs per **€1 million** in grant funding was much lower at **€490,000**. This is because the grant programme targeted rural micro-enterprises in the poorer areas of Armenia.



BUSINESS DEVELOPMENT SERVICES (BDS)

FOR ARMENIAN SMES

OVERALL RESULTS OF BDS INTERVENTIONS IN 2019



7,199

SMEs supported through
BDS interventions



2,379

new jobs
generated at SMEs
supported through BDS



6%

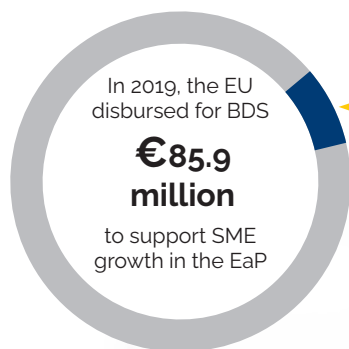
increase in income at
supported SMEs



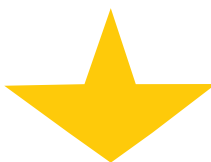
58

BSOs
capacitated

Armenia ranks fourth in the Eastern Partnership region in terms of funds disbursed for improving business support services in 2019.



8% of total spending for
BDS was in Armenia



€6.9
million



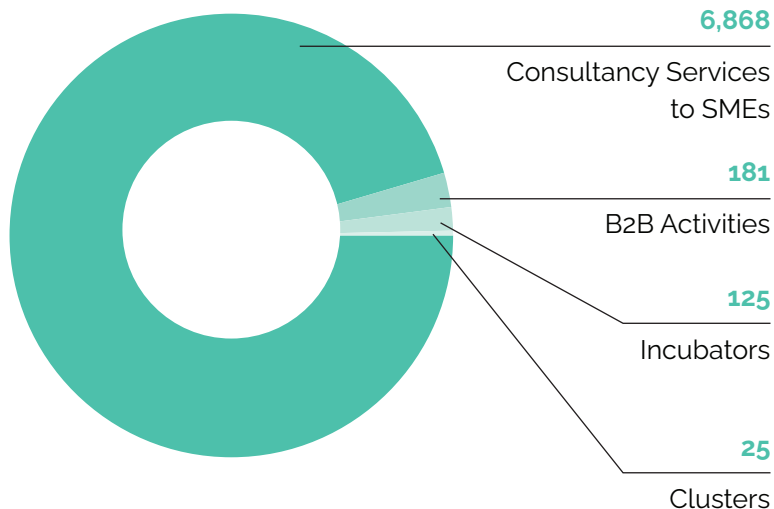
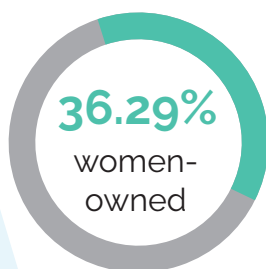
NUMBER OF SMES SUPPORTED PER BUSINESS DEVELOPMENT SERVICES INSTRUMENTS IN ARMENIA



A total of 7,199 SMEs, 36.29% of them owned by women, benefited from business development services supported by the EU; **95.4%** through consultancy services provided directly to SMEs, with **2.51%** through B2B activities, **1.7%** to incubators, and **0.35%** to clusters.

7,199

SMEs benefited



RESULTS BY BDS INSTRUMENTS

	Sustained jobs	New jobs	Turnover	Turnover increase
Consultancy Services to SMEs	29,180	1,248	€823,276,714	€76,976,373 ↑9.35%
Incubators	1,239	280	€3,158,193	€263,078 ↑8.33%
Clusters	300	58	€480,884	€21,784 ↑4.53%
B2B Activities	251	793	€590,914	€10,636 ↑1.8%

ORGANIC HERBAL TEAS SPREAD NATURE'S HEALING POWER

EDNA LLC, a natural herbal tea producer, received support from EU4Business and the EBRD for branding and packaging design to enter new markets. The company saw an increase in sales by 30% and growth in turnover by 35%.

[Read full story](#)



"Two-month expert support made it possible to take all the necessary steps: concept development, copywriting, packaging design, and tea label design, and the final processing of the print file. Within three months, the developed branding was brought to life."

Gnel Nazanian

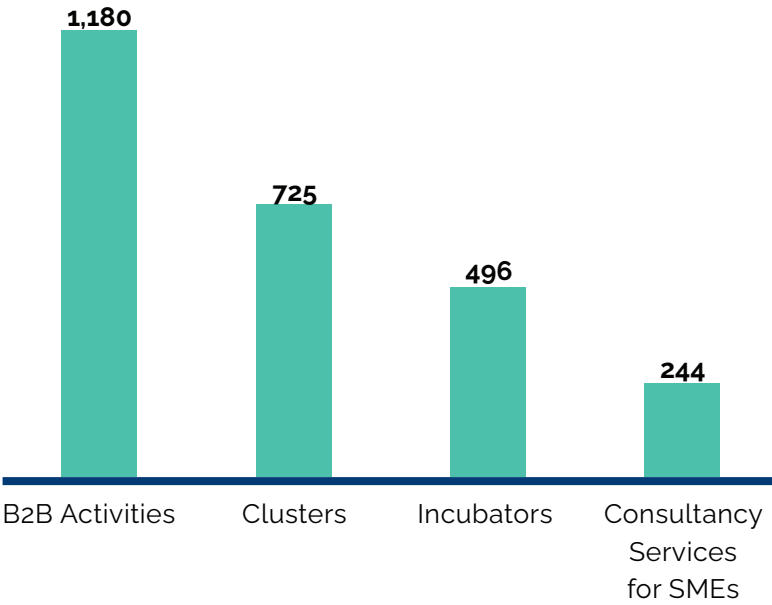
Founder and Executive Director of EDNA



"Moreover, the EU assistance also helped to expand the brand to include organic honey and natural syrups, with seven sub-product designs for each of the new products launched. After this, we were able to expand our product line with new offerings, expand our customer base, and increase awareness on the local market."

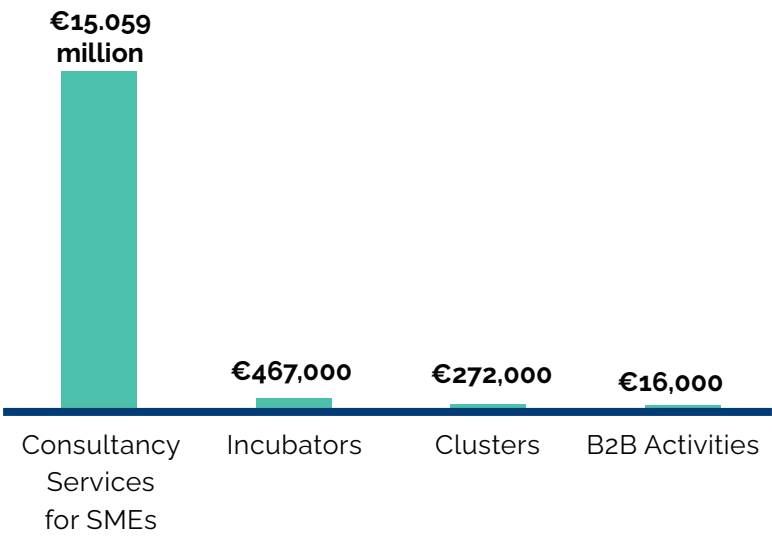
JOBS CREATED PER €1 MILLION EU SPEND ON BUSINESS DEVELOPMENT SERVICES IN ARMENIA

In terms of job creation, SMEs that received EU support in B2B generated more jobs, and for every **€1 million** of support to B2B, supported SMEs generated **1,180** new jobs, compared to only **244** among SMEs receiving consulting services.



INCREASE IN TURNOVER PER €1 MILLION EU SPEND ON BUSINESS DEVELOPMENT SERVICES IN ARMENIA

By contrast, SMEs receiving consulting services increased their income by far higher levels than SMEs supported through other instruments. For each **€1 million** of support in consulting services, supported SMEs grew by **€15 million** compared with only **€16,000** from B2B activities.



SUCCESS STORIES



WINERY FINDS NEW MARKETS AND TOURIST HUB WITH EU4BUSINESS SUPPORT

EU4Business and the EBRD assisted Voskevaz Winery LLC with consultancy on strategic planning, product expansion, investment plan development, expansion into foreign markets, and financial modelling. As a result, Voskevaz's sales increased by 21%, annual turnover grew 22%, and the company saw exports jump 18%.

[Read full story](#)



TRIPLE ONLINE SALES, NEW MARKETS AND BUSINESS STANDARDS FOR FOOD FIRM

Karas Group, one of the largest delivery services in Armenia, received assistance from the EBRD and EU4Business to improve HR policies and procedures, establish a quality and food safety control system by introducing HACCP, improve its marketing strategy, and increase overall cost effectiveness resulting in increased turnover by 31% and sales growth by 20% in a single year.

[Read full story](#)



[BUSINESS ENABLING ENVIRONMENT]

FOR ARMENIAN SMES

OVERALL RESULTS IN BUSINESS ENABLING ENVIRONMENT INTERVENTIONS IN ARMENIA IN 2019

38

laws changed



321

PPD events



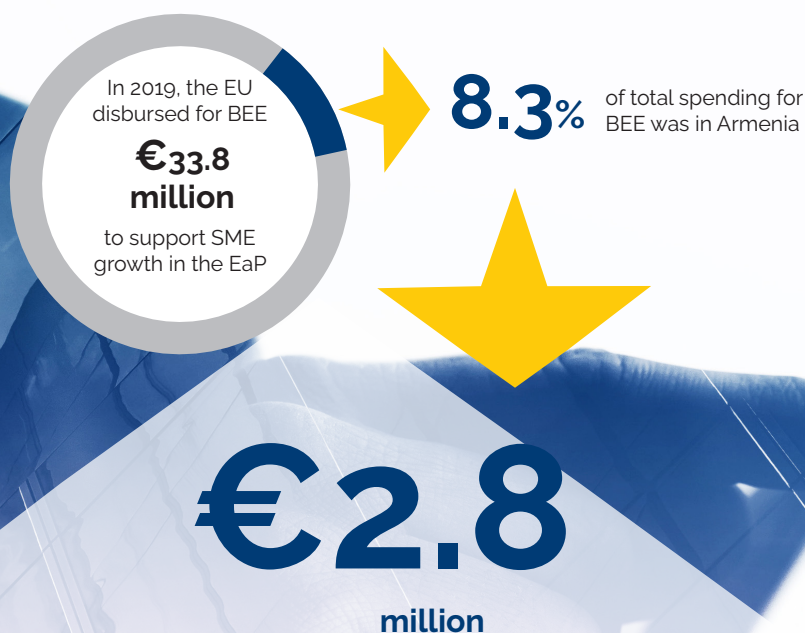
30

regulators/policymakers strengthened capacity

Within EU4Business reporting, support for improving the business enabling environment is treated differently. Whilst improvements in the business enabling environment will inevitably improve competitiveness, lower costs and make SMEs more efficient, it is more difficult to isolate those that directly benefitted, as potentially, all will benefit, since, for example, reforms that make it easier and less costly to pay taxes will benefit all SMEs.

EU SUPPORT AIMED AT IMPROVING THE BUSINESS ENABLING ENVIRONMENT IN ARMENIA

Armenia ranks fifth in the Eastern Partnership region for the amount of funds spent for a better business environment in 2019:



SUCCESS STORIES



AN INNOVATIVE BUSINESS CENTRE IN ARMENIA HELPS SMES TO GROW

The EU-supported Sevan Innovative Business Centre has become a hub for new business ideas and initiatives – more than 60 entrepreneurs have benefitted from the Centre's services for developing a business plan and some 200 have gone through workshops. Alongside business support, training and assistance is regularly provided to job seekers, especially young people and women and disabled individuals, to enable them to get jobs as qualified professionals.

[Read full story](#)



THE SUPPORT INSTRUMENTS USED TO IMPROVE THE BUSINESS ENABLING ENVIRONMENT ACTIVE IN ARMENIA IN 2019 INCLUDED:



Changing / improving laws and regulations



Public-private dialogue events



Capacity building among government agencies / regulators

The best-performing instruments used in Armenia for improving the business enabling environment in 2019 were organised public-private dialogue events

NUMBER OF LAWS / REGULATIONS CHANGED

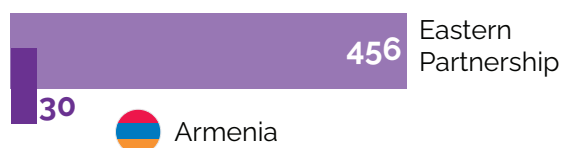


NUMBER OF PUBLIC PRIVATE DIALOGUE EVENTS

Armenia ranks third in the Eastern Partnership region, with **321 events**, compared to the average of **255 events**.



NUMBER OF REGULATORS/GOVERNMENT BENEFITING FROM CAPACITY BUILDING



SMES IN ARMENIA BENEFIT FROM IMPROVED BUSINESS ENVIRONMENT

NUMEROUS CHALLENGES REMAIN

The OECD has been working with Eastern Partner (EaP) countries for more than 10 years in an effort to guide SME policy reforms. Within the framework of the EU4Business Initiative, the OECD together with the EBRD, the European Training Foundation, and the European Commission published a third edition of the SME Policy Index¹ in March 2020, monitoring progress with regards implementation of the Small Business Act for Europe (SBA) and highlighting outstanding reform priorities.

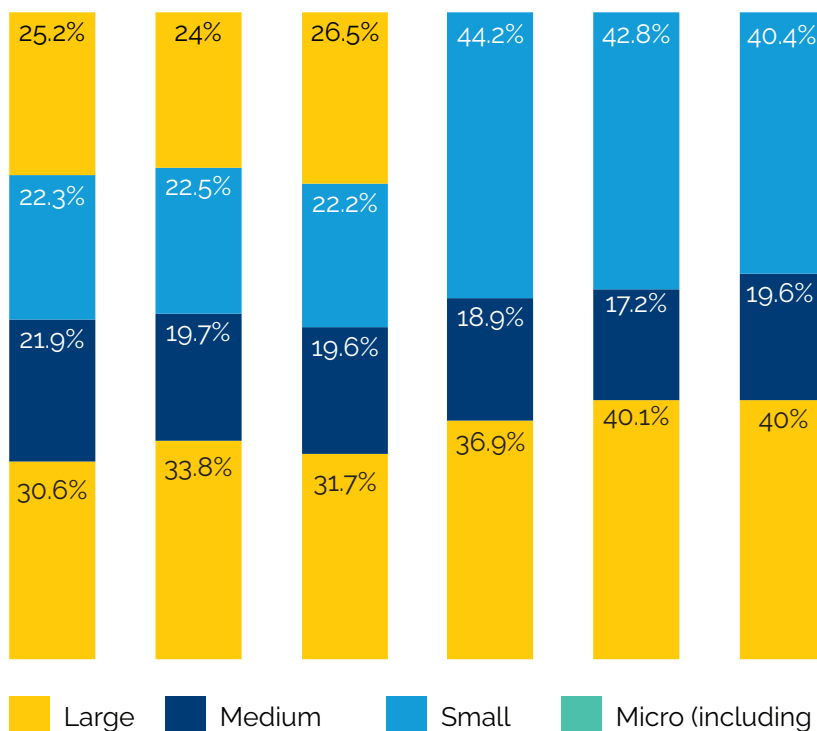
In 2018, Armenia underwent significant political changes leading to the election of a new parliament and the formation of a new government. The new government has embarked on an ambitious reform agenda that includes SME development as a priority. Due to political changes and persistent economic challenges, Armenia has achieved only limited progress since the 2016 SBA assessment.

Going forward, it is advised that Armenia finalise and adopt the SME Development Strategy 2020-2024 and establish an efficient monitoring and evaluation system. Actions of priority should focus on enhancing e-government services, improving bankruptcy procedures, offering better services to exporters, and creating a competition-friendly business environment.

SMES IN ARMENIA'S ECONOMY

SMEs play a significant role in the Armenian economy. In 2018, they accounted for **68%** of business employment and generated **60%** of value added, which is comparable to EU levels. However, their **potential remains largely untapped** as most operate in relatively low value added activities, such as the wholesale and retail trade and manufacturing.

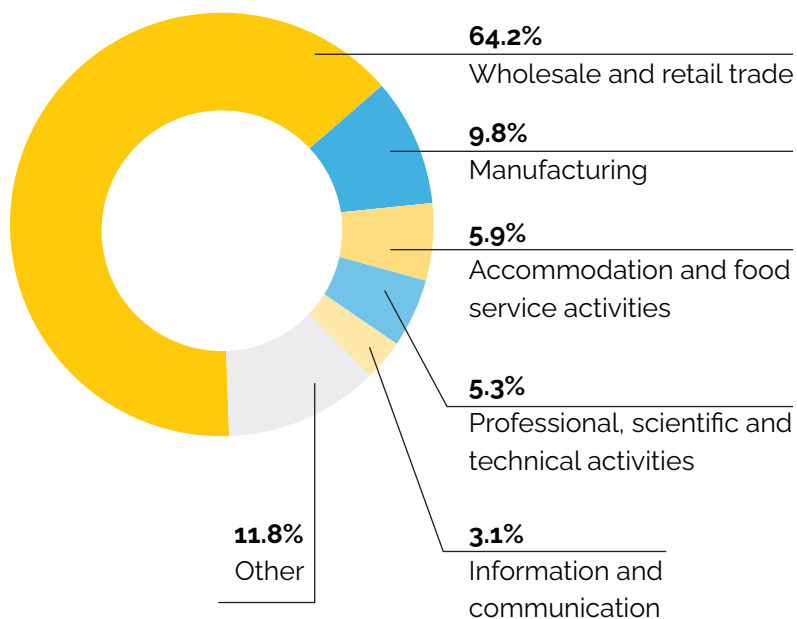
¹ OECD et al. (2020), SME Policy Index: Eastern Partner Countries 2020: Assessing the Implementation of the Small Business Act for Europe, <https://www.oecd.org/development/sme-policy-index-eastern-partner-countries-2020-8b45614b-en.htm>



Business demography by company size, 2016-2018

Note: Microenterprises are included in the small enterprises category for Value Added.

Source: Armstat (2019), Small and Medium Entrepreneurship in the Republic of Armenia, 2019.



Sectoral distribution of SMEs in Armenia, 2018

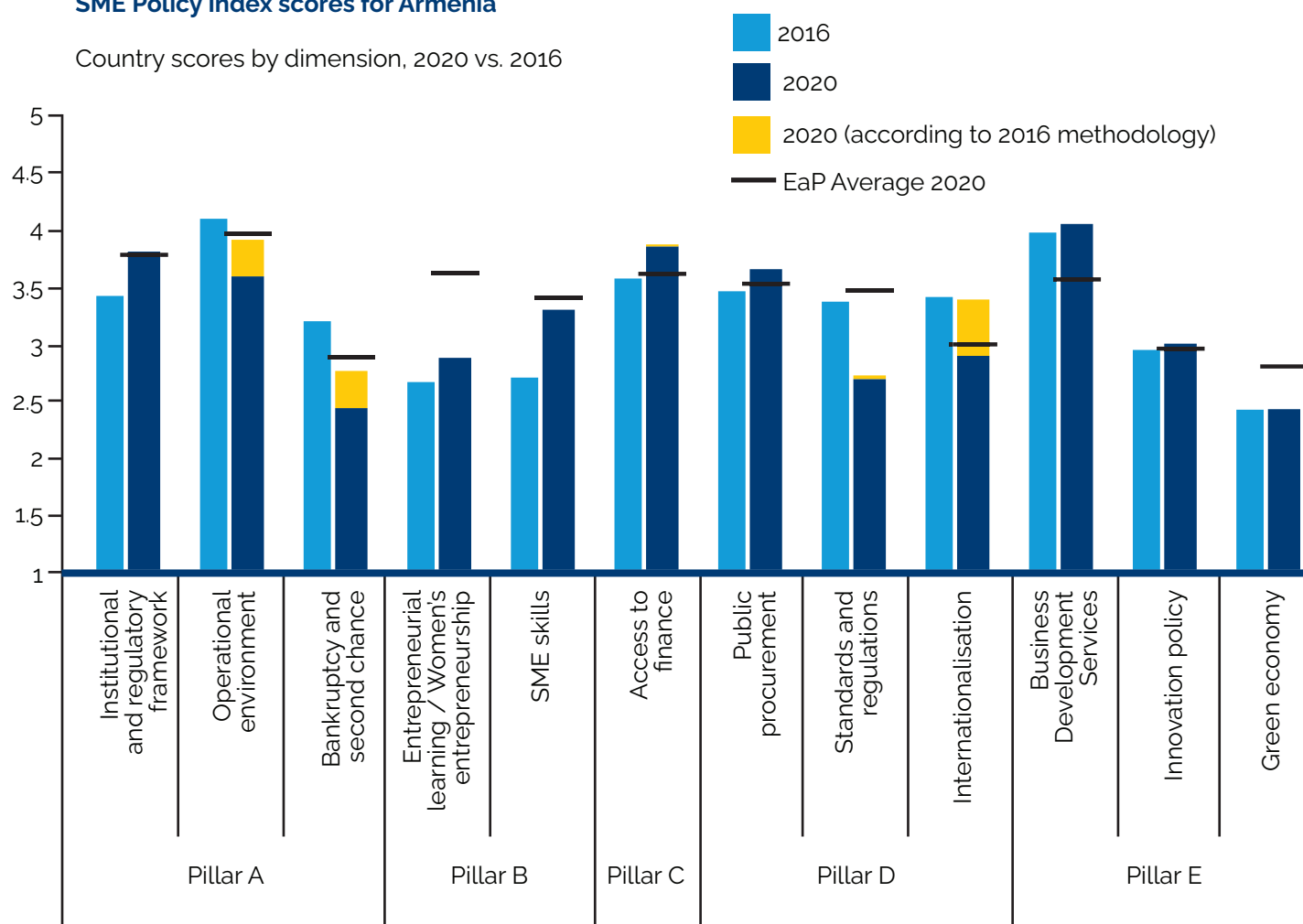
Source: Armstat (2019), Small and Medium Entrepreneurship in the Republic of Armenia, 2019.

Note: Sectors include section B to N, and sector S95, excluding sector K (financial intermediation services) of ISIC rev.4. "Other" includes administrative and support services activities, real estate activities, transport and storage, construction, computer repair, mining, energy, and water supply.

Armenia improved its position in the 2020 edition of the SME Policy Index in 8 out of 12 dimensions. Reforms were particularly significant in strengthening institutional and regulatory frameworks, which fostered SME skills development, resulting in an increase of 11% and 22%, respectively. More attention should be given to bankruptcy and second-chance policies as well as technical standards and regulations, in which performance is weakest.

SME Policy Index scores for Armenia

Country scores by dimension, 2020 vs. 2016



Since 2016, institutional and regulatory frameworks has seen improvement. With support from the OECD under the EU4Business Initiative, Armenia has made noteworthy progress in the area of **data availability**, with improvements made in the collection and analysis of business statistics, enabling policymakers to better tailor, implement, and monitor SME policies. Moreover, **company registration** has been simplified, and micro-enterprises and family businesses now benefit from a **special tax regime**. Moving forward, the government should:

- Enhance the provision of e-government services.
- Further strengthen insolvency procedures by introducing information tools and early-warning systems to support financially-distressed entrepreneurs.

The report also acknowledges Armenia's **increasing efforts to support human capital development**.

Entrepreneurial learning was integrated into curricula, and, as recommended in the 2016 assessment, **teacher training** on entrepreneurial learning is being provided. In addition, **training sessions** on specific themes or for specific target groups are being offered (e.g. for women entrepreneurs, digital skills). But to better meet SME needs:

- More coordination is needed to collect and analyse SME skills intelligence.
- E-trainings should be expanded (e.g. offline virtual courses for rural areas).

Bank financing has been facilitated, notably through public programmes. These offer, for instance, loan guarantees and interest rate subsidies, and focus on subsets of SMEs (e.g. young firms, agri-food

producers). Better monitoring systems would help to further tailor the programmes and measure their effectiveness. Overall, **access to finances remains an issue for SMEs**: SMEs rely mostly on bank lending as non-bank alternatives are underdeveloped. Uptake for leasing and factoring for instance is still low, at 1% or less of GDP. However, positive steps have been taken to improve financial literacy with the creation of an information portal and the provision of training sessions on the topic.

With regards access to markets, SME participation in public procurement is being fostered with the introduction of an **e-procurement system** (2018) and the adoption of a new public procurement law in line with EU directives. However, little progress has been achieved on **SME internationalisation**: SME exports represented only 13% of total exports in 2017. Moving forward, Armenia could:

- ✦ Improve the provision of adequate and timely information on regulatory changes and the capacity of IT systems to exchange documents electronically.
- ✦ Provide training and consulting services to improve export readiness of SMEs and facilitate their integration into global value chains.

SMEs in Armenia benefit from various **business development services**. The SME Development Centre notably provided information and consulting

services to 4,000 entities and held 314 training sessions in 2018. **Initiatives to support innovation** are being expanded (e.g. establishment of techno parks, grants) but they remain mostly limited to the IT sector. Going forward, the government could:

- ✦ Extend these policy tools to other sectors.
- ✦ Increase policy coordination.
- ✦ Conduct impact assessments.

As for **SME greening**, some provisions are included in the previous SME strategy, but they have not been implemented and measurable targets have not been set.

Overall, the government needs to continue working on creating a **level playing field** for enterprises of all sizes to further improve the business environment. In particular, important challenges remain regarding competition and contract enforcement. Authorities need to:

- ✦ Prioritise enforcement against cartels.
- ✦ Ensure implementation of the e-justice reform.
- ✦ Promote alternative dispute resolution.

LIST OF PROJECTS

IN ARMENIA AS OF 2019

Title	Total Budget*	Start date	End date	Type of the Project	Areas of Intervention		
					A2F	BDS	BEE
Armenia SME Finance and Advice Facility	€15,380,000	2015	2029	Bilateral	●	●	
Innovative Tourism and Technology Development for Armenia (EU ITTD)	€13,500,000	2019	2023	Bilateral	●	●	●
EU Green Agriculture Initiative in Armenia (EU-GAIA)	€9,700,000	2019	2023	Bilateral	●		
EU4Tourism: Outdoor adventures on historic trails in Syunik	€425,000	2018	2021	Bilateral	●	●	
Strengthening EU business development in Armenia	€110,000	2018	2020	Bilateral			●
EU4Shirak: Wool for Jobs	€350,000	2018	2020	Bilateral	●	●	
Boosting competitiveness of regional SMEs	€1,123,370	2016	2020	Bilateral	●	●	●
EU4Sevan: SME Platform for Business Development and Innovation	€480,000	2018	2020	Bilateral		●	
EU4Tourism: Community-driven rural tourism and cultural activities in Gegharkunik and Vayots Dzor marzes	€431,274	2018	2020	Bilateral		●	
EU4Women: Women's Economic Empowerment through Social Enterprise	€400,000	2017	2019	Bilateral	●	●	●
Enhancing SME competitiveness through promotion and wider use of sustainable innovative technologies	€1,500,000	2016	2019	Bilateral	●	●	●
Support to SME development in Armenia	€6,400,000	2015	2019	Bilateral	●	●	●

Title	Total Budget*	Start date	End date	Type of the Project	Areas of Intervention		
					A2F	BDS	BEE
First inclusive and barrier-free Bakery and Coffee Shop in Gyumri	€269,187	2016	2019	Bilateral	●	●	
Boosting Technological Development in Shirak Marz	€510,000	2016	2019	Bilateral	●	●	
Organic Agriculture Support Initiative	€3,300,000	2015	2019	Bilateral	●	●	●
EU4Business — The EU Local Currency Partnership Initiative: the European Fund for Southeast Europe (EFSE)	€50,320,000	2018	2039	Regional	●		
Structural Reform Facility: World Bank component	€1,500,000	2018	2023	Regional			●
EU-EBRD Country-specific Investment Climate Reviews and Action Plans for Eastern partnership (EaP) countries.	€2,000,000	2018	2021	Regional			●
Mayors for Economic Growth	€4,979,800	2017	2020	Regional		●	●
Mayors for Economic Growth 2 TA	€10,000,000	2017	2020	Regional		●	●
WBG technical support to the implementation of the Mayors for Economic Growth initiative	€500,000	2016	2020	Regional		●	●
Eastern Partnership: Ready to Trade — an EU4Business initiative	€6,000,000	2017	2020	Regional			●
EU4Business: From Policies to Action	€4,000,000	2017	2020	Regional			●
SBS Program — EGP BAS Phase II	€8,000,000	2015	2019	Regional		●	
EFSE (Neighbourhood Window of the European Fund for South East Europe)	€5,100,000	2009	2019	Regional	●		
STAREP (Strengthening Auditing and Reporting in the Countries of the EaP)	€1,000,000	2014	2019	Regional			●

* Budgets indicated for regional projects apply for 6 EaP countries

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