



This action is funded by the European Union

ANNEX 1

of the Commission Implementing Decision on the Annual Action Plan 2018 of the Republic of Armenia

Action Document for EU4Armenia – Regional Development

ANNUAL PROGRAMME

This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation and action programme/measure in the sense of Articles 2 and 3 of Regulation N° 236/2014.

1. Title/basic act/ CRIS number	EU4Armenia – Regional Development 2018/041-609 financed under European Neighbourhood Instrument	
2. Zone benefiting from the action/location	East Neighbourhood, Armenia The action shall be carried out at the following location: Armenia	
3. Programming document	Single Support Framework for EU support to Armenia 2017-2020	
4. Sector of concentration/ thematic area	Sector (2) – Economic development and market opportunities	DEV. Aid: YES
5. Amounts concerned	Total estimated cost: EUR 31 250 000 Total amount of EU budget contribution EUR 28 500 000 This action is co-financed in joint co-financing by: – Austrian Development Agency for an amount of EUR 2 000 000 This action is co-financed by potential grant beneficiaries for an indicative amount of EUR 750 000.	
6. Aid modalities and implementation modalities	Project Modality Direct management – grants –call for proposals and direct award – procurement of services Indirect management with – Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)	

	<ul style="list-style-type: none"> – Austrian Development Agency (ADA) – European Bank for Reconstruction and Development (EBRD) through Neighbourhood Investment Platform (NIP) <p>The Government of the Republic of Armenia will not provide any co-financing in terms of property or financial obligations.</p>			
7. a) DAC codes	<p>43010 - Multisector</p> <p>250 – Business and other services</p> <p>311 – Agriculture</p> <p>321 – Industry; (32130) SME development; (32161) Agro-industries</p> <p>332 – Tourism</p>			
b) Main Delivery Channel	13000 - Third Country Government (Delegated co-operation)			
8. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Main objective
	Participation development/good governance	<input type="checkbox"/>	x	<input type="checkbox"/>
	Aid to environment	x	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality (including Women in Development)	<input type="checkbox"/>	x	<input type="checkbox"/>
	Trade Development	<input type="checkbox"/>	x	<input type="checkbox"/>
	Reproductive, Maternal, New born and child health	x	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Main objective
	Biological diversity	x	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	x	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	x	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	x	<input type="checkbox"/>	<input type="checkbox"/>
9. Global Public Goods and Challenges thematic flagships	Human development, incl. decent work, social justice and culture; Food and nutrition security and sustainable agriculture.			
10. SDGs	<p>Main SDG Goals: (i) Decent Work and Economic Growth and (ii) Zero Hunger</p> <p>Secondary SDG Goals: (i) Ensure Sustainable Consumption and Production, (ii) Gender Equality and (iii) Industry, Innovation and Infrastructure</p>			

SUMMARY

This Programme will encourage shared and inclusive private sector growth in Armenia with particular focus on the three Northern regions of the country (Shirak, Lori and Tavush) that have been selected by the Government of Armenia as pilot regions, and with the creation of a CEPA (Comprehensive and Enhanced Partnership Agreement) facility through the banking

sector to promote SME (Small and Medium Enterprise) development. The action aims to empower entrepreneurs in Armenia with the tools, resources and enabling environment to start, grow and scale-up their businesses. The programme also aims to help reduce inequalities experienced by the most vulnerable groups and individuals in the target regions. It will do so through ideation, incubation and acceleration of bottom-up, market-driven ventures in smart and sustainable agriculture, innovative tourism, creative industries and technology industry. In addition to boosting entrepreneurship by providing direct support to the innovative ideas with high growth potential, and accelerating venture through enhanced access to finance, it will contribute to creating an enabling environment for further sustainability and replicability.

The Programme seeks to catalyse Armenia's innovation economy in close collaboration with the private sector as well as with development partners, while ensuring high visibility of EU support to entrepreneurs in Armenia. Furthermore, in the framework of a pipeline approach, it will seek to engage international network of investors, for sustainable regional development and growth.

Furthermore, the Programme will establish a Creative Hub which will support the promotion of creative industries as a driver for economic growth and increased social inclusion, ensuring the participation of both women and men. The planned support will build on synergies and encourage inter-sectorial collaboration. The Programme will capitalise on various EU programmes, including EU4Business, Pilot Regional Development Programme, COSME, and Creative Europe.

1 CONTEXT

1.1 Sector/Country/Regional context/Thematic area

Armenia is a landlocked country with limited natural resources and with a population of around 3 million. Based on OECD/DAC criteria, Armenia is classified as a lower middle-income country with GDP (Gross Domestic Product) per capita 3,800 USD (2017). Armenia's economic performance has recovered to 7.5% GDP growth in 2017, much higher than the actual growth in 2016. The unemployment rate—which declined only marginally, from 18 percent in 2016 to 17.8 percent in 2017—remains among the highest in the region. The unemployment and more generally, the lack of economic opportunities have contributed to significant outflows of economically active population. As a consequence, the communities remaining behind are made up disproportionately of women, elderly men and women, and children.

Competitiveness of the private sector and leveling the playing field are crucial to Armenia's ability to achieve sustainable and inclusive growth, ensuring that no-one is left behind. There is a lot of potential in the development of the SME sector. In 2016, there were around 78,000 SMEs in Armenia, making 98% of all registered and functioning legal entities and contributing to around 40% of GDP. In 2016, around 302,000 people were employed in SMEs accounting for approximately a quarter of total employment in Armenia¹.

World Bank Doing Business Report ranked Armenia 47th (out of 190 countries) in 2017. However, the ranking of Armenia in the Global Competitiveness Index (GCI) report for 2017/18 was significantly less favourable with Armenia ranking 73rd out of 137 countries. A

¹ <http://www.mineconomy.am/en/449>

slight improvement has been made over the previous ranking (79th out of 139 countries in GCI 2016/17). Nevertheless, Armenia's competitiveness index remains low reflecting weaknesses in innovations, market size, financial market development, macro-economic environment, as well as high negative responses for areas such as corruption, access to finance, tax rates and regulations, and inefficient government bureaucracy. The high level of skilled emigration is reflected in Armenia's poor ranking in "Country capacity to retain talent" indicator (97th) and for the "Country capacity to attract talent" indicator (96th).

According to the official data provided by the National Statistical Service of Republic of Armenia (RA), as of 2016, around 33.6% of the total employed population in the country was engaged in agriculture. The Agricultural sector is accounting for 15.9% of GDP with 96.8% of gross agricultural product produced by small farms, and 3.2% by commercial organisations.

Out of 915 communities² in the RA, 866 are rural communities. A high level of migration from rural communities (both out of the country and to urban communities within the country) has been registered in recent years because of low socio-economic living standards in these communities. The **economic disparities are significant** between all the ten *marzes* (regions), as well as between urban and rural communities.

The high dependency on one sector in rural communities leads to the lack of diversification of income sources as well as its seasonality. Therefore, development of non-agricultural sectors which have growth potential such as rural tourism, processing industry, crafts and IT would greatly contribute to enlarging permanent income opportunities in rural communities, reducing emigration and generating opportunities, including for women, youth and elderly population, as well as persons with disabilities.

Armenia is a unique touristic destination with a rich and diverse cultural heritage. According to the Ministry of Economy in 2017, around 1.494,779 visitors crossed Armenian border with a tourist visa, resulting in an increase of 18.7% compared to 2016. There has been a steady increase in the number of visits starting from 2010, with a decline only in 2014 caused by the economic downturn in Russia. However, compared to Georgia with 7,5 million international visitors annually, the growth potential of tourism sector in Armenia remains relatively significant.

The direct contribution of Travel & Tourism to GDP was AMD231.7bn (USD477.7mn), 4.4% of total GDP in 2017 (and is forecast to rise by 8.5% in 2018, and to rise by 4.2% pa, from 2018-2028, to AMD380.4billion (USD784.3million), 4.5% of total GDP in 2028.).³ This figure primarily reflects industries' actors such as hotels, travel agencies, airlines, transport, restaurants, and leisure services. Tourism in Armenia directly supported 44,500 jobs (3.9% of total employment) and visitors' exports generated around AMD529.8billion (USD1,092.4million) (29.2% of total exports in 2017). Moreover, T&T investment in 2016 was AMD52.8bn (4.7% of total investment).

In addition to tourism development, cultural heritage and reproduction of national traditions, Cultural and Creative Industries (CCI) which support international tourism are also recognised as a separate sector with high growth potential, associated with wine and cultural tourism, including souvenir making, promotion of national cuisine, application of national

² The number before the consolidation of communities.

³ World Travel and Tourism Council annual report (2018).

clothing and development of applied arts. In fact, the term "Cultural and Creative Industries" encompasses a diverse and dynamic spectrum of disciplines, including architecture, archives, libraries and museums, artistic crafts, audio-visual/digital arts (e.g. cinema, videogames, multimedia and television), tangible and intangible culture heritage, design (including fashion design), music and literature, performing arts, publishing, marketing and communications, radio, visual and tech-related arts.

According to the 2017 UNESCO culture for development indicators report, the cultural and creative sector accounts for at least 3.3% of GDP and cultural occupations account for 4.86% of total employment in Armenia.⁴ CCI are dynamic and rapidly expanding sectors in the global economy. At the global level, trade in creative goods and services currently accounts for almost 3.7% of the global trade. CCI contribute to growth, enable diversification of national economies, generate income and create employment.

The objective of the proposed Programme is to increase innovative and high-growth potential ventures in the mentioned areas, which will translate into more and better-paid jobs in Armenia. Moreover, agriculture, tourism and CCI have been prioritised to further support export development in Armenia.

1.1.1 Public Policy Assessment and EU Policy Framework

The **Comprehensive and Enhanced Partnership Agreement (CEPA)** between the EU and Armenia, signed in November 2017, is a key instrument towards deeper and expanded cooperation between the EU and Armenia. CEPA reinforces the bilateral commitment on sustainable development and inclusive economic growth through prioritization and support to SME development (including tourism, agriculture and creative industries), enterprise and innovation policy, regional development, etc.

This programme is fully in line with the **Single Support Framework 2017-2020**. Economic development and market opportunities through further improvement of business environment, contribution to fair competition between economic actors, and development of human capital to ensure inclusive growth, is identified as one of the four priority sectors of the European Union cooperation with Armenia.

The **Joint Declaration of the Eastern Partnership Summit** of May 2015 in Riga reiterates the need to strengthen the business dimension of the Eastern Partnership to the benefit of local, regional and European SMEs and businesses. The Declaration welcomes the EU cooperation programmes supporting the development of SMEs in the Eastern Partnership partner countries. The importance of cooperation and regulatory convergence is also stressed where appropriate, in particular in the field of agriculture and rural development.

The **European Neighbourhood Policy (ENP) review** from November 2015 puts forward EU's support to its partners to modernise their economies aiming at smart and sustainable growth. It focuses on supporting the SME sector as a primary creator of employment. EU's commitment to support sustainable and inclusive policies, investment in modernisation of agriculture, as well as support to diversification of income creating activities in the rural areas is further emphasised.

⁴ <https://www.culturepartnership.eu/en/article/cdis-armenia>.

The programme is in line with the 2017 **Joint Staff Working Document on Eastern Partnership 20 Deliverable for 2020: “Focusing on Key Priorities and Tangible Results”** which lists economic development and market opportunities as its priority. It states that improving the business environment for SMEs remains the key. In particular, this can be achieved by helping the partners to overcome challenges such as a complex operational environment, lack of relevant skills required to start up and grow their business (including marketing), poor public-private dialogue, constraints in accessing foreign markets, and limited access to finance. Modernisation of economies, for example in the area of agriculture and fisheries, greening of the economy, and digital markets are the other key priorities.

The **Armenia Development Strategy (ADS) 2014-2025**⁵ sets overcoming regional development disparities and ensuring even regional development as the country's development priority. ADS aims at encouraging and promoting economic growth and social development in the *marzes* and communities. It highlights the need for making Armenia a country producing high-value and knowledge-based goods and services, anchored in the Armenian creative human capital.

These policy papers are further complemented by the **Armenian Regional Development Strategy 2016-2025**, which is fully in line with the Programme by emphasising the need to develop competitiveness of all regions on the basis of their endogenous potentials, and high level of regional cohesion with special attention given to the least developed territories and border areas.

The Programme is also building on sector-specific relevant strategies such as the **Agriculture Development Strategy** for 2010-2020⁶. This document names the following priorities: gradual replacement of imported food by the local production, and increased self-sufficiency in basic food products; increased productivity of existing farms; improving the quality of education in rural communities and promotion of non-agricultural employment, crafts, and processing of agricultural products, as well as support in development of agricultural services and agro tourism in rural areas.

The **Strategy and Action Plan for the Protection, Use and Promotion of Historical and Cultural Monuments**⁷ 2016 – 2020 aims to develop projects aiming at protection and usage of cultural monuments, as well as tourism infrastructure development. In addition, the **Government Programme 2017-2022** envisages that the number of tourists visiting Armenia will reach at least 3 million by 2022.

The above-mentioned key strategic policy documents are clearly coherent with the priorities and objectives of the Programme. In addition, Armenia is in the process of elaborating a new Innovation Development Strategy as well as discussing the Digital Transformation Agenda 2018-2030.

Finally, the main geographic focus of this Programme will be in the three Northern Regions of Armenia (but not exclusively in those regions), as approved by the Government of Armenia. It includes Shirak region, one of the poorest regions of Armenia still suffering from the consequences of the 1988 earthquake.

⁵ A new Development Strategy is under consideration.

⁶ Currently the Ministry of Agriculture is drafting new strategy, which has not been approved yet.

⁷ Protocol Decree No. 36, September 15, 2016.

1.1.2 Stakeholder analysis

The **final beneficiaries** of the programme are Armenian citizens, in particular **rural population**, whose living standards will improve as a result of economic growth in the region; **local entrepreneurs/entrepreneurial talents** who will have an opportunity to turn their ideas into profitable businesses or to accelerate their existing ventures.

The **key stakeholders** are the following:

Entrepreneurs, Small and Medium Enterprises and private ventures involved in the sectors of agriculture, tourism, creative industries and the technology sector, in particular in Armenian Northern regions.

Women and youth entrepreneurs are important contributors to overall economic development, thus the proposed action will promote gender and youth mainstreaming in a cross-cutting manner.

The Ministry of Economic Development and Investments elaborates and coordinates the implementation of innovation, high-tech, SME development policies in Armenia.

Business Armenia is Armenia's National Authority for Investment and Export promotion. Business Armenia provides in depth services to foreign investors, including the provision of requisite information on Armenia's business climate, investment opportunities and relevant legislation, ground support, business introductions, as well as liaison with governmental institutions. Business Armenia assists Armenia based businesses, in particular SMEs, in expanding export volumes and diversifying export markets through assisting companies in increasing the level of export readiness, providing them with financial assistance within the scope of specific governmental programs and organizing trade fairs showcasing export products to international buyers and distributors.

The Ministry of Agriculture develops and implements projects relating to the spheres of agro-provision, intergovernmental cooperation in the field of agriculture, plant-growing, cattle-raising, irrigation and projects increasing the productivity of the soil usage.

Tourism Committee (TC) was established in 2016 as a state agency affiliated to the Ministry of Economic Development and Investments. The STC is responsible for tourism policy development and implementation at national level, tourism marketing and promotion. The capacity of the agency to ensure the enabling environment for tourism service providers is instrumental for the growth of the sector. The STC action plan for the upcoming years highlights the need to raise awareness about Armenia through intensive marketing campaigns in targeted markets. Armenian Tourism Development Foundation (ATDF) was established in June 2017 with the mandate to assist the Tourism Committee in implementing tourism marketing policies and tourism product development. ATDF's marketing policy aims to strengthen, develop and promote Armenia's image as a favourable country for tourism on the Global market. Successful marketing strategy and international branding of the country are key for sparking the interest of potential visitors and increasing the number of incoming tourists.

The Ministry of Culture is developing the policy in the sphere of culture. The purpose of the Ministry is to maintain and replenish the cultural heritage, promotion and development of contemporary art by developing drafts of legislation, targeted programs, strategies, concepts, and short-term development programs. It is currently the main stakeholder in developing and promoting CCI.

Art foundations are another key stakeholder. Creative Armenia is an arts foundation which established a public-private partnership with the Ministry of Culture on creative industries. It is dedicated to discovering, developing and fuelling creative talent and enterprises. With the aim to build new cultural infrastructure, Creative Armenia as a partner of the Ministry of Culture is one of the key stakeholders for connecting the local talents with Diaspora's global network and international creative industries.

1.1.3 Priority areas for support/problem analysis

A wider understanding of regional development needs to be fostered, with a focus on entrepreneurship, growth-enhancement and job-creation initiatives (infrastructure and non-infrastructure), in parallel with ensuring that gender inequalities are addressed and that the capacities amongst rights holders and duty bearers to promote and protect labour rights are developed with the aim to improve the quality of life of the citizens of Armenia.

There is a prevalence of undiversified economic structures (in most rural regions with subsistence agriculture as the dominant activity) and relatively weak position of regions (and the country) in terms of human development. Since 2000, the economic development in Armenia has focused on Yerevan, concentrating wealth in the capital and creating clearly articulated differences in population wellbeing across regions of Armenia. In order to promote redirection of public, as well as private investments from Yerevan to the regions, entrepreneurial talent and private sector development in the regions need to be further fostered.

Main areas of export include mining and certain processing industry sectors (e.g. brandy-making, tobacco production) which engage large-size companies in sectors with low sophistication, low added value, limited links to regional and global value chains and growth potential. **The export contribution of SMEs remains relatively small.** To SME development, the existing entrepreneurial landscape needs to be leveraged and further nurtured. A funnel, with the objective to create a process through which start-ups can mature from idea generation to internationalisation, needs to be put in place with the necessary enabling environment for building the ecosystem which supports and encourages entrepreneurs. **A significant gap remains in access to finance in the following enterprise stages/sectors: (i) new businesses/early stage SMEs; (ii) innovative start-ups; (iii) internationalization of SMEs.**

There are significant barriers for women's engagement in entrepreneurship. The World Bank Systematic Country Diagnostic (2017) assesses that more participation in entrepreneurship and the narrowing of the gender gap would contribute to fostering a productive private sector that creates more jobs. Women's lagging participation in entrepreneurship represents a misallocation of Armenia's human resource potential. Calculations suggest that the gender gaps in participation and in entrepreneurship result in a loss of economic output equivalent to 5 percent of GDP.⁸

Low Productivity in Agriculture

⁸ World Bank Systematic Country Diagnostic, Future Armenia: Connect, Compete, Prosper (2017)

One of the priority areas for the Government is agriculture and rural development. Firstly, agriculture is one of the most important components of the food industry and has a high export potential in niche sectors. Secondly, development of agriculture also means an increase in agriculture efficiency, increased and equal wages for both men and women, and a decrease in emigration. Ministry of Agriculture estimates that in case where the farmers would have an annual wage of EUR 10,000 they would not emigrate. It can eventually lead to non-agricultural jobs in rural areas, which would contribute to a more balanced and inclusive regional development.

The need for increase in **productivity and sustainability in agriculture** is even more important due to the limited land resources. The important parameters of agriculture productivity, such as average yield from one hectare or animal milk and meat, are quite low resulting from the limited use of modern methods of agricultural cultivation system processes and poor condition of agricultural equipment. Currently, the majority of equipment has passed its depreciation point. Modern seeds and modern species of animals producing more milk and meat are not used, which also affects productivity. Areas with the highest productivity and sustainability potential should be the primary focus of development and support.

The SMEs struggle with food losses caused by the lack of **post-harvest infrastructure**, leading to higher costs and less opportunities for farmers to market their products beyond the peak production season. Reducing post-harvest losses would lead to more efficient resource utilization (land, water, and labor), higher incomes for the farmers, and improved food security. Appropriate post-harvest infrastructure is also one of the components of the sustainable and resource-efficient agriculture. While the post-harvest infrastructure refers mostly to the horticulture sector it can also be understood broader, including examples such as availability of raw milk cooling equipment, cold chamber storage, better transportation, etc.

A large share of **agricultural production of Armenia is currently not marketable**, especially in foreign markets. The inappropriate quality and quantity is the main reason. The **food safety system** of Armenia is not poorly developed. There is a need for capacity building in food safety and modernising quality infrastructure. For smaller farms or food production facilities the quality certification remains problematic. Limited use of trade intelligence is another issue, which is limiting SME capacity to access new markets and understand the export requirements. Furthermore, limited coordination between the associations and cooperatives result in SMEs' low position in the value chains.

The majority of farmers do not use efficient methods of work, either because of lack of knowledge or their unwillingness to change their habits. There is also a **low level of penetration of technologies** in agriculture. The number of modern agricultural farms has increased during the last few years, and several new fruit gardens and greenhouses were built using the latest technologies. However, their total number remains very low. To trigger the change in mind-set and to demonstrate the benefits of smart/ innovative and sustainable agriculture, there is a need to support the development of successful ventures acting as real-life role models.

The Programme will support measures to increase (local, domestic, and foreign) market access for producers as well as production, promotion and marketing of **niche products**. The Programme will also promote the use of innovative farming in organic agriculture through technology, research, and knowledge exchange. It will promote innovation throughout different subsectors in agriculture, to improve productivity growth, sustainable use of resources, and resilience in agriculture at all levels – product, process and marketing

innovation. Focus will also be on involving women farmers and entrepreneurs; youth; and other vulnerable groups.

Untapped Opportunities for Developing Tourism

The Northern regions have a unique geographical advantage, taking into account their proximity to one of the two Armenia's open borders, and the existing cultural assets and natural landscape. There is great potential for tourism development. In addition, the proximity to Georgia allows tapping into the growing pool of its international visitors. Georgia's annual number of international visitors in 2017 was 7,5 million (out of which 3,5 million were tourists⁹), compared to Armenia's 1,5 million tourists.

In 2017, the World Economic Forum's Travel & Tourism Competitiveness Index ranked Armenia 84th out of 136 countries, indicating that Armenia still has room for improvement. The main shortcomings out of 13 indicators were: environmental sustainability, price competitiveness, air transport, ground infrastructure, tourism service infrastructure, and preservation and sustainable use of cultural and natural resources. Armenia's best ranking was in safety and security, with a rank of 34th.

Currently, the majority of visitors either stay only in Yerevan or make day-trips to the regions. Thus, the income generated from tourism is concentrated in Yerevan and does not benefit the rural areas. Tourism approach needs to be reoriented to offer more **diverse tourism products** and to tackle the issue of **seasonal** tourism demand, which is currently concentrated between May to October. Armenia has not yet been discovered by the international visitors as a unique, authentic niche tourism destination. Considering global trends in the tourism development formulated as "experience-based discovery tourism" and the progressive growth of the number of visitors in the region (in particular in Georgia), as well as strategic targets aiming at doubling the number of visitors and extending the length of visits, it is clear that to meet international standards and comply with visitors' expectations, development of the "destination places" and innovative services in Armenia should be a priority.

Attention must be shifted from typical "classic tours" to **promoting specialized products** tailored to the needs of more demanding consumers, including facilitation of international low-cost flights to the regions of Armenia as a vehicle for fostering regional economic development and competitive tourism market. The development of adventure and outdoor tourism (eco-tourism, nature tourism, mountain hiking, white-water rafting and kayaking, climbing, paragliding, etc.), as well as impact tourism, has lots of potential and could be further explored.

This move will require better trained and qualified workforce, more targeted promotion, **higher quality facilities and services**, and a more business-friendly environment, targeting gender discriminative barriers for women farmers to engage in entrepreneurship and economies of scale. Further developing adventure tourism in Armenia, new capacities of housing and catering units, as well as creation of skills of site interpretation and guiding around the destination place, should be considered to make possible to develop new tours with longer stay at the site.

⁹ Tourists are considered individuals that spend more than 24 hours in the country.

The Tourism Committee and the Armenian Tourism Development Foundation need further capacity enforcement to have sufficient staff, professional skills and financial resources to create an enabling environment for entrepreneurs to seize the diverse opportunities in this sector. To properly address the target audiences, there needs to be reliable quantitative and qualitative statistical data and research. Lack of **data** further inhibits development of adequate state policy and/or effective evaluation of inbound and domestic tourism industry. Tourism development is currently mostly driven by existing products rather than responding to market needs.

Furthermore, this inhibits the **promotion and marketing** which should be further developed through carefully constructed promotional plans for each target market, and upgraded to modern trends in travel promotion and distribution, including through the expanded use of information technologies.

Collaboration between booming IT start-up scene in Armenia and a high growth potential for creative industries, would benefit the tourism sector and potentially lead to cost-effective and innovative marketing approaches.

Capitalising on Creative Industries (CCI)

As international tourism is steadily growing and the strategic role of cultural heritage and contemporary culture and creativity is becoming more visible, the emerging CCI should be further explored in Armenia. The CCIs have a multi-faceted character which impacts both economic and social development.

The CCIs have great potential in Armenia, in particular because of the initiatives like TUMO Centre for Creative Technologies which offers free training to 7000 young persons annually, in animation, game development, web design and film-making, and an existing network of schools (music, dancing and art) that are a legacy of the Soviet time. Creative professionals, however, rarely transfer their innovative ideas and research to profitable ventures, as they often lack the necessary business-related skill-set, as well as an enabling environment. Most independent entrepreneurs in creative industries also struggle with self-promotion, branding and market positioning.

The CCI sector currently lacks intermediary organisations bringing together different stakeholders to create networks and clusters and establish creative hubs. These hubs would give the sector more leverage and contribute greatly to building the regional ecosystem, which currently has a limited variety and suboptimal quality of entrepreneurship support infrastructure (e.g. lack of mentorship). It would also allow to connect with the existing ICT dynamics and introduce business development services and private investors to the sector.

The small size of the market means that to enlarge the audiences and scale up the activities, the start-ups need to think of internationalisation already in the initial stages. The notable trend of local firms shifting from outsourcing/custom software services to higher value added products is already emerging in ICT, paving way for CCI. The existing extensive links to the successful Diaspora Armenian entrepreneurs, could lead to knowledge transfer, funding and resource leverage. The growth in digital media, globalisation, cross-border and cross-cultural collaboration also means that there is a need for different type of strategic and relational skills which are relevant for working in plural and multi-layered markets. The development of creative industries will also support the development of marketing skills in Armenia that are key to ensure the export-oriented objectives of the Government.

The role of creative industries for economic growth was recognized by the Government of Armenia through the creation of a dedicated public-private partnership platform between the Ministry of Culture and the arts foundation Creative Armenia. This first public-private partnership in the field of creative industries focuses on incubation of creative projects to be viable and competitive in the international marketplace; acceleration of creative careers for the global stage; offering support, including business and marketing skills to artists and upholding international best practices.

Innovation and Information and Communication Technology (ICT) as a growth engine

The significance of a conducive ecosystem for innovation and economic growth is evident in the ICT sector which is currently among the fastest growing, innovation-based sectors in Armenia. As the sector matures and establishes itself internationally, the potential for replicability, as well as cross-sectorial ventures could be further explored. These might lead to potential shortcuts in tackling the existing bottlenecks in innovative ways, contributing to spill-over effect, and leading to knowledge transfer.

The Government of Armenia has a strategic aim of transforming the country into a R&D centre for high-tech and innovative businesses. Armenia's participation in the Horizon 2020 programme as an associate member, is an important element in the Government's strategy in support of innovation as a pillar for economic growth and sustainable development. Participation in Horiozon 2020 has opened up new opportunities for the country's universities, research institutions and enterprises, in particular through international research projects and funding for innovative entrepreneurship, but also via access to the EU pool of expertise and knowledge related to science policy management, research infrastructures development, etc.

2 RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)	Mitigating measures
1. Geo-political tensions in the Caucasus, political developments within Armenia or a further downturn in the global economy diverts the government's focus and resources away from its reform agenda	M	<ul style="list-style-type: none"> - Continued political and policy dialogue with the Armenian Government, - Close monitoring of macro-economic and Public Finance Management policies, - EU and other Development Partners' support to PFM and macro-economic reforms.

2. Lack of marketable ideas for quality ventures generated in the incubation phase	M	- The outreach and idea generation phase will be driven by hackathons, thought-provoking conferences with international role-models, boot camps for industry, business angel networks, engaging with universities and youth.
3. Limited growth potential of the ventures which graduate the incubator	M	- Detailed screening of the applicants, with the support from the private sector representatives will be carried out, - Intense coaching and mentoring will be provided to the selected companies.
4. Lack of ventures that would benefit from the programme acceleration component.	M	- The access to finance component of the acceleration will have to be designed with ambition, but in line with the pipeline of potential programme that could be supported through the banking sector.
5. Security situation in the border regions deters visitors and limits the potential profitability of tourism ventures.	L	- As responding to the market need is one of the core selection criteria in deciding on the ventures accepted to the incubator, the possibility of including activities with high risk is minimised, - Careful monitoring of the situation in Tavush border region.
6. Private sector support reinforces existing negative stereotypes and categories of marginalisation.	M/H	Analyse to assess for unintended human rights impacts and put in place mitigating measures to target opportunities for left behind groups and individuals (to be carried out during the inception phase of the programme).
Assumptions		
<ul style="list-style-type: none"> - The Government maintains or enhances its foreign policy objectives of strengthening the political and economic relationship with the EU. - The Government continues its engagement to improve business climate allowing private initiative to develop in the targeted sectors and regions. 		

3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

Avoiding skewing incentives

If the support provided by donors is too rigid, it might end up skewing incentives of the entrepreneurs, which could lead to ineffective spending of grant money, rather than value creation and business development. Furthermore, evidence shows that the start-ups benefit the

most from combination of investment type support with extensive knowledge transfer, i.e. smart money.¹⁰ The programme will observe the principles of additionality and continuity, based on sound analysis, and intervening where market failure exists. It will rely on the entrepreneurs to identify the low hanging fruits in their communities and recognise the existing growth potential of the region. To maximise the success rate, the idea generation will be a bottom-up process, letting the market decide. In addition to creation of new ventures, the programme will also explore what has already been established and leverage the potential of the existing value chain.

Selecting the Right Team

Venture capitalists often fund start-ups not just based on their business plans, but also by evaluating the core team to see if they will be able to give the start-up the necessary competitive advantage in the market. A business will not grow without the right people in the driving seat. The people behind the idea are even more vital during the start-up phase, where achieving the necessary milestones is highly dependent on the quality and motivation of the team. Thus, the selection procedure needs to emphasize on both the business proposals and the individual entrepreneurs. This will be achieved in the design of the seed funding scheme that will include mentors, who will be both supporting the ventures in the incubation and acceleration phase, and participating in the selection process. Among the mentors there will be a number of women who can be important role models for young women interested in innovation.

Having a gender equality perspective and making use of the five Rights Based Approach working principles in the selection process will also help to ensure confidence in the process and contribute towards development of a political and business culture of promotion of equal rights and opportunities. Targeted measures will be adopted to ensure that persons with disabilities are not excluded and that there are equal opportunities for women and men.

Taking a pipeline approach

To address the issues of limited exposure to sources of problems prone for technology-based solutions, lack of in-depth managerial talent to grow and scale a company, and limited depth of the regional ecosystems, entrepreneurship support infrastructure needs to be reinforced. Intervening in ad hoc and in a non-structured way does not bring the desired change and is not sustainable. Innovative and fast growing enterprise development requires specific policy interventions building on an existing ecosystem, and combating gender stereotypes in education.

3.2 Complementarity, synergy and donor coordination

EU support

The proposed Programme will capitalize and seek for synergies within numerous EU programmes and initiatives. The programme will in particular seek to complement the **EU4Business** programmes which are supporting private sector development through various instruments and projects at regional and national levels, further contributing to the start-up ecosystem in Armenia. Most notably it will build on the experience of Support to SME

¹⁰ “Mapping Study of SME Finance Tools and Defining Vision for the Future of SME Finance in Armenia”, D. Pavluts, 2017.

Development in Armenia (EU SMEDA), co-funded by the German BMZ¹¹ which seeks to improve the business and investment climate and support the creation and development of innovative and technology-based SMEs in Armenia, strengthen the private sector, and the capacities of Armenian SMEs to foster competitiveness, as well as ensure proper implementation of innovative business management practices. It targets the development of alternative funding mechanisms for innovative start-ups and existing companies, further complementing the SME Finance and Advice Facility established in collaboration between EU and EBRD.

EU SMEDA is also contributing to the **EU4Innovation** programme by focusing on improved linkages between research institutions and the private sector in order to achieve a better rate of commercialisation of ideas. Using the methodology proposed in this programme, it seeks to inject innovation in the newly established ventures through incubation and pre-acceleration, to maximise their potential for scaling up and internationalisation. This programme will build on the success and lessons learned and provide further input to **Horizon 2020** and COSME.

Synergies with **EU4Digital** can be found in all of the pre-identified sectors. Including marketing and promotion in tourism and creative industries, as well as digitisation of agriculture.

Support to greening SMEs is part of the new **EU4Environment** programme, which was launched in 2018. This includes facilitating the work of SME clubs on resource efficiency and cleaner production, which were previously established in Ararat, Tavush, Kotayk and Lori. Some 60% of these clubs' participants are from the food industry and agriculture sectors.

In addition, the EU will further build on the success of its programmes in agriculture, including Organic Agriculture Support Initiative, implemented by Austrian Development Agency and ENPARD budget support and technical assistance. The Programme will directly benefit from Annual Action Plan 2015 support to Vocational Education and Training in agriculture colleges as highly trained human capital is a vital prerequisite for generating and scaling any venture.

Moreover, Armenia has joined **Creative Europe Programme** in 2018, which opened doors to local operators to engage in wider European cooperation. Participation in Creative Europe gives an access to co-funding opportunities, as well as to diverse partnerships, international visibility and know-how, providing further sustainability and potential follow-on funding for creative industry ventures.

Donor coordination

Preliminary coordination meetings have been organised to ensure that the planned activities are complimentary to the existing ecosystem and will bring value by bridging the existing gaps and building on the results achieved. As the programme is a fusion of different sectors with the ultimate aim to bring shared growth to the regions of Armenia, donors' involvement will be analysed through a prism of sectoral interventions. Wherever applicable, synergies will be created with similar initiatives.

With the EU support, Ministry of Agriculture is in the process of piloting an online donor coordination platform titled “Development Cooperation Framework”, which aims to ensure better cooperation between all stakeholders engaged in agricultural development in Armenia.

¹¹ German Federal Ministry for Economic Cooperation and Development.

The platform will seek to minimize overlaps and ensure more coordinated work. This will provide a more transparent and streamlined approach to the sector which has various stakeholders and will allow to better position the planned activities.

In the tourism sector, the Tourism Committee of the Ministry of Economic Development and Investments has taken the lead in donor coordination. The World Bank (WB), USAID/Smithsonian, GIZ and UNDP are currently the main actors involved in the tourism sector. WB loan is paving the way for improvements in infrastructure and access to regional sites. USAID/Smithsonian project has developed number of tourism products for the regions and tour operators to diversify their offers. These are still to be kick-started and thus based on the success during the piloting phases could be considered for scaling up. UNDP has developed a methodology for mapping the tourism assets of villages and rural areas of Armenia, which provides a great roadmap/ initial mapping of potential ventures which could be developed in these locations. GIZ has initiated a capacity building of Vocational Education institutions concentrating on wine to further develop the wine tourism potential in Armenia and is providing technical assistance to the Tourism Committee.

In addition, there are many private foundations and initiatives contributing to the tourism and creative industries sector development, such as British Council, Creative Armenia, Digital Pomegranate, TUMO Centre for Creative Industries, etc. IDeA Foundation has greatly contributed to the development of two main tourism destinations in Armenia – Tatev and Dilijan. Izmirlian Foundation is working on revitalising Meghri historic district in the South of Armenia. Gyumri and Vanadzor Technoparks have been established to bring the growth created by the ICT sector to the regions.

3.3 Cross-cutting issues

The programme will contribute to addressing **equity and inclusiveness** in economic growth by bridging entrepreneurial talents in rural, remote, mountainous, and boarder regions to global markets. **Gender Equality** will be at the core of the selected, incubated and accelerated ventures to tap into the valuable resource of talented women and girls, and foster their empowerment and equal participation in the funnel of innovative high-growth potential ventures. The action will introduce concrete measures on promoting women and girls entrepreneurship and addressing barriers faced by women entrepreneurs. The Gender Action Plan II will be applied throughout the programme's implementation. Youth entrepreneurship will be addressed in a cross-cutting manner. Pursuant to EU obligations under the Convention on the Rights of Persons with Disabilities, equal access to the processes and products under the project will be promoted for persons with disabilities.

Environmental sustainability will be ensured through innovative, smart and green ventures mainly in agriculture, but also in tourism and creative industries. The actions funded under this project will be in line with EU standards on environment. When required by the relevant EU Directives; Strategic Environmental Assessments and Environmental Impact Assessments will be carried out according to EU standards.

Furthermore, there are many opportunities for creating cross-cutting synergies within the programme, from agro-tourism ventures to creative industry's impact on encouraging international tourism. Establishment of Creative Hub and support to audio-visual ventures, will lead to an emerging pool of talents with expertise which is vital also in marketing and branding Armenia.

4 DESCRIPTION OF THE ACTION

4.1 Objectives/results

The **overall objective** of the programme is the realization of shared and balanced inclusive growth in the Northern regions of Armenia through bolstering smart and sustainable agriculture, innovative tourism and creative industries.

The **specific objectives** and results of the programme are:

Objective 1 To incubate and pre-accelerate innovative market-driven ventures which offer solutions to region-specific challenges.

- Result 1.1. Pipeline of investable and high added value agriculture ventures created;
- Result 1.2. Pipeline of investable and high-value innovative tourism ventures created;
- Result 1.3. Creative Hub established to nurture and grow new generation of entrepreneurial talent in creative industries (design, audio visual and innovation);
- Result 1.4. Pipeline of investable and innovative technology ventures with international market focus created;
- Result 1.5. Winter sport facilities developed in Shirak region.

Objective 2 To accelerate existing small and medium sized companies with high growth potential to scale-up their socio-economic impact through the creation of a CEPA facility.

- Result 2.1. Locally and internationally competitive companies in the agriculture sector accelerated;
- Result 2.2. Tourism service providers companies and creative industries accelerated;
- Result 2.3. Armenian SME export to EU is increased in particular to ensure compliance with the EU regulation requirements in line with CEPA requirements.

Objective 3 To support the enabling environment to enhance the impact of the regional ventures and change-makers.

- Result 3.1. Capacity of agricultural stakeholders developed, critical quality infrastructure established for increasing efficiency and sustainability, and export opportunities in agriculture and irrigation sector enhanced in Northern Armenia;
- Result 3.2. Capacity of tourism and innovation stakeholders developed and strategic marketing framework for tourism realized to enhance travel industry and visitor economy.

This programme is relevant for the Agenda 2030. It contributes primarily to the progressive achievement of SDG Goals -- (i) Decent Work and Economic Growth and (ii) Zero Hunger but also promotes (i) Sustainable Consumption and Production, (ii) Gender Equality and (iii)

Industry, Innovation and Infrastructure. This does not imply a commitment by the Republic of Armenia benefitting from this programme.

4.2 Main activities

Incubation

Main activities will be similar in all the selected growth-oriented sectors (agriculture, tourism, creative industries and technology sector) and will be based on the business lifecycle approach: **generation of innovative ideas** through facilitation and ideation to seek solutions to the problems identified by corporates, network of entrepreneurs, researchers and customers/users, representing both women and men so as to acknowledge the particular challenges faced by women in entrepreneurship and farming. This will feed into early stage pipeline and facilitate new team formation and launching new, bankable enterprises with potential for multiplication effects in the regions. It will also provide the basis for a selection procedure which will be carried out with the support from private sector representatives, leveraging their expertise in recognising ventures with high growth potential.

The selected ideas will be moved to an incubator. In the **incubation** phase, broader support will be provided to generate potentially scalable ideas, which will be validated based on deep market research to better understand the value drivers and opportunities. Support will also be provided to product/service development, early commercialisation and business managerial skills. Mentorship will be the key in supporting the start-ups throughout the process, tapping into local and global network of mentors, entrepreneurs, and business angels. The logic is to engage follow-on investors early and throughout the programme which will increase the likelihood of successful follow-on financing. Idea, pre-seed and seed funding will be provided for initial product/service development and launching the venture.

As a flagship programme one or multiple **Creative Hubs** will be created to serve as an incubator and accelerator for creative industry ventures (from music, film production, design, etc.) based on the public-private partnership platform of the Ministry of Culture and Creative Armenia Foundation. The core objective of the hub will be to facilitate project and business development and build communities which will contribute to experimentation across disciplines and profiles. The Hub will take on different functions and offer various services and products – including working locations and offices, master classes and mentoring and coaching. Taking into account the gender division in education and occupation in Armenia, it will also support Armenia's innovative tourism ventures potential to better access market, through various marketing/design ventures. The Creative Hub will aim to bring high visibility of EU support to creative industries' entrepreneurs in Armenia.

The programme will also incubate and directly support the development of **winter activities** in Shirak, a promising niche market, through the construction of shelters/facilities and the development of the needed business-driven ecosystem to maintain them.

Acceleration

For the established, mature SMEs **acceleration programme will be launched, through the creation of a banking facility ("CEPA facility")**, to leverage the existing high growth

potential companies already active in the market, in the sectors of smart and sustainable agriculture, innovative tourism and creative industries. The acceleration program will contribute to SME's ability to implement value added projects via investment grants and improved access to debt, taking into account particular barriers for women entrepreneurs. It will contribute to increasing business sophistication, internationalisation and value creation. Main activities in the accelerator will be focused on strengthening the pipeline of investible companies in the local market. This will be achieved through an investment grant. The CEPA facility will target green field projects, investments in agriculture and value chain development, as well as tourism and creative industries (indicatively 70% of the grant facility will be invested in those sectors¹²) in Northern Armenia (indicatively 70% of the grant facility will be invested in those regions). Investments will be supported through a banking facility that would tentatively support 20% of a green field investment through a cashback scheme for a maximum grant of EUR 500,000. Furthermore, EU and the Government of Armenia could jointly decide to grant an additional indicative support of 10% in specific sub sectors of strategic importance to support growth in the regions, such as the post-harvest infrastructure development. The banking facility will ensure high visibility and impact of EU support to Armenian SMEs, in particular through the investment grant component.

Enabling environment

For the ventures to succeed, the existing bottlenecks in the ecosystem will be addressed by (i) providing capacity building to the key government agencies, (ii) improving the quality infrastructure linked to agriculture export-oriented ventures, (iii) supporting the development of efficient irrigation, (iv) supporting the marketing and promotion of Armenia as a world class tourism destination, (v) supporting the development of low-cost flights from the EU to Gyumri, and (vi) supporting innovation, technology transfer and clustering with involvement of business, education and science; as well as support to Horizon 2020 participation including via a contribution to Armenia's membership fees for the programme.

4.3 Intervention logic

Process

To build and nurture the entrepreneurial culture and capitalize on Armenia's strong legacy in scientific research and innovation, the intervention logic follows a **systematic company building model** that feeds into Armenia's emerging start-up ecosystem. The programme seeks to create a pipeline of ventures which are creating bottom-up innovative solutions to real life problems at the same time addressing barriers to women in entrepreneurship, by injecting innovation in all stages of development of the business ventures, with the ultimate aim of job creation in the rural areas, improving living standards for the Armenian people, and growth of knowledge economy in Armenia.

As velocity of change is vital in the start-up market, and smaller, flexible systems adapt quicker, the most promising ventures are driven by entrepreneurs pro-actively seeking for market opportunities, leading to new and disruptive ideas which have higher growth potential.

¹² The CEPA facility will not support directly hotel construction, but could support Bed and Breakfast development.

Thus, the programme is designed to tap into the existing and high potential intellectual capital in the regions through **empowering the local change-makers** and by providing a more conducive innovation ecosystem through introducing modern methodologies and quality infrastructure.

The programme will help to identify promising and bankable new as well as existing ventures and provide them with finance, technical expertise, mentoring, marketing “know-how”, and business models to emerge, grow, internationalise, connect to global value chains and strengthen links with domestic and foreign investors. Furthermore, the **mentors** supporting the start-ups throughout their entrepreneurial journey will serve as entry points for the emerging companies to the local and global networks. Once the regional ventures which tend to operate in silo, are integrated to the business network they have a much bigger chance to succeed. This will expose them to domestic and foreign investors/business angel networks and allow to further leverage Armenia’s global Diaspora to facilitate knowledge transfer and internationalization. In addition, the incubation and acceleration schemes will promote a strong investment-oriented approach and mind-set, including adherence to corporate governance standards, development of business management skills, accounting, financial literacy, transparency, use of equity-based financial instruments, etc., thus contributing to the overall competitiveness of Armenian SMEs.

Synergies will be sought between different sectors, in particular ICT, agriculture, tourism and wider creative communities. To enrich and enlarge the tourism offer, CCI could contribute greatly to active and creative tourism, including through developing cost-effective and high impact marketing campaigns. As the success of hi-tech outsourcing and the ICT industry has been more visible, the CCIs have remained in the shadows of the technological advancements.

The CCIs in Armenia lack **joint platform** for information sharing, networking and advocacy. To alleviate the fragmentation of the small closed communities mostly centralised in Yerevan, and to get a head start in the emerging market and to improve and promote the conditions for the development of business-driven CCI, with a particular focus on audio-visual, the programme will create a cultural incubator (music, film, design and craft industry) and accelerator. It will be founded on the assumption that enterprises which collaborate are more innovative, productive and competitive. The resources, potential for growth and position in the industry are as important as other aspects. The Hub will support initiatives in different levels of development – emergent, mature with national market presence, and mature with international market presence.

Organization

The Austrian Development Agency will incubate and pre-accelerate agricultural ventures (result 1.1) and support the enhancement of the enabling environment in the area of agriculture (result 3.1).

GIZ will incubate and pre-accelerate tourism ventures (result 1.2; 1.5;) and technology ventures (result 1.4), support the enhancement of the enabling environment for tourism and innovation (result 3.2).

Visibility and direct impact of EU support to SMEs and entrepreneurship will be enforced by ADA and GIZ in all start-up/early stage businesses support, as well as in the enabling environment activities.

Support to Armenia's participation in Horizon 2020 via membership fees contribution will be implemented through the Ministry of Education/National Science Committee (result 3.2).

The development of one or more creative hub(s) (result 1.3) will have a focus on strong visibility of EU support to creative entrepreneurs in Armenia.

EBRD will support the acceleration of existing SMEs with high growth potential (result 2.1/ 2.2/ 2.3) through a banking facility, ensuring high EU visibility via the investment grant component.

The Government of Armenia and relevant state agencies should agree and be fully involved with the design, implementation and coordination of the projects.

5 IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4.1 will be carried out and the corresponding contracts and agreements implemented, is 72 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this decision and the relevant contracts and agreements.

5.3 Implementation modalities

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures¹³.

5.3.1.1 Grants: call(s) for proposals "Creative Industries Hub" (direct management)

(a) Objectives of the grants, fields of intervention, priorities of the year and expected results

These Call(s) for Proposals aims at supporting the creative industries sector and ecosystem in Armenia (result 1.3) via a bottom-up, and market-driven approach. The main objective is to create sustainable regional hub(s) which will incubate and accelerate innovative, knowledge-based creative SMEs in the sector of audio-visual/digital arts and design, etc.

The Government of Armenia committed to provide the necessary public spaces for respective activities. The Government will pursue contributing to this action through providing infrastructure for the implementation of the action.

(b) Eligibility conditions

In order to be eligible for a grant, the applicant must:

- Be established in Armenia.

¹³ www.sanctionsmap.eu Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

- Be directly responsible for the preparation and management of the action with the co-applicant(s) and affiliated entity/ entities, not acting as an intermediary.

Subject to information to be published in the calls for proposals, the indicative amount of the EU contribution is EUR 3.000,000, and the grant may be awarded to sole beneficiaries or to consortia of beneficiaries (coordinator and co-beneficiaries). The indicative duration of the grant (its implementation period) is 36 months.

(c) Essential selection and award criteria

The essential selection criteria are the operational capacities of the applicant.

The essential award criteria are relevance of the proposed action to the objectives of the calls; design, effectiveness, feasibility, business sustainability and cost-effectiveness of the action.

(d) Maximum rate of co-financing

The maximum possible rate of co-financing for grants under these calls is 80 %.

If full funding is essential for the action to be carried out, the maximum possible rate of co-financing may be increased up to 100 %. The essentiality of full funding will be justified by the Commission's authorising officer responsible in the award decision, in respect of the principles of equal treatment and sound financial management.

(e) Indicative timing to launch the calls

Q1 2020

(f) Exception to the non-retroactivity of costs

The Commission authorises the eligibility of costs prior to the submission of the grant application as of 1 January 2019.

5.3.1.2 Grant: direct award "Participation in the EU Framework Programme for Research and Innovation Horizon 2020" (direct management)

Implementation of this component will take the form of a reimbursement of up to 50% of Armenia's corresponding membership fees for Horizon 2020. This reimbursement will be done through ad hoc grant directly awarded to the institution that will pay the membership fees (Ministry of Education and Science/National Science Committee).

(a) Objectives of the grant, fields of intervention, priorities of the year and expected results

The objective of the direct award is to contribute to the strengthening of the Research and Innovation sector in the Republic of Armenia and to foster its integration into the European Research Area (Result 3.2). The grant will support Armenia's participation in the EU Framework Programme for Research and Innovation Horizon 2020 through a contribution of up to 50% of the annual membership fees.

(b) Justification of a direct grant

Under the responsibility of the Commission's authorising officer responsible, the grant may be awarded without a call for proposals to the relevant Armenian institution.

Under the responsibility of the Commission’s authorising officer responsible, the recourse to an award of a grant without a call for proposals is justified because the purpose of this operation is to provide a direct support to the relevant government institution of Armenia. As a government institution responsible for payment of Horizon 2020 membership fees, the beneficiary is in a legal monopoly situation.

(d) Essential selection and award criteria

The essential selection criteria are the financial and operational capacity of the applicant.

The essential award criteria are relevance of the proposed action to the objectives of the call; design taking into account a gender perspective, effectiveness, feasibility, sustainability and cost-effectiveness of the action.

(e) Maximum rate of co-financing

The maximum possible rate of co-financing for this grant is 50% of the annual fees for participation in the Programme.

(f) Indicative trimester to conclude the grant agreement

2 trimester of 2019.

5.3.1.3 Procurement (direct management)

Subject	Type	Indicative number of contracts	Indicative trimester of launch of the procedure
Evaluation and communication	Service	3	2019 Q1
Audit	Service	1	2020 Q1

5.3.1.4 Indirect management with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)

Results 1.2, 1.4, 1.5 and 3.2 of this action may be implemented in indirect management with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), which has been pillar assessed. This implementation entails activities as per sections 1.2, 1.4, 1.5 and 3.2. This implementation is justified because GIZ has a proven expertise and technical competence in the areas of intervention. In Armenia, GIZ is the leading development agency in the area of private sector development recognized by stakeholders as a trusted international partner. Moreover, GIZ has long standing experience in Armenia in the Tourism sector through its regional programme “Private Sector Development and Technical Vocational Education and Training South Caucasus (PSDTVET)”. GIZ is managing the EU-funded SME Development in Armenia programme which focuses on improvement of the business environment and support to innovative technology-based SMEs. Furthermore, GIZ is well-placed to promote alignment with EU best practices.

The entrusted entity would carry out the following budget-implementation tasks launching calls for tenders and for proposals; defining eligibility, selection and award criteria; evaluating

tenders and proposals; awarding grants, contracts and financial instruments; acting as contracting authority concluding and managing contracts, carrying out payments.

The Commission authorises that the costs incurred by the entrusted entity may be recognised as eligible as of 1 January 2019 in exceptional and duly substantiated cases with prior consent by the EU Delegation.

5.3.1.5 Indirect management with Austrian Development Agency (ADA)

Results 1.1 & 3.1 of this action may be implemented in indirect management with Austrian Development Agency (ADA), which has been pillar assessed. This implementation entails activities as per sections 1.1 and 3.1. This implementation is justified because ADA's proven expertise and competence in the areas of intervention. In Armenia, ADA is the leading development agency in the field of agriculture, recognized by stakeholders. Over the past years it has implemented ten projects in the agriculture sector, where ADA has unique and substantial experience in various subsectors such as livestock/dairy and horticulture, including co-funding of the ENPARD value-addition project. ADA co-funds and implements the EU-funded Organic Agriculture Support Initiative. ADA agreed with the Government of Armenia as of 2012 to have agriculture as the main focus of the agency in its cooperation strategy, with the major goal to increase productivity and incomes.

The entrusted entity would carry out budget-implementation tasks such as launching calls for tenders and for proposals; defining eligibility, selection and award criteria; evaluating tenders and proposals; awarding grants, contracts and financial instruments; acting as contracting authority concluding and managing contracts, carrying out payments, etc.

The Commission authorises that the costs incurred by the entrusted entity may be recognised as eligible as of 1 January 2019 in exceptional and duly substantiated cases with prior consent by the EU Delegation.

5.3.1.6 Indirect Management with the European Bank for Reconstruction and Development (EBRD)

Results 2.1, 2.2 & 2.3 of this action may be implemented in indirect management with the European Bank for Reconstruction and Development. EBRD (pillar assessed) has proven track record in Armenia and the region in providing finance schemes for acceleration and internationalization of small and medium sized companies with high growth potential. In particular, the CEPA facility will be built on the model of the DCFTA facility implemented in Georgia, Ukraine and Moldova. EBRD implements the Armenia EU-funded SME Finance and Advice Facility which deploys EU funds on a blended basis with the funds of EBRD through two components: establishment of an equity fund and SME advice component. Activities foreseen will be implemented in the framework of the Neighbourhood Investment Platform (NIP).

The entrusted entity would carry out budget-implementation tasks such as launching calls for tenders and for proposals; defining eligibility, selection and award criteria; evaluating tenders and proposals; awarding grants, contracts and financial instruments; acting as contracting authority concluding and managing contracts, carrying out payments, etc.

The Commission authorises that the costs incurred by the entrusted entity may be recognised as eligible as of 1 January 2019 in exceptional and duly substantiated cases with prior consent by the EU Delegation.

5.4 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014.

5.5 Indicative budget

	EU contribution (amount in EUR)	Indicative third party contribution (amount in EUR)
Tourism and innovation <i>result 1.2/ 1.4/ 1.5/ 3.2</i>		
5.3.1.3 – Indirect management with GIZ	13,500,000 ⁽¹⁾	
5.3.1.2 – Direct grant Horizon 2020 (direct management)	2,000,000	
Agriculture <i>result 1.1/ 3.1</i>		
5.3.1.4 – Indirect management with ADA	9,700,000	2,000,000
Creative industry <i>result 1.3</i>		
5.3.1.1. Call for proposals "Creative Industries Hub" (direct management)	3,000,000	750,000
CEPA facility - Acceleration of SMEs in targeted sectors <i>result 2.1/ 2.2/ 2.3</i>		
5.3.1.5 – Contribution to NIF (EBRD implementing)	⁽²⁾	
5.8 – Evaluation, 5.9 - Audit	200,000	
5.10 – Communication and visibility	100,000	
Total	28,500,000	2,750,000

(1)The following activities have been indicatively earmarked in the following way: EUR 9,5 million for incubation of tourism ventures, realization of the strategic framework of marketing and promotion of Armenia as a tourism destination, capacity building for state tourism stakeholders, development and design of tourism destination hubs, etc; EUR 0.5 million for winter sports development; EUR 3.5 million in innovation and technology.

(2) 10 million have been channelled through the Neighbourhood Investment Platform (NIP)".

5.6 Organisational set-up and responsibilities

A Steering Committee shall be set up to oversee and validate the overall direction of the action. It will agree on the annual work plan and provide comments on the technical and financial reports and validate them. The Steering Committee may take the necessary measures to ensure the proper implementation of the project according to the framework of the action.

The project Steering Committee shall be made up of:

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

Furthermore, an ad-hoc Steering Committee will be created between the EU and the representative of the Government before the signature of each delegated agreement, to ensure that the implementation partners proposed in the programme (ADA, GIZ and EBRD) implement contracts in line with the signed financing agreement and mutually agreed objectives.

5.7 Performance monitoring and reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators (including gender indicators), using as reference the logical framework matrix. The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed, and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

5.8 Evaluation

Having regard to the nature of the action, a mid-term and final evaluation(s) will be carried out for this action or its components via independent consultants contracted by the Commission.

The mid-term evaluation will be carried out for learning purposes, in particular with respect to replicating activities of the action in other sectors.

A final evaluation will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the innovative components of this action.

The Commission shall inform the implementing partner at least 30 days in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Indicatively, two contracts for evaluation services shall be concluded under a framework contract in January 2021 and in December 2024.

5.9 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

Indicatively, one contract for audit services shall be concluded under a framework contract in 2023.

5.10 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section 5.5 above. The programme will be branded under the generic name "EU4Business".

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

Indicatively, one contract for communication and visibility services shall be concluded in 2019.

6 APPENDIX - INDICATIVE LOGFRAME MATRIX (FOR PROJECT MODALITY) ¹⁴

The activities, the expected outputs and all the indicators, targets and baselines included in the logframe matrix are indicative and may be updated during the implementation of the action without an amendment to the financing decision. The indicative logframe matrix will evolve during the lifetime of the action: new lines will be added for listing the activities as well as new columns for intermediary targets (milestones) when it is relevant and for reporting purpose on the achievement of results as measured by indicators.

	Intervention logic	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources and means of verification	Assumptions
Overall objective Impact	Realization of shared and balanced growth in the Northern regions of Armenia	Real GDP Growth, (i) latest year and (ii) average over last 5 years**	7.5% (2017); 3.6% (2013-2017)	6.4% (2021) ¹⁵ ; 6.0% (2018-2022)	National Statistics Service (NSS) annual reports	
Specific objective(s): Outcome(s)	1. To incubate and pre-accelerate innovative market-driven ventures which offer solutions to region specific challenges.	a) Score at the support services for SMEs and start-ups index; b) Position in the capacity for innovation ranking	3.93 ¹⁶ (2016); 59 th out of 137 (2017-2018)	4.2 (2022) 51 st (2021-2022)	SME Policy Index; Global Competitiveness Index	The business environment does not deteriorate significantly
	2. To accelerate existing small and medium sized companies with high growth potential to scale-up their socio-economic impact.	a) Position in the business sophistication index; b) Score at the internationalisation of SMEs index; c) Sex-disaggregated data on SMEs;	68 th out of 137 (2017-2018); 3.37 (2016)	62 nd (2022); 3.7 (2022)	Global Competitiveness Index; SME Policy Index	The business environment does not deteriorate significantly

¹⁴ Mark indicators aligned with the relevant programming document mark with '*' and indicators aligned to the EU Results Framework with '**'.

¹⁵ Armenia Development Strategy 2012-2025

¹⁶ 1 being the weakest and 5 the strongest indicator

	3. To support the enabling environment to enhance the impact of the regional ventures and change-makers	<ul style="list-style-type: none"> a) Position in the Ease of Doing Business WB ranking; b) Position in the Global Competitiveness - Institutions ranking c) Sex-disaggregated data 	47 th (2018); 55 th out of 137 (2017-2018)	20 th (2022) ¹⁷ ; 50 th (2021-2022)	World Bank Doing Business report; Global Competitiveness Report	Political and security environment remains stable
Outputs	1.1. Pipeline of investable and high-profit agriculture ventures created	<ul style="list-style-type: none"> a) Number of new investable and high-profit agriculture ventures created b) 30% of supported ventures owned by women or having women in managerial positions 	0 (2018)	At least 50 new agriculture ventures created (2022)	Project's progress report	The aspiring entrepreneurs generate marketable ideas for high-growth potential agriculture ventures
	1.2. Pipeline of investable and high-value tourism industry ventures newly created and existing ones improved	<ul style="list-style-type: none"> a) Number of new investable and high-value tourism created and existing ones improved b) 30% of supported ventures owned by women or having women in managerial positions 	0 (2018)	At least 50 new tourism created or improved (2022)	Project's progress report	The aspiring entrepreneurs generate marketable ideas for high-growth potential tourism and creative industries ventures
	1.3. Creative Hub established to nurture and grow new generation of entrepreneurial talent in creative industries (design, audio visual and innovation)/pipeline of investable and high-value creative industries ventures newly created and existing	<ul style="list-style-type: none"> a) Creative Hub operational and functioning b) Number of new investable and high-value creative industries ventures created and existing ones improved c) 30% of supported ventures owned by women or having women in 	None	100% (2022) At least 50 new creative ventures created or improved (2022)	Project's progress reports	Government remains committed to promoting Gyumri as a regional growth pole

¹⁷ Government Programme 2017-2022

	ones improved	managerial positions				
	1.4 Pipeline of investable and innovative technology ventures with international market focus created	a) Number of new investable and innovative technology ventures supported b) 30% of supported ventures owned by women or having women in managerial positions	50	At least 50 ventures supported in Armenia (not exclusively in the pilot regions)	Project's progress report	The aspiring entrepreneurs generate marketable ideas for high-growth potential tech ventures
	1.5 Winter sport facility developed in Shirak region	Winter facilities created and maintenance system operational in a sustainable manner	Number of tourists engaged in winter activities in Shirak region in 2018	To be estimated before signature of the Financing agreement.	Project's progress reports	Development of low cost airline between Gyumri and Europe
	2.1. Locally and internationally competitive companies in the agriculture sector accelerated	a) Value added in agriculture, GDP; b) Average monthly salary rate in the sphere of agriculture, forestry and fishery c) 30% of supported ventures owned by women or having women in managerial positions	AMD 878.5bn (2016); AMD 115,000 (2016)	AMD 2,046.8 bln (2025); AMD 204,000 (2022)	NSS annual reports	There is a substantial pool of high-growth potential ventures in agriculture sector
Outputs	2.2. Tourism service providers accelerated to offer quality customer-centric products and services	a) The direct contribution of Travel and Tourism to GDP; b) Average monthly salary rate in the sphere of culture, entertainment and recreation	AMD 200.5bn, 3.8% of total GDP (2016); AMD 112,000 (2016)	AMD 299.6 bln, 3.8% of total GDP (2027); AMD 200,000 (2022)	World Travel and Tourism Council report; NSS annual reports	There is a substantial pool of high-growth potential ventures in Tourism

		c) 30% of supported ventures owned by women or having women in managerial positions				
	2.3. Creative industry companies accelerated to increase export of service and support tourism development	a) The % of contribution of CCI to GDP; b) Average monthly salary rate in the sphere of culture, entertainment and recreation c) 30% of supported ventures owned by women or having women in managerial positions	3.3% (2014); AMD 112,000 (2016)	4.4% of GDP (2022); AMD 200,000 (2022)	NSS annual reports	There is a substantial pool of high-growth potential ventures in Creative Industries
	3.1. Capacity of agricultural stakeholders developed, critical quality infrastructure established for increasing efficiency and sales opportunities in agriculture and irrigation sector enhanced in Northern Armenia	a) Gross Agriculture Output increased in the selected value chains in the target region b) Sales of agricultural producers increased in the selected value chains in the target region	AMD 878,5bn (2016); The baseline figures for the selected value chains will be identified in the first months of implementation.	a) Increase annually by 3% in the relevant value chains (2022) b) Increase annually by 3% in the respective value chains (2022)	NSS annual reports, MoA statistics	The Ministry of Agriculture remains committed in reforming the agriculture sector There is a substantial pool of high-growth potential farmers/producers
	3.2. Capacity of tourism stakeholders developed and strategic marketing framework for Armenia's tourism product development and marketing realized to enhance travel industry and visitor	a) Number of tourists visiting Armenia; b) Number of new target countries reached	1,494,779 tourists (2017); None	2,500,000 tourists (2020); At least 2 annually (2022)	NSS annual reports; STC annual reports	The key government stakeholders in tourism marketing and promotion remain dedicated to implementing the marketing strategy

economy					
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