

Data Sheet

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| USAID Mission: | Armenia |
| Program Title: | Economic Restructuring |
| Pillar: | Economic Growth, Agriculture and Trade |
| Strategic Objective: | 111-0130 |
| Proposed FY 2004 Obligation: | \$15,000,000 FSA |
| Prior Year Unobligated: | \$5,608,000 FSA |
| Proposed FY 2005 Obligation: | \$14,000,000 FSA |
| Year of Initial Obligation: | FY 1999 |
| Year of Final Obligation: | 2008 |

Summary: USAID's program to increase employment in a competitive private sector includes training and technical assistance to improve the business environment and promote the growth of micro-, small-, and medium-sized enterprises through human capacity development, grants, and limited commodity support.

Inputs, Outputs, Activities:

FY 2004 Program:

Improved business environment (\$8,519,800 FSA, \$3,364,981 FSA carryover). In order to strengthen and increase the transparency of Armenia's fiscal system, USAID will fund training and technical assistance to facilitate more efficient tax administration with a high level of taxpayer compliance, reform fiscal relations between the central government and the municipalities, and strengthen budgeting and accounting systems. USAID will continue providing technical assistance to the Association of Accountants and Auditors of Armenia (AAAA) to enhance the capacity and qualifications of accountants and auditors working in the private and public sectors. USAID's new commercial law activity will facilitate legal and regulatory reform efforts to improve the commercial environment for trade and investment. Priorities will include enhancements to collateral, company and contract law, telecommunications, and intellectual property rights. USAID will continue support to the Central Bank of Armenia to adopt risk-based supervision practices as well as to assess options for supervising the Armenian financial sector. USAID will finalize its work to support development of capital market institutions according to internationally accepted standards, helping to create a cadre of professionally competent broker/dealers. USAID will continue working with the Armenian Development Agency to strengthen its capacity to increase foreign direct investment for Armenian enterprises. USAID will conduct a financial sector assessment in order to confirm priorities in this field and will finalize the financial system strategy based on the outcomes of that study. Principal contractors/grantees: BearingPoint (Prime), the Institute of Chartered Accountants of Scotland (Prime), IBM Business Consulting Services (Prime), International Real Property Foundation (Prime), and SETA Corporation (Prime).

Growth of micro, small and medium sized enterprises (\$6,480,200 FSA, \$2,242,973 FSA carryover). During FY 2004, USAID will inaugurate a new initiative to improve the competitive position of Armenia and promote industry clusters. USAID will continue to explore and identify new agri-business opportunities and create employment. This effort will be broadened to directly focus on textiles and apparel, as well as rural non-farm income. USAID will collaborate with the European Bank for Reconstruction and Development (EBRD) to provide technical assistance to partner banks under loan guaranty programs to increase lending to small and medium enterprises (SMEs). Recently, USAID initiated a new program to strengthen microenterprises with a focus on the legal and regulatory environment for microenterprises, business development services, and the strengthening of bank and non-bank financial institutions. USAID activities will expand networks and strengthen core competencies of finance institutions lending to SMEs as well as introduce new SME financing instruments (leasing, fund-type instruments, guarantees, etc.). Institutional strengthening of financial institutions will provide

new opportunities for lenders and SMEs alike. Principal contractors/grantees: Chemonics (Prime) and Development Alternatives, Inc. (Prime).

FY 2005 Program:

Improved business environment (\$8,019,800 FSA). USAID will continue these activities described for FY 2004. For commercial law, the emphasis may shift towards strengthening institutions that regulate the economy, such as the Public Utilities Regulatory Commission and the State Committee for the Protection of Economic Competition. Fiscal reform efforts may focus more on enhancing the abilities of the National Assembly. In the financial sector, USAID may broaden its approach to focus on corporate governance of commercial banks, unified supervision, development of a mortgage industry, and the areas recommended by the financial sector assessment. Other "second generation" reforms could include: encouraging the entry of new actors, such as credit unions, leasing companies and other non-bank financial institutions especially attuned to the needs of SMEs that are too small to attract commercial bank interest; further strengthening the legal and regulatory infrastructure; and creating credit bureaus, rating services, and internationally-accepted accounting and auditing standards that bring greater transparency to the investment and lending process and build mutual trust. Principal contractors: same as above.

Growth of micro, small and medium sized enterprises (\$5,980,200 FSA). USAID expects to build upon the support provided to SMEs in FY 2004. Efforts to develop the local textile and apparel sector and increase rural non-farm incomes will continue in FY 2005. A new activity will begin to increase the competitiveness of promising sectors of the Armenian economy. Technical assistance to promising industry "clusters" and businesses will be provided. USAID will work with the commercial banks to increase the level of lending to promising SMEs. New activities will be developed to promote a qualified pool of local labor through workforce development programs and more effective use of entrepreneur and jobseeker networks. These activities will also seek to improve business development services (BDS). Principal contractors: same as above.

Performance and Results: In FY 2003 there was significant progress in improving Armenia's business environment, in particular, the accession of Armenia to the World Trade Organization. USAID assistance was critical to the introduction of a bank examiner accreditation program, improvement of on-site bank examinations, implementation of risk-based bank supervision, and development of an improved legal framework for commercial banks, including corporate governance. USAID supported transparency and accountability by developing a "Guide to Armenian Taxes, Payments, Duties and Contributions" and provided support to the National Certification Program for accountants. Similarly, USAID supported the "Review of Tax Policy and Tax Legislation in the Republic of Armenia." Finally, improved macroeconomic analysis was supported through the publication of the "Journal of Economic Policy & Poverty." USAID finalized the State Registry System, which led to a much improved automated business registration system.

In FY 2003, USAID continued to achieve significant results at the enterprise level. Over 100 client companies supported by USAID increased sales by \$6.1 million, 55 percent of which were exports, while adding nearly 2,000 new full-time jobs. In collaboration with the International Finance Corporation, as well as an international bank, USAID supported the start-up of a leasing company. USAID support at the "cluster level" was instrumental in establishing the Armenian jewelry manufacturers' representation in Los Angeles. USAID implemented a major regional tourism promotion project in two of the culturally and historically significant regions of Armenia.

The successful completion of the SO will lead to an improved legal and regulatory environment favorable for the growth of private enterprises. USAID efforts will contribute to the growth of SMEs, strengthen their capacity to conduct business and facilitate access to finance for SMEs. Armenia's competitiveness will improve, exports increase, and employment opportunities will improve significantly.