

United Nations Economic Commission for Europe

SERIES: ENTREPRENEURSHIP and SMEs

**SMALL AND MEDIUM-SIZED
ENTERPRISES IN THE CAUCASIAN
COUNTRIES IN TRANSITION**

Experience in Armenia, Azerbaijan and Georgia



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This publication is prepared by Mr. Antal Szabó, Regional Adviser on Entrepreneurship and SMEs, with the assistance of Ms. Anna Petrosyan, intern in UNECE.

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FOREWORD

The core of the political and economic transformation of any country in transition (CIT) is creation of private sector, development of entrepreneurship and establishment of small and medium-sized enterprises (SMEs). They are considered as of the principal driving forces in economic development. SMEs stimulate private ownership and entrepreneurial skills, they are flexible and can quickly adapt to changing market demand and supply situations, they generate employment, help to diversify economic activity and make a significant contribution to exports and trade as well. SMEs also play an important role in innovation and the high-tech business: due to their flexibility and creativity many of them became large businesses.

The three transition economies of the South-Caucasus: Armenia, Azerbaijan and Georgia lie to the south of the principal Caucasian mountain range, and situated on the crossroads between Europe and Asia they absorbed the culture of both and cannot to this day decide with which they have greater affinity. After 1917, all three countries were absorbed by the Soviet Union and were made to bear the effect of 70 years centrally planned economic rule under the Soviet management. Together with other republics they gained independence in 1991.

In 2003, according to the UNECE statistics provided by the SME national focal points of these countries, the SME sector includes around 120,000 incorporated enterprises with juridical personalities. The SME sector employs only about 640,000 people, including 240,000 self-employed and crafts, which is less than 11% of the total number of employment in all economic units. In the meantime the official number of unemployment amounted at 480,000. Armenia during the last three years has been developed a promising state enterprise development policy with clear aims and objectives. Azerbaijan is rather emphasises the importance of large enterprises and the share of number of employees as compared to total number of employees in the whole economy is very modest. For Georgia following the “rose revolution” it is now the time to start with the development of a transparent government entrepreneurship policy.

During the last decade, tremendous progress has been made in the transformation and transition process towards a market economy. However, inadequate framework conditions and an unfavourable macroeconomic environment in the Caucasian region still have been impediments to entrepreneurship and private sector development. In order to facilitate the transition process attention must be paid to creating better framework conditions for entrepreneurship and SMEs. Having identified the capabilities of SMEs in stimulating the economic growth, the next emphasis should be focused on the creation of a business friendly environment including good governance in which the transformation of the society towards a market economy is more likely.

The present publication gives the characteristics of the SME sector in the Caucasus transition economies, provides information on SME definition, highlights the major legislative measures, laws, summarizes the support measures for SMEs, provides a SWOT analyses of the SME sector and finally presents the statistics on SME sector in these three countries.

The Secretariat of the UNECE believes that cooperation among the Caucasian countries could lead to easing the tension in the region and contribute to the welfare of all nations leaving in a multiethnic environment.

Marek Belka
Executive Secretary
United Nations Economic Commission for Europe

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INTRODUCTION

This document is prepared as a part of the UNECE Programme for the Development of Small and Medium-sized Enterprises (SMEs) in Countries in Transition (CITs) launched in 1995. The UNECE Programme in the area of the SME development is to promote policy and regulatory reforms to create an enabling environment for the development of entrepreneurship and creation of SMEs, and support the creation and strengthening of formal institutions that provide business development and financial services to SMEs on sustainable basis.¹

To assist countries in transition (CITs), UNECE regularly updates and reviews the development of legislation and provides statistical data on SMEs highlighting the problems faced by the SME sector under the economic transition process in individual countries. UNECE as the highest-level Pan-European organization continuously maintains its contacts with national SME focal points in its 19 transition economies (27 countries until the latest EU enlargement in 2004) out of its 55 member States.

At the 55th session of the UN Economic Commission for Europe, the Delegation of Georgia, on behalf of the three countries of the South-Caucasus Region (Armenia, Azerbaijan and Georgia), made a statement on the agenda item on “Possibilities of Increasing the Regional Cooperation”. In the statement the Head of the Georgian Delegation reconfirmed the support to the idea of UNECE to create a special programme for the South-Caucasian Region.

The Regional Adviser on Entrepreneurship and SMEs within the framework of the UNECE Regional Advisory Service Programmes visited Armenia, Azerbaijan and Georgia in 1999-2004 years and established personal contacts at the Government levels responsible for development of national SME policies as well as NGOs representing the interest of indigenous entrepreneurs. During these meeting representatives of all Governments emphasised the importance of entrepreneurship and the SME sector and requested the international community to provide technical and financial assistance in acceleration of the development of this sector. While meeting with the representatives of the NGOs, they emphasised the need to launch in a systematic way a dialogue and forum, when they could communicate exchange of views and start to cooperate among themselves.

Within the framework of the Black Sea Economic Cooperation (BSEC) in cooperation with the BSEC Permanent Secretary, the Turkish Representative of the Konrad Adenauer Foundation and UNECE, three workshops were organized in the region as follows:

- (v) Workshop on The Role of Local Government in Enterprise Creation
18-19 March 1999, Yerevan;
- (v) Workshop on Environment Protection and SMEs
30-31 March 2000, Baku; and
- (v) Workshop on SMEs in Agro-Business and Rural Development
27-29 September 2000.

Based on the Declaration on SMEs at the Dawn of the 21st Century, adopted on 21 September 2001 in Istanbul by a joint Ministerial Statement of the organization of the Black Sea Economic Cooperation, the Member States of the BSEC have paid particular attention to the development of SMEs and entrepreneurship. In this Declaration, the Ministers welcomed, thanked and requested the UNECE, Konrad Adenauer Foundation (KAF) to provide assistance in accelerating the process of SME development catching-up of their economically less-developed countries and in embracing innovative and creative approaches to enhance the efficiency and competitiveness of SMEs.

¹ <http://www.unece.org/operact/enterp/documents/strat.pdf>

In the line of the BSEC Declaration on SMEs, the UNECE and Turkish Representative of the Konrad Adenauer Foundations Elaborated a Project on “Promotion of Entrepreneurship and SME Sector in the South-Caucasian Region”. The project focused on reviewing the situation in each Caucasian country based on national expert studies. The national studies were presented and discussed at the Workshop on “SME Development in South Caucasian Transition Economies” organized on 30-31 October 2003, by KAF and UNECE, Istanbul, Turkey.

In order to accelerate the creation of a sustainable entrepreneurial environment and support the development of entrepreneurship and SME sector in the South-Caucasian transition economies, the UNECE, the German Agency for Technical Cooperation, the ProSME Project in Armenia and the Ministry of Economy and Transport of Hungary in April 2005 organized a study tour for high-level government officials, leaders of SME Support Institutions to Hungary as a new EU country, to learn from the experience and practice of this country, being a centrally planned one, which successfully transformed its political and economic system towards the market economy and became an emerging market economy.

This document was prepared being based on the national country studies presented at the Workshop in Istanbul, the UNECE Questionnaire on “Small and Medium-sized Enterprises in New EU Countries, Associated Countries and Countries in Transition in 2002 and 2003”, ECE TCU 2004/4 and the finding of the UNECE Regional Adviser on Entrepreneurship & SMEs during his advisory missions and discussions with government officials, leaders of business support institutions, NGOs of these countries, as well as with the representatives of international organizations.

GOVERNMENT AUTHORITIES RESPONSIBLE FOR ELABORATION AND IMPLEMENTATION OF SME POLICIES

COUNTRY	NAME	SME FOCAL POINT	CONTACT ADDRESS
ARMENIA			
Government Authority Responsible for Elaboration of SME Policy	Ministry of Trade and Economic Development	Mr. Armen Gevorgyan Deputy Minister	5 Mher Mkrtchyan Str., 375010 Yerevan, Armenia
Government Authority/SME Support Agency Responsible for Implementation of SME Policy	Fund “Small and Medium Entrepreneurship Development National Center of Armenia” (SME DNC of Armenia)	Mr. Rshtun Martirosyan Executive Director	5 Mher Mkrtchyan Str., Yerevan 375010, Armenia
AZERBAIJAN			
Government Authority Responsible for Elaboration of SME Policy	Ministry of Economic Development	Mr. Mikhail Jabbarov Deputy Minister	85 S. Askerova Str. 370009 Baku, Azerbaijan
Government Authority/SME Support Agency Responsible for Implementation of SME Policy	Entrepreneurship Development Foundation (EDF)	Mr. Sabit Baghirov President	85 S. Askerova Str. 370009 Baku, Azerbaijan
GEORGIA			
Government Authority Responsible for Elaboration of SME Policy	Ministry of Economic Development	Mrs. Tamara Kovziridze Deputy Minister	12 Chanturia Str. 0108 Tbilisi, Georgia
Government Authority/SME Support Agency Responsible for Implementation of SME Policy	Center for Small and Medium Enterprise Development and Assistance of Georgia (CSMEDA)	Mr. Mevlud Tsiklauri Director	16 Zandukeli Str. 0108 Tbilisi

Source: UNECE Databank on SMEs, National SME Authorities in the Caucasian Region

3. UNECE APPROACH TO ENTREPRENEURSHIP AND SME DEVELOPMENT

The UNECE developed an **Integrated Model for the Development of the SME sector in the Countries in Transition**, which is successfully implemented in many transition economies. The most effective way of development of entrepreneurship is taking place when activities and assistance are integrated and aimed at three distinct levels:²

Strategic level – policymaking (hierarchy 1)

- **Task:** Development of sustainable environment, commitment to promote the creation and growth of SMEs by, inter alia, elaborating policy measures and legal instruments to support small- and medium-sized industries and business entities to facilitate the access of SMEs to technological and financial resources and stimulate investment and private sector involvement in the SME sector.
- **Responsible:** Legislative and government administrative bodies with delegated tasks of planning and implementing SME promotion programmes.

Institutional level - support institutions (hierarchy 2)

- **Task:** Establishment and strengthening infrastructure (independent institutions and mechanisms) to promote SMEs by providing effective services, including information on how to start up a business, how to prepare business plans, how to get partners and marketing information, access to financial resources and credit guarantees, development of a market-oriented way of thinking, support for innovation and facilitating cooperation among SMEs, etc.
- **Responsible:** Public and private sector institutions, chambers of commerce, non-governmental organizations, professional and social associations, training institutions, national development boards, banks.

Enterprise level – entrepreneurs and business entities (hierarchy 3)

- **Task:** Development of entrepreneurship and supporting SMEs within an integrated programme approach and sub-sectoral systems by strengthening entrepreneurial and managerial skills, providing direct consulting services, establishing industrial estates and business centres, developing quality awareness and promoting internationalization of SMEs, providing testing and certification possibilities, developing awareness for consumer protection, etc.
- **Responsible:** Small and medium-sized enterprises, entrepreneurs, universities, testing institutions, certification bodies, consumer protection body, consulting companies.

The above-mentioned levels create an **SME Development Pyramid** structure in which the strategic level is considered as the highest priority and is "located" at the tip of the pyramid. The institutional level is located in the middle and is interlinked with both the SME policy-makers at the top and the entrepreneurs at the bottom for whom they are created and to whom their services are offered. The third level is the base of the whole structure: they are the actors of the SME sector whose performance, behaviour, efficiency and inefficiency are reflected in the mirror of economic transformation. The whole building is sound only when there is mutual development, acceptance by each other and operative cooperation.

Annex 2 on Pyramid of SME National Policy and Entrepreneurship Support Infrastructure demonstrates the two priority levels, tasks to be solved and the target group responsible for solving the tasks in Armenia, Azerbaijan and Georgia. The picture is not complete, but highlights the most important institutions in the field of entrepreneurship support. The form of institutions and approaches are different depending on the government structure and the administration. However it gives a clear picture of the levels of responsibility and what Governments should do.

² <http://www.unece.org/indust/region2.htm>

4. CHARACTERISTICS OF THE SME SECTOR IN THE CAUCASIAN TRANSITION ECONOMIES

The three countries of the South-Caucasus: Armenia, Azerbaijan and Georgia lie to the south of the principal Caucasian mountain range, and situated on the crossroads between Europe and Asia they absorbed the culture of both and cannot to this day decide with which they have greater affinity. All three were absorbed after 1917 by the Soviet Union and were made to bear the effect of 70 years of Soviet rule. Together with the other republics they gained independence in 1991. The governments of these three countries have pursued economic reform in consultation with international financial institutions with the aim of establishing strong, market-oriented economies with a leading role for the private sector, including foreign investment.



The Caucasus has always been considered a significant strategic and geopolitical region. And discovery of oil on the Caspian Sea shelf put the Caucasus on the map as one of the most economically important regions in the world. Despite these economic gains, the region continues to face ethnic problems, which may play a negative role in the oil industry, and cause great concern over the future transport of oil to the global markets. Indeed all conflicts have their historical, social, economic and other roots. Yet the ongoing ethnic conflict in the Caucasus is the result of other, specific geopolitical factors. As a bridge between Asia and Europe, the Caucasus is also a frontier separating Christian and Muslim worlds. For a long time, the region was the site of fighting between the empires. The influence of different, sometimes conflicting imperial and religious interests would have been sufficient factors prompting the current ethnic conflicts in the Caucasus, even if the region was mono-ethnic. Yet, the Caucasus is one of the most poly-ethnic regions in the world, comprising many ethnic groups that have uniquely different languages, religions and political orientations. Political and ethnic boundaries that do not coincide with each other, however, complicate the regional situation.

The Soviet Union bequeathed a number of problems to the Caucasus countries, including artificially drawn national borders and centrally planned economies that were heavily dependent on Russia. Even before Azerbaijan and Armenia declared independence, fighting broke out in 1988 between the then-Soviet republics over the disputed area of Nagorno-Karabakh, and separatist conflicts sparked in Georgia soon after

independence. Some of the regional conflicts that flared in different parts of the Caucasus throughout the 1990's are now dormant, but few have been officially resolved.

International experience has proved that entrepreneurship promotion and small business development is an effective approach for the creation of new jobs, unemployment reduction, and income generation. Small businesses are an important and integral sector in any market economy. World practice testifies that economic restructuring in industrial countries was accompanied by the growth of the SME sector. It is well known and generally admitted that small businesses make an important contribution to national economic welfare and development.

The promotion of widespread entrepreneurship through the setting up of SMEs is crucial for the transformation to a market economy and the democratisation of society in the countries in transition. SMEs are recognized as an engine of economic growth and a source of sustainable development. Within this sector micro and small-enterprises are of special importance because they are considered as the cradle of entrepreneurship, particularly in environments facing high unemployment and poverty. In this process emphasis should be laid on creation of an enabling environment in which the transformation of society towards a market economy can take place.

Current government social economic policies aim at accelerating structural reforms and keeping the economies on a sustainable growth path while improving social security provision. Appropriate development strategies to create employment and eliminate poverty have to be adopted.

According to the recent Report on SMEs in Countries in Transition in 2000-2001 by the UNECE Nr. ECE/TRADE/337 as of 2003, Armenia, Azerbaijan and Georgia belong to the category of countries making slow progress.

In 2000, Armenia adopted the Law on "State Support of SME" as well as the "Concept for SME Development Policy and Strategy in Armenia". Since 2001 SME state support annual programs have been elaborated and implemented targeted to carry out major state support directions prescribed by the Law on "State Support of SME". These programs are implemented with annual budget allocations. In 2002, the Government under the Decree N 282 established the Fund "Small and Medium Entrepreneurship Development National Center of Armenia" (SME DNC of Armenia) and started with the creation of a national network of SME DNC branches. The entrepreneurship development is one of the primary goals of the Government and efforts should be made in further strengthening and developing the SME support infrastructure.

In 2002, Azerbaijan developed the "State Program on Development of Small and Medium Scale Entrepreneurship in the Azerbaijan Republic" for the period of 2002-2005, which was approved by the President Decree, № 753 as of 17 August 2002. In 2003, the new Law on "State Support for Small Entrepreneurship" (№ 508- IIQD/ as of 4 November 2003) and the Law on "Entrepreneurial activity" (№ 509-IIQD as of 4 November 2003) provide new impetus to entrepreneurship and SME sector development.

The outgoing Georgian Government issued the President Decree N 61 on "Establishment of the Position of The State Minister on SME Field" as of 10 April 2004. The legal basis and infrastructural support in Georgia is the weakest among the three Caucasian countries. However, the "rose revolution" has paved the way for elaboration of the coherent and transparent state policy for entrepreneurship.

The high level of population entrepreneurial ability and desire to create and manage their own business provide good opportunities for SME growth, if the Government creates an enabling business-friendly environment.

However, it is long way to go to create an enabling economic environment for start-ups and existing entrepreneurs. A coherent SME policy has still to be strengthened in Armenia, Azerbaijan and Georgia.

Tables 1 and 2 show the subsequent change of GDP between 1990 and 2002 and 2002-2005. Table 3 shows the index of SME development in the three countries.

Table 1

Real GDP/NMP in 1990 –2003
(Indices, 1989 =100 %)

Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Armenia	94.5	83.5	48.6	44.3	46.7	49.9	52.9	54.6	58.6	60.5	64.1	70.2	79.3	89.6
Azerbaijan	88.3	87.7	67.9	52.2	41.9	37.0	37.4	39.6	43.6	46.8	52.0	57.1	63.1	70.2
Georgia	84.9	67.0	36.9	26.1	23.4	24.0	26.7	29.5	30.4	31.3	31.8	33.4	35.2	38.2

Source: Economic Survey of Europe, 2004 No.1

Table 2

Annual Changes in Real GDP in the Caucasus Countries, 2002-2005
(Percentage change over the previous year)

Country	2002	2003	2004	2005 ³
Armenia	12.9	13.9	10.1	8.0
Azerbaijan	10.6	11.2	9.5	14.0
Georgia	5.5	11.1	6.0	5.0

Source: Economic Survey of Europe, 2005 No.1

Table 3

Index of SME Development for 2003

Country	Share of Private Sector in Total Economy ⁴ [%]	Share of SME sector in Gross Domestic Product (GDP) [%]	Share of Number of Employees in all SMEs Compared to Total Number of Employees in the Economy as a Whole [%]	GDP [USD/capita] ⁵	Index of SME Development
Armenia	70.0%	35.0%	31.0%	896	68.1
Azerbaijan	60.0%	41.3%	60.0% ⁶	864	127.5
Georgia	65.0%	29.4%	79.0%	854	127.2

Source: UNECE SME Databank, 2004

*Remarks: * Data from UNECE Questionnaire for 2001*

³ Forecast

⁴ EBRD Transition Report 2003

⁵ EBRD Transition Report 2004

⁶ This data based on expert estimations of the Entrepreneurship Development Foundation and Azerbaijan Technical University. The state statistical committee reports contain no data on the number of people employed in the SMEs in Azerbaijan.

5. ARMENIA

General Information⁷

Area: 29,800 sq km

Population: 3,1 million

Capital: Yerevan

Official language: Armenian

National currency: Armenian Dram (AMD)⁸



⁷ <http://www.ebrd.org/pubs/tr/04/russian/arm.pdf>

⁸ 1 USD= 452.23 AMD as of 11 April 2005 (Central Bank of the Republic of Armenia)

5.1 ECONOMIC POLICY OF THE COUNTRY INCLUDING THE SME SECTOR

(i) Political Economy of Reforms

For the last several years the Republic of Armenia has turned to a new (qualitative) phase of development for its economy. In this concern it was overcame the majority of difficulties typical for countries with transition economy. As a result of economic reforms that were conducted more than 10 years, it was created the basis for stable economic growth (economic progress) in Armenia targeted on improvement of social-economic conditions of Armenian population.

During the last three years the macroeconomic policy of Armenia was targeted on provision of high economic growth (for 2003 this indicator was about 14%) as well as on stabilization of prices, development of private sector, creation of convenient competitive and investment environment that provides equal conditions for economic units of the country.

The low rate of inflation as well as the liberal regime for foreign trade and currency exchange leads to creation of important preconditions for stable economic growth. As a result the economic growth has had a positive impact on real incomes of the country's population.

Besides, the economic growth was supported by integration of Armenia into the World Economy in a way of membership to World Trade Organization (WTO) as well as increasing the capacities for exported products/services, etc.

(ii) Privatization of Enterprises and State Property

After the collapse of the former Soviet Union and planning system Armenia turned to the path of transition to market economy. Since then it started the privatization of state enterprises and state property. During 10 years it was privatized the majority of state enterprises and the main part of state property.

The Government pursues a strategy for expansion of the scope for domestic and foreign direct investments while conducting the privatization policy. As a result of implementation of privatization policy many private companies appeared in the country. In 2003 the private sector provided above 70% of the Gross Domestic Product (GDP).

(iii) Development of Private Sector

In transition period to market economy, especially during the last several years, important measures/steps were carried out towards development of private sector in Armenia.

In this concern the provision of transparency and publicity of privatization procedure was a precondition for economic efficiency of privatization and private sector development at the whole. Along with privatization of state enterprises and state property the Armenian Government conducts appropriate measures and elaborates projects for restructuring of companies with state participation and for provision of efficient governance of state property.

Along with this the absolute rights of the Government were provided on the state property governance leading to increase the level for its utilization and monitoring of financial-economic activity of companies with state participation as well.

For non-sustainable companies the Government has applied procedures prescribed by the Law on "Bankruptcy".

(iv) Liberalization

After obtaining political independence the former planning system was collapsed and systematic economic as well as structural changes (reforms) began to be carried out in Armenia conducive to requirements of free marketing and economic development principles.

Since then it was liberalized almost all the economic activities that were prohibited or restricted by the former laws/legislation, except some economic activities that are still prohibited/restricted by the current laws/legislation.

As an achievement for liberalization process in Armenia it's worth to mention the liberalization of prices (almost all the state tariffs and fixed prices for definite products/services were cancelled and were adapted to market prices), domestic and foreign trade conditions and regimes/rules, etc. By time being it was created the base for free (liberal) competitive environment in the country.

(v) Reform of Banking Sector

The Armenian Government considers the reform of financial system, particularly the banking sector, as one of the main preconditions for accelerating the economic growth in the country.

As a result of reforms in banking sector it was gradually restored the confidence of Armenian population as well as the attraction of personal savings into the banking sector, thus assuring the stability of banking sector (financial system at the whole).

Within the scope of reforms in banking sector it will be worked out new mechanisms/measures for protection of the rights of financial market "participants". Particularly for this purpose it will be worked out mechanisms guaranteeing the security of deposits of physical persons. The utilization of the above-mentioned mechanisms will provide opportunities for decreasing the financial transaction risks in banking sector thus enabling the implementation of mid and long-term loaning projects.

Considering the factor for development of loaning register as well as due to reforms aimed at improvement of business environment in Armenia it will be decreased the existing high investment rates, which will lead to decrease of banking interest rates.

Special attention is drawn to development of capital market as well as creation and development of important legal environment for formation and development of non-banking loaning (financial) organizations, which are considered as alternative institutions for development of financial market.

(vi) Role of SME Sector in the Economy

The SME sector has an important role in political, economic and social development trends of Armenia. The achievements recorded in SME sector and its continuous development has an extreme important role for the country from social-economic development point of view.

The development of SME sector provided an opportunity to create strong and dynamic private sector in Armenia as well as economic growth in short period of time, simultaneously smoothing the undesirable phenomena of transition period.

The SMEs operate in almost all the spheres (sectors) of the country's economy: industry, particularly food processing industry, wholesale and retail trade, services, farmer districts, transport and communication, etc.

The SMEs (SME sector) support to revival of all the spheres (sectors) of Armenian economy and promote the opportunities for operation of big companies, acting as suppliers or contractors/subcontractors for them.

The development of SME sector in the regions (Marzes) support to implementation of targeted regional policy and projects for the country.

Development of SME sector in Armenia is a real precondition for creation and strengthening of middle class, which is considered the basis for contemporary society.

(vii) Social Reforms

The social reforms were carried out in transition period to market economy. The projects implemented in the spheres of education and health care appeared to be more addressed and targeted. The activity of the Armenian Government in the spheres of social security and health care was targeted on enhancing the efficiency of budget means' utilization and forwarding them for solution of vital problems of population.

The achievements of the Armenian Government for the last several years in the sphere of social reforms assure the creation of all the preconditions for accelerated increase of the Armenian population's welfare.

During the last several years it was conducted several projects for development and improvement of social security and health care systems in Armenia.

As far the poverty alleviation is an important issue for Armenia, therefore the Government has elaborated and began to implement a "Poverty Alleviation Strategic Program of Armenia".

(viii) Achievements of Transition to Market Economy and Problems Faced by SME Sector

In transition to market economy the key achievements of the Armenian Government are as follows: During the 2000-2004 it was provided real economic growth on average level of 10.5%;

- It was decreased the state budget deficit for about twice and composed 2.6% of GDP;
- About 70% of GDP was provided by the private sector of Armenian economy;
- It was improved the level for attraction of foreign direct investments;
- It was improved the foreign trade balance. The imported products/services are gradually substituted with similar domestic products/services;
- It was increased the capacity of exported products/services. The export promotion of Armenian products/services was supported by the official membership of Armenia to World Trade Organization (WTO) in February 2003;
- It were improved the indicators and the structure of the spheres of Armenian economy;
- It was improved the tax and customs administration and tax and customs policies were targeted on stabilization of tax and customs systems in Armenia;
- During the last several years it was decreased the unemployment rate up to 9.4% average;
- The Armenian Government carried out systematic measures for poverty alleviation in Armenia and improvement of social welfare of the population;
- It was improved the situation in SME sphere: it is proved by the fact that during the last three years about 20.000 SME units were established: only in 2003 about 8.000 new SME units were established, providing over 20.000 new work places. Besides, the SME sphere plays significant role in the formation of GDP of the country: according to the data of 2003 the participation of SME sphere in GDP composed 35 percent, almost twice exceeding the level of 2000, and in 2004 this indicator stands on the level of 39 percent.

Despite the gained achievements as for the SME sector and on the macroeconomic level at the whole, currently the start-ups and operating SMEs face a lot of difficulties/obstacles in starting and running their businesses, mainly connected with administrative barriers, such as high tax burden, hard tax/customs and business certification/licensing procedures, which at least hinder the development of entrepreneurship and particularly the SME sector in Armenia.

Along with this, the entrepreneurs have to undertake activities, sometimes not understandable for them, to comply with legislative obligations, which are complicated and not clear and this fact itself cause additional difficulties/obstacles for development of entrepreneurship and particularly the SME sector in Armenia.

In this concern the lobbying in high authority-level is an important precondition for start-ups and operating SMEs for successful development of their businesses.

5.2 DEFINITION OF SMEs

According to the Law on "State Support of Small and Medium Entrepreneurship" the SMEs in the Republic of Armenia are classified as follows:

(i) Commercial organizations and individual entrepreneurs with average number of employees not more than 5 persons are considered as *micro company*.

(ii) Commercial organizations and individual entrepreneurs with average number of employees are considered as *small company* that meets the following criteria:

- Industry and other productive spheres – not more than 50 employees;
- Construction and power engineering sphere – not more than 25 employees;
- Science and education sphere – not more than 25 employees;
- Transport, trade and services sphere – not more than 15 employees.

(iii) Commercial organizations and individual entrepreneurs with average number of employees are considered as *medium company* that meets the following criteria:

- Industry and other productive spheres – not more than 100 employees;
- Construction and power engineering sphere – not more than 50 employees;
- Science and education sphere – not more than 50 employees;
- Transport, trade and services sphere – not more than 30 employees.

The concern of companies to SMEs running their activity simultaneously in different spheres is determined by criteria of prevailing sphere of activity. The average number of employees for SMEs is determined under the order stipulated by legislation the country.

Financial/other criteria (like assets/charter capital or turnover) for classifying the SMEs currently is not applicable in the Republic of Armenia as it may cause serious difficulties (problems) while estimating the financial-economic indicators for the activity of SMEs.

The present Law doesn't spread on loaning, insurance and investment companies, bombards, specialized entities of securities' market, play clubs and show businesses as well as on daughter companies and dependent economic units.

5.3 LIST OF GOVERNMENT LEGISLATION FORMULATING SME POLICY AND ASSURING LEGISLATIVE AUTHORITY TO INTRODUCE MEASURES TO SUPPORT SMES.

In Armenian governmental legislation (decree, law, ministerial order etc.) formulating SME policy and assuring legislative authority to introduce measures to support SMEs according to requirements of the Law on "State Support of SME" the Ministry of Trade and Economic Development on behalf of the Armenian Government since 2001 has elaborated SME state support annual programs. It was elaborated SME state support programs for 2001, 2002, 2003 and 2004. In addition, on 2 December, 2004 the Government adopted the SME state support program for 2005. Besides, it were worked out and adopted some other laws as well as governmental decrees and other legal acts in concern to SME sphere in Armenia, particularly: the Laws on "Trade and Services, "Electronic Document and Electronic Signature", "Conformity Assessment", and amendments were done in the Laws on "Cash-desk Operations", "Protection of Economic Competition", "Protection of Domestic Market", "Simplified Taxation". In addition, it was elaborated the following strategic documents in concern to SME sphere in Armenia: "Regional Economic Development Strategy of Armenia", "Concept for Handicraft Development of Armenia", "Food Security Policy of Armenia", "Poverty Alleviation Strategic Program of Armenia".

Under the Decree N282 of the Government as of 19 March, 2002 it was established a non-commercial organization: Fund "Small and Medium Entrepreneurship Development National Center of Armenia" (SME DNC of Armenia) with the responsibility (authorization) to implement SME state support annual programs in Armenia.

For enhancement of efficiency for implementation of SME development policy and programs (projects) towards the development of SME sector in Armenia and for this matter in order to concentrate (coordinate) the capability of domestic and foreign and international organizations having concern to support and development issues of SMEs by the initiative of the Ministry of Trade and Economic Development the Coordination Council for Support of SME in Armenia was formed (its first meeting was held on April 13, 2004). In its turn the Coordination Council created several working groups on different SME related matters, which currently successfully conduct their activities.

5.4 GOVERNMENT CONCEPT AND POLICY TO SUPPORT ENTREPRENEURSHIP AND SMES IN ACCORDANCE WITH THE LATEST ACCEPTED (ADOPTED) LEGISLATIVE MEASURES.

The Armenian Government policy (concept) and strategy for support of entrepreneurship and particularly the SMEs is fixed in policy/strategy materials, which are as follows:

- Law of the Republic of Armenia on "State Support of SME" (adopted by the National Assembly of Armenia in December 2000)
- "Concept for Small and Medium Entrepreneurship Development Policy and Strategy in Armenia" (adopted by the Armenian Government in August 2000)
- SME State Support Annual Programs (submitted to the Armenian Government according to schedule of submitting policy documents and other strategic materials).

According to the Law on "State Support of SME" the main directions for state support of SME are as follows:

- Formation of favourable legal environment;
- Financial and investment support and provision of loan guarantees;
- Assistance for creation and development of support infrastructures;
- Business information and consultancy support;
- Promotion of foreign economic activities;

- Support for application of innovations and modern technologies;
- Performance of favourable tax policy;
- Vocational education and training;
- Creation of simplified systems for statistic reports and accountancy;
- Support for procedure for performance of state purchasing.

In the scope of SME State Support Annual Programs the objectives of Armenian Government policy/strategy for support of SMEs are as follows:

- Improvement of legal and regulatory framework for SMEs;
- Creation and development of appropriate infrastructures for support of SMEs;
- Financial and investment support for SMEs;
- Support for foreign economic activity (export promotion) of SMEs;
- Support for application of innovations and modern technologies in SMEs as well as for protection their mental property rights;
- Support for application of international standards for quality control (ISO 9,000 series) in SMEs;
- Support for utilization of business information, consultation and training services for SMEs;
- Improvement of statistic record for SMEs.

5.5 REGISTRATION AND LICENSING OF COMPANIES

System of Registration of Companies

For running normal activity (civil business) all the businesses should be registered. According to the Law on "State Registration of Companies" the Armenian businesses should pass a state registration procedure, which takes up to 5 working days starting from the day of submitting an application for establishing a new business. In this sense the state registration of companies is considered as an obligatory requirement. Depending on area of their location (legal address) the new businesses should pass state registration by appropriate district unit of the state registration body.

The registry procedure for typical companies, like trading companies, crafts and co-operatives is the same as for the registry procedure of companies at the whole. It can be stated that taking into account the requirements of Armenian legislation all the legal entities (economic units) besides the sole proprietors (sole entrepreneurs) can be referred to as trading companies. In this sense Crafts can be included in the legal form: Sole Proprietor (Sole Entrepreneur) and Co-operatives can be included in the legal form: Industrial Co-operatives.

Entrepreneurial Activities Need Licensing and the Procedure to Get a Licence

According to the Armenian legislation some kind of entrepreneurial activities need to be licensed. This concerns to the specific type of entrepreneurial activities, such as: production and sales of exploding equipment and weapon, natural gas and electricity, foodstuffs, medical and pharmaceutical supplies, recycling and arrangement of dangerous wastes, operation of play and night clubs, as well as provision of some kinds of services, like: banking operations (transactions), insurance, legal and logistic operations, revision and audit of companies, provision of communication, customs intermediary activity (brokerage services), etc.

The Governmental Authority providing the licenses for typical entrepreneurial activities (besides some entrepreneurial activities, for which the licenses are provided by appropriate authorities) is the Ministry of Finance and Economy. For getting a license one should provide all necessary documents and submit them in time to the Ministry of Finance and Economy. Along with this he/she should pay a fixed amount of state duty. In this case the license is provided within several working days.

5.6 LEGAL ASPECTS AND CRITERIA FOR VARIOUS FORMS OF ENTREPRENEURS

Sole Proprietor/Trader

Sole Proprietor (individual entrepreneur) is one of the legal forms of the economic units that currently exist according to Armenian legislation. As for revised Civil Code of Armenia the sole proprietor (individual entrepreneur) may have several employees like a small company. It is worth to mention that according to the latest data on companies (as of the end of 2003) sole proprietors (individual entrepreneurs) compose more than the half (63,502 or 56%) of all registered economic units in Armenia.

The sole proprietor (individual entrepreneur) carries responsibility for obligation (profit/loss) as for the whole belonging property, even considering the personal property - (*criteria from responsibility point of view*). The management aspects are carried out by the sole proprietor (individual entrepreneur) solely (individually), not on collective principle - (*criteria from management point of view*).

Partnership

Under "Partnership" it can be accepted several legal forms that currently exist according to Armenian legislation. As for revised Civil Code of Armenia it do exist the following legal forms in concern to partnership: Full Economic Partnerships, Commanded Economic Partnerships, as well as other legal entities in concern to partnerships provided by the Armenian legislation.

The members of partnership carry responsibility for the obligation (profit/loss) of partnership as for their participation share (property) in fixed capital of partnership - (*criteria from responsibility point of view*).

The management aspects of partnership are carried out by partnership on collective base under the decision of partnership's meeting (*criteria from management point of view*).

Limited Liability Company (Incorporated Enterprises with Juridical Personality)

Limited Liability Company (Incorporated Enterprises with Juridical Personality) is one of more spread (popular) legal forms of Armenian economic units and compose more than the half (57%) of all registered legal entities or about 1/4 of all the registered economic units in the country (about 30,000 Limited Liability Companies were registered as of the end of 2003).

The members of Limited Liability Company (Incorporated Enterprises with Juridical Personality) don't carry responsibility for the obligation (profit/loss) of the organization, but the risk for the activity (profit/loss) of the organization is shared among the members of Limited Liability Company (Incorporated Enterprises with Juridical Personality) as for their participation share (property) in fixed capital of Limited Liability Company (Incorporated Enterprises with Juridical Personality) - (*criteria from responsibility point of view*).

The management aspects of Limited Liability Company (Incorporated Enterprises with Juridical Personality) is carried out on collective principal under the decision of the council of Limited Liability Company (Incorporated Enterprises with Juridical Personality) - (*criteria from management point of view*).

Crafts

According to the Armenian legislation Crafts are not considered as one of legal forms of the country's economic units. Not officially the craftsmen can be referred to the legal form: Sole Proprietor (Individual Entrepreneur).

5.7 SWOT ANALYSIS OF SME SECTOR

<p>STRENGTHS</p> <p>Elaboration and implementation of SME development state policy and annual support programmes;</p> <p>Establishment of Small and Medium Entrepreneurship Development National Center of Armenia (SME DNC of Armenia) in March 2002 aimed at provision of state support for SMEs and development of corresponding infrastructures for SMEs;</p> <p>Stable macroeconomic growth and positive trends in SME sector;</p> <p>Improvement of situation in labour market and solution of number of serious social problems.</p>	<p>WEEKNESSES</p> <ul style="list-style-type: none"> • Elaboration and implementation of SME state policy started relatively late as compared with other transition economies; • Low demand in local market; • Lack of reliable official statistics on SMEs; • Uncertain and unfriendly tax administration; • Poor access of SMEs to financial resources; • Lack of business incubators; • Low competitiveness of SMEs; • Lack of quality consciousness of SMEs; • Lack of managerial skills of SME leaders; • Share of the population in poverty is very high.
<p>OPPORTUNITIES</p> <p>Operation of SME DNC of Armenia throughout Armenia via its regional subsidiaries;</p> <p>Good opportunities for cultural heritage tourism;</p> <p>Membership of Armenia to World Trade Organization (WTO) enhances the opportunities of SMEs to enter the foreign markets;</p> <p>The Armenian Diaspora might play a significant role in internationalization of domestic SMEs.</p>	<p>THREATS</p> <ul style="list-style-type: none"> • Bureaucracy and corruption are seen as one of major threats hindering the development of SMEs; • High polarization for income distribution of population; • Unfair competition; • Unsettled regional conflicts around Armenia.

Source: UNECE Regional Adviser on Entrepreneurship and SMEs

5.8 SUPPORTING MEASURES FOR START-UP SMEs.

SERVICES PROVIDED BY THE SME DNC OF ARMENIA

The SME DNC of Armenia is a non-commercial organization with a legal status of a Fund. Aimed at assistance to social-economic and political development of the country the mission of SME DNC of Armenia is to support development of SME sector: representing and advocating the interests of SMEs by serving as a liaison between the Armenian Government and business community.

The SME DNC of Armenia is established under the Decree of Armenian Government N 282 as of 19 March, 2002 with the responsibility (authorization) to implement SME state support annual programs in Armenia. It is governed by the Executive Director and the Board of Trustees composed from representatives of governmental organizations and business community as well.

The maintenance of staff and equipment as well as the performance of the activity of the SME DNC of Armenia is funded from state budget within the scope of implementation of SME state support annual programs. Besides, the SME DNC of Armenia is also funded from other domestic and international sources. It implements some projects/measures in scope of cooperation with foreign/international organizations on co-financing basis.

The SME DNC of Armenia performs its activity throughout the whole territory of Armenia via its regional subsidiaries and representations.

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The partners of SME DNC of Armenia are considered: ministries and other governmental organizations, financial and non-financial institutions, NGOs representing the interests of SMEs, business service providers as well as foreign and international organizations in concern to business related matters.

Besides the above-mentioned aspects, the SME DNC of Armenia in scope of its mission provides technical and financial support to SMEs.

The technical support to SMEs provided by the SME DNC of Armenia includes the following directions:

- Provision of business information to SMEs;
- Provision of business consultation to SMEs;
- Vocational education and training support for SMEs;
- Support for application of quality control standards/systems (ISO 9,000 series) in SMEs;
- Support for application of innovations and modern technologies in SMEs;
- Support for foreign economic activities (export promotion) of SMEs;
- Other technical support to SMEs (publication of business manuals, booklets, reference books, support for design and creation of Web sites/pages for SMEs, support in organizing meetings, workshops (seminars), conferences (forums) for SMEs, conducting SME sphere survey and market research, etc.)

The financial support to SMEs provided by the SME DNC of Armenia orients towards

- Provision of loan guarantees to SMEs for enhancing their access to financial resources in a way of conducting Loan Guarantee Provision Project for SMEs.
- As a measure for supporting the SMEs and particularly the start-up businesses it's being implemented a project for promotion of products (services) to markets produced (provided) by small businesses.
- In scope of this project it will be provided support for application of quality control systems, particularly the international standard for quality control ISO 9001-2000 and for promotion of products (services) to markets produced (provided) by small businesses as well.

In this concern it will be provided an appropriate support to export oriented and perspective SMEs for demonstrating in a better way their products (services) in exhibitions to be organized in Armenia and abroad. Particularly it will be provided support in a way of promulgation of products (services) by mass media as well as by introducing the products' packaging, labelling, designing and other procedures. This will promote the exporting capabilities of small businesses and it will finally lead to enhancement of competitiveness of their products (services) and their image as well.

As a support measure for start-up SMEs it will be implemented also a project for supporting the start-up businesses titled "Successful Start". In the scope of this project in Yerevan as well as in the other Marzes of Armenia it will be carried out measures, which will include components for providing business training, professional consultation and information as well. These measures will be targeted on promotion of new SMEs and provision of corresponding support for them just in the phase of their establishment.

6. AZERBAIJAN

General Information⁹

Area: 86,600 sq km

Population: 8.3 million

Capital: Baku

Official language: Azeri

National currency: Azerbaijani Manat (AZM)¹⁰



⁹ <http://www.ebrd.org/pubs/tr/04/russian/azer.pdf>

¹⁰ 1 USD= 4839.00 AZM as of 11 April 2005 (National Bank of Azerbaijan Republic)

6.1 ECONOMIC POLICY OF THE COUNTRY INCLUDING THE SME-SECTOR

(i) The political and macroeconomic stability restored since 1995, presence of rich natural resources and rather high densities of the population of active age are positive factors of economic reforms. Measures on reforming economy, though anyhow cover all sides of economic system and as in case of land reform are radical, they cannot be named sufficient and coordinated. Azerbaijan concerns to the number of those transition countries in which such international organizations as the International Currency Fund, World Bank and others play a special active role in formation of the strategy of reforms and their concrete mechanisms.

(ii) Wide privatization of the enterprises in Azerbaijan began only in 1995 according to the first state program of privatization and by official estimations; in 1999 «small privatization» has been completed. At the first stage of privatization all enterprises of retail trade and services, the small industrial enterprises are practically privatized. The total number of privatized objects to the beginning of 2000 has made 31 thousand. The second stage of privatization according to the second state program takes the beginning since 2000 and the center of the basic actions at this stage is moved to area of the medium and large enterprises. If the first stage of privatization has not crowned reforming of a wide spectrum of effective proprietors, quality indicators of the second state program of privatization are realized with big "delay". It is related, first of all, with absence of the conventional stable and active structural policy. Excepting oil sector, branch priorities of the Azerbaijan economy did not become yet object of a system policy of economic development. The share of "none oil" industrial sector in GDP in 2001 was 4.8%, that 1990 was equal to 16%. Strengthening of break between oil and none-oil sectors of economy are the results not only for accelerated development of oil sector, but also of absence of an active policy for development of "none oil" sector. At such situation efficiency of privatization process in many respects is caused by presence of an active industrial, investment and regional policy.

(iii) From the angle of view of transformation and evolution of patterns of ownership the private sector became determining sector of the Azerbaijan economy. The share of private sector in GDP was 73% in 2002 (by other estimations – 71%). In this sector it is totaled about 44 thousand enterprises (entrepreneurship structures in the form of juridical persons) and it is occupied 2.5 million people. According to the data for 2001 private enterprises formed 48.3% of industrial production, 99% of the agricultural products, 76% of construction, 98.4% of internal commodity turnover, 52.6% of export and 69% of import. The share of a private sector in the incomes of the state budget in the same year was equal to 69%. These parameters reflect first of all results of privatization and development of private sector. In this aspect the activities of the government should be appreciated positively. Also it should be taken into account the circumstance, that the significant part of capacities of the large and even the medium industrial enterprises in the state ownership are not used for the different reasons. It renders significant influence on a relationship between private and state sectors. GDP of the country was 57.1% in 2001 from a level of 1989. Significant gap is kept between densities of a private sector in GDP of the country and participation of private enterprises in export as well. Dependence of the country on the import factor even on consumer goods is rather great.

(iv) Economic liberalization in Azerbaijan since 1992 occurred as a whole successfully though this process cannot be counted completed. Liberation of the prices of the centralized control of the state has taken place for a very short period. At the present time real state regulation of the prices is applied on services of subjects of natural monopolies. The second stage of liberalization is expressed in radical reduction of restrictions and barriers of foreign trade activities of regulation subjects. The state monopoly for foreign trade was liquidated in 1997. In the country significant results are achieved on restriction of intervention of branch executive, regulating and control bodies in activity of the enterprises. Azerbaijan has addressed WTO with the request for the introduction into this organization in 1997. However, actual discussions of the given problem have begun only recently and they have not become regular yet.

(v) In the country the two-level bank system is already formed and the bank legislation in general is relevant to necessary requirements of market principles. It has served as the major factor of activation of the role of the National (Central) Bank in carrying out stable monetary and credit policy. Since second half of 90th years process of capitalization in bank sector has strengthened, therefore the amount of commercial banks was sharply reduced. The Central Bank artificially has toughened this process since 2000. Similar measures appeared insufficient for formation of transparent and the effective competitive environment in bank sector. Though in bank sector 47 commercial banks operate, on all segments of the given sector the International Bank occupies the leading Provision. Forthcoming privatization of this bank, itself will not lead to radical change of a situation in bank sector. In general, banks can become the active factor of development of real sector of economy, only as a result of carrying out a wide spectrum of measures.

(vi) SMEs have already become a dominating element of "none oil" sector of economy. In all three state programs on development and support of SME accepted since 1993, the leading part in the decision of economic and social problems of the country was allocated to SME. In these programs support of development of SME is determined as a priority direction of economic policy of the government. According to some calculations, which have been carried out on the basis of official statistics, the share of SME in GDP was 41.3% in 2003. Share of SME in the common employment in the same year was equal to 60.0%. There are about 60 enterprises concerning to the SME group on every 10 thousand person in the country. Thus, especially for last years, the quantitative growth SME expressed in the relationship of the incorporated and the closed enterprises has considerably decreased. According to the official data in the country the amount of the incorporated new enterprises was in 3.3 thousand -1999, 3.5 thousand –in 2001 and 3.1 thousand- in 2002. In corresponding to years on official statistics the number of the liquidated enterprises was 3 thousand, 1.6 thousand, and 2.1 thousand. Serious disproportions in branch and regional structure of SME are kept. More than 70% of commercial operations are concentrated in capital city. Transition actions have caused division of the country into capital and not capital region. Influence of oil sector on formation of local subcontracts and suppliers has the limited character, though by estimations of British Petroleum there are potential opportunities for establishing of twelve "branches" around of oil sector.

(vii) Social reforms are directed on creation of system of the social services corresponding to market conditions and mechanisms of social protection of the population. In the field of wages the basic efforts of the government are concentrated in a direction of regulation of the minimal wages. Mechanisms of stimulation of growth of wages and improvement of quality of the human factor are not properly involved yet. The minimal wages since January of 2005 is about 25 USD per month. Mechanisms of regulation of labor relations are at the stage of establishing. First steps in the field of social security were made in 1997. However the first stage of this process is characterized by incompletely and non-radicalism. In 2001 year the pension concept has been authorized, that, particularly, provides formation of new system of social insurance and regulation of pension system. The concept on reforming public health services is authorized in 1999 year, which first of all, was reflected in appreciable growth of private services of public health services and scale commercialization services of the state public health enterprises. The public health services became one of priority directions of development of entrepreneurship in the country, though "role" of the Ministry of Health is very great, especially in channels of occurrence on the given market. In spite of the fact that the necessary legislative base of social insurance is already created, the real achievements in this area are not observed yet. The state program of reforming of education system is commissioned in 1999 in which various actions on reorganization and adaptation of education system to market economy are stipulated. The most obvious result of similar actions is appreciable expansion of a network of private education and wide commercialization, especially in higher education. However this process is not accompanied by improvement of quality of education. Especially in area of professional technical education the ambiguity in the directions of actions is kept. In Azerbaijan the amount of students at universities is 5 times more, than in the system of professional technical education, while in Germany and Turkey by this parameter professional technical education concedes to universities only for 20%, in China, on the contrary, it exceeds universities in 10 times. It can become one of serious restrictions for development of SMEs in Azerbaijan in the long-term plan. The formed market of educational services considerably reformatted and the mechanism of

protection of the rights of consumers in this sphere is practically absent. In general, coordination of market and social reforms remains weak and inefficient; the tendency of parallelism in these processes is still kept.

(viii) Transition in the country to market economy, irrespective of its formed concrete model, has got irrevocable character. The private sector has turned to the basic and leading segment of economy. In the country macro-financial stability is achieved and economy is transferred into a plane of growth on the market beginnings. Despite of high social costs transformational processes, market values consistently affirm in public consciousness. Models of behavior of people for this period were significantly modified. Institutional and structural changes have caused formation of wide sector of SME and transformation of this sector into one of primary factors of the decision of economic and social problems of the country. For the last years a part of serious problems with which faced SME are overcome. However, even today SMEs have a lot of problems, which decision requires scale efforts. The amount of people involved in entrepreneurship activity remains limited and does not meet requirements of the domestic market, resource potential of the country and officially declared purposes. SME sector, formed in Russia by citizens of Azerbaijan, on the scales does not concede to SME sector in Azerbaijan. The macroeconomic base of attraction of the population in entrepreneurship activity remains poor. Initial savings make only 8% from the level of GDP; bank savings of the population do not exceed 2% of GDP. The sum of all forms of bank credits remains at a level of 10% of GDP.

(ix) The division of power from the property and from economy is not completed; therefore social updating of entrepreneurship structure occurs slowly. The system of preparation of youth to entrepreneurship activity has not developed, and efforts undertaken in this direction are not effective enough. Even the means directed on these purposes under programs of technical assistance are not used as necessary. The spectrum of segments of the market extends, occurrences in which is complicated owing to monopolization and applications of methods of an unfair competition. The nomenclature of competitive products in “none oil” sector of the economy, possessing to potentials of an exit to the foreign markets extends slowly and the system mechanism of contribution to the given process has not been developed yet. Stimulation of a transfer of technologies, R & D activity, universities and industry integration hasn’t got system character. Process of cooperation and integration into SME sectors remains limited. Regional factors of entrepreneurship development are involved by undue form; the judicial mechanism of decision for economic conflicts and protection of the rights of entrepreneurs requires essential perfection. Role and functions of commercial and industrial chamber, the public and professional organizations of entrepreneurs should be a subject of transparent and consecutive discussion.

6.2 DEFINITION OF SMEs

The belonging of units of economy to SME category, under the legislation of Azerbaijan, is defined according to amount of employed people. In accordance to the Law on “State Support of Small Entrepreneurship”, under “small entrepreneurship” are mend the physical persons who are carrying out entrepreneurship activity without organizing a juridical person and juridical persons, average number of workers (with exception of seasonal workers) are: up to 50 person - in industry, transport and construction; up to 30 person- in agriculture and scientific and technical activity; up to 25 person- in trade, services, information structures and other spheres. Such definition, reflecting in a certain degree of legislative practice on SME in the area of CIS at the initial stage of transition is not free from set of basic lacks. However, for the medium enterprises the criteria is not determined precisely with the aim of development policy and support of SME sector. For aim of differentiation of forms of privatization of the enterprises in the second state program of privatization under «the medium enterprises» are provided the enterprises which number of workers make in the industry from 50 up to 150 persons; construction, transport and communication enterprises – from 50 up to 100 persons; scientific and technical spheres – from 30 up to 75 persons; trade and service spheres – from 25 up to 50 persons. Alongside with this, in the monitoring spent by the State Committee of Statistics, according to number of workers, the enterprises are divided into the three groups: the enterprises in which work up to 50 person, from 51 up to 199 persons, from 200 and above persons. The first group of the enterprises refers to "small"; the second

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(medium) and the third (large) groups of enterprises "are united" under the name of "the medium and large enterprises". However, detailed definition is based on the corresponding interdepartmental decision and not adjusted by any law and the statutory act of the central agency.

In accordance to the legislation of the country, foundation of branches, representations and other structural divisions of the companies is provided. Mutual relations of "the head company" and its divisions are adjusted by the legislation and it reflects corresponding world legislative practice in the basic moments. At the same time in the Azerbaijan legislation the status of the state enterprises is determined even in the unsatisfactory form. Currently, laws on joint-stock companies and enterprises with limited liability form the legislative basis of state enterprises. It not only complicates practical activities of the state enterprises and their mutual relations with ministerial order, but also creates serious difficulties on a way of restructuring and privatization of natural monopolies especially.

6.3 LIST OF GOVERNMENT LEGISLATION TO SUPPORT SMEs.

№	Name of Document	Status	Year of Acceptance	Accepting Body
1.	Law on Entrepreneurial Activity	Law	1992	Parliament (Milli Medjlis)
2.	Concept for Basic Directions of State Policy in the Field of Entrepreneurship Development	Concept	1993	Parliament
3.	State Program of Development of c.... (1993-1995)	Program	1993	Parliament
4.	Decree on Urgent Activities on Development of Small Entrepreneurship	Decree	1993	President
5.	Law on Enterprises. Since 2000 the Civil Code	Law	1994	Parliament
6.	Law on Leasing	Law	1994	Parliament
7.	Law on joint-stock companies	Law	1996	Parliament
8.	Law on registration of juridical persons	Law	1996	Parliament
9.	Law on Enterprises of Limited Liability	Law	1998	Parliament
10.	Law on State Support for Small Entrepreneurship	Law	1999	Parliament
11.	Provision on Control Books	Provision	1999	Cabinet of Ministers
12.	Law on Income Tax from Physical Persons	Law	1999	Parliament
13.	Law on Tax from Property	Law	1999	Parliament
14.	Decree on Improvement of System of the State Control and Elimination of Artificial Obstacles for Entrepreneurship Development	Decree	1999	President
15.	Law on Book Keeping	Law	2000	Parliament
16.	Provision on the Ministry of Economic Development	Provision	2001	President
17.	State Program of SME Development (2002-2005)	Program	2002	President
18.	Decree on Foundation of the Council of Entrepreneurs Under the President of Republic	Decree	2002	President
19.	Provision on the National Fund for Support of Entrepreneurship	Provision	2002	President

№	Name of Document	Status	Year of Acceptance	Accepting Body
20.	Decree on Perfection of Licensing of Some Forms of Entrepreneurial Activities	Decree	2002	President
21.	Decree on Additional Actions in the Field of State Protection for Entrepreneurship Development	Decree	2002	President
22.	Decree on Prevention of the Interventions Interfering Entrepreneurship Development	Decree	2002	President
23.	Provision on the Council of Entrepreneurs Under the President of the Republic	Provision	2003	President
24.	Decree on Some Aspects of Regulation of Entrepreneurial Activity	Decree	2003	President

6.4 GOVERNMENT CONCEPT AND POLICY TO SUPPORT ENTREPRENEURSHIP AND SMEs

Bases of the concept on support for SMEs are incorporated in the basic directions of a state policy in the field of development of entrepreneurship, determined as far as in 1993. For the last years there was a significant updating of state policy on support for SMEs. It is expressed also in the main (constitutional) Law of the Azerbaijan Republic. Today it is possible to ascertain, that in legislative the Rand program documents of the country are reflected necessary elements of system of the state support for SMEs, characterized as one of the priority directions of economic policy of the government in “none oil” sector of economy. It is already obvious enough, that necessity of reduction and overcoming of strengthening process of differentiation between oil and “none oil” sectors of economy causes formation of an active policy of state support for SMEs. Such approach has been realized also in formation of last state program of support for SMEs. At a substantiation of the given concept in attention alongside with disproportions between oil and “none oil” limitation of opportunities of development of the local large capital and the enterprises, including formation on their base of the transnational companies and a domestic market of investment and consumer means were accepted by sectors of economy also.

The program provides activization of role of the state in development of SMEs by the improvement of the mechanism of regulation of entrepreneurship, assistance to improvement of quality of human resources, expansion of technical and financial support for SMEs, strengthening of a juridical protection of entrepreneurship and regional factors of economic development. According to this, as specific targets perfection of registration, licensing and certification are determined; improvement of supply with information for SMEs; formation of system of preparation of external communications for SMEs; assistance to formation of effective investment mechanisms; creation of stimulating factors of cooperation of entrepreneurship; creation of real stimulus for technological development of SMEs; development of system of protection of the rights of entrepreneurs.

However, SME concerns to those fields of activity where between officially promulgated purposes and their realization just as between the authorized laws and their observance rigid dependence is absent. Transformation of "the good document" in reality in the greater degree depends from "out-of-document" factors, than on "document". From one side when a policy of support for SMEs is estimated as a task of any separately taken state structure; completely other side is when it rises on a level of the Supreme state policy. The policy of support can be active only if it is based on real cooperation, coordination of functions and the

responsibility between the state and entrepreneurship structures. In the condition when the economic laws serve as the administrative lever and yet dialogue between the state and entrepreneurship structures is not the general norm of behavior, irrespective of its organizational form can easily be deformed and formalized, even can become an obstacle for solution of SME problems.

6.5 REGISTRATION AND LICENSING OF COMPANIES

Registration

The mechanism of registration of the enterprises and entrepreneurship activity carries a binding character. The account of physical persons engaged in entrepreneurial activity is carried out by the tax bodies. According to the legislation, recording bodies are obliged during 5 days to register the application of the subject of entrepreneurship activity from the date of submission of registration documents. However for infringement of these requirements, recording body and concrete executors of registration do not carry out responsibility.

Registration of the company, independently from their organizational - juridical form and direction of activity, is carried out according to the law on registration of validities. Recording body is the Ministry of Justice, which during 10 days from the date of submission of the application should register the applicant. Refusal of registration should be motivated. However, even in this case the responsibility of registration body and concrete executors of registration is determined by insufficient means. Alongside with this, the payment for registration and its differentiation depending on the organizational - juridical form of the companies cannot be counted proved. The registration system should turn to a component of the mechanism of stimulation for attraction of population into entrepreneurship activity. On the other hand, the registration mechanism can promote expansion of investment potential of foreign companies by means of regulation of the foundation capital. The different parts of registration procedure are reflected in the Laws on entrepreneurial activity, joint-stock companies, enterprises of limited liability, as well as the Civil Code. All this adjusts activity of the commercial companies. However, in the Azerbaijan legislation the special mechanism for registration of cooperative societies and crafts is not provided. The last are registered as the forms of physical persons engaged in entrepreneurial activity and commercial organizations. The decision of the given task is connected with the various problems, preternatural the registration mechanism. At last, the union of cooperative societies and a payment of handicraftsmen are not involved properly yet. The project of payment is prepared in 1999 by International Agency for Economic Researches and Developments.

Licensing

According to the Law on "Entrepreneurial Activity" some forms of entrepreneurship activity are carried out on the basis of licenses. Spheres of licensed activity and the order of licensing are carried out according to the President Decree. For last years the forms of licensed activity have been reduced and account 30 now. The licensing body, during 15 days from the date of submission of the application, should make the decision on licensing. According to the legislation refusal of licensing is supposed only in the cases, stipulated by the law. However, the cases, stipulated by the Law, are determined not precisely. And this opens a direct way to voluntary actions of licensing bodies. Validities of licenses also appear as a problem question; that for all kinds of activity is stipulated for the period of 5 years. The differentiation of the payment concerns to number of similar questions for the license also. It is necessary to note necessity of perfection of the control over activity of licensing bodies and the mechanism of the decision of conflicts between licensing bodies and entrepreneurs.

6.6 LEGAL ASPECTS AND CRITERIA FOR VARIOUS FORMS OF ENTREPRENEURS

Sole Proprietor / Trader

Such organizational - legal form of entrepreneurship (enterprise), provided by the Law on Enterprises. According to this Law the sole enterprise was equated to family business. With introduction into

action in 2000 of the Civil Code, action of the law on the enterprises is suspended. According to the given Code, the separate physical person has the right to found the legal person. According to the legislation, the society of limited responsibility can be created even by one person.

Partnership

According to the legislation (the Civil Code) companies are organized in forms of full partnership and commanded partnership. Similar companies can be created only by individual businessmen (physical persons) and the commercial organizations as well. The state bodies cannot be participants of similar companies. Participants of full partnership bear the responsibility under obligations of partnership with all their property. In commanded partnership alongside with full partners commandants participate.

Limited Liability Company

It is one of two forms of economic societies, which second form is a joint-stock company. The state bodies cannot be members of economic societies. Physical and juridical persons can be members of economic societies.

6.7 SWOT ANALYSIS OF SME SECTOR

<p>STRENGTHS</p> <ul style="list-style-type: none"> • Political and economic stability; • Third state program for SME development; • Entrepreneurial interest of population is relatively high; • Low share of population in poverty. 	<p>WEAKNESSES</p> <ul style="list-style-type: none"> • Insufficient business infrastructure for SMEs; • Insufficient statistics on SMEs; • Bureaucratic and long process of starting a business; • Long process of business dispute solutions; • Low share of SME participation in public procurement; • Low level of business education and trade schools; • Weakness of business ethics and lack of quality consciousness.
<p>OPPORTUNITIES</p> <ul style="list-style-type: none"> • Entrepreneurship Development Council could coordinate development objectives and actions on SME sector; • Establishment of regional and local supportive tools through State Regional Program; • The oil sector could become stimulative factor for SMEs' growth; • Possibility of cooperation and doing business with the neighbouring South-Caucasian countries and countries of the SPECA region; • Possibility of becoming a supplier of Transnational Corporations (TNC) in the oil and oil related industries; • Favourable climate conditions for development of tourism sector. 	<p>THREATS</p> <ul style="list-style-type: none"> • Bureaucratic and long process of starting business slows down the growth of SMEs; • The obscurity in technology transfer & quality orientation could lead to decrease the competitiveness of SMEs; • Underestimation of significance of cooperation of local SMEs with transnational corporations (TNCs) and large enterprises; • High level of active age migrants; • The Nagorno-Karabakh conflict threatens the political, economic and social stability and absorbs significant financial resources.

Source: UNECE Regional Adviser on Entrepreneurship and SMEs

7. GEORGIA

General Information¹¹

Area: 70,000 sq km

Population: 4.6 million

Capital: Tbilisi

Official language: Georgian

National currency: Georgian Lari (GEL)¹²



¹¹ <http://www.ebrd.org/pubs/tr/04/russian/geo.pdf>

¹² 1 USD= 1.8352 GEL as of 11 April 2005 (National Bank of Georgia)

7.1 ECONOMIC POLICY OF THE COUNTRY INCLUDING SME-SECTOR

(i) The Political Economy of Reform

Georgia has passed the first and the hardest stage of its economic reforms – legal dismantling of large part of state property and privatization. State property was privatized; financial, monetary and banking systems were changed. Amendments made influence on every economic and social institute.

In the nearest future corruption and black economy should be decreased. It is crucial to make an inventory of financial assistance from donor countries and international organizations; create governmental structure relevant to the new political and ideology management and increase efficiency for implementation of economic reforms as well.

Problems concerning real state budget formation have been solved. Budget recourses should be used purposefully taking into consideration macro economic priorities. It is argent to create an efficient management of state property.

For further development of economic reforms the Georgian legislation is promoting new laws and rules to harmonize them with the EU legislation. The first step is done: Laws on “Entrepreneurs” and on “License and Permission for Entrepreneurial Activity”, Tax Code has been amended partly for better administration of relevant activities. It has been currently created an efficient mechanism and legislation for using agriculture and household lands.

It is created modern legislation environment of standardization assisting Georgia for integration to the global market economy. Legislation will disseminate property ownership, determine local budget formation and state control issues as well.

(ii) Privatization of Enterprises and State Property and Liberalization

Private sector is still being slowly developed in spite of the fact that property has been transformed and private ownership and entrepreneurs have been established in the country. The privatization process of large enterprises is being continued and the legislation is being harmonized with international standards as well. Privatization is being continued in energy, communication, and service, social and other spheres. Important measures are done to become privatization process more transparent and clear.

(iii) Development of the Private Sector

Private sector is considered dominant in the country’s economy. Its share in state income composed than 75%. It covers 55% of employment and produces 65% of goods and services.

(iv) Reform of the Banking Sector

The following measures are implementing to promote monetary and credit systems:

- Promotion of existing mechanism to enlarge minimum reserves intensify open market instruments based on state treasury obligation; one of the reserves for budget funding and providing to government direct credits should be a substitute of state bonds step by step;
- Implementation of a new instruments of monetary regulation - getting deposit from commercial banks and providing short term loans for them, which makes effective operations with currency and bank liquidity system;
- Strengthening monitoring on exchange rate of GEL relevant to large trade partners’ currency and etc.

(v) The Role of the SME Sector in the Whole Economy

SME sector has an important role in creating and functioning of market economy in Georgia. This sector is one of the priorities in the state economic policy. Great efforts have been done to promote institutional base of SME sector, increase the efficiency of SME support system and improve investment friendly environment as well.

Over the last years the number of registered legal entities has been increased and this tendency is continuing, which points on society high entrepreneurial activity. Total number of enterprises is 84.239 at the beginning of 2003, among them 15.218 enterprises are registered in 2002, more than 10.649 units - in 2001 and 7.294 – in 2000. Individual enterprises are the main part of entrepreneurial activity. Their number has been increased from 29.152 to 49.952 (171.4%) in 2000-2002. This is the result of simplification of registration and account-reporting procedures for individual enterprises.

It should be emphasized that the number of individual enterprises are 60% of total number of any legal entities, and 99.9% of individual companies is considered small enterprises. This situation shows that SMEs are the main factors of entrepreneurial activities in the country.

According to surveys the number and quality of SMEs have been improved in Georgia. In particular, the share of SMEs in the total number of active enterprises is permanently growing. At the beginning of 2003 small enterprises' share was 90.0%, medium enterprises – 7.4% in total active enterprises. SME generates the main part of the total employment in entrepreneurial sector and 20% of ready-made product.

Meanwhile, SME sector couldn't achieve the desirable level because of some general macro - economic and specific factors. SMEs have less productivity level and capital facilities than large enterprises. There is a disproportion in the sectoral and regional structures of small entrepreneurship. Leading fields of SMEs are trade and service (more than 70%), but for the last years the number of small enterprises has temporarily been increased in processing industry, construction, transport and communication. Small enterprises are mostly concentrated in the capital, Tbilisi. This situation is relevant to the countries in transition. In some industrial regions (Adjara A/R, Imereti, Kvemo Kartli etc) favourable conditions are created for development of small entrepreneurship vice versa in high land regions (Tsalka, Samtskhe-Javakheti, Mtskheta-Mtianeti, Racha-Lechkhumi, and Svaneti). That's why implementation of priority support measures in high land regions is an argent issue.

It should be emphasized an inadequate growing of SME quality relevant to SME number. But the tendency points on increasing role of SME in creation of a new economy. In particular, small enterprises already produce more than 20% of GDP and almost one fifth of the added value. Small entrepreneurship covers one third of total entrepreneurial employment.

At the meantime, small enterprise share is still low in the country's export. Their capital facilities and productivity level are rather low than in large enterprises (large and medium enterprise data are 63% and 48.8%).

In the sectoral structure of SME trade and service are the basic fields. Around 71 % of small enterprises is service and trade ones and they covers 54.7% of employment in entrepreneurial sphere. Besides, 98.2% of trade and service companies are small. Trade and service sphere is a favourable environment for small entrepreneurs because it needs less capital investments and has relevantly low risk on current economic development stage.

It should be mentioned that the number of SMEs has been increased in processing industry, construction and communication fields. They cover important part of entrepreneurial capital and create jobs for high-qualified specialists.

(vi) Social Reforms

Social reforms determine the following activities:

- Implementation of tariff regulation instruments for wage on a partnership base with non-budget field. Correction wage schedule of under- budget sphere society and making closer it to non-budget workers' wage schedule.
- Amendments in society income tax system in order to make income distribution and implementation income diversification.
- Improvement of a new reduction of the Labour Code to harmonize it with modern requirements of relations between employer and employee.
- Radical transformation of pension system and promotion of society insurance system.

(vii) Achievements of Transition to Market Economy and Problems Faced by the SME Sector

Relevant institutional base has been created for SME development. Special Law on "Small Enterprise Support" as of 23 July 1999 determines the basic principles for SME development and assistance.

According to the Law under the President Decree the Small Enterprise Coordinate Council and the Center for Small Enterprise Development and Assistance (CSMEDA) have been created. These organizations coordinate SME support activities, create and implement SME support programs as well.

After creation and starting implementation of SME government support concept and program SME development process became efficient and successive. After studying the experience of SME development particularly in the countries in transition, taking into consideration recommendations of international organizations and proposals of SME support NGOs, SME support general ways, forms and mechanisms are identified.

In creation of business environment SME is relevantly developed but the country is still far from the level of developed countries.

There are many factors hindering development and promotion of SMEs: budget deficit, corruption, bureaucracy, hard tax system, obstacles from monopoly companies etc.

The main burdens of SME promotion are inefficient tax system, corruption and high level of contraband.

SME sector cannot be developed without creation and implementation of strong government support system or providing them priority regime of support.

The CSMEDA together with Ministry of Economy, Industry and Trade worked out "SME State Support Program for 2002-2004" that was proved by the President Decree N 309 as of 22 June 2002.

The program determines the main ways of SME promotion and government support measures. For its effective implementation it is argent to make active government effort on the following issues:

- Create simple tax regime for SMEs in united taxation system;
- Simplify account and report system for SMEs;
- Simplify company registration procedure and make it cheap decreasing registration fees, separate court and notary service functions etc;
- Implement simple license system for separate entrepreneurial activities;
- Make in order activity of control, supervisory and legal institutions concerning to SME. Coordinate activity of above-mentioned institutions to optimize state control on SME. It is necessary to create database that should consist of clear and transparent information about work done, breaches, penalty sanctions and future check schedule as well.

Small and Medium-Sized Enterprises in the Caucasian Countries in Transition

- Financial support for attracting investment: that means to provide more favourable loans to small entrepreneurs and start-ups than commercial banks. Also provide guarantee for commercial bank loans and subsidize commercial bank loan interest rate;
- Relevant to funding create infrastructure such as business incubators, information and advisory centres, leasing companies and etc.;
- In order to making active SME participation in getting and doing state orders create relevant mechanism;
- Actively monitor the implementation of SME state support measures;
- Provide funding for SME state support program.

The Decree of the President of Georgia N 309 as of 22 June 2002 proves “SME State Support Program for 2002-2004”.

The program determines two main ways of providing enterprise state support:

- (i) Financial assistance through attracting investment
 - Small direct loans;
 - Guarantee against commercial banks;
 - Bank loan interest subsidy.

The Entrepreneurial assistance organization provides guarantee to commercial bank if an enterprise does not satisfy credit organization requirements comply with business risk and/or collateral.

The aim of the subsidy is to compensate part of bank loan interest rate and make loan accessible for enterprises. Subsidy program will be implemented in priority fields determined by the state economic and social programs.

- (ii) Information and advisory service, education and training.

The program purposed in this field is to satisfy SMEs big demand on information and advisory service. Start-ups cannot get it because of their limited resources. The CSMEDA solves two tasks:

- Provide necessary information about main ways and forms of SME support policy;
- Enterprise staff training and increase entrepreneurial culture.

7.2 DEFINITION OF SMEs

The Law of Georgia on “Entrepreneurs” does not determine the definition of SMEs. Its definition is given in the Law of Georgia on “Small and Medium Enterprise Support” as of July 1999 (clause 1 article 2), according to which SMEs are all kind of entities founded under the conditions of the Law of Georgia on “Entrepreneurs” and annual employment and turnover is not more than:

- Small enterprise – 20 employees and GEL 500,000
- Medium enterprise – 100 employees and GEL 1, 500.000

The Law also includes limitation under which enterprise may not be small or/and medium. The third article of the law defines that enterprise may not be small and medium if: a) its 25% of initial capital belongs to a person or persons who does not satisfy requirement of the Law of Georgia on “Small and Medium Enterprise Support”. b) Its main activities are bank, insurance and other type of financial services.

7.3 LIST OF GOVERNMENT LEGISLATION FORMULATING SME POLICY AND ASSURING LEGISLATIVE AUTHORITY TO INTRODUCE MEASURES TO SUPPORT SMEs.

- Law of Georgia on “Small and Medium Enterprise Support” as of 23 July 1999 (N 2341, Sakartvelos Sakanonmdeblo Matzne (SSM) – Official Gazette of Georgia I 1999, N 40 (47) Article 201). (Changes: Law of Georgia N 63, 1999/ 9/12, SSM - N 47(54)) article 239; Law of Georgia N 295, 2000/11/05, SSM-N 17, article 41; Law of Georgia N 487, 2000/13/07, SSM – N 28, article 88; Law of Georgia N1641, 2002/4/07, SSM – N 23, article 119;

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- The Decree N 16 of the President of Georgia on “Creation of Small Enterprise Coordinate Council” as of 26 January 2000;
- The Decree N 134 of the President of Georgia on “Provision of the Center for Small and Medium Enterprise Development and Assistance” as of 8 April 2000;
- The Decree N309 of the President of Georgia on “Provision of Small and Medium Enterprise State Support Program for 2002-2004 in Georgia” as of 22 June 2002;
- The Decree N 61 of the President of Georgia on “Establishment of the Position of the State Minister on SME Field” as of 10 April 2004.

7.4 SWOT ANALYSIS OF SME SECTOR

<p>STRENGTH</p> <ul style="list-style-type: none"> • The State Minister Office on SME field that works directly on SME problems, development and programs; • Basic Law on SME Support and Program for 2002-2004; • International organization assistance for harmonizing SME policy with EU community SME policy and support programs; • High level of entrepreneurial ability of population and desire to have their own business. 	<p>WEAKNESS</p> <ul style="list-style-type: none"> • High external debt with weak public finances; • Weak information-consulting services have low efficiency; • Low demand on domestic market; • Lack of access to credit resource; • Lack of support measures for start-ups; • Lack of business experience and efficiency of SME support institutions; • Lack of business incubators; • Lack of budget resources; • Low level of competitiveness and quality consciousness of SMEs; • Large share of “shadow” economy; • Lack of business insurance system.
<p>OPPORTUNITIES</p> <ul style="list-style-type: none"> • The current political leadership might create favourable environment for SME promotion; • Favourable geographical location that makes business cooperation attractive in the South Caucasus region and with neighbouring countries; • Attractive environment for tourism development; • Development of SME regional infrastructure; • Membership of Georgia to World Trade Organization (WTO) enhances the opportunities of SMEs to enter the foreign markets. 	<p>THREATS</p> <ul style="list-style-type: none"> • Stagnation of the national economy; • Low investment in SME sector; • Unstable supply of energy resources for enterprises; • Large share of false products in market which decreases the efficiency of support measure; • Low competitiveness of SMEs; • Low payment ability among the most population; • Regional conflicts.

Source: UNECE Regional Adviser on Entrepreneurship and SMEs

7.5 SUPPORTING MEASURES FOR START-UP SMEs

The Decree of the President of Georgia N 309, as of 22 June 2002 proves “*Small and Medium Enterprise State Support Program for 2002-2004*”. The program identifies two main ways to provide state support to enterprises / start-ups:

(i) Financial Assistance Through Attracting Investments

Small Direct Loans

CSMEDA under small direct loan program provide small loan to start-ups in priority regions (it means high level depressed regions). Applicant-start up company goes through competition and the winner receives loan with favourable conditions according to following procedure and rules:

- (i) The loan amount is starting from 1000 up to 30.000 GEL*;
- (ii) The loan duration is 3 years;
- (iii) The loan is disbursed during 3 month after agreement is signed;
- (iv) The loan is disbursed once;
- (v) The loan interest rate will be determined by the SME Coordinate Council consider to credit resource market tariff;
- (vi) Collateral is necessary to get the loan. The SME Coordinate Council defines volume of collateral.

The applicant SME presents loan application and all required documents to get non-banking small loan. Ministry of Economy, Industry and Trade and Ministry of Finance proved united rules and procedures for loan disbursement. In 2003 on competition base twenty business projects won funding. Seven of them have already been financed with total amount of loan 150.000 GEL. Mentioned projects are from high land regions (Samtskhe-Javakheti, Imereti, Samegrelo, Guria, and Mtianeti).

Guarantee of Commercial Bank Loan

The Entrepreneurial assistance organization provides guarantee to commercial bank if an enterprise does not satisfy credit organization requirements comply with business risk and/or collateral.

Bank Loan Interest Subsidy

Subsidy aim is to compensate part of bank loan interest rate and make loan accessible for enterprise. Subsidy program will be implemented in priority fields determined by the state economic and social programs.

National Investment Agency of Georgia works out annual program on bank loan interest rate subsidy, bank loan guarantee and subventions or provides grants to support very perspective projects in priority fields. The Agency announces completion and provides funding to winner projects if the project is satisfying priorities identified by the Social and Economic Indicate Program of Georgia.

In 2002 in the frame of the Interest Rate Subsidy Program nine companies won competition. Total amount of bank loan interest rate subsidy was USD 494,042. In 2002 paid subsidy amount was USD 34, 670 and in 2003 this amount was increased up to USD 211,752.76.

In 2003 within the same Interest Rate Subsidy Program 10 companies won competition and total amount of subsidy was USD 281,056.

Special program of subvention was created under The Decree N 428 of the President of Georgia to improve social and economic situation in high land region Tsageri damaged by natural elements. In 2003 Contract on subvention was signed between "Tsageri Wine Factory" ltd. and the GEPA. In a frame of the Japan Grant Program the Agency created special subvention program according to this program a contract was signed between the Agency, Ministry of Agriculture and Food and three sole proprietors. The contract

ensures to pass agriculture equipment to the proprietors and pay equipment prize to partnership fund that is opened in the National Bank of Georgia for 4 years.

Now it is implementing “Georgian Tea Producing, Processing and Export Assistance Subvention Program”. In the frame of this Program the Agency signed 59-subvention contracts to produce tea with 59 tea companies and 58 contracts with tea exporter companies.

Georgian Export Promotion Agency (GEPA) worked out export promotion strategy. The strategy ensures to provide different forms of support to exporter companies and SME among them.

In the frame of SME State Support Program for 2002-2004 GEPA arranged two trade missions in Estonia and Fine (6 companies) and Greece (7 companies). Beside Georgian companies invited their forging partners in the frame of above-mentioned programs (12 visits).

In 2002 with cooperation of German Technical Cooperation Organization (GTZ) Georgian companies participated in the following exhibitions:

- Internationals Tourism Exhibition (ITB) – Berlin, GFR, March 2002. Participant companies were: Caucasus Travel, Georgia Travel, Intourist Caucasia, Visit Georgia, and Tbilisi Tourist Center.
- Pro Wein 2002 - Düsseldorf, GFR, March 2002. Participant companies were: Telavi wine pub, Tbilgvino (wine factory), GWS ltd., and Akhasheni ltd.

GTZ organized training for Georgian entrepreneurs in Germany in November 2002.

Foreign experts were invited to Georgia to participate in the Workshop on “Wine Industry and Its Legislation and Wine Quality Control” in October 2002 and in the Workshop on “Wine Industry – New Technology, German Wine Laboratories”.

Training courses on export issues have been organized for Tbilisi, Kutaisi and Batumi export companies. A new training program has been created which covers specific and real needs of export companies. In the result 17 companies were provided individual training.

GEPA permanently provides information and consulting services for companies interested in export issues among which is participation of Georgian companies in Iraq economy rehabilitation.

In 2002-2003 GEPA provided financial support to 19 companies for funding activities planed by their marketing strategy with total amount EUR 80,830.

(ii) Information and Advisory Services, Education and Training

The purpose of the program is to satisfy SMEs big demand on information and advisory services. Start-ups cannot get it because of limited resources for such kind of services. CSMEDA solves two tasks:

- (iii) Provision of necessary information about main ways and forms of SME support policy;
- (iii) Enterprise staff training and increasing entrepreneurial culture.

CSMEDA provides free advisory service to SME and proprietors. In 2003 CSMEDA experts and invited high-qualified experts consulted 500 legal entities and individual entrepreneurs, helped them to create business proposals.

Under the Presidential Decree CSMEDA designed and now is implementing SME training and consulting programs for depression regions. The Center provides information and consultancy to entrepreneurs in accounting and reporting, financial management, marketing, legislation and etc. It also assists SMEs to implement new management and train the staff.

SME training and consulting program consists of two sub- programs: training and consulting in basic business field and special consultation. High skilled local and foreign experts participate in this project.

After interviewing potential and active entrepreneurs are divided into two groups and receive relevant services. One group is composed by businessmen, who should be trained if are commercial bank's clients if they get state support concerning interest rate subsidy or guarantees.

The other group includes start-ups who unable to get commercial bank loan. They can receive financial support from CSMEDA within the non-banking small loan program.

The Center signed Agreement on cooperation with the Italian Euro-East Information Network. Representative desk was established in CSMEDA. The Desk collects information concerning technology; market opportunities, products, training and etc. also assist SMEs fined partners in the countries covered by Euro-East Information Network.

ANNEX 1

SME STATISTICAL DATA ON ARMENIA, AZERBAIJAN AND GEORGIA

Table 4

Activities of Economic Organizations Including All Public and Private Units and SMEs in the Country

Year	Agricultural Farmers	Self-Employed (Individual Entrepreneur /Sole Proprietor) and Crafts	Partnerships, Working Teams Without Juridical Personality	Incorporated Enterprises With Juridical Personality, With 1- 249 Employees **	Incorporated Enterprises With Juridical Personality, With Over 250 Employees **	Other Economic Units Considered as SMEs	Total Number of Economic Units *
Armenia							
2000	261	52 406	1 541	33 408	-	8 986	96 602
2001	257	56 866	1 479	35 784	-	8 748	103 134
2002	254	61 823	1 435	36 447	-	9 933	109 892
2003	253	63 502	1 377	38 600	-	9 754	113 486
Azerbaijan							
		Total*		¹³			
2000	26 778	85 910	n.a	53 520		n.a	26 778
2001	27 050	106 873	n.a	57 110		n.a	27 050
2002	2534	128 104	n.a	59 130		n.a	2534
2003	2598	157986	n.a	61 136		n.a	2598
Georgia							
2000	n.a	18 134	n.a	10 250	163	n.a	n.a
2001	n.a	19 940	n.a	7 110	147	n.a	n.a
2002	466	15 170	n.a	9 877	665	n.a	n.a
2003	225	15 007	n.a	10 261	600	n.a	n.a

Source: UNECE SME Database, 2004.

Remarks: * Including all economic organizations, both large and SMEs, in the public and private sector;

** Cooperatives, joint stock companies, limited liability companies and similar units are also included in the incorporated enterprise sector.

* Total number of economic units in the country

¹³ There are no separate data for enterprises with 1-249 and more than 250 employees

Table 5

Structure of Incorporated SMEs

Year	Small and Medium Sized Enterprises [Percentage]				
	in Trade	in Manufacturing	in Construction	in Services	in other Activities**
Armenia*					
2000	47.7	18.5	6.8	5.7	21.3
2001	47.1	18.6	6.2	4.9	23.2
2002	49.1	18.6	5.5	4.2	22.6
2003	48.6	18.6	5.6	4.2	23.0
Azerbaijan***					
2000	33.6	11.2	9.2	7.2	38.9 ¹⁴
2001	38,9	9.0	8,7	14.0	29.4
2002	39,6	9.9	8,9	16.8	24.8***
2003	40.7	10.1	9.2	16.8	23.2****
Georgia					
2000	71.1	12	1.4	13.2	2.3
2001	76.0	9.7	1	11.1	2.2
2002	86.7	76.5	60.1	79.1	58.9
2003	92.7	74.9	58.9	77.6	62.6

Source: UNECE SME Database, 2004.

Remarks: * Expert estimation

** Agriculture, hunting, fishing, forestry, mining, hotels and restaurants, provision of energy, gas and water, transport and communication, financial mediation, real estate transactions, public management and defence, social security, education and health care.

*** Data provided is for small enterprises only. There is no statistics for medium enterprise

**** Agricultural production, hunting and forestry (15.9%), education (0.5%), health and social services (1.8%), other municipal, social and personal services (5.0%)

¹⁴ In this sector two main activities were:

- real estate transactions and commercial activity: in 2000-23.1% and in 2001 –11%;
- agriculture: in 2000 – 4.3% and in 2001- 18.4%

Table 6

Number of Incorporated SMEs at the End of 2000-2003

Country	Number of Incorporated Enterprises and Partnerships ¹⁵	SMEs with Number of Employees Between		
		0-9 people	10-49 people	50-249 people
Armenia				
2000	33,404	30,060 (1- 100 employees) ¹⁶		
2001	35,793	34,000 (1- 100 employees) ¹²		
2002	47,815	45,450 (1- 100 employees) ¹²		
2003	49,731	47,250 (1- 100 employees) ¹²		
Azerbaijan				
2000	55,799	32,930		22,869
2001	58,623	46,975 ¹⁷		11,648
2002	59,130	47,565		
2003	61,136	49,527		
Georgia				
2000	10,413	5,930	3,213	1,107
2001	7,404	3,531	2,774	0,952
2002	9,877	4,741	3,654	1,482
2003	10,261	5,028	3,899	1,334

Source: UNECE SME Database, 2004.

Table 7

Employment in Incorporated SMEs and in the Total Economy at the end of 2000-2003

Country	Total Number of Employment in		Unemployment	
	SMEs	All types of Economic Units	Number	as Percent of the Total Employees
Armenia*				
2000	364,400	1,411,927	153,900	10.9
2001	399,000	1,279,840	138,470	10.8
2002	136,000	615,312	133,700	9.4
2003	141,615	464,650	124,800	10.1
Azerbaijan**				
2000	99,778	3,704,500	43,364	1.2
2001	112,395	3,715,000	46,917	1.3
2002	n.a	n.a	51,000	1.3
2003	n.a	n.a	54,400	1.4
Georgia				
2000	274,203	1,748,800	109,273	6.2
2001	283,632	1,877,700	117,444	6.3
2002	147,764	1,713,000	303,000	14.3
2003	139,073	1,805,000	299,400	12.9

Source: UNECE SME Database, 2004.

Remarks: * The number of employment in SMEs is estimation by national experts,
 ** Data provided is for small enterprises only; there are no statistics for medium enterprises

¹⁵ Excluding farmers and self-employed persons

¹⁶ Expert estimation

¹⁷ There are no separate data gathered for enterprises with 0-9 and 10-49 employees

Table 8

Benchmarking on Taxation of SMEs

Country	Income Tax Rates (in Incorporate Enterprises)			Corporation		
	Minimum Rate Level of Income in National Currency	Maximum Rate Level of Income in National Currency	Possible Tax Holiday for Start-ups	Maximum Tax Rates for Start- ups	Possible Tax Holiday for	
					Start- ups	Under- developed Regions
Armenia						
2002	n.a.	20	n.a.	n.a.	n.a.	n.a.
2003	n.a.	20	n.a.	n.a.	n.a.	n.a.
Azerbaijan						
2002	12	30	n.a.	10-25	n.a.	n.a.
2003	14	35	n.a.	24	n.a.	n.a.
Georgia						
2002	n.a.	n.a.	n.a.	20	n.a.	free
2003	n.a.	n.a.	n.a.	20	n.a.	free

Source: UNECE SME Database, 2004.

Remark: n.a. not available

Table 9

Share of the SME Sector in Foreign Trade

Country	Total Export [%]	Export by the SME Sector [%]
Armenia		
2002	54.3	13.9
2003	63.9	14.3
Azerbaijan		
2002	n.a.	n.a.
2003	n.a.	n.a.
Georgia		
2002	32.2	12.3
2003	29.6	10.7 ¹⁸

Source: UNECE SME Databank, 2004

¹⁸ Expert estimation

ANNEX 2

PYRAMID OF SME NATIONAL POLICY AND ENTREPRENEURSHIP SUPPORT INFRASTRUCTURE IN ARMENIA, AZERBAIJAN AND GEORGIA

No	Hierarchy	Countries		
		Armenia	Azerbaijan	Georgia
1	Objectives	<ol style="list-style-type: none"> 1. Improvement of legal and regulatory framework for SMEs 2. Creation and development of appropriate infrastructures for support of SMEs 3. Financial and investment support for SMEs 4. Support for foreign economic activity (export promotion) of SMEs 5. Support for innovations and modern technologies in SMEs as well as for protection their mental property rights 6. Support for application of international standards for quality control (ISO 9,000 series) in SMEs 7. Support for utilization of business information, consultation and training services for SMEs 	<ol style="list-style-type: none"> 1. Active policy of state support for SMEs to overcome the differentiation between oil and non-oil sectors 2. Expansion of technical and financial support, juridical protection of entrepreneurship 3. Stimulate information, communication, cooperation and technological development 	<ol style="list-style-type: none"> 1. Simplify taxation, registration procedure, licence, account and report system for SMEs 2. Financial support (loans) and infrastructure creation 3. Activities of control, supervisory, monitoring and legal institutions concerning SMEs
2	Policy level	Ministry of Trade and Economic Development	Ministry of Economic Development	Ministry of Economic Development
2.1	Governmental Body	Ministry of Trade and Economic Development	Ministry of Economic Development	Ministry of Economic Development
2.2	Main Governmental Policies And Legislation	<ol style="list-style-type: none"> 1. Law on “State Support of Small and Medium Entrepreneurship” (December 2000) 2. “Concept for Small and Medium Entrepreneurship Development Policy and Strategy in Armenia” (August 2000) 3. Law on “Protection of the Economic Competition in Armenia” (June 2001) 4. SME State Support Annual Programs 5. Establishment of the Fund “Small and Medium Entrepreneurship Development National Center of Armenia” (SME DNC of Armenia) for 	<ol style="list-style-type: none"> 1. Law on “Entrepreneurial Activity” (1992) 2. Law on “Enterprises” (1994, since 2000 the Civil Code) 3. Law on “Enterprises of Limited Liability (1998) 4. Law on “State Support for Small Entrepreneurship” (1999) 5. Law on “Changes to the Law on State Support for Small Entrepreneurship” (2003) 	<ol style="list-style-type: none"> 1. Law on “Small and Medium Enterprise Support” (23.07.1999) 2. President Decree (No. 16, 26.01.2000) on “Creation of Small Enterprise Coordinate Council” 3. President Decree (No. 134, 08.04.2000) on “Provision of Center for Small Enterprise Development and Assistance” 4. President Decree (No. 309, 22.06.2002) on “SME State Support Program for 2002-2004 in Georgia”

Small and Medium-Sized Enterprises in the Caucasian Countries in Transition

No	Hierarchy	Countries		
		Armenia	Azerbaijan	Georgia
2.2		<p>implementation of SME development/support programs (Decree of the Armenian Government No. 282, 19.03.2002)</p>	<ol style="list-style-type: none"> 6. Law on Changes to the Law on Entrepreneurial activity” 7. President Decree on “Establishment of the Council of Entrepreneurs under the President of the Azerbaijan Republic (2002) 8. President Decree on “Additional measures for Provision of State Support to Development of Entrepreneurship in the Azerbaijan Republic” (2002) 9. President Decree on “Prevention of Interventions Impeding the Development of Entrepreneurship (2002) 10. President Decree on “Some Aspects of Regulations of Entrepreneurship activity” (2003) 11. Cabinet Provision on Distribution and Usage of Budgetary Funds under the Article on Investment Support for Small Entrepreneurship (1997) 12. President Provision on National Fund of Support for Entrepreneurship (2002) 13. President Provision on Council of Entrepreneurs under the President of the Azerbaijan Republic (2003) 	<ol style="list-style-type: none"> 5. President Decree (No. 61, 10.04.2004) on “Establishment the Position of the State Minister on SME Field”

Small and Medium-Sized Enterprises in the Caucasian Countries in Transition

No	Hierarchy	Countries		
		Armenia	Azerbaijan	Georgia
2.3	Basic State Programmes	<p align="center">“Small and Medium Entrepreneurship State Support Program for 2005” (02.12. 2004, Government Decree N 1736-Ü)</p>	<p align="center">“State Program on Development of Small and Medium Scale Entrepreneurship in the Azerbaijan Republic” (2002-2005) (approved by the President Decree, № 753 dated 17.08 2002)</p>	<p align="center">“SME State Support Program for 2002-2004 in Georgia “</p>
3	Institutional level:	<p align="center">Main institutions for SME Support Fund “Small and Medium Entrepreneurship Development National Center of Armenia” (SME DNC of Armenia)</p> <p align="center">SME Financing Organizations</p> <ol style="list-style-type: none"> 1. Eurasia Foundation: SME lending program 2. “Kamurj” Micro Enterprise Development Foundation: micro credits 3. FINCA Armenia: USAID funded lending program 4. OXFAM Armenia: micro credits 5. World Vision Armenia: Small Enterprises Fund (SEF) 6. German-Armenian Fund (GAF): Small and Medium Business Development program 7. European Bank for Reconstruction and Development (EBRD): Small and Medium Business Development program 8. World Bank Lending Program 9. UMCOR: Sustainable Guaranteed Agricultural Assistance for Women (AREGAK) 	<p align="center">Main institutions for SME Support Enterprise Development Foundation</p> <p align="center">SME Financing Organizations</p> <ol style="list-style-type: none"> 1. Azeri Bank of Microfinancing (AZM) 2. Kreditanstalt für Wiederaufbau (KfW) established the German-Azerbaijan Fund (GAF) 3. Development of a “Business-Polyglon” <p align="center">Other SME Support Organizations</p> <ol style="list-style-type: none"> 1. Entrepreneurship Development Foundation 2. Governmental Agency for standardization, metrology and patents 3. Social Fund of Development of Compelled Immigrants (SFDCI) 4. Several private consulting firms and Business Information Centres 5. NGOs 	<p align="center">Main institutions for SME Support Centre for Small Enterprise Development and Assistance (CSMEDA)</p> <p align="center">SME Financing Organizations</p> <ol style="list-style-type: none"> 1. Foundation “Constanta” 2. FINCA-Georgia 3. World Vision Georgia 4. Association “Woman and Business 5. ”Micro Finance Bank of Georgia (MBG) 6. Bank of Georgia, United Georgian Bank, Tbiluniversalbank, TBC Bank <p align="center">Other SME Support Organizations</p> <ol style="list-style-type: none"> 1. BEESI 2. Business Support Center (BSC) 3. Center for Small and Medium Enterprise Development of Georgia (CSMEDG) 4. Consulting and Training Center (CTC) 5. East and West Contact

Small and Medium-Sized Enterprises in the Caucasian Countries in Transition

No	Hierarchy	Countries		
		Armenia	Azerbaijan	Georgia
3		<p>Other SME Support Organizations</p> <ol style="list-style-type: none"> 1. Armenian Development Agency (ADA) 2. Promotion of Small and Medium Enterprises Project (ProSME) powered by GTZ and PEM Consult 3. USAID funded Micro Enterprise Development Initiative Project (MEDI) 4. USAID funded Armenia SME Market Development Project (DAI-ASME) 5. World Bank Enterprise Incubator Foundation 6. “Andron” Scientific Research Institute- Technopark CJSC 7. Chamber of Commerce and Industry of Armenia, Regional Chambers of Commerce and Industry 8. “National Institute of Standards and Quality of Armenia” CJSC 9. Enterprise Support Fund (ESF) 10. Mental Property Agency of Armenia 11. Conformity Agency of Armenia 12. Quality Inspectorate of Armenia 13. Several private training and consulting companies 14. Business Support Centres 15. Business Associations and Unions (NGOs) 		<ol style="list-style-type: none"> 6. GCG Consulting 7. GCG Law Office 8. Pand TECHNOLOGIES 9. Amaranda 10. Akhaltsikhe Business Center, Regional Non-government Organization 11. Business Center 12. Intellect-Company 13. Shore-Bank Consulting Service 14. Association of Business Consulting organizations-Georgia (ABCO-Georgia includes 15 organizations in different regions) 15. Association “Woman and Business 16. Scientific –Technical Information and Economic Research Institute (TECHNINFORMI) 17. Business Communication Center (BCC) 18. Georgian Investment Center 19. Georgian Export Promotion Agency 20. Business Incubator (Association “Woman and Business”) 21. NGOs

ANNEX 3

SME SUPPORT INFRASTRUCTURE/INSTITUTIONS IN ARMENIA

(i) SME Advisory Services and Business Information Centres

No.	Name	Address	Activities
1.	Fund “Small and Medium Entrepreneurship Development National Center of Armenia”	<p>5, Mher Mkrtchyan, 375010 Yerevan Tel: (37410) 54 16 45, 54 16 48, 56 37 14 Fax: (37410) 54 16 42 E-mail: info@smednc.am URL: www.smednc.org</p> <p>BRANCHES</p> <p><i>Shirak Branch</i> Gyumri, Garegin Njhdeh 1/5, Hotel Isuz Tel.: (374 312) 3 20 35 Fax: (374 312) 3 20 34</p> <p><i>Syunik Branch</i> Sisian, Garegin Njhdeh 2 Tel.: (374 2830) 63 39 Fax: (374 2830) 24 31</p> <p><i>Tavush Branch</i> Ijevan, Ashot Melikbekyan 5/7 Tel.: (374 263) 3 44 58 Fax: (374 263) 3 44 72</p> <p><i>Kotayk Branch</i> Charentsavan, 6th distr./ 24 Tel.: (374 226) 42 926 E-mail: gayanearz@yahoo.com</p> <p><i>Aragatsotn Branch</i> Aparan , Gayi 5 Tel.: (374 252) 2 51 94 E-mail: vipnamak@yahoo.com</p> <p><i>Lori Branch</i> Stepanavan, Million 70 Tel.: (374 256) 22 307 E-mail: artak_tatoyan@rambler.ru</p>	<p>Year of establishment: 2002 Founder: Government of RA Business information, consulting, business education and training, financial assistance, etc. for SMEs.</p>

Small and Medium-Sized Enterprises in the Caucasian Countries in Transition

No.	Name	Address	Activities
2.	Business Support Center LTD	1 Charents Street 1 st sub-building, 2 floor Yerevan 375025, Armenia Tel. (374 10) 574 778, 571 753 Fax. (374 10) 574 964 E-mail: bsc@bsc.am URL: www.bsc.am	Year of establishment: 1994 Business Support Center LTD is a private company specialized in audit, corporate finance (CF), business, legal advisory services, as well as export promotion.
3.	IAB Centre CJSC	13 Khanjian St., 4 th Floor, Yerevan 375010, Armenia Tel: (374 1) 54 46 80 Fax: (374 1) 54 23 11 E-mail: iab@arminco.com URL: www.iabcentre.am	Year of establishment: 2001 IAB Centre CJSC is a private company specialized in training programs and consulting services (financial management, corporate management development of business plans).
4.	Ameria CJSC	#2, 6 Baghramyan Ave., Yerevan 375019, Armenia Tel: (374 10) 52 40 40; 52 41 40; 52 88 99 Fax: (374 10) 54 68 00 E-mail: ameria@ameria.am URL: www.ameria.am	Year of establishment: 1998 Ameria CJSC is a private company specialized in provision of business advisory services, legal advise, audit and investment consulting. The business advisory services are as follows: management consulting; preparation of loan application packages; business planning; fund raising; implementation of investment projects; market research; export promotion; financial and management accounting.
5.	Apricot Plus LTD	14 Koryuni Street, Yerevan 375009, Armenia Tel: (374 10) 52 52 83 Fax: (374 10) 52 80 10 E-mail: applus@arminco.com	Year of establishment: 1996 Apricot Plus Ltd is a private company specialized in training and following management consulting services: matchmaking for local and foreign investors; local and foreign technology transfer; market surveys; protection of intellectual property rights; project design and consulting to support regional SMEs.
6.	Logicon LTD	37 Pushkin street Yerevan 375002, Armenia Tel. (374 10) 534 834, Fax. (374 10) 534 834 E-mail: info@logicon.am URL: www.logicon.am	Logicon LTD is a private company specialized in audit and accounting, tax planning and compliance advice, logistics and procurement (custom clearance); risk management and evaluation; accounting training courses.
7.	Grant Thornton Amyot Ltd.	16 Vardanants St., Yerevan – 10 Tel: (374 10) 52 24 01; 58 63 73 Fax: (374 10) 58 44 19 E-mail: gta@gta.am URL: www.gta.am	Year of establishment: 1994 Grant Thornton Amyot Ltd is a private company specialized in bank and enterprise audit. The company also provides management consulting services.

(ii) Business Incubators

No.	Name	Address	Activities
8.	World Bank Enterprise Incubator Foundation	9 A. Manukyan St., Yerevan Tel: (374 10) 51 21 88 Fax: (374 10) 51 21 89 E-mail: info@eif.am	Year of establishment: 2001 Founder: World Bank The World Bank designed to assist to the development of Armenian IT sector funded the Enterprise Incubator Project. The project provides the following IT SME targeted services: Financing the telecommunication infrastructure needed to house high-tech companies, and information technology; Provision of a business services center; Consulting services; Provision of on-demand technical training, by supporting professional education.

(iii) Techno-Parks

9.	“Andron” Scientific Research Institute-Techno-park CJSC	33 Manandyan St., Yerevan, Armenia Tel.: (374 91) 42 38 40 Fax: (374 10) 54 16 42 E-mail: info@smednc.am	Year of establishment: 2004 Its being worked out the working plan of Techno-park for 2004-2005 as well as its being defined the criteria for election of SMEs to become clients for Techno-park and the procedure for their attraction, the scope of services to be provided by Techno-park and the principles for applying for that services and other procedural issues. Since its establishment its being carried out measures for creating appropriate infrastructures needed for normal operating of Techno-park and for attracting potential SMEs as well.
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(iii) Institution Responsible for Development of Quality

Small and Medium-Sized Enterprises in the Caucasian Countries in Transition

No.	Name	Address	Activities
10.	“National Institute of Standards and Quality of Armenia” CJSC	Komitas 49/2, Yerevan 375051 Tel: (374 10) 23 56 23, 23 51 61 Fax: (374 10) 28 56 20 E-mail: armstandard@web.am	Year of establishment: 1998 Founder: Government of RA Activities: Standardization, consulting on ISO quality management systems implementation and certification
11.	Chamber of Commerce and Industry of Armenia Regional Chambers of Commerce and Industry	26 G. Nzhdeh St., Yerevan Tel./Fax: (374 10) 44 28 48 E-mail: expert@arminco.com Yerevan City Chamber of Commerce and Industry Tell: (374 10) 44 34 37 Fax: (374 10) 44 28 48	Activities include: <ul style="list-style-type: none"> • Information on Armenian and foreign international trade regulating legislation; • Information on trade fairs in Armenia and abroad; • Information on prices on goods and commodities services in Armenia and
11.		<p>Shirak Marz of Commerce and Industry Tel: (374 312) 3 54 40</p> <p>Lori Marz (Vanadzor) Chamber of Commerce and Industry Tel: (374 322) 2 39 61</p> <p>Kotayk Marz (Abovyan) Chamber of Commerce and Industry Tel: (374 10) 54 93 50</p> <p>Syunik Marz (Kapan) Chamber of Commerce and Industry Tel: (374 285) 6 58 81</p> <p>Armavir Marz Chamber of Commerce and Industry Tel: (374 237) 6 78 19</p> <p>Aragatsotn Marz Chamber of Commerce and Industry Tel: (374 232) 3 54 06</p> <p>Gegharkunik Marz Chamber of Commerce and Industry Tel: (374 264) 2 38 31</p> <p>Ararat Marz Chamber of Commerce and Industry Tel: (374 238) 2 62 75</p> <p>Vayots Dzor Chamber of Commerce and Industry Tel: (374 281) 2 21 13 Fax: (374 281) 2 40 11</p> <p>Tavush Marz Chamber of Commerce and Industry Tel: (374 263) 3 39 04</p>	<ul style="list-style-type: none"> • abroad; • Establishment of business links; • Organization of visits of international and foreign companies into Armenia and Armenian companies to foreign countries; • Support in organization of joint trade fairs; • Organization of presentations and advertising campaigns; • Consultations in quality and packaging issues; • Consultation in establishment of joint ventures; • Consultation in international trade issues; • Certification of documents; • Certification of product’s origin; • Preparation of documents for export and import; • Certification of product’s quality and quantity.

(iv) Contact Points for Sales, Export-Import and Joint-Venture

12.	Armenian Development Agency (ADA)	17 Charents Street, 375025 Yerevan, Armenia Tel: (374 10) 57 01 70 Tel./Fax: (374 10) 54 22 72 E-mail: adaoss@netsys.am URL www.ada.am	Year of establishment: 1998 Founder: Government of RA ADA aims to facilitate: a) productive investment flows into Armenian industry; b) development of Armenian enterprises and business entities; c) export promotion of Armenian goods and services to international markets. ADA also offers business consulting and information services.
13.	Armenian Investment Company CJSC	26a M. Khorenatsi St., Yerevan, 375010 Tel./Fax: (374 10) 54 48 28 http://www.spyur.am/aico.htm e-mail: aico@arminco.com	The Armenian Investment Company provides the following services: <ul style="list-style-type: none"> • Business law; • Preparation of documents for legal entity registration; • Preparation of documents for legal entity re-registration; Processing documents for business privatization.

(vi) Financial Support for SMEs

Enterprise Support Fund (ESF)

The purpose of the program is to promote economic cooperation between Armenian private enterprises and foreign investors and/or importers as well as to strengthen the local competency provision of business support. In the framework of the Enterprise Support Program it will be provided loans to most competitive Armenian enterprises to partially finance the expenses targeted on export promotion.

Loan amount and payback

The loan amount up to USD25,000 will be provided for one project, which should comprise up to 80% of anticipated expenditures. However, ESF is free to reduce the size both in separate cases and period provision. The Loan is provided for a period of 1,5-3 years. The amount is paid without interest, on the quarterly basis. The paybacks of the loan start not later than six months after allocation on the quarterly and interest free basis. A mortgage is not required. The client pays an amount of 5% to ESF for approved loan.

Terms of loan allocation:

- The enterprises should cover the expenditures anticipated in the project from their own means- not financed by ESF
- Loan application can be submitted by the private Armenian enterprises, which should have a private ownership of at least 51%
- Interest free loans are not allocated to those enterprises that have dangerous or doubtful debts to the state budget, the Pension Fund or any third party classified such by the Central Bank of RA.
- The enterprise should prove the availability of exporting possibilities by presenting business plan.
- The equity capital must form at least 25% of the total assets
- The company must have been operated at least one year.

Contacts: Mr. K. Badalyan, Manager of Analysis Dept. , Charents St. 17, 375001 Yerevan, Armenia
Tel: (374 10) 57 01 90; 55 91 97, Fax: (374 10) 55 91 97, E-mail: esf@esf.am

Eurasia Foundation

SME Lending Program

The Eurasia Foundation within the framework of SME Lending Program (funded by USAID and Izmirlyan Foundation) provides loans to SMEs through local banks. The maximum loan amount is USD 125,000. The maturity of loan differs depending on the project and could be maximum 48 months. The maximum annual interest rate is 15%. The principal and interest rate reimbursement schedule usually discussed separately for each project. The loan proceeds must be used solely for acquisition of equipment and raw materials. The following companies and businesses are eligible to apply:

- Companies with 100% private ownership
- Companies with 100% Armenian ownership
- Companies with less than 100 employees
- Manufacturing, services and agriculture projects

Contacts: Mr. Z. Boyajyan, Program Director, 12 Tumanyan St., apt. 5, 375001 Yerevan

Tel: (374 10) 54 54 14; 54 25 42, Fax: (374 10) 56 75 68; 54 25 42, E-mail: efsbp@arminco.com, www.eurasia.org

European Bank for Reconstruction and Development (EBRD)

EBRD in Armenia currently operates the following private sector (including SME) targeted projects:

Direct Investment Facility (DIF)

Within the framework of DIF program Armenian companies can apply to EBRD for a direct equity investment in the total amount varying from USD 500,000 to USD 2,500,000. The total duration of the investment lasts within 3-5 years.

Credit Line with Armeconombank

EBRD set up a credit line of USD 1,000,000 with Armeconombank for loans to Armenian businesses.

Trade Facilitation Credit Line with Anelik Bank

EBRD set up a credit line of USD 500,000 with Anelik Bank to finance the trade activities of Armenian businesses.

For the 2nd and 3rd programs the details must be discussed with the relevant banks. the program contacts are as follows:

Contacts: Mr. A. Babayan, Associate Banker, 20 Baghramyan Ave., 375019 Yerevan

Tel: (374 10) 54 04 25, Fax: (374 10) 54 04 30, E-mail: ababayan@ebrd.com, www.ebrd.am

“Kamurj” Micro Enterprise Development Foundation

Within the framework of this program “Kamurj” (funded by Save the Children Project) provides loans to Armenian women managed or owned micro-enterprises. Loan amount varies from USD 50 to USD 950. The maturity of the loan depending on the specific project can be equal to either 16 or 24 weeks. The standard interest rate is 0.75% per week.

Contacts:

In Yerevan: Mr. G. Vardanyan, Executive Director, 52 Yerznkyan St., 375033 Yerevan

Tel: (374 10) 54 89 43-46 , Fax: (374 10) 274310, E-mail: vgagik@arminco.com

In Gyumi: 67 Furmanov St., 377504 Gyumri, Tel.: (374 312) 3 31 61, Fax: (374 312) 3 31 67, E-mail: kamurj@shirak.am

In Vanadyor: 2 Lazyan blind alley, 374200 Vanadzor, Tel: (374 322) 2 10 37, Fax: (374 322) 2 57 22

In Sisian: 35/2 Israelyan St., 378010 Sisian, Tel: (374 10) 28 35 52, E-mail: mfsis@arminco.com

FINCA Armenia

FINCA Armenia (a member of FINCA Network) is USAID funded program that operates group lending and individual lending programs:

Group Lending

Loan size – USD 70 – USD 1,500
Duration – 12-24 weeks
Group guaranty (without collateral)
Interest rate – 3% monthly

Individual Lending

Loan – min. USD 1,500; max. USD 3,000
Duration of the cycle – 12 –24 weeks
Interest rate – 3% (monthly)
Collateral and Guarantor

Repayments of both lending programs are implemented on weekly, bi-weekly and monthly basis. The geographic coverage includes Yerevan, Ararat, Armavir, Aragatsotn, Kotayk, Lori and Gegharkunik.

Contacts: Mr. A. Ghukasyan , Operations Manager, 2a Agathangeghos St., 2nd Floor, Yerevan
Tel: (374 10) 54 55 31; 54 55 32 , Fax: (374 10) 58 48 63, E-mail: aram@finca.am, www.finca.am

German Armenian Fund (GAF)

GAF within the framework of the credit project provides loans through local banks. GAF partner banks are: ACBA, Anelik Bank, Armeconombank and Converse Bank. GAF loans are provided only in Armenian Drams (AMD). The maximum loan amount is AMD 33,000,000. The loan maturity is 24 months. For some specific cases the borrower can discuss with the bank the maturity extension up to 36 months. The interest rate must also be fixed with bank and varies in the range of 19%-24% per annum. The loans are to be repaid in equal instalments on a monthly basis; a grace period for payments in principal can be granted in exceptional cases. The financing bank is also responsible for collateral.

Only local private businesses are eligible to apply. The following activities are restricted for lending:

- Alcohol and tobacco production,
- Military equipment production,
- Gambling businesses, and
- Environment harmful equipment production

Contacts: 2 Baghramyan Ave., apt. 6 (3rd floor), 375009 Yerevan
Tel: (374 10) 58 55 55, Fax: (374 10) 52 52 68, E-mail: gaf@dolphin.am

OXFAM Armenia

OXFAM Armenia provides micro credits on a Group Guarantee Mechanism. The maximum amount of credit is USD 2,000 per each group member. The maturity of credits is 6 months for urban projects and 12 months for agricultural projects. The interest rate is flat 2.5% per month. Only existing, private businesses, having paid-in capital equal to at least 50% of the loan are eligible to apply.

The borrowers are granted one-month grace period for loan repayment. The repayment of principal amount is on the weekly basis by equal instalments. The principal repayment is done on a four weeks basis.

Contacts: 12 Margaryan St., Institute of Physics, 2nd Cottage, apt. 5, Yerevan

Tel: (374 10) 27 05 64; 34 41 77, Fax: (374 10) 35 20 91, E-mail: Oxfam@netsys.am

United Methodists Committee on Relief (UMCOR)

Sustainable Guaranteed Agricultural Assistance for Women (AREGAK). AREGAK is a project established by UMCOR-Armenia to raise the living standards of poor women and their families in rural and urban areas, by providing financial services. The lending methodology of the program is group solidarity lending. Instead of requiring collateral, AREGAK forms Guarantee Groups comprised of five business women. The women in the groups assist one another and guarantee that each member will repay her loan. AREGAK focuses its resources on small businesses, those that cannot get loans from the bank, and only generate enough income to support the family. Loans to first-time borrowers are extended for five and nine months. The maximum amount of the first cycle loans is USD300, with equal payments of principal and interest. Members who have successfully accessed and repaid the loans are then offered twelve-month loans with a 40% increase in principle amount. In the second cycle, loans with a three-month grace period are also offered.

Before any loans are extended, UMCOR-Armenia establishes a Service Center. The staff explains the responsibilities, benefits, and activities of the program to prospective members. The first AREGAK Service Center was established in 1997 in Yeghegnadzor in the Vayots Dzor marz. After one year of successful operations, three more Service Centers were established in the cities of Goris (Syunik marz), Masis (Ararat marz) and Stepanakert (Mountainous Karabakh). In the year 2000 centers were opened in Armavir (Armavir marz) and Abovyan (Kotayk marz).

Contacts: 14 Karapet Ulnetsu St., Zeytun, 375037 Yerevan
Tel: (374 10) 24 81 41; 28 29 77, Fax: (374 10) 24 92 15, E-mail: umcor@umcor.am, www.umcor.am

World Vision Armenia: Small Enterprise Fund (SEF) LTD

SEF is a private local company funded by USAID, Shorebank, GTZ, Lincy Foundation and WVUS. It has branches in Yerevan, Sisian, Gyumri and Kapan. SEF provides loans and financial services to start-up and existing businesses within the following lending programs:

SME Lending

Within the framework of this project SEF provides USD 1,000 to USD 20,000 loans. The maximum maturity of a loan is 36 months. The interest rate is based on the declining schedule and in average is equal to 3% monthly. Both start up and existing companies with more than 50% Armenian ownership are eligible to apply. As a collateral apart of the usual assets of the borrower SEF can also discuss the acceptance of the company stock as a collateral.

Agricultural Group Lending

Within the framework of this project SEF provides micro credits from USD 400 to USD 900, with the maximum maturity of 12 months. The average monthly interest rate is 2%. As a collateral, SEF usually takes the appropriate assets of the borrower.

Contacts:
Mr. John Sax , Managing Director, 19/1 E. Kochar St., 375070 Yerevan
Tel: (374 10) 57 50 55, Fax: (374 10) 55 25 22, E-mail: john_sax@wvi.org, www.wvarmenia.am

BANKS

Agricultural Cooperative Bank of Armenia (ACBA Bank)

ACBA Bank, in cooperation with international institutions extends credits to legal entities and private entrepreneurs operating both in the agricultural sector and in other fields of economy.

Agricultural loans

ACBA's Agricultural loans are intended for the members of Agricultural Cooperative Village Associations. Agricultural loans are provided in the scope of international lending programs, such as Agricultural Reform Support Project of World Bank and Agricultural Services Project of IFAD.

Terms and conditions

AMD : Loan interest rate – 22- 28% and USD : Loan interest rate – 16-20%
Duration – generally up to 3 years
Maximum loan amount – USD 40,000

Commercial loans

Commercial loans are provided to the citizens of Armenia in the scope of Small and Medium Business Support Project of German-Armenian Fund. The commercial loans are extended to registered businesses having at least 3 months of operating experience prior to applying for the loan. The loans are provided in AMD. In some cases grace period is provided. Trade, production and service sectors are funded in the frames of Small and Medium Support Project. The following sectors cannot be funded: production of military equipment, tobacco, alcohol, investments in securities, real estate and network marketing.

Terms and conditions

Interest rate – 18-30%
Duration – generally up to 18 months, up to 3 years in special cases
Maximum loan amount – USD 60,000 in general and up to USD 100,000, in special cases.

Contacts: ACBA Head office, One Byron Street, 375009 Yerevan, Armenia
Tel.: (374 10) 56 58 58; 56 85 85, Fax: (374 10) 15 17 55, E-mail: acba@arminco.com, www.acba.am

Anelik Bank Co.Ltd

Anelik Bank Co. Ltd. collaborates with five international lending programs, such as the Eurasia Foundation, the World Bank, the German-Armenia Fund (KFW German bank),

Lincy Foundation, the International Organization for Migration and the European Bank for Reconstruction and Development. The above-mentioned international institutions mainly provide loans to assist the development of industrial and service spheres at fairly low interest rate of 15-21% per annum for the term of 1-5 years depending on the business project.

Small Business Lending Program of the Eurasia Foundation

Anelik Bank Co. Ltd., in cooperation with the Eurasia Foundation, implements the lending program to develop micro and small business in the territory of Armenia. Under this program loans up to 100,000 USD for the term of 1-3 years at 18% annual interest rate are offered.

The program offers loans to those non-state enterprises that:

- Have no more than 100 employees;
- Operate in the spheres of industry, agriculture, and service sector;
- Have start-up capital for their business;
- Have space (either their own or rented for the term of no less than three years) to run their business;
- Have experience in managing and running business;
- Have contracts with suppliers and customers;
- Have no outstanding loans from other banks;
- Do not have losses or significant amounts payable or receivable from previous periods;

- Submit the required package of legal and financial documentation and a business plan.
- Under this program, it is desirable to insure proposed collateral.

Loans are not extended to those potential borrowers who are primarily engaged in trade. Additionally, no lending is allowed to enterprises involved in:

- Production, service or use of military or intelligence equipment;
- Production, service or use of equipment or other products and/or rendering services in support of the activities of police or other law enforcement bodies;
- Production, service or use of equipment used for abortion and or rendering services related to it;
- Production, service or use of luxury goods or gambling equipment;
- Production, service or use of equipment that may cause pollution of environment.

Lending Program of the German-Armenian Fund (GAF)

Under this program loans are given for the term of up to three years at 16-24% interest rate per annum:

- (i) for micro businesses - Armenian Dram equivalent of up to ADM 15,000; and (ii) for small businesses - Armenian Dram equivalent of up to ADM 125,000.

Loans may be given to non-state enterprises and individuals that:

- Have micro or small business with not more than 20 (micro business) and 50 (small business) employees
- Have business in industrial, agricultural, service, or trade sectors
- Have start-up capital to run their business
- Have space (either their own or rented for the term of no less than three years) to run their business
- Have experience in managing and running business

- Have contracts with suppliers and customers
- Have no outstanding loans from other banks
- Do not have losses or significant amounts payable or receivable from previous periods

Within the framework of this program the following projects are not funded:

- Production, service or use of military or intelligence equipment
- Production or sale of leather and fur (excluding the production of leather goods)
- Tobacco production
- Alcohol production
- Casinos
- Foreign currency speculations
- Investments in securities
- Real estate operations

World Bank Lending Program: This program offers loans in the amount of USD 50,000 - USD 50,000 for the term of 2-5 years at 18% annual interest rate.

Under this program, loans may be given to enterprises that:

- Have more than 51% private capital
- Have business in industrial, agricultural, communications, transportation, construction, and service sectors
- Have, for business purposes, the ratio of equity capital to the loan received no less than 1/3
- Have space (either their own or rented for the term of no less than five years) for their business
- Have experience in establishing and running business
- Have contracts with suppliers and customers
- Have no outstanding loans from other banks
- Do not have losses or significant accounts payable or receivable from previous years
- Have audited financial and accounting statements
- Have relevant and reliable financial and organizational structure
- Have skilful and experienced management

- Have a feasible business plan, realistic calculations of incomes and expenses based on cash flows
- Have relevant licenses, if required
- Have certificates confirming that their business plan complies with environmental, security, and health standards requirements

All bank accounts should be opened with or transferred to Anelik Bank Co. Ltd. To apply to this Loan Program an applicant should submit legal and financial documentation and a business plan.

Preference is given to organizations that have experience in running business in respective sectors and have their consumption and export market. It is desirable to insure proposed collateral while applying to this program.

All bank accounts should be opened with or transferred to Anelik Bank Co. Ltd. It is desirable to insure proposed collateral while applying to this program.

Lincy Foundation Lending Program

This program offers loans in the amount of USD 100.000 – USD 250.000 (equivalent in AMD) for the term of up to the 1st of November 2003 at 15% interest rate per annum.

Under this program, loans may be given to enterprises that:

- Have more than 51% private capital and are residents of Armenia
- Have business in industrial, agricultural, communications, transport, construction, and service sectors
- Have, for business purposes, the ratio of equity capital to the loan received no less than 1:3
- Have space (either their own or rented for the term of no less than five years) for their business
- Have experience in establishing and running business
- Have contracts with suppliers and customers
- Do not have outstanding loans with other banks
- Do not have losses or significant amounts payable or receivable from previous years
- Have relevant and reliable financial and organizational structure
- Have skilled and experienced management
- Have a feasible business plan, realistic calculations of incomes and expenses based on cash flows
- Have relevant licenses, if required

All bank accounts should be opened with or transferred to Anelik Bank Co. Ltd. It is desirable to insure proposed collateral while applying to this program.

Contacts: Anelik Bank LTD., 75 Marshal Baghramyan Ave., 375033 Yerevan

Tel.: (374 10) 22 65 26; 22 87 17; 22 87 44 , Fax: (374 10) 22 65 81, E-mail: anelik@arminco.com www.anelik.am

Areximbank

Areximbank provides loans to enterprises of the real sector of economy, engaged in small and medium business on the account of it's own financial resources. Main conditions for loan proving are the quality of the offered collateral security and the credit history of the borrower.

General terms:

Loan Currency	AMD or USD
Loan size	up to USD 300,000
Lending Term	up to 12 months
Annual Percentage Rate	24-30%
Security	high liquid assets

Upon loan allocations preference is given to those customers who have accounts with Areximbank.

Contacts: Areximbank , 20 Tumanyan St., Yerevan, 9 Tigran Metsi Ave. Yerevan
Tel: (374 10) 58 05 06; 56 96 66, 58 31 31; 56 22 58; 56 22 38 (branch office), Fax: (374 10) 58 31 31; 58 05 06

Armenian Development Bank OJSC

Loans to Legal Entities

Commercial Loans are granted to the successfully acting organizations for the following purposes:

- Purchase of assets
- Current expenses formation
- Implementation of commercial deals
- Loans secured by the assets of legal entity

Loan Currency	AMD or USD
Lending Term	up to 12 months
Annual Percentage Rate	24-28 %
Ratio between Security price and Loan sum	up to 40 %

Lending under International projects

Project implemented in cooperation with the Shore Bank Advisory Services on small and medium size business financing.

Loan Currency	USD
Loan Sum	USD 5,000 – USD 75,000
Lending Term	from 3 up to 24 months
Annual Percentage Rate	21 %
Security	high liquid assets
Ratio between pledge price and Loan sum	up to 75 %

Project implemented in cooperation with the World Bank on Farmer and Agricultural Production business financing

This project has two sub-projects:

Short term lending. The total sum does not exceed USD 2,000.

Loan Currency	USD
Loan Sum	up to USD 2,000
Lending Term	up to 18 months
Annual Percentage Rate	10 %
Security	high liquid assets
Ratio between pledge price and Loan sum	up to 75 %

Mid term lending. The total sum of the loan does not exceed USD 200,000.

Loan Currency	USD
Loan Sum	up to USD 50,000
Lending Term	up to 24 months
Annual Percentage Rate	10 %

Security	high liquid assets
Ratio between pledge price and Loan sum	up to 75 %

Contacts:

Armenian Development Bank OJSC, 21/1 Paronyan Str. 375015 Yerevan
Tel: (374 10) 53 89 51, 53 89 30, Fax: (374 10) 53 32 33, E-mail: info@armdb.com
www.armdb.com

Armeconombank OJSC

Armeconombank provides the following loans within the frames of international programs:

German-Armenian Fund (GAF) Small and Medium business Development Program

Within the frames of Small and Medium Business Development Program of the GAF, loans are provided to the industrial, trade and service enterprises, the state ownership of which is not exceeding 49%, and the number of employees is below 50.

Lending term	up to 36 months
Annual interest rate	19-24%
Loan currency	AMD

EBRD Small and Medium Business Development program

A joint program with the European Bank of Reconstruction and Development is providing loans to industrial enterprises and to the service providers.

Minimum loan amount	USD 10,000
Maximum loan amount	USD 100,000
Annual interest rate	up to 20%
Lending term	up to 3 years

Lending on the account of own financial resources

Maximum loan amount	USD 300,000
Annual interest rate	24-28%
Lending term	up to 2 years

Armeconombank accepts the following types of collateral:

- Immovable property - land, buildings, apartments, houses
- Fixed assets
- Working capital
- Precious metals
- Government bonds, foreign currency, stocks
- Land
- Property and rights to be acquired in the future

The following documents should be submitted to the bank:

Legal entities:

- Letter of application (addressed to the Managing Director (Branch Manager), including the amount of the loan, the term of the loan, the objectives, and the type of collateral
- Technical and economic basis for the loan (business plan)
- Copy of the State Registrar Certificate
- Copy of the Articles of Associations
- Copy of the Charter
- Package of accounting statements (balance, financial statements, tax calculations, etc.) for the latest reporting period, approved by the Tax Inspectorate of Armenia, and auditor's report, if necessary
- Detailed breakdown of accounts payable and accounts receivable
- Documents, verifying the property rights for the loan collateral provided
- Private individuals:
- Letter of application (addressed to the Managing Director (Branch Manager), including the amount of the loan, the term of the loan, the objectives, and the type of collateral
- Documents, verifying the property rights for the loan collateral provided

Contacts: Armeconombank OJSC, 23/1 Amiryan St., Yerevan
Tel: (374 10) 53 88 57; 53 58 05; 53 89 25, Fax: (374 10) 53 05 06, E-mail: armeco@arminco.com;
bank@aeb.am , www.aeb.am

Armimpexbank CJSC

Armimpexbank has several directions of loaning in the field of small business:

- Favorable loans to small enterprises
- Commercial loans for small wholesale and retail trade
- Favorable loans to newly founded enterprises

Besides its own loan resources, Armimpexbank provides World Bank, Lincy Foundation, resources as well as co-operation with Eurasia Foundation in near future.

Lincy Foundation Project

Co-operating with Lincy Foundation project, Armimpexbank provides the lending of the following branches: industry, agribusiness, commercial service, construction, mining, electricity production, transport and communication.

Size of loaning from USD 80,000 up to USD1,000.000
Terms of repayment not exceed 3 years
Interest rate per annum 15%

World Bank Enterprise Development Project

Armimpexbank co-operates with World Bank and provides the loaning of the following branches: industry, agribusiness, commercial service, construction, mining, electro power, transport and communication.

Size of loaning up to USD 500,000
Short-term loaning up to 1 year
Mid-term loaning 1-3 years
Long-term loaning more than 3 years
Interest rate per annum 21%

The maximal size of the loan depends on the size of the Bank's economic norms at the time of the loan providing:

- Insurance value decided by the Bank and customer
- Presented business plan
- The results of customer's financial situation

The following documents are required to receive loans:

Legal entities:

- Loan application, the size of the loan, usage aim, maturity date, kind of currency, kind of pledge are to be noted
- Legal documents (organization charter, foundation documents, state register)
- Financial documents (annual reports, report of the last period of time)
- Business plan and other substantiated documents (agreements, invoices)
- Documents concerning pledge (right of ownership, owners consent regarding pledge leaving, reference from state authorized body regarding pledge not to be prohibited)

Private individuals:

- Loan application
- Necessary documents concerning pledge

The Bank has qualified team of professionals in loan department, which gives consultations to potential borrowers regarding any problems in business and expected loans as well as assists in filling in the application.

Contacts: Armimpexbank CJSC, 2 Vazgen Sargsyan St., 375010 Yerevan
Tel: (374 10) 58 99 06 Secretary; 56 11 11 Information Fax: (374 10) 56 59 58
E-mail: office@impex.bank.am , www.impexbank.am

Arminvestbank CJSC

Lending on account of own financial resources

Currency USD or Armenian Drams
Maximum loan amount up to USD 320,000
Annual interest rate 25-30%
Term of the loan up to 18 months
Repayment schedule to be set in the agreement

The bank accepts all kinds of immovable and movable property as collateral, as well as highly liquid assets (gold, securities, ready production, etc.)

Contacts: Arminvestbank CJSC, 13 Vardanants St., 375010 Yerevan
Tel: (374 1) 54 03 24; 54 05 02; 54 02 91, Fax: (374 1) 54 58 35, E-mail: ibank@dolphin.am

Armsavingsbank JSC

USDA Marketing Assistance Project lending program

USDA Marketing Assistance Project (MAP) has established a loan program, according to which loans are granted to individuals, small and medium businesses, to assist the private sector of raw material and agricultural goods in Armenia. The decision to grant the loans and the evaluation of the loan applications is made by the Project Office.

- The program has not set a maximum amount for the loans.
- The loans are granted in USD
- The interest rate is fixed, 13% annually of the outstanding loan amount
- The maturity of the loan is three years maximum.

The loan application package should include:

- Business plan, approved by MAP
- Letter from Tax Inspectorate about actual tax liabilities
- Letter from the Pension Fund about actual liabilities
- Letter from the Applicant for-providing any type of financial information regarding the business to MAP
- Loan collateral, up to 200% of the loan
- Loan and interest repayment schedule, based on the presented business plan

Loaning on account of own financial resources

Currency USD or AMD
Maximum amount of the loan up to USD 500,000
Annual interest rate 24-28%
Loan repayment terms up to 6 months
Repayment schedule to be set in the agreement

The bank accepts all kinds of immovable and movable property as collateral, as well as highly liquid assets (gold, securities, ready production, etc.)

Contacts :Armsavingsbank JSC, 46 Nalbandyan St., Yerevan
Tel: (374 10) 58 04 451; 58 63 65,

Artsakhbank CJSC

Lending on account of own financial resources

Currency USD or AMD
Maximum amount of the loan up to USD 320,000
Annual interest rate 24%
Loan repayment terms up to 2 years
Repayment schedule to be set in the agreement

Contacts: Artsakhbank CJSC, 30 Sasountsi David St., Stepanakert, Nagorno Karabakh Republic
Tel.: (471) 4 19 94, 5 08 67, E-mail: artsakhbank@nktel.net

Emporiki Bank Armenia CJSC

Lending on account of own financial resources

Currency USD or AMD
Maximum loan amount up to USD 420,000
Annual interest rate 14-24%
Term of the loan up to 24 months
Repayment schedule to be set in the agreement

The bank accepts all kinds of immovable and movable property as collateral, as well as highly liquid assets (gold, securities, ready production, etc.)

Contacts: Emporiki Bank Armenia CJSC, 16 Deghatan St., Yerevan 375010
Tel: (374 10) 52 04 32; 56 24 80; 58 30 85 , Fax:(374 10) 54 25 94 , E-mail: cbgam@arminco.com

Converse Bank CJSC

Lending Program of the German-Armenian Fund (GAF)

Converse Bank CJSC has been working with the German-Armenian Fund since 2002, jointly implementing Loan Projects to develop micro and small business in the territory of the Republic of Armenia. Under this program loans are given for the term of up to three years at 19-24% interest rate per annum. Loans may be given to non-state enterprises and individuals that:

- Have micro or small business with not more than 20 (micro business) and 50 (small business) employees
- Have business in industrial, agricultural, service, or trade sectors
- Have start-up capital to run their business
- Have space (either their own or rented for the term of no less than three years) to run their business
- Have experience in managing and running business
- Have contracts with suppliers and customers
- Have no outstanding loans from other banks
- Do not have losses or significant amounts payable or receivable from previous periods

Within the framework of this program the following projects are not funded:

- Production, service or use of military or intelligence equipment
- Production or sale of leather and fur (excluding the production of leather goods)
- Tobacco production
- Alcohol production
- Casinos
- Foreign currency speculations
- Investments in securities
- Real estate operations

World Bank Lending Program

Converse Bank CJSC collaborates with the World Bank on the implementation of the small business development program in the territory of the RA. This program offers loans in the amount of USD 50,000 - USD500,000 for the term of 2-5 years up to 20% annual interest rate.

Under this program, loans may be given to enterprises that:

- Have more than 51% private capital
- Have business in industrial, agricultural, communications, transportation, construction, and service sectors
- Have, for business purposes, the ratio of equity capital to the loan received no less than 1/3
- Have space (either their own or rented for the term of no less than five years) for their business
- Have experience in establishing and running business
- Have contracts with suppliers and customers
- Have no outstanding loans from other banks
- Do not have losses or significant accounts payable or receivable from previous years
- Have audited financial and accounting statements
- Have relevant and reliable financial and organizational structure
- Have skilful and experienced management
- Have a feasible business plan, realistic calculations of incomes and expenses based on cash flows Have relevant licenses, if required
- Have certificates confirming that their business plan complies with environmental, security, and health standards requirements

All bank accounts should be opened with or transferred to Converse Bank CJSC. To apply to this Loan Program an applicant should submit legal and financial documentation and a business plan. Preference is given to organizations that have experience in running business in respective sectors and have their consumption and export market. It is desirable to insure proposed collateral while applying to this program.

Lincy Foundation Lending Program

Converse Bank CJSC works with the Lincy Foundation on the implementation of the lending program to develop medium-size business in the territory of the RA. This program offers loans in the amount of USD 100,000 - USD 1,000.000 (equivalent in AMD) for the term of up to the 1st of November 2003 at maximum 15% interest rate per annum.

Under this program, loans may be given to enterprises that:

- Have more than 51% private capital and are residents of Armenia
- Have business in industrial, agricultural, communications, transport, construction, and service sectors
- Have, for business purposes, the ratio of equity capital to the loan received no less than 1/3
- Have space (either their own or rented for the term of no less than five years) for their business
- Have experience in establishing and running business
- Have contracts with suppliers and customers
- Do not have outstanding loans with other banks
- Do not have losses or significant amounts payable or receivable from previous years
- Have relevant and reliable financial and organizational structure
- Have skilled and experienced management
- Have a feasible business plan, realistic calculations of incomes and expenses based on cash flows
- Have relevant licenses, if required

All bank accounts should be opened with or transferred to Converse Bank CJSC. It is desirable to insure proposed collateral while applying to this program.

USDA Marketing Assistance Project Lending Program

USDA Marketing Assistance Project (MAP) has established a loan program, according to which loans are granted to individuals, small and medium businesses, to assist the private sector of raw material and agricultural

goods in Armenia. The decision to grant the loans and the evaluation of the loan applications is made by the Project Office.

- The program has not set a maximum amount for the loans.
- The loans are granted in USD
- The interest rate is fixed, 15% annually of the outstanding loan amount
- The maturity of the loan is three years maximum

The loan application package should include:

- Business plan, approved by MAP
- Letter from Tax Inspectorate about actual tax liabilities
- Letter from the Pension Fund about actual liabilities
- Letter from the Applicant for providing any type of financial information regarding the business to MAP
- Loan collateral, up to 200% of the loan
- Loan and interest repayment schedule, based on the presented business plan

Converse Bank CJSC accepts the following types of collateral:

- Immovable property: land, buildings, apartments, and houses
- Fixed assets
- Working capital
- Vehicles
- Precious metals
- Government bonds, foreign currency, stocks
- Land
- Property to be acquired in the future

Contacts: Converse Bank CJSC, 26 Vazgen Sargsyan Str., 375010 Yerevan

Tel: (374 10) 54 09 28; 54 54 52; 56 92 48, Fax: (374 10) 54 09 20, E-mail: post@cb.aic.net , cb.aic.net

HSBC Armenia Bank CJSC

USDA Marketing Assistance Project Lending Program

USDA Marketing Assistance Project (MAP) has established a loan program, according to which loans are granted to individuals, small and medium businesses, to assist the private sector of raw material and agricultural goods in Armenia. The decision to grant the loans and the evaluation of the loan applications is made by the Project Office.

- The program has not set a maximum amount for the loans
- The loans are granted in USD
- The interest rate is fixed, 13% annually of the outstanding loan amount
- The maturity of the loan is three years maximum

The loan application package should include:

- Business plan, approved by MAP
- Letter from Tax Inspectorate about actual tax liabilities
- Letter from the Pension Fund about actual liabilities
- Letter from the Applicant for providing any type of financial information regarding the business to MAP
- Loan collateral, up to 200% of the loan
- Loan and interest repayment schedule, based on the presented business plan.

Lending on account of own financial resources

Currency	USD or AMD
Maximum Loan amount	USD 20,000-50,000
Annual interest rate	20%
Term of the loan	up to 1 year
Repayment schedule	to be set in the agreement

The bank accepts all kinds of immovable and movable property as collateral, as well as highly liquid assets (gold, securities, ready production, etc.). Preference will be given to the customers of the bank, served for 6 months or more, with profitable business activities and active accounts.

Contacts: HSBC Armenia Bank CJSC, 9 Vazgen Sargsyan St., 3 Komitasi Ave., Yerevan
Tel: (374 10) 56 32 29; 56 47 63; 22 25 96; 22 87 57 (branch office), Fax: (374 10) 54 29 59; 52 70 78
E-mail: hsbc@arminco.com , <http://www.hsbc.co>

Inecobank CJSC

Inecobank CJSC actively participates in small and medium business development loan programs, administered by international organizations on the territory of Armenia. The bank provides loans within the framework of EURASIA Foundation Small & Medium Business Support Project. The funds are provided for 4 years, the annual interest rate is 18%. The following criteria is applied to the applicants:

- The enterprises should be 100% privately owned
- Average number of employees should not exceed 100
- The enterprise should have a business program, which should be technically and financially viable and feasible, and based on the pro-forma financial analysis
- The program for which the loan is provided should have substantial cash turnover to satisfy the repayment schedule.

Within the frames of this program the interest is paid monthly, while a grace period of up to three months is granted for principal repayment.

Contacts: Inecobank CJSC, Floors 1-2, Left Wing, 17 Tumanyan St., 375001 Yerevan
Tel: (374 10) 56 37 25; 56 59 74 , Fax: (374 10) 54 51 66, E-mail: inecobank@inecobank.am, <http://www.inecobank.am>

Inecobank, Gyumri Branch CJSC, 1/5 Garegin Nzhdehi Ave., 377500 Gyumri
Tel: (374 312) 3 30 81; 3 30 75, Fax: (374 312) 3 30 83

Unibank CJSC

Unibank will soon offer its customers loans both in Armenian drams and in foreign currency. As a guarantee under loan liquid securities, goods and banking guaranties, as well as customers' other ownership can be accepted.

The main requirements to the potential borrowers are:

- To run activity on the territory of Yerevan
- The monthly cash flow of the customer through the Bank should not be less the double sum of the loan
- The loan interest rate depends on money market infrastructure, period of lending, loan guarantee, possible risks and other factors
- The maximum period of crediting generally is 1 year

Contacts: Unibank CSJC, 12 Amiryan St., 375010 Yerevan
Tel: (374 10) 53 98 70; 53 98 71, Fax: (374 10) 53 30 23, E-mail: unibank@unibank.am, <http://www.unibank.am>

ANNEX 4

SME SUPPORT INFRASTRUCTURE/INSTITUTIONS IN AZERBAIJAN*

SME Consulting Services and Business Information Centres

There are both state and private consulting services and information centers for businessmen in Azerbaijan today. Of course, there is a difference in character and capacity of these structures of consulting activity and the cost of their services.

State structures are divided into two groups:

- (i) governmental and
- (ii) non governmental

The Entrepreneurship Development Department (EDD) of the Ministry for Economic Development (EDM) is one of the governmental structures. The Ministry was established in 2001, on the basis of: Ministry of Economics, Ministry of Trade, State Committee on anti-monopolist policy and support to entrepreneurship, State Committee on property and Agency on foreign investments.

The EDD contains:

- Division of Entrepreneurship Development;
- Division of Licensing of Entrepreneurial Activity;
- Division of Rule of State Property;
- Division of Regional Development.

The main purpose of the Department is development of business in the country. Regular consulting services to SME aren't one of the Department's duties. But the businessmen have an opportunity of receiving any information, however, not consultancy.

There is a National Fund of Support to Entrepreneurship Development (NFSED) ruled by the Ministry. The NFSED was first founded in 1992. New Regulations about the NFSED was affirmed with the President Decree as of 2002. The main objective of the Fund is to provide the SME with preferential credits. However, the NFSED also provides a determined consulting help to entrepreneurs. According to the item 8.2 of these Regulations, the NFSED gives methodic help and consults entrepreneurs on legal, economical and other issues, on the estimation of market climate, on the issues of preparation programs of entrepreneurship activity and development of investment projects.

The Ministry has a special web-site¹⁹ on which one of the section named "Consultant" contains useful information for start-up businessmen. For example, a start-up can get here information about:

- possible kinds of entrepreneurship in the country;
- procedure of entrepreneurship subjects registration;
- necessary documents for the state registration of private business;
- reports presented to tax inspection;
- licensed types of entrepreneurship activity;
- procedure of the license receive and its cost;
- demands of accounting;
- how to open an account in a bank;

* Presentation made by Mr. Sabit Bagirov, President of Entrepreneurship Development Foundation, Azerbaijan at the Workshop on "SME Development in South-Caucasian Transition Economies", organized on 30-31 October 2003, Istanbul, Turkey

¹⁹ www.sahibkar.biz

- how to get a credit in a bank;
- management;
- methods of preparing a business plan (there is also an example of business plan here).

Many ministries and state committees have the institutions, centers, bureaus, etc. Although these organizations are properties of government, they lead an independent financial activity and for this reason they can accept orders from businessmen for performances of any services.

As mentioned above, the consulting assistance to private companies can also be provided by private specialized consulting companies. To date, there are about forty consulting companies operating in Azerbaijan. These companies provide paid services in the following spheres:

- Management consultants;
- Auxiliary services to business;
- Economic studies;
- Industrial promotion and development services;
- Documentation services;
- Patent and trade mark agents;
- Solicitors, lawyers and attorneys.

Today in Azerbaijan, on problems of Management it is possible to find consulting companies providing services from the next general list:

- Management consultants;
- Production consultants;
- Work study consultants;
- Machinery optimization consultants;
- Value analysis consultants;
- Operational research consultants;
- Corporate strategy consultants;
- Financial planning consultants;
- Credit management consultants;
- Cost analysis consultants;
- Sales analysis consultants;
- Import-export consultants;
- Administration and organization consultants;
- Security and political stability forecast services.

The services from this list are provided for example by the following companies²⁰: Anglo-American Business Services & ATTAS PR, AzEcoConsulting, BALANCE-AUDIT, Currie & Brown, EAN-Azerbaijan, Ernst & Young Limited, FINANSIST, HR Company, ICC-Ivory Consulting Group LTD, Corporated Consultants, IPESCO Azerbaijan Ltd., ISGB LTD, KOMPASS AZERBAIJAN Co., KOSIA-SMEDA Small and Medium Enterprise, NVF-CONSULTING Co. Inc., PricewaterhouseCoopers Eastern Europe BV, Profile. Analytical Unit, RR&VAM, SENACO, Swiss Finance & Business Services.

There are these types of Auxiliary services to business in Azerbaijan:

- Business data handling systems consultants;
- Company formation consultants;
- Data protection information services;
- European Union (EU) legislation consultants;
- Economical and fiscal regulations consultants;
- Value added tax (VAT) recovery services;
- Social security legislation consultants;

²⁰ INFO 2003/2004, KOMPASS AZERBAIJAN Co., p. 116-117

- Work legislation consultants;
- Trade register research and registration services;
- Foreign trade consultants;
- Telesales consultants;
- Business information services;
- Tax representatives.

The services from this list are provided for example by the following companies²¹: Anglo-American Business Services & ATTAS PR, AzEcoConsulting, Berliner Wasserbaetriebe, Consulting Group LTD, XAZRI, IPESCO Azerbaijan Ltd., KASKAD, KOMPASS, KPMG Azerbaijan Limited, KVINTA 94 LTD, MAK Consultancy Baku Ltd, MiniMax, NVF-CONSULTING Co. Inc., REAL LTD, RIEL, RR&VAM, SENAKO, SOS, Swiss Finance & Business Services, Tercuma ve Konsalting Merkezi, Chrnin and partners.

The services like economical researches are provided to business-structures in these kinds:

- Statistical services;
- Economic information services;
- Economic state and contingency study consultants;
- Farm economics consultants;
- Industry sectoral studies;
- Economic feasibility studies.

The services from this list are provided for example by the following companies:²² AzEcoConsulting, AZERCONSULT Consulting Company AZERINVEST, BELMONT GLOBAL, KOSIA-SMEDA Small and Medium Enterprise, MAK & Associated, PricewaterhouseCoopers Eastern Europe BV, Profile Analytical Unit.

Thus, the sphere of consulting services for SME is quite developed in Azerbaijan. However, according to some researches, the SMEs do not use these services often. For example, the questioning held by the Association of Businessmen and Producers (ABP) of Azerbaijan among local entrepreneurs discovered no need of services from consulting companies while choosing foreign partners²³. Among 100 questioned entrepreneurs, only 12% of them indicated readiness of paying for qualified consulting help in choosing foreign partners, 19% indicated the need in such help, but not as much as to pay for it, 11% promised to consider that in future, and 58% think that they can choose foreign partners without consulting. Meanwhile, according to the summary of the questioning, 56% of respondents need information about the procedures of documental registrations of importing-exporting operations.

The responses of the respondents show that only 5% of them address to the services of marketing companies in order to enter new export markets, 14% address periodically, and 81% do not use them at all. It shows that the majority of local firms are either unfamiliar with marketing companies, or have no ability of using such services because of their high price.

According to the questionings held by the author of this report, such situation is typical for other spheres of SME. It is stated that the main reasons of such situation with such a weak level of use of consulting services are the weak knowledge of the SME about this sphere of services and their expensiveness.

The SME can receive free consulting services of determined level and character also in the business-associations they are members of. To date in Azerbaijan, there are already about 30 business-associations established. They are still weak organizations, but their gradual development and strengthening can be forecasted confidently.

²¹ INFO 2003/2004, KOMPASS AZERBAIJAN Co., p. 55-56

²² INFO 2003/2004, KOMPASS AZERBAIJAN Co., p. 355-356.

²³ Bulletin of information agency TURAN, BAKU-04.03.2003

Business Incubators

There are still no business-incubators in Azerbaijan. However, the government has an intention of establishing them, what can be seen by the “Governmental Program of Small and Medium entrepreneurship development in Azerbaijan Republic (2002-2005 years)”, affirmed by the Azerbaijan Republic’s President Decree as of 17 August 2002. Clause 5.11 of this program covers the establishment of technological business-incubator in Baku.

A few of NGOs work on appropriate projects for the establishment of business-incubators. One of the most developed projects is the establishment of a “Business-Polygon” on the basis of several huge industrial state enterprises practically standing today. The draft of this project has been prepared by the Coalition of famous business-associations of Azerbaijan. The draft has been approved by the Ministry for Economic Development and United Nations Development Program (UNDP) as well.

Institution Responsible for Development of Quality

The Governmental Agency for Standardization, Metrology and Patents was established by the President Decree as of December 27, 2002. The Agency has been established on the basis of earlier existed Governmental Center for Standardization, Metrology and Management of Patents and Licensing of Governmental Committee in Science and Techniques.

(ii) Financial Institutions and Intermediaries for SME Support

Microcredit Institution

The specialized microcredit institution in Azerbaijan is the Azeri Bank of Microfinancing (ABM). But microcredits are also issued by a number of international organizations.

The ABM started to function on October 29, 2002. The authorized capital of the bank is USD 5 million. One of the founders of the bank are the International Financing Corporation, Black Sea Bank of Trade and Development, European Bank of Reconstruction and Development. The fifth share-holder of the bank is the German Bank KFW.

The current portfolio of ABM makes USD1,512 million. on 1120 credits²⁴. Generally, within the 9 months of its activity, ABM issued 1414 micro- and 275 pawn credits on the total sum of USD 2,367 million. 500 of these credits have been extinguished by creditors. Meanwhile, about 400 clients of the bank repeatedly borrowed new credits from ABM. Within the July of 2004 year, ABM issued more than 350 credits. By structure of the issued credits, trade gets 74,1%, production – 16,6%, services – 7,9% and transport – 1%. ABM issues pawn credits from USD10 to USD 5000 (under 4-5% per month), microcredits from USD 400 - USD10 000 (3%) and small credits from USD10 000 - USD30 000 (2,5%).

In 2004 the potential market of microcrediting made at least USD 50 million and within near 2-3 years it will be ran in. This is the opinion of the chairman of AMMB board, Tomas Moser²⁵. The total credit portfolio of ABM and non-banking credit organizations makes still only about USD7-8 million. Perhaps, because of this reason what is the significant difference between demand and offer, the percentage rates on micro credits are rather high – 3-4% per month. Nevertheless, with the saturation of the market with credit resources, this rate will also reduce within near 2-3 years.

Like other banks, ABM issues credits also under pledge. However, as compared to them, ABM doesn’t demand an apartment in the center of Baku as a pledge. The creditor can present the equipment, office furniture, TV set, fridge, etc. of its business-object as a pledge. The sum of the pledge must make 150% from the credit sum.

²⁴ Bulletin of information agency TURAN, BAKU - 06.08.2003

²⁵ Bulletin of information agency TURAN, BAKU - 20.06.2003

Distinctive feature of ABM is also that it does not demand representation of the business - plans prepared by specially employed advisers. The employee of this bank helps an entrepreneur to make all necessary calculations

In opinion of Moser, the Azeri banks could work actively today in the market of microcrediting. This work is very laborious and also demands patience, however the opportunities of the market are wide enough for the present level of the Azeri banks. For example, the current credit portfolio of one Bank of Microcrediting of Georgia (the country which population is less, than Azerbaijan) exceeds USD32 million.

As it has been marked above, microcredits are given out also by a number of the international organizations²⁶.

Credits for SME besides ABM are given out also by German Governmental Bank KfW (Kreditanstalt für Wiederaufbau). With this purpose, the bank has opened lines of credit to a number of local commercial banks. Among them: Bank of Baku, Unibank, Ilkbank, Parabank, BankRespublika. Last three banks became partners of KfW from January 2003. KfW has started to give out credits in Azerbaijan since 2001. This was preceded by the establishment of the German-Azerbaijan Fund (GAF), founded by KfW and the Ministry of Finance of Azerbaijan.

Partners of GAF, can receive loans of GAF under percentage rate of Euribor to current moment +3,5 % within 5 years. The sum of the credit is agreed directly with the bank, but cannot be higher than 50 % of the authorized capital of bank. GAF also gives technical support to banks - partners as training for workers and creation of modern procedure of crediting. GAF welcomes presence of the international audit at the participants of the selection tender, however, its presence is not necessary.

In total from the side of KfW (the German Bank of Development) to the German-Azerbaijan Fund, it is given approximately EUR 5,1 million²⁷. In total from the moment of formation and till May, 2003 GAF has given out more than 350 credits for the sum of about EUR 4,5 million²⁸. The repayment of credits for today makes 100 %. Credits on the line of GAF are given out to small enterprises (with number of employees up to 100 person). The sum of credits varies from 300 up to EUR 50 thousand. Conditions of crediting by banks are the following: projects in sphere of trade - till 12 months under the rate from 20 %, in sphere of manufacture - till 24 months under the rate from 18 %, investment projects - till 36 months under the rate from 15 %. Main principle in the selection of clients is their good solvency.

New opportunities for crediting SME were opened from 2004, when from 2005, Azerbaijan can use resources of Fund of warranting of the credits created by the German Bank of Development KfW for the Southern Caucasus countries²⁹. Means for three Caucasian countries are stipulated in the sum of USD15 million. This initiative of KfW creates an opportunity of access for banks of the countries of Southern Caucasus to the credit resources of the western banks. From 2001 banks of Georgia and Armenia have already started to use resources of Fund of warranting.

Credit Guarantee Schemes

As a rule, SME credits are given out on the pledge of real estate. And, as a rule, banks giving out credits of SME estimate pawned property for much smaller sum in comparison with the sum of the credit. More often, as a pledge the Azerbaijan commercial banks demand from businessmen a pledge as an apartment in the center of Baku.

²⁶ Aida Ismailova: "Microcredits for entrepreneurs", Bulletin "Coalition" (in Azeri language), №2, 2003, pages. 15-20.

²⁷ Bulletin of information agency TURAN, BAKU - 28.03.2003

²⁸ Bulletin of information agency TURAN, BAKU - 02.05.2003

²⁹ Bulletin of information agency TURAN, BAKU - 28.03.03

Mutual Credit Associations

The Law of the country on "Credit Unions" was adopted in November, 2001.

To date, in Azerbaijan there are 39 credit unions (CU). Their names, date of registration, the addresses and phone numbers are presented³⁰ in the Appendix 4. All these credit unions are created in regions of the country with the purpose of maintenance with financial resources of local farmers and the compelled immigrants.

These credit unions are financed basically due to the target credits of the World Bank allocated for development of facilities and businesses of compelled immigrants. Regulation of this process is engaged in the Social Fund of Development of Compelled Immigrants (SFDCI). This fund makes selection of financial institutions for realization of the project of microcrediting of the compelled immigrants. For example, in 2002 for carrying out of crediting in five regions of the country, three international humanitarian organizations have been selected: FINCA, OXFAM and World Vision International (WVI). However, they preliminary receive the license of National Bank of Azerbaijan for carrying out of activity on crediting.

In 2003 for microcrediting entity in 11 regions of the country SFDCI has selected the credit unions: "Agroinvest", "Nurana", "Alinazarli", "Komek", "Amin" and "Nijat". Cost of everyone lota was USD40 thousand. Same CU have completely realized two tranches of microcredits for a total sum of USD 440 thousand before. About 250 legal entities in which 1600 compelled immigrants work, have received credits. Credits are directed on animal industries (40 %), manufacture (20 %), small business (20 %) and trade (20 %)³¹. Besides this, microcrediting began in three more regions. CU "Uc Gardas" has received USD 80,000 on microcrediting in Ali-Bayramli and Nakhcivan, and "Agroinvest" – USD 40,000 in Lenkoran regions. In total, on these purposes SFDCI has allocated by the beginning of June of USD1,680.000. A part of these means (USD700 thousand) are directed on microcrediting of physical persons by the international organization: Finca (USD 300 thousand), The Norwegian council on refugees (USD100 thousand), "Madat-credit" (USD100 thousand), OXFAM (USD100,000) and World Vision (USD100,000). As TURAN was informed by SFDCI, the decision on the use of remained USD220 thousand from total cost of the project "From Help to Development" USD1,9 million, will be accepted after the coordination with the World Bank - the donor of the project³².

Credits are given to physical persons within 6 months. The sum of the credit for them makes USD150. The companies can receive USD 500-USD 2000.

World Bank has allocated about USD10 million for realization of the project "From Help to Development". Over USD 7,000.000 are used for the realization of micro projects on restoration of infrastructure in places where the compelled immigrants lives.

The World Bank realizes also the program "Development and Crediting of Agriculture" (*it is realized since 21 December, 1999. Cost of the project makes USD 33,65 million, including a credit component – USD 11,5 million*), providing delivery of credits³³. The executive credit agent of this project is Turkish-Australian consortium G & G Consulting, which started the delivery of credits to 26 groups of borrowers (GB), which unite 727 farmers in Gandja district. It is the last region in which realization of a credit component of the project was planned. In total for today the consortium accepts decisions on granting short-term credits for a total sum of ABM 3740 million to 135 GB, uniting 2544 facilities in Nakhchivan, Beylegan, Masalli, Sheki and Ganja regions (27 regions in total). According to the project, 20 % of financing are carried out by its credit agent. According to the project it is planned to create in the specified regions 200 GB and 80 credit unions.

³⁰ www.sahibkar.biz

³¹ Bulletin of information agency TURAN, BAKU - 02.06.2003

³² Bulletin of information agency TURAN, BAKU - 02.06.2003

³³ Bulletin of information agency TURAN, BAKU - 02.06.2003

Trade Facilitation

Liberalization of foreign trade began in Azerbaijan in 1992. Now the level of liberalization of foreign trade lags a little behind the level of the countries of transitive economy of central and Eastern Europe. At the same time, the Azerbaijan government prepares to enter the WTO.

There are no special governmental institutes assisting export operations of the local companies. But in the Ministry of Economic Development there is some work on creation of special fund of assistance to export.

Special Financial Support Schemes

The Basic function of the NFSED is the delivery of soft loans to businessmen.

In State Budget of 2003 AZM 57 billion (about USD11, 5 million) are planned for NFSED. That is 4,5 times more, than in the last year.

In first half of 2003 year, according to News agency "Turan", 35 billion AZM from 57 billion AZM arrived on the account of NFSED. Within half-year, NFSED gave 16,1 billion AZM to 11 banks - agents. From them AZM 13,1 billion have been directed on crediting of business – projects of 135 subjects of business in 29 cities and districts of the country. 3 billion more AZM have been distributed among businessmen of Autonomous republic of Nakhcivan.

Last year NFSED has given out credits for the sum about AZM 10 billion³⁴. From them AZM 7,4 billion have been distributed by banks - agents among 49 businessmen in 18 cities and districts of the country, and AZM 2,5 billion have been directed on development of business in Nakhcivan.

From the credits given for last one and a half year, AZM 6,2 billion were used to finance projects in the sphere of agriculture, AZM 4,7 billion - on manufacture of foodstuff, AZM 3,4 billion - on manufacture of building materials, AZM 1,4 billion - on light industry, AZM 1,2 billion - on projects in sphere of tourism, AZM 1,1 billion - on manufacture of furniture and other production, 1 billion - on projects of mass-media, AZM 0,7 billion - on projects in sphere of services, etc.

In structure of the credits given in one and a half year, 36,1 % make credits under projects of businessmen in Baku, 21,2 % - in Nakhcivan, the rest - is the credits given in other cities and districts of the country.

At present distribution of preferential credits of NFSED are made by these local banks: "Parabank", "Deka-Bank", "Respublica", "Rabitabank", "Turan", "Emrahbank", "Azerdemiryolbank", "Ilkbank", "Atabank", "Texnikabank", "Mugan" and "Most-Bank, Azerbaijan".

³⁴ Bulletin of information agency TURAN, BAKU - 20.06.2003

ANNEX 5

SME SUPPORT INFRASTRUCTURE/INSTITUTIONS IN GEORGIA

(i) SME Advisory Services and Business Information Centers

No.	Name	Address
1	BEESI	Gudauta Str. N 7, Tbilisi, Tel: 346003; 341650; Fax: 341650 E-mail: vabitrko@access.sanet.ge
2	Business Support Center (BSC)	Rustaveli Ave. N 124 Tel: 41155; fax 01001 E-mail: bcc@bscnet.com.ge Web site: www.bsc.com.ge
3	Center for Small and Medium Enterprise Development of Georgia (CSMEDA)	Tsereteli Ave. N 115a, Tbilisi Tel: 252667; 956755; fax: 252267 E-mail: iffo@cdsmeg.ge Web site: www.cdsmeg.ge
4	Consulting and Training Center (CTC)	Vazha-Pshavela Ave. N30a, Tbilisi Tel: 325381; 251975; 251982 Fax: 325381; 251982 E-mail: ctc@ctc.org.ge Web site: www.ctc.org.ge
5	East and West Contact	Amagleba Str. N20, Tbilisi Tel: 999023; Fax: 999023 E-mail: sciteco@access.sanet.ge
6	GCG CONSULTING	Rustaveli Ave. N 24/27, Tbilisi Tel: 936422; Fax: 230090 E-mail: gcg@gcg.ge
7	GCG LAW OFFICE	Rustaveli Ave. N 24/27, Tbilisi Tel: 936422; Fax: 230090 E-mail: gcg@gcg.ge
8	Pand TECHNOLOGIES	Petriashvili Str. N 20, Tbilisi Tel: 251120; Fax: 251120 E-mail: pb-tech@post.com
9	Amaranda	Freedom Square N 7. Third Floor, Office 304, Tbilisi Tel: 999019; Fax: 997863 E-mail: dvqqcx@gol.ge
10	Akhaltshikhe Business Center, Regional Non-government Organization	Ketskhoveli Str. N 1, Akhaltshikhe, Samtskhe-Javakheti Tel: 22997, Cell: 899 177169
11	Business Center	Saburtalo Str. N 33, First floor, Tel: 388188, Cell: 899 533682; 877437373 Fax: 335166 E-mail: bars@gol.ge
12	Intellect-Company	G. Tabidze Str. N 26, Kutaisi tel: 44586, mobil: 899 502386/84
13	Shore Bank Consulting Service	Mtskheta Str. N 9, Tbilisi Tel: 251388, 251389; Fax: 232893 E-mail: sas.geo@access.sanet.ge

No.	Name	Address
14	Association of Business Consulting Organizations – Georgia (ABCO-Georgia includes 15 organizations in different regions)	Ilia Chavchavadze Ave. N 80, Tbilisi Tel: 250085; 999077; Fax: 9335339 E-mail: abco@caucasus.net Web site: www.abco.caucasus.net
15	Association “Woman and Business”	A.Shanidze Str. N 1, Tbilisi Tel: 221356; 221354; Fax: 9221356 E-mail: wbus@ip.osgf.ge wbus@caucasus.net
16	Scientific - Technical Information and Economic Research Institute (TECHINFORMI)	M. Kostava Str. N 47, Tbilisi Tel: 987621; 987620; Fax: 987618 E-mail: tech@tech.org .
17	Small and Medium Enterprise Development Agency (SMEDA - Tbilisi)	Ilia Chavchavadze Ave. N 80, Tbilisi Tel: 999077; 250085; Fax: 933539 E-mail: smeda@caucasus.net
18	Business Communication Center (BCC)	M. Kostava Str. N 47, First Floor, Tbilisi Tel: 9888371; 987619; Fax: 987601; E-mail: bcc@mmc.net.ge bcc@access.sanet.ge

(ii) Business Incubators

19	Association “Woman and Business”	Shanidze Str. N 1, Tbilisi Tel: 221356; 221354 Fax: 221356 E-mail: wbus@ip.osgf.ge wbus@caucasus.net
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(iii) Institution Responsible for Development of Quality

20	State Department of Standards and Certification	Chargali Str. N 65, Tbilisi, Tel: 612530; Fax: 616604 E-mail: vabitrko@access.sanet.ge It certified 64 regional private firms and these ones held certifying process in regions.
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(iv) Contact Points for Sales, Export-Import and Joint Venture

21	Georgian Investment Center	Kazbegi Ave. 42, Tbilisi Tel: 395006; 394847 Fax: 921840 E-mail: gic@access.sanet.ge
22	Georgian Export Promotion Agency	Kazbegi Ave. 42a, Tbilisi Tel: 250842; 253623; 253624 Fax: 536562 E-mail: gepinfo@gepa.org.ge

(v) Financial Institutions and Intermediaries for SME Support like Microcredit Institution

1	Micro Finance Bank of Georgia (MBG)	Queen Tamar Ave. N 18, Tbilisi tel: 921616; fax: 250580 e-mail: mbg@com.ge
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2	Bank of Georgia	Pushkini Str. N 3, Tbilisi tel: 988847; fax: 988847 e-mail: welcome@bankofgeorgia.com.ge
3	United Georgian Bank	D. Uznadze Str. N 37, Tbilisi tel: 921663; fax: 984397 web site: www.ugb.com.ge
4	“Tbiluniversalbank”	Kostava Str. N 70, Tbilisi tel: 988292; fax: 986168 e-mail: info@tub.ge web site: www.tbiluniversalbank.com
5	TBC Bank	Ilia Chavchavadze N 11, Tbilisi tel: 921693; fax: 921693 e-mail: info@tbcbank.com.ge web site: www.tbcbank.com.ge
Microcredit Institutions		
6	Foundation “Constanta”	Tsinamdzvrishvili Str. N 115, Tbilisi Tel: 953020; Fax: 953020 E-mail: all@constanta.ge
7	FINCA-Georgia	Batumi Str. N22, Tbilisi Tel: 343848; 253688; 253689; 253497 Fax: 350451
8	World Vision Georgia	Leonidze Str. N 1, Tbilisi Tel: 998384, 922326 Fax 932976 E-mail: jason_evans@wvi.org
9	Association “Woman and Business”	Shanidze Str. N 1, Tbilisi Tel: 221356; 221354. Fax: 221356 E-mail: wbus@ip.osgf.ge Web site: www.gawb.ge

(vi) Mutual Credit Associations – Credit Unions

Nr	Name	Region	District	Address
1	AkhalSheni	Ajara	Khelvachauri	Village: Akhalsheni
2	Kakhabrisi	Ajara	Khelvachauri	Village: Agnisa
3	Menjistskali	Ajara	Khelvachauri	Village: Menjistskali
4	Karati	Ajara	Khulo	Village: Kedelebi
5	Khurtsubani	Ajara	Kobuleti	Village: Khortsubani
6	Dato	Guria	Chokhatauri	Village: Chokhatauri
7	Gamarjveba	Guria	Chokhatauri	Village: Guturi
8	Goirgia	Guria	Chokhatauri	Village:
9	Anaseuli	Guria	Ozurgeti	Shuaganakhleba
10	Bakhvi	Guria	Ozurgeti	Village: Anaseuli
11	Dvabzu	Guria	Ozurgeti	Village: Bakhvi
12	Pampaleti	Guria	Ozurgeti	Village: Dvabzu
13	Likhauri	Guria	Ozurgeti	Village: Pampaleti
14	Meria	Guria	Ozurgeti	Village: Likhauri
15	Natanebi	Guria	Ozurgeti	Village: Meria
16	Shemokmedi	Guria	Ozurgeti	Village: Natanebi
17	Goresha	Imereti	Kharagauli	Village: Shemokmedi Village: Goresza

Nr	Name	Region	District	Address
18	Khoni	Imereti	Kharagauli	Village: Khoni
19	Legvani	Imereti	Kharagauli	Village: Legvani
20	Tskalaporeti	Imereti	Kharagauli	Village: Tskalaporeti
21	Kukhi	Imereti	Khoni	Village: Kukhi
22	Matkhoji	Imereti	Khoni	Village: Matkhoji
23	Kutiri	Imereti	Khoni	Village: Kutiri
24	Imedi	Imereti	Samtredia	Village: Bashi
25	Chognari	Imereti	Terjola	Village: Chognari
25	Tuzi	Imereti	Terjola	Village: Tuzi
27	Orpiri	Imereti	Tkibuli	Village: Orpiri
28	Gvishtibi	Imereti	Tskaltubo	Village: Gvishtibi
29	Kvilishori	Imereti	Tskaltubo	Village: Kvilishori
30	Boslevi	Imereti	Zestaponi	Village: Boslevi
31	Dimi	Imereti	Zestaponi	Village: Dimi
32	Kvaliti	Imereti	Zestaponi	Village: Kvaliti
33	Meore Svir	Imereti	Zestaponi	Village: Meore Svir
34	Pirveli Svir	Imereti	Zestaponi	Village: Pirvepi Svir
35	Rodianuli	Imereti	Zestaponi	Village: Rodianuli
36	Sazano	Imereti	Zestaponi	Village: Sazano
37	Alvani	Kakhet	Akhmeta	Village: Alvani
38	Arboshiki	Kakheti	Dedoflistskaro	Village: Arboshiki
39	Gurjaani 1	Kakheti	Gurjaani	Village: Gurjaani 1
40	Kolagi	Kakheti	Gurjaani	Village: Kolagi
41	Melaani	Kakheti	Gurjaani	Village: Melaani
42	Baisubani	Kakheti	Lagodekhi	Village: baisubani
43	Kveda Bodbe	Kakheti	Signagi	Village: Kveda Bodbe
44	Kondoli	Kakheti	Telavi	Village: Kondoli
45	Chartali	Kartli	Dusheti	Village: Chartali
46	Tamarasheni	Kartli	Gori	Village: Tamarasheni
47	Kavtiskhevi	Kartli	Kaspi	Village: Kavtiskhevi
48	Tandzia	Kvemo Kartli	Bolnisi	Village: Tandzia
49	Itsa	Racha	Ambrolauri	Village: Itsa
50	Pipileti	Racha	Oni	Village: Pipileti
51	Choga	Samegrelo	Chkorotsku	Village: Choga
52	Daba Chkorotsku	Samegrelo	Chkorotsku	Village: Chkorotsku
53	Mukhuri	Samegrelo	Chkorotsku	Village: Mukhuri
54	Khamiskuri	Samegrelo	Khobi	Village: Khamiskuri
55	Gurdzemi	Samegrelo	Martvili	Village: Gurdzemi
56	Teklai	Samegrelo	Senaki	Village: Teklai
57	Zana	Samegrelo	Senaki	Village: Zana
58	Orsantia	Samegrelo	Zugdidi	Village: Orsantia
59	Tsaishi	Samegrelo	Zugdidi	Village: Tsaishi

ANNEX 6

PROJECT-PROPOSAL FROM AZERBAIJAN ON SME DEVELOPMENT

MONITORING OF SMALL AND MEDIUM ENTERPRISE DEVELOPMENT IN AZERBAIJAN

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1. Statement of Problem

The development of small and medium business in Azerbaijan is the pivotal condition for the implementation of the state program of economic development and poverty reduction. Despite the importance of the decisions being adopted towards SME development in the country, unfortunately the assessment of the results of the state programs being implemented is not yet based on a system of specific SME development indicators. The reason is that such a system of indicators has yet to be developed for Azerbaijan. The absence of the system of indicators and of the procedures to monitor SME development does nothing to facilitate the monitoring of the real situation in the sphere of small and medium enterprise development or to identify and analyse the problems being discovered. Consequently, this affects decision-making on improving the business environment in the country.

2. Description of the Project's Goals and Objectives

Project objectives: creation and trials of a system to monitor the development of small and medium enterprises in Azerbaijan. The system will allow us to measure a number of important indicators every year and, on the basis of such measurement, to give an objective assessment of the SME development and of the private business problems.

Project goals are:

- Development of SME development indicators;
- Development of SME monitoring procedures;
- Trials of a system of indicators through public discussion with all stakeholders (government, business associations, experts);
- Trials of a system of indicators by means of pilot measurements;
- First assessment of the SME development as of 2005 with the aid of a system of developed indicators.

3. Mechanisms for Project Implementation

3.1. Creation of a System for SME Development Indicators

SME development indicators in Azerbaijan will be worked out using the experience of other countries and recommendations of international organizations and financial institutions. The procedure of developing the indicators can go in parallel with consultations with the Department of entrepreneurial development under the Ministry of Economic Development.

3.2. Conducting Three Focus Groups with Media Representatives

Focus groups of eight to 10 people will be held:

- With heads of media outlets;
- With representatives of the government, parliament and experts;
- With representatives of international and local NGOs and mass media.

The objective of focus groups is to conduct collective discussion of key issues related to the monitoring of the SME development in the country.

3.3. Conducting Individual Interviews with 30 Experts

Individual interviews will be held with local and foreign (representatives of international organizations in Baku) experts in the field of the SME. The subject of the interview will be the SME development indicators and problems. The interviews will be based on a special methodology of in-depth interviews.

3.4. Conducting a Nationwide Survey among 500 SMEs

The survey will cover the heads of 500 SMEs in Baku, Ganja, Sumgayit, Nakhchivan, Ali-Bayramli, Mingachevir and six district centers. Those polled will be selected in line with the requirements of a representative sample. The interviewers will undergo special training. The Entrepreneurship Development Foundation has the experience of conducting such nationwide surveys.

The questionnaire will include issues relating to problematic aspects of the SME establishment and operation.

The objective of the survey is to identify key SME development problems to be considered in the system of indicators.

3.5. Pilot Measurement of SME Development Indicators in Azerbaijan.

The pilot measurement of indicators will depend of their nature and the data provided by different sources (State Statistical Committee, news agencies, government, laws, expert assessments, etc.).

3.6. Conducting a Round Table to Discuss the System of SME Development Indicators and the Results of Pilot Measurements

Participants in the round table will represent SMEs, government, parliament, international financial institutions, international organizations and mass media.

After the results of the round table have been analysed, a special methodological manual will be prepared to conduct yearly monitoring of SMEs using the system of indicators.

3.7. Measuring and Registering the SME Development Indicators as of Early 2006

In early 2006, first measurements will be carried out using the system of SME development indicators. The results of the measurement included in a standard reporting form will be submitted to the government, international financial institutions, local and international organizations and mass media.

3.8. Conducting a Nationwide Conference on SME Development Problems

It will be a one-day conference. It will be joined by SME leaders, representatives of the government, parliament, international financial institutions, local and international organizations, and mass media. There will be a total of 60 participants.

3.9. Publishing a Book

The book will contain: 1) explanation of the choice of SME development indicators; 2) methodology of the SME monitoring based on annual measurement of special indicators; 3) results of the nationwide survey of SMEs; 4) results of the measurement of SME development indicators as of early 2005.

4. Using the Experience of Other Organizations

The development of a system of SME development indicators as part of this project will be based on international experience in this area.

As part of the project, we also intend to study and apply the approaches to the SME development assessment in transitional economies by such international institutions as the UNDP, the World Bank, the International Monetary Fund, the International Finance Corporation, the European Bank for Reconstruction and Development,

the Organization for Economic Cooperation and Development, the European Union, the Asia Development Bank, etc.

5. Duration of the Project

The duration of the project is 10 months.

6. Anticipated Project Outcomes and its Long-Term Impact

- A system of SME development indicators will be developed in Azerbaijan, enabling to monitor the situation in the country for five-10 years by means of annual measurement. This will expose the existing problems and take timely measures to eliminate obstacles in the way of SME development;
- A number of most topical problems impeding SME development will be identified by means of nationwide survey;
- The first measurement of SME development indicators will be conducted and its results as of early 2005 registered;
- Government, civil society and international institutions will secure a reliable instrument to give annual objective assessments of the situation and the SME development dynamics.

7. Further Project Development

The project will develop by means of introducing the necessary corrections to the system of indicators and monitoring procedures depending on the SME development dynamics and the general economic situation in the country.

8. Project's Long-Term Impact on Regional Situation

Since the purpose of the SME development monitoring is to create suitable conditions for them, the project will have a long-term impact on the solution of existing social problems in the country.

9. Assessment of the Project's Success

An assessment of the project's success will be based of feedback from:

- Department of entrepreneurial development under the Ministry of Economic Development;
- Independent experts;
- International organizations;
- Results of a national conference.

ANNEX 7

PROJECT-PROPOSALS FROM GEORGIA ON SME DEVELOPMENT

1. ASSIST REFUGEES AND OTHER SOCIALLY DEMAGED POPULATION PARTICIPATION IN SME-SECTOR IN GEORGIA

Center for Small and Medium Enterprise Development and Assistance (CSMEDA)

Foreword

Georgia takes an important role in South Caucasus region with its geographical location. That's why many big companies implements their projects and invests Georgian economy. Despite of this Georgia faces many problems one of them is large number of refugees after Abkhazia and South Ossetia conflicts. About 450.000 refugees still need support of State to improve their social and economic situation. It is not only economic problem but it's political problem too. We make stress on economic problem and involve improving refugees' economic problems through implementing project "Refugee participation in SME sector". Azerbaijan and Armenia faces same problem too. May be discussion of this project assist to elaborate uniting ways and methods solving the task integrate refugees of three countries in SME sector activities in relevant countries but take in consideration specifics of each country.

Background

CSMEDA has large experience in small loan management. The center has already elaborate rules and procedure of such programs. CSMEDA activity covers all regions where refugees live and cooperates with refugee organizations and makes research of their problems concerning to establishment and activity of SME.

Objective

The development objective is to support employment of refugees and socially damaged population and solves their crucial social problems.

Immediate Objectives

CSMEDA will provide direct small loans to finance entrepreneurial projects that create jobs for refugees. The loan will be provided with favourable conditions than in banking sector.

Commission of tender makes decision to provide loan. Commission members will be members of representatives of government organizations and NGOs.

CSMEDA will provide loan to company that ensure to create at least one job for refugees on every 3000 GEL of loan. At other equal conditions priority will be given to companies owned by refugee (own at least 51% of company).

Loan volume, duration, interest rate and collateral are following:

- Maximum loan amount is 90.000 GEL for 3 years;
- The loan will be provided according to conditions of loan application and agreement signed between CSMEDA and borrower;
- The loan will be provided once but a company has right to request additional loan in a frame of agreement conditions;
- The loan will be repaid stage by stage that covers principal loan and interest rate. Repayment terms will be proved according to agreement;
- Loan interest rate will be determined by the SME Coordinate Council consider to credit resource market tariff;
- Collateral is necessary to get the loan. The SME Coordinate Council defines volume of collateral.

Output

Activity 1.1: Information and advisory service

Activity 1.2: Provide and monitor small direct loans.

Project Participants

- CSMEDA
- SME support NGOs.

Implementation Strategy

Project will be implemented by allocation budget funds to finance above-mentioned project and also with assistance and participation of international and donor organizations. The project duration will be 3 year.

Budget Estimation

In accordance with the immediate objective of the project the implementation of the individual objectives should be funded by US\$ 1 million. Budget estimations of individual immediate objectives are as following:

ACTIVITIES	CONTENT OF THE ACTIVITIES	OWN [USD]	DONORS' REQUIREMENT [Thousand USD]
Activity 1.1	Information and advisory service	100	200
Activity 1.2	Provide and monitor small direct loans;	300	400

2. SME INFORMATION NETWORK IN SOUTH CAUCASUS COUTRIES

Foreword

Georgia takes an important role in South Caucasus region with its geographical location. Despite of achievements SME sector is still faces lack of assistance such as funding, information and advisory service, training relevant to international standards. We think that same problem exists in two other countries In Azerbaijan and Armenia. Establishment of Information Network in South Caucasus countries is important issue for SMEs of all three countries. Network will assist SMEs to enhance economic relation and give them opportunity exchange all business information concerning product, processing, export, import and etc.

Objectives

The main objectives of the project are the establishment of Information Network in South Caucasus countries, which provides service to SMEs in Georgia, Armenia and Azerbaijan. Network will gather and distribute information and database about small and medium companies of each country. Georgia, Azerbaijan and Armenia will set up desk of Network. Country desk will create information bank, make research in marketing, export and import issues and look for possible partners.

The development objective is to establish Information Center in South Caucasus Countries and complete its function:

- (i) To determine and then establish contacts to partner organizations in Georgia, Armenia and Azerbaijan. To negotiate on Network desk establishment in all Caucasus countries, structure of network and independence in their activities within countries.
- (ii) Create group of specialists and forms and ways how to provide information each other.
- (iii) Create application form for SME that interests to find partner or other information concerning its activity;

Immediate Objective

Identify structure of SME demanded information;
Identify information providing technology.

Output

Activity 1.1: Identify level and structure of cooperation in information service;
Activity 1.2: Foundation of Information Center

Project Participants

Any international and donor organization that will find this project is interesting for them.
The supporter Georgian organizations:
CSMEDA

Relevant organizations of Azerbaijan and Armenia.

Implemented Strategy

CSMEDA conduct preparation work. We will negotiate with project participant organizations to establish Network desk in all Caucasus countries at same time, rent office, provide equipment and hire high qualified staff, create internet service for the Network..

CSMEDA will organize presentation of the Network, make advertisement in regional mass media, and announce Network goals and main activities, invites SME to cooperation.

Duration of project implementation is 2 years.

Budget Estimation

In accordance with the immediate objective of the project the implementation of the individual objectives should be funded by US\$ 5 million. Budget estimations of individual immediate objectives are as following:

ACTIVITIES	CONTENT OF THE ACTIVITIES	OWN (USD)	DONORS' REQUIREMENT (Thousand USD)
Activity 1.1	Identify level and structure of cooperation in information service;	500	1000
Activity 1.2	Foundation of Information Center	1500	2000