



This action is funded by the European Union

ANNEX 2

to Commission Implementing Decision on the Neighbourhood East Regional Action Programme 2017 Part I (including 1 action on budget 2018 and 2019), to be financed from the general budget of the European Union

Action Document "EU4Business: Supporting firm competitiveness and business environment reforms in the Eastern Partnership"

INFORMATION FOR POTENTIAL GRANT APPLICANTS

WORK PROGRAMME FOR GRANTS

This document constitutes the work programme for grants in the sense of Article 128(1) of the Financial Regulation (Regulation (EU, Euratom) No 966/2012) in section 5.3.1 concerning grants awarded directly without a call for proposals.

1. Title/basic act/ CRIS number	"EU4Business: Supporting firm competitiveness and business environment reforms in the Eastern Partnership" CRIS number: ENI/2017/040-510 financed under European Neighbourhood Instrument
2. Zone benefiting from the action/location	EU Eastern Partnership region, Armenia, Azerbaijan, Belarus, Georgia, Republic of Moldova, Ukraine The action shall be carried out at the following location: Eastern Partnership countries and EU Member States
3. Programming document	ENI Multiannual indicative programme 2017-2020
4. Sector of concentration/ thematic area	Private sector and economic development
5. Amounts concerned	Total estimated cost: EUR 4 400 000 Total amount of EU budget contribution: EUR 4 000 000 This action is co-financed in joint co-financing by the OECD for EUR 400 000
6. Aid modality(ies) and implementation	Project Modality Direct management –grants – direct award

modality(ies)				
7. DAC code(s)	32130-Small and medium-sized enterprises (SME) development			
8. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Main objective
	Participation development/good governance		X	
	Aid to environment	X		
	Gender equality (including Women In Development)		X	
	Trade Development			X
	Reproductive, Maternal, New born and child health	X		
	RIO Convention markers	Not targeted	Significant objective	Main objective
	Biological diversity	X		
	Combat desertification	X		
	Climate change mitigation	X		
	Climate change adaptation	X		
9. Global Public Goods and Challenges (GPGC) thematic flagships	NA			

SUMMARY

The Action entails a multi-country project to support firm competitiveness and business environment development in Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. It aims at improving in particular the design, implementation, monitoring and evaluation of Small and medium-sized enterprises (SMEs) policies and action plans in the Eastern Partnership countries, while strengthening relevant institutions and government bodies in ensure inter-ministerial coordination on relevant policies, assisting them in the organisation of public private consultations, promoting evidence based policy making via the use of business statistics and in helping them to design and monitor national SME assistance programmes.

The assistance will be provided based on the findings of the 2016 Small Business Act assessment "*SME Policy Index – Eastern Partner Countries 2016* (OECD, EU, EBRD, ETF)" focussing in particular on the weakest areas of performance for each country. The SME Policy Index is a benchmarking tool designed for emerging economies to assess SME policy frameworks and monitor progress in policy implementation over time. For the Eastern Partner Countries, the assessment framework is structured around the ten principles of the Small Business Act for Europe (SBA), providing a wide-range of pro-enterprise measures to guide the design and implementation of SME policies based on good practices promoted by the EU and the OECD.

The project is structured around two pillars:

(a) a country-level pillar to provide tailored support in the design, monitoring and upgrading of strategies and programmes to support firm competitiveness, evidence based policy making and wider business environment reform;

(b) a regional pillar to support regional policy dialogue notably via the annual OECD Eurasia week and benchmark policy performance across the region through a new SBA assessment cycle (2018-2019). In parallel, the OECD will carry out a study on the relationship between SME policies and firm performance to assess trends in SME performance in the EaP over time and to draw correlations between the changes in SME Policy Index scores with the changes in performance variables, which would also allow to control for country-specific factors.

1 CONTEXT

1.1 Sector context: Economic challenges in the EaP region

In 2009, the EU and its six Eastern partners (Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine) launched the Eastern Partnership (EaP), based on a commitment to fundamental values such as a market economy, sustainable development and good governance. Since 2009, the EU policy context towards its neighbourhood also evolved. Launched in 2004, the European Neighbourhood Policy (ENP) was designed to foster stability, security and prosperity in the countries closest to the EU borders. At the 2015 review, the EU emphasized differentiation among the countries, in accordance with their ambitions in the relationship with the European Union. It also calls for prioritisation and for a more focused approach in order to deliver tangible and noticeable results to the citizens, as reflected in the 2015 EaP Summit in Riga which prioritized the strengthening of institutions, mobility, market opportunities and interconnections as well as in the Joint Staff Working document "*Eastern Partnership – focusing on key priorities and deliverables*" which identifies a list of 20 deliverables for 2020. This Action addresses deliverables under Priority 1: Economic development and Market Opportunities. More specifically, it will contribute to improve EaP countries business climate, notably on the 10 dimensions of the Small Business Act (SBA), by following the recommendations of the 2016 SBA assessment

Since 2012, when the first assessment of SME policies based on the Small Business Act for Europe was published, the macro-economic situation in the EU Eastern Partnership region has changed significantly. All six EaP countries are struggling with serious economic challenges as a result of lower commodity prices and a slowdown in main trading partners. The result has been significant currency depreciation, rising inflationary pressures, and a credit contraction which has negatively impacted output. While the drivers and impacts vary by country, these developments highlight these countries' vulnerability to external events and the importance of strengthening economic competitiveness and diversification in the region.

Given this context, bolstering the region's SMEs is more important than ever. SMEs can facilitate the shift from mass production to a more diverse, demand-driven and market-oriented supply of products, being well-positioned to react quickly to changing market conditions, introduce product and market innovation and challenge inefficient incumbents. With SME development acting as an engine for employment generation and sustained growth, they offer a significant opportunity for economic recovery in the short term and increased resilience over the medium to long term. Yet the potential of SMEs remains largely untapped in the region. Despite making up between 83% and 99% of all firms, they account for only about half of all employment and one-third of value-added. The vast majority of SMEs are subsistence micro-entrepreneurs operating in low-added-value sectors.

SMEs in the EaP region face challenges along a number of dimensions – such as access to finance, skills, innovative capacity, and opportunities for internationalisation. Furthermore, there is a dearth of dynamic and innovative SMEs with high growth potential. Designing and implementing effective policies to fully exploit the potential of SMEs is a crucial step in building more inclusive and resilient economies in the Eastern Partner region

In addition, SMEs are not only key to sustainable economic development, but also an important factor in the consolidation of open societies. A business enabling environment and a large SME sector prevent economies from becoming dominated by few entities and thus impede concentration of power in the hands of oligarchs hindering a country's development in both economic and political terms.

1.1.1 SME policy development in the EaP region (2012-2016)

A comprehensive assessment of SME-related policies in the Eastern Partner countries was undertaken between November 2014 and June 2015 by the Organisation for Economic Co-operation and Development OECD and its partners (the European Commission, the European Bank for Reconstruction and Development and the European Training Foundation), on the basis of the ten principles of the Small Business Act for Europe (SBA). The assessment was conducted in parallel for all six EaP countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine) and its findings are summarised in the report *SME Policy Index: Eastern Partner Countries 2016*.

While SME policy was largely non-existent in all six EaP countries in 2012, the *SME Policy Index 2016* has identified that EaP countries are increasingly paying attention to the development of comprehensive institutional and policy frameworks for SME development. Two groups of countries can be identified:

- *Armenia, Moldova and Georgia.* Armenia and Moldova have the main building blocks for an SME policy in place or in progress, including an SME policy implementation agency and a strategy for SME development. Georgia has recently joined this group with the creation of a dedicated agency (Enterprise Georgia) in 2014. A medium-term SME strategy, developed with OECD support in 2015, has been adopted in early 2016. Georgia and Moldova organised participatory processes preceding the adoption of SME strategies, while Armenia's SME Development Council offers a regular consultation platform.
- *Azerbaijan, Belarus and Ukraine.* These countries are starting to develop the institutional framework for SME and their institutional frameworks for public-private dialogue on SME-related issues are less developed. In Azerbaijan for example, the Strategic Roadmap for National Economy development of Azerbaijan (including chapter on SME's) was adopted in December 2016 The SME Chapter foresees the establishment of the SME Agency.

At the regional level, the SBA assessment identified three key messages that are highly relevant for all EaP countries:

- **Horizontal business environment reforms continue to be the area of strongest performance.** Most EaP countries have made substantial progress in the design and implementation of business and investment climate reforms benefiting all enterprises regardless of their size, including simplification of business-related legislation,

streamlining of technical barriers to trade and upgrading of quality infrastructure, and improvement of the legal and regulatory environment in the financial sector.

- **Governments are paying growing attention to developing institutional frameworks for SME development.** There is an overall trend towards the introduction of the basic elements of a strategic framework for SME support, including developing SME strategies (e.g. Georgia and Moldova), improving the definition of SMEs (e.g. Ukraine, Azerbaijan) and establishing an SME support agency (e.g. Georgia and Azerbaijan).
- **Targeted SME policy tools are required to further support SME growth across the region.** Most EaP countries have introduced new programmes to enhance SME competitiveness, including through support services for SMEs and start-ups (e.g. training programmes), specific instruments to encourage SME access to finance (e.g. credit guarantee mechanism, start-up finance), entrepreneurial learning and women's entrepreneurship initiatives (e.g. events for female entrepreneurs) and export promotion (e.g. export agency).

The table below provides an overview of the current state of play of SME policy institutions in the EaP countries.

Table 1. State of play of SME policy institutions in the EaP countries

	SME strategy-state of play (ie: in place, to be developed)	SME Action plan/roadmap (yes/no)	SME agency (yes/no, name)	Business and/or Investment council (yes/no, name)	Investment and/or export promotion agency (yes/no, name)	OECD contribution (past / future)
Armenia	Strategy for Small and Medium Entrepreneurship Development 2016-2018 available here	Action plan for 2016 (in Armenian) available here	Small and Medium Entrepreneurship Development National Center (SME DNC) www.smednc.am	SME Development Council www.bso.am/what-we-do-2/assistance-to-sme-development-council/	Development Foundation of Armenia (National Authority for Investment, Export and Tourism promotion) www.dfa.am	Past: Reform roadmap to support SME competitiveness; SME strategy based on SBA assessment and OECD recommendations Future: OECD to monitor implementation of reform roadmap to support SME competitiveness; OECD to support Action Plan 2018-2020, including developing relevant statistics and KPIs to monitor implementation
Azerbaijan	State Strategic Roadmap (including SME chapter) adopted in December 2016	Action Plan for 2017-2020	SME Agency to be established according to the Strategic Road Map; Centre for Economic Reforms monitors the Strategic Road Map implementation	NO	Agency for Investment and Export promotion (AZPROMO) www.azpromo.az	Past: n/a Future: OECD to support operationalisation of the SME strategy and Action Plan 2017-2020 establishing monitoring system for SME Strategy
Belarus	No, being developed for finalisation in 2017 (SME Strategy until 2030)	SME Development Program for 2016-2020 (in Russian) available here Reform roadmap for developing a private market for business development services	NO	Foreign Investment Advisory Council under the Council of Ministers of the Republic of Belarus No specific SME-related investment councils	National Agency of Investment and Privatization www.investinbelarus.by/en/	Past: Reform roadmap for developing a market for business development services Future: OECD to support finalisation and monitoring of SME strategy and Action Plan 2018-2020, including pilot programme dedicated to high-growth SMEs
Georgia	SME Development Strategy 2016-2020, approved in May 2016 available here	Action Plan 2016-2017, approved in May 2016	Enterprise Development Agency (EDA) www.enterprisegeorgia.gov.ge Georgia Information and Technology Development Agency (GITA) www.gita.gov.ge	Investors Council	Invest in Georgia www.investingeorgia.org/en/	Past: SME Development Strategy and Action Plan developed with OECD support Future: OECD to support monitoring implementation of SME strategy, development of Action Plan 2018-2020 and design of an investment strategy
Moldova	Small and Medium Enterprise Sector Development Strategy	Action plan for the implementation of strategy for the period 2015-2017 (in	Organization for the Development of the SME Sector (ODIMM)	Economic Council under the Prime Minister	Moldova Investment and Export Promotion Organization (MIEPO)	Past: SME Development Strategy and Action Plan developed with OECD support

	2012-2020 available here	Romanian) available here	www.odimm.md		www.miepo.md/	Future: OECD to support development of Action Plan 2018-2020, including financial and non-financial measures for sector-specific SME support
Ukraine	SME development strategy 2020	Draft version	NO	NO	Governmental office for investment attraction and support established by decree of the Cabinet of Ministers, 19 Oct 2016	Past: n/a Future: OECD to support developing SME statistics and establishing monitoring system for the implementation of SME strategy

1.1.2 Stakeholder analysis

Governments and institutions of Eastern partner countries

Representatives from national Governments and institutions of Eastern partner countries will be the direct beneficiaries of the Action. The main counterparts for the OECD will be representatives from Ministries of Economies and government agencies in charge of the SME development. Their role is to design, implement and monitor SME policy reforms and transpose the OECD recommendations into national policies. With the support of the OECD, they will develop comprehensive SME policy frameworks, design SME support policies, coordinate the implementation of the SME policy reforms and monitor progress. Other key government stakeholders involved will include representatives from ministries of finance and education, export and investment promotion agencies, national statistical offices and central banks. They will contribute to the SME policy making processes and participate in activities carried out under this Action in their area of expertise.

High-level Government representatives of all EaP countries at Deputy Prime Minister or Minister of Economy level have already committed to work with the OECD on the implementation of reforms to further align SME policies with the Small Business Act for Europe.

As both political and technical support are necessary conditions for a successful implementation of the Action, the OECD will put particular attention in maintaining high-level commitment, while regularly engaging policy makers at the operational level through shared responsibilities (e.g. data collection) and agreed project milestones.

Business Support Organisations (chambers of commerce, employers' associations, etc.)

Business Support Organisations (BSO) will be actively involved in the implementation of the Action. Their role is to contribute to public-private consultation processes and lobby for improving the business enabling environment. BSOs will be instrumental to provide inputs on the main needs and challenges faced by SMEs and comment on draft reform policies being developed as part of this Action. Active BSO engagement will help to ensure that government programmes and policies in support of SME development will address the specific needs of the SME community and ensure buy-in from the private sector. To mediate between potentially conflicting positions of the government and the private sector, the OECD will facilitate the discussion and propose policy options based on evidence-based analysis.

This Action will actively build on previous and ongoing work carried out within the framework of the EU4Business initiative to foster effective public-private dialogue in the six EaP countries. More specifically, the OECD will leverage the networks created through East Invest 2 by: i) engaging relevant BSOs into public-private consultation processes facilitated by the OECD to discuss reform priorities with relevant policy makers; and ii) seeking BSO input in preparation of draft reform policies.

EU delegations in Eastern partner countries.

EU delegations will play a fundamental role in ensuring that policy support provided through this Action is consistent with and complementary to bilateral EU technical assistance programmes. They will also ensure adequate visibility of the European Union as the main donor for this Action.

EU delegations have already substantially contributed to the design of this Action and provided input to the definition of country-level activities.

Development partners

Development partners, such as other international organisations or bilateral agencies of EU member states will be actively involved in the Action to ensure complementarity, synergies and coherence. They play an important role in the provision of technical assistance which will be highly complementary to policy support provided by the OECD.

To this end, representatives of development partners in all EaP countries will be invited to participate in Advisory Group and Working Group meetings to provide inputs to policy discussions and share feedback on draft reform policies. The OECD will also regularly consult with relevant development partners to align on activities and identify synergies for co-operation.

At the regional level, the established co-operation between the OECD, the European Commission, the European Bank for Reconstruction and Development (EBRD) and the European Training Foundation (ETF) will be continued to carry out a third round of the Small Business Act (SBA) Assessment. Furthermore, in order to maximise the impact of the initiative at the country level, full alignment with ongoing donor-funded programmes will be ensured (e.g. EU DCFTA Facility for SMEs, International Trade Center (ITC) regional project on Integrating SMEs from EaP countries into domestic and global value chains, EBRD Small Business Support projects in EaP countries, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) programme for DCFTA support in Georgia, EU SURE programme in Ukraine, EU/GIZ programme for SME development in Armenia, EU-funded Technical Cooperation Facility and SPRING programme, International Finance Corporation (IFC) Investment Climate Advisory project and World Bank's Competitiveness Enhancement Project in Belarus, etc.) and synergies sought through close co-operation with existing structures, such as the EBRD-supported Investment Councils and public-private dialogue activities under the East Invest 2 initiative (see also section 3.2 below).

1.1.3 Priority areas for support/problem analysis

The *SME Policy Index: Eastern Partner Countries 2016* has developed detailed, country-specific policy roadmaps in co-operation with the relevant authorities and in consultation with local stakeholders. Those roadmaps include a **prioritisation of crucial pending reforms** and a proposed sequencing over the short, medium and long term based on each country's performance in terms of progress and remaining challenges. Such priority roadmaps reflect the current level of institutional development for SME policy making in each country, and will be the basis for targeted OECD assistance in the context of this Action. In particular, for the countries with the main building blocks for SME policy already in place, emphasis should be put on preparing the next Action Plans and operationalising specific actions of the SME Strategies. On the other hand, for the countries with SME institutions lagging behind, assistance should be provided to finalise medium-term SME Strategies and build capacity for implementation. For all countries, a monitoring culture should be promoted within government bodies in charge of design and implementation.

- **Armenia** has continued to improve its policy framework for SME development since 2012. Building on a strong entrepreneurial culture, the country has implemented effective business environment reforms and created a well-developed system of business support infrastructure co-ordinated by SME DNC (one of the region's most dynamic SME agencies). Building on the existing SME Strategy, priorities should focus on continuing implementation on the basis of an **updated action plan, monitoring** the implementation of reforms for SME competitiveness, while improving the overall **production of statistics** to evaluate effectiveness of SME support programmes.
- **Azerbaijan** continues to be largely dependent on oil and gas extraction and related services with small businesses representing only 3% of GDP and less than 8% of employment. To complement the government's efforts aimed at promoting economic diversification and reforming the business environment, priorities should focus on the operationalisation of the Strategic Road Map for National Economy development of Azerbaijan (including SME chapter) adopted by President on the 6 December 2016 and the design of targeted support programmes, in particular for exporting SMEs.
- Large industrial enterprises characterise **Belarus's** economy, where privatisation is proceeding at a slow pace and the SME sector remains underdeveloped. In recent years, the government has been increasing its efforts to develop the private sector and create a level playing field for all businesses, regardless of size and ownership structure. To build on these reforms, priorities should focus on improving the institutional framework for SME policymaking, including the **finalisation of the SME strategy, the design of targeted support programmes for SME innovation/internationalisation, and monitoring the implementation** of policy roadmap to improve business development services.
- **Georgia** made considerable progress in recent years by adopting a more proactive approach to SME development, which helped attract foreign direct investment, expand export activities and achieve sustained economic growth. However, the SME sector currently accounts for only 20% of value added and could be further developed by prioritising the following areas: strengthening government capacity for an effective **implementation and monitoring of SME policies**, as well as further developing **targeted support to exporting SMEs** and promoting Foreign Direct Investments and SME linkages.
- **Moldova** is a relatively small, landlocked country with few natural resources and the SME sector remains underdeveloped, contributing to solely 30% of the country's GDP. In recent years, the government has made considerable progress in developing a comprehensive institutional framework for SME policymaking. Priorities moving forward should focus on continuing **implementation and monitoring** of the SME Strategy through an **updated Action Plan, developing financing opportunities** for SMEs by aligning Moldova's policies to international standards and on upgrading the **business support infrastructure** to deliver high-value support programmes for **SME internationalisation** in priority sectors (agriculture produce, foodstuffs, machinery equipment and spare parts).
- **Ukraine's** economy has been stagnant since 2012 and in deep recession since mid-2014, with modest growth returning only in 2016, heavily constraining the development and implementation of SME support policies. To further level the playing field for small businesses in the country and restore sustainable economic growth, SME policy should

focus on the effective **implementation and monitoring of the SME strategy**, as well as the improvement of the overall **production of business statistics** to assess the impact of SME support policies.

2 RISKS AND ASSUMPTIONS

Table 2. Risks and assumptions

Risks	Risk level (H/M/L)	Mitigating measures
Limited political support from EaP governments to carry out country-specific activities	Low	Secure high-level commitment prior to starting country-specific activities Tailor OECD support to country-specific needs and align with governments' reform agenda Engage high-level policy makers by requiring Minister-level chairmanship of Advisory Groups and exert peer pressure through exposure to peer review processes involving OECD member countries
Significant changes in public policy priorities (e.g. change in the composition of EaP governments, and/or political leadership of the project)	Medium	Maintain frequent dialogue at political and technical level to ensure continuity of activities and consistency with arising priorities
Lack of data for the assessment of SME sector strengths and weaknesses	Medium	Advise to improve production of business statistics, and co-operate with donors' community to diversify sources and access relevant information (e.g. official statistics, expert interviews, surveys, international reports) Carry out primary research (e.g. surveys, focus groups) to fill gaps
Difficulties in engaging the private sector for policy reform	Low	Ensure private sector participation in project Working Group meetings, as source of information and for feedback on project outputs
Limited co-ordination with other donors/development partners	Low	Ensure awareness of development partners from the beginning of project activities and, where applicable, develop partnerships with relevant organisations (e.g. GIZ)
Assumptions		
<ul style="list-style-type: none"> • Overall political and economic stability at the country level is maintained over time • Effective involvement and dialogue with private sector stakeholders 		

3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

The 2012 and 2016 SBA assessments as well as country-specific projects carried out by the OECD within the project "*Supporting SME competitiveness reforms in the Eastern partner countries*" have provided a solid foundation for the design and implementation of future advisory projects to promote SME development in the region, including those presented under this Action. In particular, the following lessons have been derived from direct experience and feedback received from various stakeholders in the EaP countries (e.g. local governments, private sector representatives, development partners, EU delegations):

- ✓ Increase links in the third SBA assessment between SME policy settings as measured by the SBA assessment and firm-level performance: the second SBA assessment cycle provided a solid basis to measure progress in SME policy development in the EaP countries but provided only limited insights on the **relationship between policy reform and firm-level performance**. A follow-up study carried out in 2016 analysed the links between SME policy settings as measured by the SBA assessment and firm-level performance. The findings indicate that SMEs in the EaP region underperform compared to their peers in other regions. In particular, EaP SMEs are less likely to invest in research and development (R&D), less likely to report innovation activity, less likely to have access to loans, and less likely to export than SMEs in the EU pre-accession countries and new EU members (EU-10). This analysis will become an integral part of the third SBA assessment to benchmark not only policy inputs but also firm-level performance. A specific emphasis will be placed on policy areas in which EaP SMEs showed a low performance (i.e. innovation, export and finance). This approach will be reinforced through country-specific assistance in the design of pilot programmes dedicated to high-growth and export-oriented SMEs.
- ✓ Stronger emphasis on the assessment of policy constraints by sector of activity: the follow-up study on SME performance revealed that SMEs in the EaP countries face different policy barriers depending on their sector of operation. A stronger emphasis will therefore be placed on the **assessment of policy constraints by sector of activity** (manufacturing, services, and agriculture) and the identification of corresponding policy solutions. This approach is also expected to help strengthening the engagement of the private sector in the assessment process and allow the OECD and its partners to provide more tailored and sector-specific recommendation for potential policy solutions. Existing private sector networks, for example those created through East Invest 2 and the upcoming ITC programme, would be leveraged extensively for this purpose.
- ✓ Review of policy areas to be covered in the SBA assessment: the SBA assessment focuses on the 10 principles of the Small Business Act for Europe but disregards **other policy priorities** that matter for a functioning business environment in which SMEs can thrive. Prior to starting a third SBA assessment round, the policy areas covered will be reviewed through an inclusive public-private dialogue process to better address emerging policy priorities to create an enabling business environment (e.g. competition policy, trade facilitation, SME taxation) while aiming at preserving comparability over time of the assessment of the other policy dimensions.

- ✓ Increase country-level support: countries have expressed the need for more country-level support for the implementation of policy recommendations that would complement the benchmarking exercise through tailored advisory support. A series of country-level activities presented in section 4.2 (support in reviewing SME strategies, drafting new SME strategies/action plans, assist in the design of pilot programmes dedicated to high-growth and export-oriented SMEs, support to monitoring and evaluation) have been identified based on the results of the second SBA assessment and in alignment with governments' priorities. Support provided at the country level is expected to help partner countries significantly improve their ranking prior to starting the third assessment cycle.
- ✓ Further OECD advice on national support programmes for SMEs: the second SBA assessment revealed that progress in SME development can be achieved through **more targeted support programmes for SMEs**. The OECD would provide further advice on the design and implementation of such programmes, specifically dedicated to high-growth and export-oriented SMEs, while supporting the development of adequate monitoring and evaluation systems to assess the programme's impact on pre-defined target groups.
- ✓ Continuation of peer review exercise: five out of six EaP countries (Armenia, Belarus, Georgia, Moldova and Ukraine) have already undergone a first **peer review at the OECD Eurasia Competitiveness Roundtable**, showcasing the progress they achieved in selected SME policy areas. Three years after a first peer review, countries are invited to share the results through a monitoring review to solidify their commitment to effectively implement reform roadmaps. The OECD peer review process has proven to be an excellent tool to facilitate the exchange of good practice among EaP countries and with OECD members:
 - First, the process has proven to be a stepping stone towards the formal adoption of government policies (e.g. Georgia's SME development strategy 2016-2020 was finalised and adopted after the peer review);
 - Second, it has helped to create a strong and sustainable commitment mechanism over time: three years after the peer review, countries are asked to go through a monitoring review to take stock on reform achievements, create momentum for the implementation of remaining reform commitments and to identify new priorities (e.g. the monitoring of Moldova's SME policy reforms in November 2016 has helped to push for important reforms towards the regulation of non-bank financing);
 - Third, it has helped to disseminate good practices among Eastern partner governments and raise interest in promoting SME policy reforms with countries that have previously been hesitant (e.g. Ukraine and Azerbaijan have both requested OECD support in developing an SME strategy and carrying out a peer review after having attended the peer review of Georgia's SME strategy).

A tentative planning for the peer review and monitoring cycle under this Action is as follows: Armenia (2017), Azerbaijan (2018), Georgia (2018), Belarus (2019), Moldova (2019), Ukraine (2019).

3.2 Complementarity, synergy and coherence with other interventions

OECD support to policymakers will be complementary to the following technical assistance support provided by the European Commission and other development partners:

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- **ITC** (International Trade Centre) is starting a project to help SMEs from EaP countries integrate into international value chains and access new markets with a focus on the European Union.
- **East Invest 2** is a regional trade facilitation project which targets BSOs and SMEs. It provides trainings to BSOs to strengthen their lobbying capacity and provision of services to SMEs. This Action will build in particular on the East Invest's private sector networks by involving their members in public-private dialogue initiatives to promote SME policies reforms and contribute to national documents for SME policy.
- **Advice for Small Businesses Programme (ASB)** implemented by EBRD provides financial support to SMEs in form of grants, as well as a wide range of capacity building assistance to BSOs and SMEs. This Action will coordinate with the activities of the ASB, in particular in Belarus and Moldova, where the Action will monitor progress in the implementation of the roadmap to develop a market for BDS and propose measures to support the delivery of BDS to SMEs in priority sectors,.
- **DCFTA facility for SMEs** helps small businesses grow and prepare for new market opportunities, and support national authorities in Georgia, Moldova and Ukraine to implement their Association Agreements. In particular, the Action will seek synergies with technical assistance projects in each country designed to support SMEs and business support institutions.
- **Eastern Partnership SME Finance Facility - Phase II** which will make new loans available to the financial intermediaries, who will lend that money to local companies in Ukraine, Georgia and Moldova. These loans will be accompanied by a grant for credit enhancement support to participating financial intermediaries through risk-sharing instruments. The project aims at stimulating local currency lending, especially for micro, small and medium sized enterprises (MSMEs) that are not earning foreign currency and cannot afford the high costs of borrowing.
- In **Georgia**, the Action will build on the successful co-operation with **GIZ** to support the Government in the preparation of the SME Development Strategy 2016-2020 and will seek further synergies with the “**SME Development and DCFTA**” project. Coordination will also be ensured with the bilateral project on Economic and Business Development (AAP 2017) in particular with activities aimed at strengthening

¹ Recognizing the role of SMEs in furthering growth, the EU launched in 2009 the regional SME Flagship Initiative which was rebranded as the "EU4business initiative" in 2016 to cover both bilateral and regional projects to support SMEs in EaP countries in addressing common challenges, such as access to finance, SME policy and regulatory framework, knowledge and business skills and access to markets.

capacities of policy makers to facilitate the development of SME, clusters and incubators.

- In **Moldova**, the Action will consider potential for coordination with several projects relevant for SME development, including the DCFTA Technical Assistance Service Contract covering quality infrastructure, market surveillance and Internal and external markets and Competitiveness awareness in the AA/DCFTA context; the Support to Agriculture and Rural Development through Confidence Building Measures, which includes a component on local entrepreneurship and SMEs development; the Comprehensive Institution Building Programme (CIB): twinning and technical assistance projects supporting the DCFTA implementation including support to Intellectual Property Rights, Customs Service, food safety agency (to enhance the commercial and export potential of the agro-business food chain in Moldova in line with EU standards and DCFTA technical requirements), and several planned projects (Annual Action Programme 2016) including "Support to SMEs in rural areas"; "Technical assistance support to BSOs"; "Increase of competitiveness in agricultural sector", which includes facilitating access to markets and establishing market linkages through domestic and international value chain.
- In **Ukraine**, the Action will coordinate with the EU FORBIZ project and the EU4Business: network of business support centers project, which notably facilitates access to business advice and finance. The FORBIZ project is notably finalizing a feasibility study on the future SME support agency.
- In **Armenia**, the Action will take into account and coordinate with several technical assistance initiatives, notably **GIZ's SMEDA** (SME development in Armenia) programme, and the **twinning projects** on 'strengthening the investment promotion and investment policy institutional framework of Armenia' and on 'strengthening of the National Statistical System of Armenia'.
- In **Azerbaijan**, the Action will closely co-ordinate with the **World Bank's** programmes on enhancing the country's competitiveness and private sector development.
- In **Belarus**, the Action will take into account and explore synergies with the Strengthening Private Initiative Growth (**SPRING**) implemented by UNDP and EBRD, IFC's Improving Business and Investment Climate Advisory Project and the World Bank's Competitiveness Enhancement Project in Belarus. These programmes focus on improving SME competitiveness through technical assistance measures such as qualified business advice and support to access finance.

Beyond EU4Business

- **EBRD-supported Investment Councils and SME Development Councils** provide a platform for dialogue between the private sector and the authorities, with the aim of leveraging the private sector's experience to enhance the content and prioritisation of policy reforms. This Action will build on the existing Investment and SME Development Councils and their members in Armenia, Georgia and Moldova in order to obtain inputs for the new SBA assessment and leverage them as a platform to discuss priorities for SME development between the private and public sector.

- **Eurostat** is the statistical office of the European Union and plans to start a programme to improve the availability and quality of statistical data from the EaP countries as well as their dissemination to a wider public. The Action will coordinate with Eurostat's future regional programme and will involve national statistics offices in EaP countries. Specific focus will be on country-level advice to support the production of harmonised and comparable business statistics and to develop key indicators to analyse SME performance to enhance the evidence base for SME policy making. The activities will be based on the methodological tools provided by the OECD-Eurostat Entrepreneurship Indicators Programme (EIP) and the OECD Scoreboard on Financing SMEs and Entrepreneurs.
- **EBA** (European Business Associations) support representatives of European business communities in EaP countries and make proposals to local authorities to improve the business environment, encourage foreign investments and improve corresponding legislative frameworks. The Action will leverage the presence and activities of EBAs (including regular surveys among EBA members, legal proposals and events) to receive inputs from foreign investors already present in the countries about the business environment and the opportunities to help integrate local SMEs in global supply and value chains.
- The Enterprise Europe Network assists SMEs with advice on EU laws and standards, access to finance and help local SMEs find business partners to become part of European and global value chains. In this sense the EEN facilitates export and internationalisation strategies of Partner Countries. Belarus, Armenia, Georgia, Moldova and Ukraine are already participating. The consortia are co-funded by the EU in Armenia and Moldova and now also in Ukraine as these countries are fully participating in COSME. Whilst the consortia in Belarus and Georgia are Business Cooperation Centres offering more limited services. The Action will take into account and coordinate with the local EENs to support increased cooperation via in particular Business Support Organisations.

3.3 Cross-cutting issues

The OECD will also ensure that the gender dimension will be addressed in countries SME strategies and actions plans in line with the EU Gender Action Plan 2016-2020, the Convention on the Elimination of All Forms of Discrimination against Women and anti-discrimination principles. Notably, constraints for women entrepreneurship or women participation in SME economic activities will be identified. Women's entrepreneurship will indeed be considered when building the evidence base for SME policies and when designing targeted support programmes for SMEs. The policy framework to support women's entrepreneurship will be evaluated through the SBA assessment, as well as the extent to which regular training needs analyses for women's entrepreneurs are conducted. Furthermore, gender issues in national SME strategies will be promoted by engaging women in public-private consultations and highlighting women entrepreneurs as an important beneficiary group of SME policies.

Building on the results achieved under "Greening Economies in the Eastern Neighbourhood" (EaP GREEN) Programme, the OECD will ensure that environment-related considerations, such as, for example, energy and resource efficiency, circular economy and cleaner production, the eco-design of products, climate-related risks, and environmental impacts more generally are duly addressed in countries' SME strategies and actions plans. The latter will be fully aligned with key global policy goals and targets set by the UN 2030 Sustainable Development Goals and the Paris Agreement on Climate Change, which guide progress towards a modern and low-carbon economy and provide important opportunities for sustainable economic transformation, jobs and growth. Where available, for example in Armenia and the Republic of Moldova, specific recommendations in this area will be further promoted. Particular attention will be given to assessing the degree of "greening" of the current policy framework for SME development in comparison with benchmarks outlined in the EaP GREEN "Environmental Policy Toolkit for SME Greening", including the existence of specific environmental policies targeting SMEs. As part of the third SBA assessment, additional weight will be given to the mainstreaming of such cross-cutting issues in national SME policies.

Evidence on the above-mentioned cross-cutting issues will be collected, such as gender balance of participants to public-private dialogue events and capacity building activities, as well as the inclusion of green elements in regional and country-level activities as well as in the monitoring, design and evaluation of national assistance programmes to SMEs.

4 OBJECTIVES/RESULTS

The overall objective of the Action is to support firm competitiveness and business environment reforms in the countries of the EU Eastern Partnership in line with Priority 1 on Economic development & market opportunities of the Joint Staff Working Document "*Eastern Partnership Focussing on key priorities and deliverables*"².

The specific objectives of the Action are:

- **To strengthen institutional frameworks and delivery of government support to SMEs and improve the business environment**, by assisting governments in the design of medium-term SME strategies and action plans, proposing key performance indicators to assess results, advising on the design and operationalisation of selected actions, and facilitating government co-ordination and public-private stakeholder dialogue. Ad hoc expertise in the form of thematic reviews, studies and workshops could also be provided to advise governments to improve selected priority areas of the business environment (e.g. competition, environment, investment, taxation);
- **To support monitoring and evaluation of SME policies and improve production of business statistics**, by strengthening government capacity to monitor progress in the implementation of SME strategies and assisting in the production of harmonised and internationally comparable SME statistics;

² https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/near-eeas_joint_swd_2016467_0.pdf

- **To support evidence-based policy making and regional benchmarking**, through a third SBA assessment cycle (including collecting harmonised indicators covering structural business statistics based on OECD-Eurostat methodology, performance-based indicators (BEEPS) and new policy indicators, e.g. on SME finance, openness to foreign investment, trade facilitation, green economy) and capacity building for systematic data collection on the SME sector (development of key performance indicators (KPI) to assess progress of SME Strategies/Action Plans);
- **To stimulate reform implementation**, through peer reviews and regional policy dialogue events with SME policy stakeholders.

4.1 Main activities

The Action will be structured around two components:

- Component A will provide country-specific support to policy making and public-private dialogue by strengthening government capacity in all six EaP countries to design SME strategies/action plans, deliver SME support measures, and to monitor and evaluate progress in implementation. Additional ad hoc expertise in the form of thematic reviews, studies and workshops could be provided to address emerging priorities and advise governments to improve selected areas of the business environment.
- Component B will support regional benchmarking and policy dialogue through a third SBA assessment, peer reviews and regional events.

All project activities have been designed upon request from national governments and in close co-ordination with EU delegations. The following table provides an overview of project activities that will contribute to achieving the specific project objectives:

Table 3. Overview of project activities, by objective and level of intervention (country/regional)

	Component A: Country-specific support to SME policy making and public-private dialogue		Component B: Regional SBA assessment and policy dialogue	
Objective	1. To strengthen institutional frameworks and delivery of government support to SMEs and improve the business environment	2. To support monitoring and evaluation of SME policies and improve production of business statistics	3. To support evidence-based policy making and regional benchmarking	4. To stimulate reform implementation and promote regional policy dialogue
Armenia	1.1 Assist the government in preparing an SME Development strategy 2019-2020 and propose key performance indicators to assess results 1.2 Strengthen the policy making process by introducing a public-private SME strategy stakeholder process	2.1 Assist the government in monitoring progress in the implementation of SME competitiveness reforms 2.2 Assist the government in the production, analysis and dissemination of harmonised business statistics	3.1 Revise SBA assessment methodology 3.2 Organise one private sector focus group meeting per country and three SBA stakeholder workshops per country to facilitate the SBA assessment process 3.3 Carry out government self-assessment and OECD assessment of the SBA in six countries	4.1 Organise three regional meetings of the OECD Eurasia Competitiveness Roundtable 4.2 Carry out six peer reviews (2017: Armenia, 2018: Azerbaijan, Georgia, 2019: Belarus, Moldova, Ukraine)
Azerbaijan	1.3 Assist the government in operationalising specific actions of the SME strategy 1.4 Strengthen the policy making process by introducing a public-private SME strategy stakeholder process	2.3 Strengthen the institutional capacity of the government (MoE, Center for economic reform) to monitor the implementation of the SME Strategy	3.4 Publish regional "SME Policy Index" report 3.5 Disseminate the report and its main findings at a high-level regional event and six country-level events	4.3 Organise three regional workshops for SBA co-ordinators to facilitate the SBA assessment process
Belarus	1.5 Assist the government in finalising the SME Strategy and Action Plan for 2018-2020 and propose key performance indicators to assess results 1.6 Assist the government in operationalising specific actions of the SME strategy 1.7 Strengthen the policy making process by introducing a public-private SME strategy stakeholder process	2.4 Assist the government in monitoring progress in the implementation of a policy roadmap to support the development of a private market for business development services (BDS)	3.6 Prepare annual SBA factsheets for EaP countries participating in COSME (Armenia, Moldova and Ukraine)	
Georgia	1.8 Assist the government preparing the SME Strategy Action Plan 2018-2020 and propose key performance indicators to assess results 1.9 Strengthen the policy making process by introducing a public-private SME strategy stakeholder process	2.5 Strengthen the institutional capacity of the government (MoESD, EDA) to monitor the implementation of the SME Development Strategy 2016-2020		

	1.10 Assist the government in preparing an investment strategy			
Moldova	<p>1.11 Assist the government in preparing the SME Strategy Action Plan 2018-2020 and propose key performance indicators to assess results</p> <p>1.12 Assist the government in operationalising specific actions of the SME strategy, e.g. by proposing measures (financial and non-financial) and mechanisms to support the delivery of high value-added business development services to SMEs in selected sectors</p> <p>1.13 Strengthen the policy making process by introducing a public-private SME strategy stakeholder process</p>	2.6 Strengthen the institutional capacity of the government (Ministry of Economy, ODIMM) to monitor the implementation of the Small and Medium Enterprise Sector Development Strategy 2012-2020		
Ukraine	1.14 Strengthen the policy making process by Introducing a public-private stakeholder process to review the SME strategy	<p>2.7 Strengthen the institutional capacity of the government (MEDT) to monitor the implementation of the SME Development Strategy 2017-2020</p> <p>2.8 Assist the government in the production, analysis and dissemination of harmonised business statistics</p>		

Component A: Country-level support to policy making and public-private dialogue

Project component A will focus on delivering analysis, policy advice and capacity building to provide country-level assistance to policy makers in all six EaP countries. The OECD will leverage the expertise of its Secretariat and involve experts from OECD Member states to strengthen institutional frameworks and delivery of government support to SMEs (objective 1) and to support monitoring and evaluation of SME policies and improve the production of business statistics. Ad hoc expertise in the form of thematic reviews, studies and workshops could also be provided to advise governments to improve selected priority areas of the business environment. The duration of the support per country may generally range between 18 and 24 months (see 5.2 for tentative schedule). The specific activities per country will be subject to an annual discussion with EU delegations in all six EaP countries.

Component B: Regional SBA assessment and policy dialogue

Project component B will support evidence-based policy making and regional benchmarking (objective 3) through a third round of the SBA assessment leading to a third report of the *SME Policy Index: Eastern Partner Countries*. In addition, this component will stimulate reform implementation and promote regional policy dialogue (objective 4) through a peer review process and regional SBA stakeholder workshops.

4.2 Intervention logic

A recent study "Enterprise performance and SME policies in the Eastern Partner countries and peer regions"³ published by the OECD has indicated that SMEs in the EaP are less competitive than their peers in other regions in particular, in terms of access to loans, innovation and capacity to export. When examining the determinants of firm performance, the study found that firm size is a core determinant, reaffirming the conventional theory that SMEs are more likely to face barriers when accessing finance, innovating and internationalising. The study also found a strong link between the various policy areas, with SMEs that have access to finance being more likely to export and exporting SMEs being more likely to invest in R&D.

The study also investigated the relationship between SME policies and firm performance in the Eastern Partner countries and peer regions. Drawing on SME Policy Index scores as a measure of the quality of SME policies and on firm-level data about selected aspects of enterprise performance, the study identified a positive relationship between policy inputs and economic outcomes in the real sector. These findings provide evidence around the assumption that better policy making contributes to building a stronger and more dynamic SME sector and build momentum for further work in this area. Through its two components described below, the Action will build on these findings to assist countries addressing gaps in the business environment identified in the most recent SBA assessment. A specific emphasis will be placed on policy areas in which EaP SMEs showed a low performance (i.e. innovation, export and finance). This approach will be reinforced through country-specific assistance in the design of pilot programmes dedicated to high-growth and export-oriented SMEs.

³<http://www.oecd.org/globalrelations/Enterprise-Performance-and-SME-Policies-in-Eastern-Partner-Countries-and-Peer-Regions.pdf>

Through Component A, the Action will assist policy makers in EaP countries in the implementation of reform priorities as identified in the policy roadmaps presented in the SME Policy Index 2016. The OECD will assist governments in the preparation of SME strategies and action plans to strengthen the institutional framework and facilitate the implementation of SME policy reforms. Implementation of selected priorities of the Action Plans will be supported through evidence-based analysis, transfer of methodology, capacity building and facilitation of government co-ordination and public-private consultation processes. In addition, the OECD will assist governments to develop harmonised and comparable business statistics and monitor progress in the implementation of SME strategies. Country-level activities have been designed based on every country's individual needs and identified in close consultation with national administrations and local EU delegations to ensure synergies with other relevant EU initiatives to support SMEs in the EaP region. Ad hoc expertise in the form of thematic reviews, studies and workshops could also be provided to advise governments to improve selected priority areas of the business environment. Support provided under Component A is expected to lead to improvements in country scores of the SBA assessment (Component B).

Through Component B, SME policy stakeholders in EaP countries will be able to assess progress in the implementation of the Small Business Act for Europe and benchmark their policies and SME performance with neighbouring countries. Cross-country analysis will nurture regional policy dialogue and exchange of good practices. Governments in EaP countries will also be able use the SBA assessment as a change management tool for identifying reform priorities in consultation with the private sector. High-level dissemination events will help increase local awareness about the findings of the SBA assessment and enable a broader range of stakeholders (including the private sector and civil society) to take action to promote a better environment for small and medium-sized enterprises.

Before the end of the project and in parallel to the 2019 SBA assessment, the OECD will carry out a follow-up study on the relationship between SME policies and firm performance to assess trends in SME performance in the EaP over time and to draw correlations between the changes in SME Policy Index scores with the changes in performance variables, which would also allow to control for country-specific factors.

5 IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is not foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012.

5.2 Indicative implementation period

The indicative implementation period for this Action, during which the activities described in section 4 will be carried out and the corresponding contracts and agreements implemented, is 48 months from the date of adoption by the Commission of this Action Document.

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.

5.3 Implementation modalities

5.3.1 Grant: direct award "supporting SME policies in the Eastern Partnership" (direct management)

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

As described above (see point 4.1 and 4.2)

(b) Justification of a direct grant

Article 190(1) (f) of Commission Delegated Regulation (EU) No 1268/2012 authorises that grants be awarded without a call for proposals for actions with specific characteristics that require a particular type of body on account of its technical competence, its high degree of specialisation, on condition that the actions concerned do not fall within the scope of a call for proposals. On this basis and under the responsibility of the Commission's authorising officer responsible, the grant may be awarded without a call for proposals to a specialised entity having relevant specific experience and capacities in the fields of intervention. For the reasons detailed below, the OECD has been identified as the most suitable entity.

Under the responsibility of the Commission's authorising officer responsible, the recourse to an award of a grant without a call for proposals is justified because:

- The OECD is an international organisation with a widely respected peer review mechanism that gathers around the table the governments of Eastern partner countries and OECD countries on an equal footing to exchange good practices in an impartial environment. This type of activity also fosters regional integration.
- The OECD has successfully co-ordinated two SBA assessments in the EU Eastern Partnership region and published two corresponding reports in 2012 and 2016 (SME Policy Index).
- The OECD has built a solid relationship with governments of Eastern partner countries. They participate in public-private Advisory Group and Working Group meetings established by the OECD across the region as well as in annual meetings of the OECD Eurasia Competitiveness Roundtable at Deputy Prime Minister, Minister of Economy and/or Deputy Minister level.
- The OECD has established a network of local partner organisations (e.g. research institutions, think tanks and national experts) that carry out local research and analysis on behalf of the OECD and help co-ordinate local activities.
- The OECD relies on an extensive network of expert practitioners from Member states who provide in-kind support and policy expertise based on their own countries' experience in the form of lead reviewers and expert inputs to policy papers during seminars, working groups and peer reviews.
- The OECD has built extensive partnerships with local development partners (e.g. EBRD, GIZ, IFC, ITC, World Bank) to ensure synergies and maximise the impact of the Action..
- The Commission is contributing to an existing programme that has worked successfully with Eastern partner countries on related topics since 2009: "The OECD Eastern Europe and South Caucasus Initiative", which is part of the OECD Eurasia Competitiveness Programme.

(c) Essential selection and award criteria

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

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

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

(d) Maximum rate of co-financing

The maximum possible rate of co-financing for this grant is 95%.

In accordance with Articles 192 of Regulation (EU, Euratom) No 966/2012, if full funding is essential for the action to be carried out, the maximum possible rate of co-financing may be increased up to 100 %. The essentiality of full funding will be justified by the Commission's authorising officer responsible in the award decision, in respect of the principles of equal treatment and sound financial management.

(e) Indicative trimester to conclude the grant agreement

4th quarter 2017

(f) Exception to the non-retroactivity of costs

The Commission authorises the eligibility of costs prior to the adoption by the Commission of this Action Document as of 1 September 2017, in line with the preliminary project proposal (grant application) submitted by OECD, to ensure continuity with the activities and with the team implementing the project "*Supporting SME Competitiveness Reforms in the Eastern Partner Countries - Implementing the Recommendations of the SME Policy Index 2012*" to which the present Action constitutes a continuation and that has come to an end on 30 June 2017.

5.4 Indicative budget

	EU contribution in EUR	OECD contribution in EUR
Grant - Direct management (OECD)	4 000 000	400 000
Total estimated cost	4 400 000	

5.5 Organisational set-up and responsibilities

In order to carry out this Action, the OECD team will be based in its headquarters in Paris, with frequent travel to each EaP countries to collect information, co-ordinate public-private consultations and discuss intermediate project findings with local stakeholders (policy makers, private sector, development partners, EU delegations, etc.).

Advisory Groups are chaired by a Deputy Prime Minister or Minister of Economy and would include high-level officials from the relevant ministries, representatives from the European Union Delegations and project partners. They typically meet 1-2 times per year to provide feedback on project activities.

Public-private thematic **Working Groups** are chaired at Deputy Minister-level, and would include policy makers from relevant ministries and government agencies, representatives from the European Union Delegations, project partners, business associations, and academia. Working Groups typically meet 3-4 times per year and are led by the OECD to facilitate public-private consultations, receive inputs, discuss analysis and project findings and develop recommendations for policy reforms. In addition to the above, whenever necessary the OECD will mobilize its trusted network of local consultants of proven quality to carry out field work in each EaP country, as well as senior international consultant to provide key analytical inputs to project deliverables. Finally, the OECD will benefit from in-kind contributions provided by experts and practitioners from OECD member countries, who will contribute to capacity building events and lead the peer review process.

The project will be implemented by the OECD in close consultation with the Commission under the lead of Directorate-General for Neighbourhood and Enlargement Negotiations (DG NEAR), and including representatives of any other concerned services of Commission to co-ordinate activities. The OECD will provide annual narrative and financial reports in accordance with the Framework Administrative Agreement signed on 16 June 2015 between the European Union and the Organisation and applicable provisions in the General conditions and Special conditions.

Annual activity reports shall be drafted and structured on the basis of the results/outcomes that have been achieved for each country. The introductory chapter will entail a table summarising progress achieved against the agreed logframe and initial baseline for the region and by country. Based on these annual activity reports, annual meetings of a dedicated Advisory Group will be organised and chaired by DG NEAR.

As this project will be part of the Eastern Partnership EU4Business initiative, OECD will also take part in the EU4Business annual general assembly meeting to ensure complementarity with other EU funded initiatives. The OECD will cooperate with the EU4Business Secretariat to prepare the annual consolidated report on the initiative's impact and results. This will notably include results achieved under this project in the framework of the defined and agreed key performance indicators.

Annual co-ordination meetings in each of the six EaP countries will also take place to further ensure co-ordination with other related programmes funded by the EU or by other donors, as well as to enhance the ownership of the project by the partner countries (government representatives, BSOs, SMEs). Close co-operation with representatives of EU delegations in the EaP countries will be key to ensure that OECD activities under this Action are consistent with other EU support provided at the bilateral level. The OECD will work in close consultation with EU Delegations and regularly discuss project progress and activities. EU Delegations will be part of all project Advisory Groups and Working Groups and play a fundamental role in providing input and feedback. In addition, an annual update between the OECD and counterparts in the EU Delegations will provide an opportunity to discuss progress in the implementation of the Action, align on foreseen activities and identify ways to address emerging priorities.

The project's team will attend relevant donor coordination group/workshop on private sector development in all EaP countries. The OECD will also participate in regular meetings/videoconference with EU Delegations and relevant stakeholders to co-ordinate activities and to ensure synergies and complementarities with other EU funded and donor actions.

5.6 Performance monitoring and reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports.

Every report shall provide an accurate account of implementation of the action for each of the 6 Eastern Partnership country, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the logframe matrix (for project modality). The introductory chapter will entail this table summarising progress achieved against the agreed logframe and initial baseline for the region and by country.

The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

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

Performance monitoring and reporting will need to be in line with DG NEAR Guidelines on linking planning/programming, monitoring and evaluation⁴.

5.7 Evaluation

The Commission may, during implementation, decide to undertake an evaluation for duly justified reasons either on its own decision or on the initiative of the partner.

The Commission shall inform the implementing partner at least 3 months in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

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

The financing of the evaluation shall be covered by another measure constituting a financing decision.

Evaluation will need to be in line with DG NEAR Guidelines on linking planning/programming, monitoring and evaluation

⁴ Refer to: https://ec.europa.eu/neighbourhood-enlargement/tenders/monitoring-and-evaluation_cs

Where appropriate the provisions included in the framework agreement signed with the international organisation will apply.

5.8 Audit

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

Where appropriate the provisions included in the framework agreement signed with the international organisation will apply.

The financing of the audit shall be covered by another measure constituting a financing decision.

5.9 Communication and visibility

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

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section 5.4 above.

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

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

It shall be the responsibility of the implementing partners to keep the EU Delegations fully informed of the planning and implementation of the specific visibility and communication activities.

The action shall use common branding regarding all EU support to SME in the Eastern Partnership, in particular, the name EU for Business (EU4Business) shall be used for all relevant SME activities both in English and in local official languages.

The OECD will use the EU4Business visibility tips and guidelines proposed by the EU4Business Secretariat and co-operate with the latter to further disseminate the project's key activities, events, and results. For country based activities, OECD will combine the EU4Business branding with the EU4country one (ie: EU4Georgia). Where appropriate the provisions included in the framework agreement signed with the international organisation will apply.

[APPENDIX - INDICATIVE LOGFRAME MATRIX (FOR PROJECT MODALITY) ⁵]

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

	Intervention logic	Indicators	Baselines (2016)	Targets (2020)	Sources and means of verification	Assumptions
Overall objective: Impact	To improve SME competitiveness ⁶ in the countries of the EU Eastern Partnership	1 – Average country's score in the SME Policy Index across all dimensions ⁷ 2 – Relationship between SME Policy Index scores and enterprise performance	1 – Country's score in the SME Policy Index 2016 2 – Cross-sectional analysis of relationship between selected SME Policy Index dimensions and firm-level performance variables	1 – The average country scores increase by 10% across all dimensions in the 2019 SME policy Index compared to the 2016 SME policy Index 2 – Positive changes in selected SME Policy Index dimensions are correlated with improved firm-level performance	<ul style="list-style-type: none"> • SME Policy Index: Eastern Partner Countries • EBRD-WB Business Environment and Enterprise Performance Survey (BEEPS) • OECD study on enterprise performance and SME policies in the Eastern Partner countries 	<ul style="list-style-type: none"> • Political and economic stability at country and regional level is maintained over time • Political commitment to SME policy reform is maintained over time • Availability of next round of BEEPS data during implementation of the Action

⁵ Mark indicators aligned with the relevant programming document mark with '*' and indicators aligned to the EU Results Framework with '**'.

⁶ In this context, competitiveness is defined as the ability of enterprises to operate as successful entities in a market-based economy, as revealed by the extent to which they can access inputs (finance), invest and develop quality products and services (innovation), and sell their output on international markets (internationalisation)

⁷ The dimensions assessed in the SME Policy Index 2016 are: 1. Entrepreneurial learning and women's entrepreneurship; 2. Bankruptcy and second chance for SMEs; 3. Regulatory framework for SME policy making; 4. Operational environment for SMEs; 5a. Support services for SMEs and start-ups; 5b. Public procurement; 6. Access to finance for SMEs; 7. Standards and technical regulations; 8a. Enterprise skills; 8b. Innovation; 9. SMEs in a green economy; 10. Internationalisation of SMEs

Specific objective(s): Outcome(s)	1 – To strengthen institutional frameworks and delivery of government support to SMEs	<p>1.1 – Average score of the SME Policy Index on dimension 3 (regulatory framework for SME policy making)</p> <p>1.2 – Average score of the SME Policy Index on sub-dimension 3.3 (Public-Private Consultations: frequency and transparency, private sector involvement, M&E)</p> <p>1.3 – Average score of the SME Policy Index on dimension 5a (Support services for SMEs)</p>	<p>1.1 – 2.95 (2016)</p> <p>1.2 – 3.00 (2016)</p> <p>1.3 – 3.13 (2016)</p>	<p>1.1 – 3.54 (2020)</p> <p>1.2 – 3.60 (2016)</p> <p>1.3 – 3.76 (2020)</p>	<ul style="list-style-type: none"> • SME Policy Index: Eastern Partner Countries • Government documents and reports/adopted policy documents • National statistics office websites • OECD Entrepreneurship at a Glance report • OECD Scoreboard on SME Financing • Monitoring reports • Minutes of Advisory Group and Working Group meetings • Minutes of launch and dissemination events • Media reports • Members of the project Advisory Group and Working Group • List of participants at the OECD Eurasia Competitiveness Roundtable • Private sector survey 	<ul style="list-style-type: none"> • Political and economic stability at country and regional level is maintained over time • Availability of statistical and survey data for analysis • High-level government involvement and commitment to implement SME policies • Strong interest and capacity of the private sector to participate and contribute to public-private consultations 	
	2 – To support monitoring and evaluation of SME policies and improve production of business statistics	<p>2.1 – Extent to which monitoring of national SME strategies takes place</p> <p>2.2 – Extent to which accurate and comprehensive business statistics are available</p>	<p>2.1 – Progress in the implementation of national SME strategies is not monitored</p> <p>2.2 – Structural business statistics to measure entrepreneurial performance are not harmonised and not published in Armenia and Ukraine</p>	<p>2.1 – Monitoring process for national SME strategies are established in at least 4 countries (Armenia, Georgia, Moldova, Ukraine)</p> <p>2.2 – Analysis on structural and business demography statistics is harmonised with OECD-Eurostat methodology and published in Armenia and Ukraine</p>			
	3 – To support evidence-based policy making and regional benchmarking	3.1 – Number of SBA assessment cycles completed	3.1 – Two SBA assessment cycles completed in the EaP region (2012, 2016)	3.1 Third SBA assessment cycle completed			

	4 – To stimulate reform implementation and promote regional policy dialogue	4.1 – Extent to which countries report on progress in the implementation of policy reforms at the Roundtable and discuss it with OECD and EaP countries	4.1 – All EaP countries have committed to undertake a peer review at the OECD Eurasia Competitiveness Roundtable	4.1 All EaP countries have undertaken a peer review at the OECD Eurasia Competitiveness Roundtable at high political level and committed to the implementation of policy recommendations provided by the Roundtable		
Outputs [and corresponding activities presented in Table 3]	1.1 – Improved strategic policy framework (SME strategies/action plans) [act. 1.1,1.5, 1.8,1.11]	1.1.1 – Extent to which SME strategies and action plans for the period 2018-2020 are developed according to international good practices 1.1.2 – Number of OECD countries involved in providing expertise and sharing good practice for SME development	1.1.1 – SME strategies in place in 5 countries (Armenia, Azerbaijan, Georgia, Moldova, Ukraine), one action plan in place for the period 2018-2020 (Azerbaijan) 1.1.2 – None	1.1.1 – SME strategies and action plans for the period 2018-2020 are endorsed by 6 EaP countries 1.1.2 – On average 2 experts from OECD countries involved in the design/review of SME strategies/action plans in five EaP country	<ul style="list-style-type: none"> • SME Policy Index: Eastern Partner Countries • Government documents and reports/adopted policy documents (strategies, action plans) • National statistics office websites • OECD Entrepreneurship at a Glance report • OECD Scoreboard on SME Financing • Monitoring reports • Minutes of Advisory Group and Working Group meetings • Minutes of launch and dissemination events • Media reports • Members of the project Advisory Group and Working Group • List of participants at the 	<ul style="list-style-type: none"> • Political and economic stability at country and regional level is maintained over time • Availability of statistical and survey data for analysis • High-level government involvement and commitment to implement SME policies • Strong interest and capacity of the private sector to participate and contribute to public-private consultations
	1.2 – Enhanced institutional capacity of the government to deliver support to SMEs [act. 1.3,1.6,,1.12]	1.2.1 – Extent to which specific actions of the SME strategy have been designed according to international good practices 1.2.2 – Number of capacity building seminars/events to support design of targeted SME support programmes	1.2.1 – No operational guidance on how to implement specific actions of the SME strategy 1.2.2 – None	1.2.1 – Operational guidance provided through analytical support, workshops and OECD reports 1.2.2 – At least 2 in 3 countries (Azerbaijan, Belarus, Moldova)		
	1.3 – Enhanced contribution of business associations to SME policy making processes [act. 1.2,1.4,1.7,1.9,1.13 1.14]	1.3.1 – Extent to which the private sector is involved in public-private consultations on the SME strategy	1.3.1 – Limited private sector involvement in SME policy consultations	1.3.1 – At least 3 public-private SME policy consultations held in each EaP country to consult with the private sector on the SME strategy		
	2.1 – Enhanced capacity to	2.1.1 – Extent to which	2.1.1 – National SME	2.1.1 – Monitoring info		

<p>monitor implementation of SME policy [act. 2.1,2.4,2.5,2.6,2.7]</p>	<p>progress in the implementation of SME policies is monitored</p>	<p>strategies, action plans and SME policies are not monitored</p>	<p>available for four countries (Armenia, Georgia, Moldova, Ukraine)</p>	<p>OECD Eurasia Competitiveness Roundtable</p>	
<p>2.2 – Availability of structural and business demography statistics [act. 2.2,2.8]</p>	<p>2.2.1 – Extent to which internationally comparable indicators on SME performance and statistics on SME finance are produced regularly</p>	<p>2.2.1 – Limited statistics available for the SME sector</p>	<p>2.2.1 – Structural and business demography statistics following the methodology of the OECD-Eurostat Entrepreneurship Indicators Programme available in Armenia and Ukraine</p>	<ul style="list-style-type: none"> • Private sector survey 	
<p>3.1 – Third SBA assessment published, disseminated and used for policy making [act. 3.1,3.2,3.3,3.4,3.5,3.6]</p>	<p>3.1.1 – Extent to which SME Policy Index is based on amended methodology</p> <p>3.1.2 – Number of meetings and meeting participants at SME stakeholder workshops</p> <p>3.1.3 – Number of government self-assessments provided</p> <p>3.1.4 – Extent to which SME Policy Index is published</p> <p>3.1.5 – Number and level of participation at dissemination events</p> <p>3.1.6 – Number of SBA factsheets prepared</p>	<p>3.1.1 – SBA assessment based on current methodology</p> <p>3.1.2 - None</p> <p>3.1.3 - None</p> <p>3.1.4 – Latest SME Policy Index for EaP countries published in 2015</p> <p>3.1.5 – None</p> <p>3.1.6 - None</p>	<p>3.1.1 – SBA assessment methodology revised to reflect emerging policy priorities and company performance</p> <p>3.1.2 – One private sector focus group and three SBA stakeholder workshops held per country with 20 participants on average</p> <p>3.1.3 – One government self-assessment completed by country</p> <p>3.1.4 – Third SME Policy Index for EaP countries is published in 2019</p> <p>3.1.5 – One regional and six country-level dissemination events held with 100 participants on average</p> <p>3.1.6 – SBA factsheets prepared for Armenia,</p>		

				Moldova and Ukraine		
	4.1 – Peer reviews on SME policy reforms are carried out [act. 4.1,4.2,4.3]	4.1.1. – Number of peer reviews carried out 4.1.2 – Extent to which high-level commitment to SME policy reform is secured	4.1.1 – Five EaP countries (all except Azerbaijan) have undergone a first round of peer reviews at the OECD Eurasia Competitiveness Roundtable (2013-2016) 4.1.2 – None	4.1.1 – Five EaP countries have undergone a second round of peer review, one country has undergone a first peer review (Azerbaijan) at the OECD Eurasia Competitiveness Roundtable 4.1.2 – All EaP countries have endorsed to implement reform recommendations provided at the peer review discussion		