

Annex to the ENPI East Regional Action Programme 2013 – part 1

1. IDENTIFICATION

Title/Number	Eastern Partnership /SMEs Development Support CRIS: 2013/024-629		
Total cost	EUR 10 million EU contribution: EUR 10 million		
Aid method / Method of implementation	Project approach direct centralised management (components 1 and 3) joint management with the Organisation for Economic Cooperation and Development (OECD) (component 2)		
DAC-code	32130	Sector	Small and medium-sized enterprises (SME) development

2. RATIONALE

2.1. Sector context

Small and Medium Enterprises (SMEs) represent the majority of the business population and are a key driver of economic growth and employment in both developed and emerging countries. In the Eastern Partnership countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine), SMEs are playing an increasingly important role in the transition to dynamic market-driven economies in which entrepreneurship can prosper.

SMEs are generally more flexible and have the potential to provide a supply basis for larger enterprises by occupying niches that are free at various levels of the supply chains. They are a main source of local knowledge, which is especially useful for international investors entering the markets or large corporations that do not have enough expertise in the region.

Despite these important social benefits, SMEs are among most fragile economic agents, they are the first to be affected by adverse economic conditions and therefore specific support for SMEs to grow and thrive is necessary.

In the European Union, the Small Business Act¹ has put in place a competitive agenda for the European Union and its Member States focusing on the SMEs and based on the principle "think small first". As a result, numerous actions set out in the Small Business Act action plan have been implemented in the EU starting from 2008.

¹ COM(2008)394 http://ec.europa.eu/enterprise/policies/sme/small-business-act/index_en.htm

According to the recent OECD Enterprise Policy Performance Assessment in the Eastern Partnership countries (SME Policy Index, Progress in Implementation of the Small Business Act for Europe)² co-financed by the EU, and involving the relevant services of the European Commission, SMEs represent over 95% of private enterprises in the Eastern Partnership (EaP) countries.

The following data are extracted from the latest report of the above mentioned assessment, conducted by the OECD during the period 2010-2012:

Country	No. of SMEs	% of total enterprises	Contribution to GDP (%)	Contribution to employment (%)
Armenia (data of 2009)	132.923	98	42.5	42.2
Azerbaijan	4223.386	94	2	6
Belarus		97	20	28
Georgia	42 530	96		44
Moldova	45.600	98	28	59
Ukraine		99		58.1

Note: The definition of the SME sector in the EaP countries varies considerably: Armenia, Belarus and the Republic of Moldova define micro, small, and medium-sized firms. Georgia and Ukraine define small and medium-sized enterprises. Azerbaijan defines small entrepreneurship as one single category for micro, small and medium-sized firms. In this Action Fiche, the terms used for small business are SMEs, SME sector or small business, which in all cases includes the entire small business sector as defined by the national legislation of each country. This will include therefore what the EU legislation defines as micro-enterprises.

When comparing their performance to that of SMEs from OECD members, aggregate estimates indicate that despite employing almost 50% of a country's workforce (versus 60-70% in OECD economies), the EaP SMEs contribution to GDP is just over 30% (versus 55%).

The launch of the Eastern Partnership in Prague in May 2009 has provided the foundation for support to the private sector in the Eastern Neighbourhood region and for promotion of trade and cooperation between the EU and EaP regions in particular involving Small and Medium Sized Enterprises.

² http://www.oecd-ilibrary.org/finance-and-investment/sme-policy-index-eastern-partner-countries-2012_9789264178847-en

Support for SME Development is one of the sub-priorities of the Regional Indicative programme and the Regional Strategy Paper of the ENPI-East programme 2010-2013, and as such the current project contributes to the realisation of these objectives.

In line with this policy, the Commission Communication (2011) "A new response to a changing neighbourhood"³ reinforces the commitment to "improve the business environment" and "cater for small and medium sized enterprises". The "Agenda for change"⁴ Communication (2011) further states that "the EU should support the development of competitive local sectors including by building local institutional and business capacity, promoting SMEs and cooperatives, supporting legislative and regulatory framework reforms".

The latest EaP summit that took place in Warsaw 2011 confirms that economic reforms are being implemented in partner countries and relations between the EU and its Eastern European partners have deepened significantly. The Summit re-affirms that Deep and Comprehensive Free Trade Areas (DCFTAs) are integral part and the cornerstones of relations under the Eastern Partnership.

Opening of the DCFTA negotiations with Georgia Moldova and Armenia in 2012 was the result of progress achieved by these countries over the last years in getting prepared to launch these negotiations and their efforts towards the implementation of the necessary requirements.

Despite these developments, the investment and business climate remains difficult; operating a small business is still burdensome as other macro-economic challenges persist across the region. Access to finance remains one of the main barriers to growth for SMEs, as confirmed by the OECD in the Enterprise Policy Performance Assessment.

The financial sector is underdeveloped in most of the EaP countries. Undercapitalized banks, inadequate banking supervision and accounting standards, poor governance, low levels of monetization and intermediation, small and illiquid capital markets, and weak protection of creditor rights are still common challenges.

The EaP countries are facing common challenges and they seek to complete their transition to a market economy. According to the World Bank, Armenia, Azerbaijan, Georgia, Moldova and Ukraine initiated corporate financial reforms in 1990s with support of the international community. These efforts have led to some progress in building a nascent accounting profession. Progress has been more limited in establishing an adequate institutional framework and building sufficient capacity conducive to sound financial reporting practices.

³ COM(2011)303 http://ec.europa.eu/world/enp/pdf/com_11_303_en.pdf

⁴ COM(2011)637 http://ec.europa.eu/europeaid/what/development-policies/documents/agenda_for_change_en.pdf

2.2. Lessons learnt

The first two components proposed will be a follow-up of on-going projects: respectively the East-Invest implemented by the Eurochambres from 2010 till 2013 and the Enterprise Policy Performance Assessment Study, coordinated by the OECD and implemented from 2010 till 2012.

As one of the first regional programmes directly supporting cooperation between the EU and the EaP countries SMEs and business associations, East-Invest has generated positive interest among the business community, two years after the start of implementation. The economic integration process is underway though the countries are advancing at varying speeds.

Following the first Progress Report covering the year 2011 and several field monitoring missions in most of the countries covered by the project, several lessons should be retained:

- The level of information and cooperation between the EU Member States and EaP countries remains low; particularly the EU enterprises have limited knowledge on trade and investment opportunities in the six EaP countries. *An important effort is needed to promote the Eastern Neighbourhood region with economic intelligence, presentation of success stories, support to local, national and regional initiatives;*
- The role of local business associations in promoting economic development is essential also for sustainability purposes. The business organisations in the six EaP countries revealed to be fairly weak; they generally suffer from lack of resources, limited services on offer and limited participation and impact on public policies. This applies both to chambers of commerce and employers' federations; specialised organisations, such as women associations, sector federations are even weaker, often with no permanent staff, very low membership and no operating budget. The structures of many business associations are inherited from Soviet times and their credibility and legitimacy in the eyes of the business sector is limited ; discussions with local stakeholders including entrepreneurs, revealed that SMEs often do not perceive the benefits of being member of a business association and are not willing to pay for such membership. As per the first progress report of the East-Invest, developing a strong and independent business support network in the Eastern Partnership countries is considered essential for their long term competitiveness. Therefore, *continuing support to business associations to enhance their management capacities and the quality of their services is essential;*
- East-Invest is a first step in creating a region-to-region cooperation and thereby facilitate intra-regional cooperation as well. *Various regional activities, including the annual conferences have been instrumental in this sense and are worth pursuing in the future; although at incipient stages, exchanges between associations from different EaP countries are taking place;*
- Despite weaknesses of local institutions and organisations, East-Invest has contributed to facilitating dialogue between private sector organisations and the

public sector, by bringing together stakeholders representing the two sectors. In particular *the cooperation between the European Commission, the OECD and Eurochambres initiated by the European Commission facilitated discussions between the private and public sectors on SMEs; for example the outcome of the SMEs events organised in Kiev in April 2012 reuniting public and private sector representatives from all EaP countries were positive and such activities should be continued.*

The results of the EU supported Enterprise Policy Performance Assessment carried out by the OECD in cooperation with the European Commission in 2011-2012 revealed that all EaP countries are taking steps towards developing SME policies, although progress varies considerably and therefore a differentiated approach should be applied. According to their progress and commitment to the development of the SME policy, the Eastern Partnership countries can be clustered into two groups:

- The first group of countries, Armenia, Georgia and the Republic of Moldova, have started creating institutions and mechanisms for SME policy-making; formal public-private consultations are organised and effective policy co-ordination structures with the participation of relevant ministries are in place. *As a next step, this group of countries would benefit from strengthening existing structures and improving the quality of the policy-making process by assessing and addressing SME growth barriers. They are therefore more likely to benefit from advisory services and an in-depth analysis of country-specific SME sector needs. Guidelines for the implementation of sector-specific SME policy reforms to strengthen SME competitiveness are more likely to yield tangible results in this target group.*
- The second group of countries, Azerbaijan, Belarus and Ukraine, have started providing support measures to the small business sector but this is often carried out in an ad-hoc manner without a long-term plan and with only limited co-ordination between relevant public authorities. Central government bodies in charge of SME policy implementation have yet to be established and official consultations with the private sector have little impact and contain little representation from SMEs. *This second group of countries would benefit from support to consolidate the institutions in charge of SME policy development. An exchange of best practices with and peer pressure from economies with more sophisticated SME policies, through participation in regional level activities, should be instrumental in this sense.*

Should the institutions and mechanisms for SME policy making in Azerbaijan, Belarus and Ukraine evolve sufficiently, more consistent bilateral activities - such as advisory services and an in-depth analysis of country-specific SME sector needs, elaboration of guidelines for the implementation of sector-specific SME policy reforms - will be extended to these countries.

The third component of the project, the STAR programme, is based on the experience of the World Bank in the mirror programme called REPARIS (Road to Europe – Program of Accounting Reform and Institutional Strengthening) that is implemented through a Multi-Donor Trust Fund operated by the World Bank. The REPARIS has already demonstrated in the case of the Western Balkans that significant results and

tangible reforms could be accomplished in the area of accounting and auditing tasks through regional targeted activities complemented by country level engagement. Building on this model, "Strengthening Auditing and Reporting in the Eastern Partnership Countries" (STAR Program) will seek to use lessons learned and expertise developed during the implementation of REPARIS.

Drawing on the World Bank's experience in the Balkans and assessment of the target region, it was concluded that:

- Domestic credit to the private sector in the form of financial resources through loans or trade credits is limited; credit provided by the banking sector to all sectors and banking intermediation as compared to the level of economic activity are still relatively low (percentage of companies having credit lines varies from 20% in Azerbaijan to 44 % in Armenia). The cost of intermediation is high, with interest rate spreads between depositing and lending ranging from 5.6% to 15.2 %. The countries offer attractive real deposit rates but have small banking sectors. Non-performing loans in comparison with the total loan portfolio remain at high levels. *In this context, improved accounting, reporting and auditing practices of financial institutions are critical to ensure that the increased business risks faced by financial institutions are appropriately monitored and managed. Improved financial reporting contributes to financial sector stability, supporting the effective supervision of banks, insurance companies and other financial institutions. It also opens new perspectives and opportunities for investments and credit activities.*

2.3. Complementary actions

At the multilateral level, four Platforms were set-up under the Eastern Partnership to promote dialogue and exchanges between the EU and the Eastern Partnership countries. Among these, Platform 2 on *Economic integration and convergence with EU policies* provides a forum for discussions which deals among others with approximation to the EU acquis on trade related matters, small and medium sized enterprises, transport, environment and climate change.

At the same time the Enterprise Policy Performance Study coordinated by the OECD has assessed the regulatory and policy framework of the six Eastern Partnership countries. The purpose of the study was to develop a SME Policy Index for the region and provide an instrument for identification of specific and targeted measures to address key policy priorities and critical bottlenecks faced by SMEs in the Eastern Partnership countries.

In parallel, the Commission has launched in 2010 the SME Flagship Initiative with 3 components addressing shortcomings identified for the business environment in the region:

- *East-Invest* aiming at promoting trade and investment through SME networking and consolidation of business associations;

- *Small Business Programmes* (former Turn Around Management and Business Advisory Services – TAM-BAS) providing tailored technical assistance and individual consultancy services;
- *SME Finance Facility* seeking to improve access to finance through provision of guarantees schemes and technical assistance to increase bankable projects.

The projects covered under this fiche will contribute to the objectives of the flagship.

Other regional projects address the access to finance and are complementary to the SME Finance Facility:

The European Neighbourhood Fund (ENBF) is an investment fund set up as a sub-fund of the European Fund for Southern Europe (EFSE). It offers various financial instruments to Partner Lending Institutions (PLIs) registered in EaP countries, for on-lending to SMEs and micro-enterprises. ENBF can also refinance housing loans to low income private households.

A set of bilateral actions are complementary with the proposed programme:

Armenia – a Sector Budget Support Programme under the 2012 budget aims at enhancing trade relations between Armenia and the EU in the context of the negotiations for a Deep and Comprehensive Free Trade Area (DCFTA). Further Sector Budget Support Programmes are planned under the 2013 budget in the areas of regional development and agriculture & rural development.

Azerbaijan – Rural Development Support Programme was adopted under the Annual Action Programme (AAP) 2011 and further support is planned under the AAP 2013. These programmes are meant to contribute to the diversification of the economy and sustainable regional development and will address several goals identified in two State programmes: State Programme on development of regions of the Republic of Azerbaijan, 2009-2013, and State Programme on poverty reduction and sustainable development, 2008-2015.

Georgia - EU support to Regional Development programme is being implemented since 2011 with a main objective to narrow social and regional disparities in the country. Future programme planned for 2013 will cover in particular the economic development.

Moldova - a Sector Budget Support Programme for Economic Stimulation in Rural Areas is being implemented since 2010 with an objective to contribute to the sustainable economic development of rural areas in Republic of Moldova.

Moldova - Pilot Regional Development Programme (PRDP) programme was adopted as part of the 2012 Moldova AAP. The overall objective is to support Moldova in advancing its economic, social and territorial cohesion. Focus is on policy, legal and institutional framework for an effective development policy in Moldovan regions.

Belarus - Capacity development to support the implementation of Public-private partnership (PPP) system in Belarus shall start in 2013 for a period of 2 years. The programme will be implemented by the UNDP. The overall project objective is to increase the capacity of all stakeholders involved in the PPP process, including public officials, the financial sector, the business and academic communities, the civil society

and the public at large, with a view to promote, develop, deliver, operate and manage public-private partnership projects for infrastructure development.

Close coordination between all these projects will be sought to avoid duplication. Particular attention will be paid to coordinate bilateral and regional activities, especially related to the DCFTA, and the EU Delegations concerned will be also closely associated in the implementation. Coherence and complementarity with future bilateral programmes in the next programming period will also be sought.

2.4. Donor coordination

The platform 2 established under the Eastern Partnership with its panels and seminars and particularly the SMEs Panels, together with the national coordination structures on foreign assistance managed either by the respective EU Delegations and/or the relevant Eastern Partnership country authorities, are the most suitable structures for coordination between different organisations implementing projects in the region for support to small and medium sized enterprises. Platforms meetings are held twice a year at the level of senior officials involved in the reform process, in the relevant policy areas. Several SME Panels have also been organised under the Platform and will most probably continue to be organised in the coming years.

The SME Panel meets at the level of experts. The Partner countries have appointed a national SME coordinator for the purposes of the Panel. Participation varies depending on the subjects covered, but consists of experts from Partner countries' ministries and institutions involved in the different subjects covered by the Panel. The European Commission invites EU business organisations as well as the Civil Society Forum to participate in the Panel. Organisations like the Committee of the Regions, the European Economic and Social Committee, the European Bank for Reconstruction and Development, the Organisation for Economic Co-operation and Development; the European Investment Bank etc. are permanent or ad hoc participants in the works of the Platform. In addition to the Enterprise Policy Performance Assessment Study, the Panel will also offer a platform for discussion and reporting on the implementation of the East-Invest project.

Currently, the practice has been established to organise back-to-back several meetings / steering committees related to different projects targeting the SME sector in the Eastern Neighbourhood regions. All EU delegations are also invited to participate in the exercise. This practice allows for exchanges in view of coordination of the activities under the different projects to increase synergies and avoid duplication. Such cooperation may include the use of outputs from one project as inputs or tools for implementation of another related SME project and is foreseen to continue between all three proposed components of the current programme.

Regular exchange of information will be ensured between the platform 2 and the national coordination structures put in place in each of the Eastern Partnership countries. In addition, the invitation to participate in the meetings organised under the SME Panel may be extended to other international organisations active in the region in the area of SMEs.

3. DESCRIPTION

3.1 Objectives

Overall objectives

The general objectives are to support the development of a more conducive economic environment and competitive private sector while enhancing trade flows and investments between the EU Member States and the Eastern Neighbourhood.

Specific objectives:

Component 1: East-Invest II

- Empower the SME associations in the EaP countries and increase their capacity to take an active role in promoting a conducive business environment;
- Improve public-private dialogue in the EaP countries and enhance capacities of business associations to represent SMEs in dialogue with their governments;
- Ensure increased and sustainable capacity of SME associations in the EaP countries to provide better specialised services to their SMEs members;
- Facilitate long-term partnerships and trade between the SME and/or business associations from EU and SME and/or business association from the EaP countries, as well as within the EaP SME and/or business associations;
- Support the participation of SMEs in the DCFTA process while ensuring the familiarisation of business associations and SMEs with EU acquis and obligations deriving from the DCFTA agreements.

Component 2: Supporting the SMEs in Competitiveness Reforms in the Eastern Partnership Countries

Building on the achievements of the Enterprise Policy Performance Assessment Study, the proposed project will:

- Assist the EaP countries with the implementation of policy reforms based on policy recommendations resulting from the study;
- Increase government responsiveness to SMEs' needs and requests and an improved public private dialogue at national level;
- Strengthen policy dialogue and peer review at regional level with regard to SME competitiveness in the EaP region;
- Increase cooperation between SME stakeholders from the region and facilitate exchange of best practices.

Component 3: Strengthening Auditing and Reporting in the Eastern Partnership Countries

- Build stakeholder awareness of, and commitment to, corporate financial reforms (CFR);
- Provide EaP senior officials with technical advice on the content of CFR reforms and the process to conduct them;
- Improve the capacity of key CFR institutions, particularly the accounting profession to fulfil their mandate effectively and be better equipped to provide business support services required by SMEs;
- Ensure broad-based knowledge sharing activities on international and EU auditing and reporting standards;
- Support access for SME borrowers to bank and investor finance through modernised accounting and financial reporting.

3.2 Expected results and main activities

Component 1: East-Invest II

Expected results:

- Main SME business associations including chambers of commerce, employers' organisations are familiarized with their role in dialogue with the governments, and with advocacy skills;
- Business organisations, particularly SME associations cooperate to voice a common message in dialogue with the governments;
- Business associations have developed a sound membership base and offer relevant services to local SMEs, thus developing a sustainable business model;
- Main SMEs business organisations and SMEs are familiarised with the DCFTA and the related EU acquis in the selected industry sectors;
- Long lasting partnerships and sustainable business cooperation are set-up between SMEs from the EaP region and from the EU Member States in the framework of the East-Alliance, to facilitate exchange of best practices; transfer of skills and technology, commercial activities etc.;
- Increased awareness and understanding among the EU private enterprises on the trade environment and investment opportunities available in the Eastern Partnership countries.

In order to achieve these results, the project shall undertake the following activities:

- *Capacity building for business associations*, through twinning, academies, exchange facilities, specialised seminars, study visits and networking conferences initiated under the first phase will be continued. Activities will focus particularly on services development and membership, BSO (Business Support Organisations) management, advocacy and lobbying development skills, DCFTA related issues etc.
- *Technical assistance and trade support targeting SMEs*; such activities may include trainings focusing on learning by doing on internationalisation and EU-EaP trade, B2B meetings at specialised trade-fairs, investment forums and conferences, technical support facility for enterprises interested in starting intra EU-EaP trade etc. These activities will be organised with a sector focus to increase their effectiveness. EaP trainers who were trained under the first phase of the East-Invest programme will take an active role in the organisation and delivery of such trainings to local SMEs;
- *Policy dialogue* through organisation of national or regional conferences bringing together the private and public sector representatives to discuss economics and SME relevant policy topics, including some related to the DCFTA. These events are foreseen to be organised in cooperation with the OECD under component 2, depending on their planned activities; close coordination will be ensured as well with the SME Panel organised under Platform 2 of the Eastern Partnership multilateral track;
- *An Eastern Partnership intelligence portal* will be built on the investment intelligence developed by the first East-Invest project. It is to provide relevant investment and trade information on the 6 countries: investment legislation, business opportunities, foreign direct investments (FDI) success stories, relevant links to support organisations, trade related “news”, etc.;
- *Large scale surveys on DCFTA and EU integration* may be undertaken in support of the policy conferences, to understand the level of knowledge among the business community on these matters, and to understand their biggest concerns/expectations towards the authorities’ policies.

Component 2: Supporting the SMEs in Competitiveness Reforms in the Eastern Partnership Countries

Expected results:

- Country specific guidelines for reforms and SME roadmaps to enhance SME competitiveness in priority sectors are elaborated for at least three countries;
- Increased capacity of policy makers in all EaP countries to undertake SME competitiveness reforms through a better understanding of relevant policy instruments and implementation methods in at least three countries;
- Structures for Public-private dialogue are established / consolidated and public consultations involving the private sector are part of the policymaking process at

country level, as a vehicle for discussion, negotiation and development of SME policies;

- At least one outstanding barrier to SME competitiveness and growth is identified by the working groups in each country and discussed with the government for each selected sector and policy area;
- SME policies are elaborated/improved according to international/EU best practices and proposed for discussions with the government in all six countries;
- Good understanding among government officials of the SME policy making principles and needs is improved in all six countries.

The main activities that will be undertaken for the achievement of the above mentioned results are:

- *Data collection, analysis and review missions* to develop sector-based policy reform guidelines in support to implementation of policy recommendations of the Eastern Partnership Enterprise Policy Performance Assessment project, in at least three countries;
- *Public-private working groups* organised by sector and policy area, in at least three Eastern Partnership countries to set the basis for a consultative mechanism for the development of policy reform roadmaps; close cooperation with the East-Invest II programme will be ensured for this activity;
- *Capacity building activities through policy seminars* for policy makers at the regional level. The policy seminars will focus on specific policy tools and implementation methods to advance SME competitiveness reforms in Eastern Partnership countries;
- *Regional conferences will be organised annually with the participation of all Eastern Partnership countries, EU Member States, OECD partner organisations, donors, and other interested organisations.* Participants will meet regularly and perform peer review to share findings from country-specific SME competitiveness assessments, and provide a forum for the exchange of best practices between Eastern Partnership countries, the EU and OECD member countries.

Component 3: Strengthening Auditing and Reporting in the Eastern Partnership Countries

Expected results:

- An EU *acquis*-compliant regulatory framework will be promoted to foster an improved financial information flow targeted at the needs of SMEs in particular;
- Improved application of international financial reporting and auditing standards will be achieved, including through quality assurance systems, thus building a

credible information infrastructure that supports external financing and investments, especially for SMEs;

- Enhanced capacity of financial reporting specialists to provide relevant business advice tailored to the needs of SMEs;
- Increased capacity of relevant government agencies in regulating the accounting profession and in the application of international financial reporting standards for their specific purposes (e.g. tax and prudential regulations);
- Enhanced capacity of the professional accounting organizations and the supporting network of institutions;
- Establishment and nurturing of long-term partnerships with, or memberships of, relevant EU and global peer organizations to achieve sustainability of the accounting education reforms.

The main activities that will be undertaken for the achievement of the above mentioned results will be based on three main dimensions - knowledge sharing, peer learning and implementation support - and may include:

- *Communities of Practice (CoPs)* to foster peer exchange and learning. Specific CoPs will address different issues and challenges (e.g., accounting and auditing issues in the context of the financial sector). CoPs will be convened through face-to-face workshops and virtual (video-conference) seminars; participants will include professional accounting and audit bodies, financial institutions etc.
- *Study trips* to European countries that have addressed similar challenges as those faced by Eastern Partnership countries and have a track record of successful financial reporting reform implementation;
- *In-country technical sessions* with participating country senior officials, to facilitate policy decisions and capacity building;
- *International conferences* on relevant topics, to build and sustain reform momentum and showcase progress and success stories;
- *A web-based information portal* containing a repository of information that will provide advice, tools, and methodologies to support ongoing implementation of reforms; and
- *Other targeted, country-level technical advice and reform implementation support*, in the form of training courses, support to drafting of legislation and regulation, development of methodologies and analytical work.

3.3 Risks and assumptions

The assumptions underlying this project intervention are as follows:

- The Association Agreement and particularly the negotiation and implementation of the DCFTA will bring about increased political and economic stability in the region;
- Private and public sectors from the Eastern Partnership countries overcome reluctance to collaborate on trade and investment promotion;
- Governments demonstrate willingness to put SMEs at the centre of their strategy programmes.
- Counterparts in the Eastern Partnership countries will take a genuine commitment to implement accounting and financial reforms.

The risks associated with these assumptions are as follows:

- The authorities will not take measures and will not allocate sufficient resources to implement the measures and recommendations resulting from the programme;
- There is a limited absorption capacity among EaP business organisations and enterprises;
- Difficulties will be encountered in engaging private sector participation in policy reforms;
- There will not be sufficient national statistical data for an effective assessment of the SMEs sector barriers to SME competitiveness and growth;
- EU companies are still reluctant to invest and cooperate with enterprises from the EaP region.
- Accounting organisations, banks and other involved financial institutions do not have sufficient resources or do not see an interest in participating in the programme – component 3.

Based on these assumptions and risks, risk management plan will be developed in the Terms of References/Description of the Action of each component. This will be further detailed and completed by the implementing organisations and include a monitoring plan per risk category and main preventing and mitigating actions.

3.4 Cross-cutting Issues

The activities under the three components across all six Eastern Neighbourhood countries, and within the EU, will be implemented according to the following principles. All activities will promote:

Democracy and social cohesion: a large number of business representatives and policy makers will be brought together throughout the projects. The exercise is expected to enhance social cohesion through increased transparency and trust between public and private sector;

Poverty reduction and inclusive growth: activities will target with priority SMEs from poorer regions, with a GDP level lower than the national average, with a focus on job creation;

Gender equality: the programmes will prioritise involvement of women associations/entrepreneurs; specific measures will aim at promoting female entrepreneurship;

Regional co-operation: regional conferences and events will increase intra-regional communication between policy makers and private sector from the six countries;

Environmentally friendly: all commercial activities resulting from the programmes will be required to adhere to the environmental legislation in force in the country of operation, in line with relevant international agreements; moreover the programmes will seek to promote adoption of international environmental standards.

3.5 Stakeholders

The key stakeholders for this programme will include:

- Small and Medium Enterprises from EU and EaP countries;
- Ministries that relate to economic development (i.e. Expatriates, Trade, Finance, Industry, Investment) as well as government enterprise development institutions (such as investment promotion agencies, export councils) at national and local level;
- Private sector associations and civil society, including national and regional business organisations, chambers of commerce and industry, etc. from the EU and from the EaP region;
- Women investors and women business associations and the expatriates who could generate investments through remittances in their home countries;
- International organisations working on trade facilitation and investment promotion in the beneficiary region,
- Professional bodies for accountants and auditors, banks etc.

4 IMPLEMENTATION ISSUES

4.1 Method of implementation

Component 1 – direct centralised management

This component will be implemented under direct centralised management through a service contract awarded to a consortium composed of three European business organisations: Eurochambres (consortium leader), Business Europe and UEAPME (Union Européenne de l'Artisanat et des Petites et Moyennes Entreprises).

The three federations are the only European umbrella business organisations encompassing cross-sectorial organizations and with members in all the EU countries. As such, they are representative of the business community in the EU. No other European organizations fulfil these criteria.

Their affiliate member organizations are the natural counterparts of the EaP business associations targeted by the project and with which they seek to engage in long term partnerships.

These three organisations together with their affiliate members have complementary expertise necessary for the achievement of the objectives of the project. They will rely therefore for implementation on the capacity of their member organisations.

The comparative added value of this consortium is that it covers the whole range of expertise and networking capacity necessary for the achievement of the objectives proposed under this component.

Component 2 - joint management

This component will be implemented under joint management through the signature of a standard contribution agreement with the Organisation for Economic Co-operation and Development (OECD) in accordance with Article 53d of the Financial Regulation 1605/2002. This international organisation complies with the criteria provided for in the applicable Financial Regulation and is covered by a framework agreement concluded with the Commission (Agreement of 4 April 2006).

The OECD Eurasia Competitiveness Programme will act as project co-ordinator, working in close collaboration with the EU and in consultation with the European Bank for Reconstruction and Development (EBRD) and the European Training Foundation (ETF).

The European Union has a long standing cooperation with the OECD in the economic development sector, including in the EaP region. The organisation has also coordinated the Enterprise Policy Performance Assessment in the Eastern Partnership countries which serves as a basis for the implementation of this project. A specific methodology developed by the OECD and modelled on the Small Business Act was applied for the assessment of the enterprise policies in the EaP countries and the same methodology will also be used for the implementation of the follow-up project.

The added value of implementing this component with the OECD is the internationally recognised expertise of the organization in enterprise policy reforms. Their proven capacity and long term actions in favour of small and medium sized enterprises, the established network with EU practitioners promoting the Small Business Act principles, their past successful cooperation with the EU and Member States are all reasons in favour of implementing activities under the SME Flagship Initiative through a joint management with the OECD.

In addition, as an international organization it can have direct access to the high level decision makers and administrators which is essential for the success of this project.

OECD is expected to co-finance the activities with a contribution expected to represent 10% of the total amount of the project, although the precise amount of this contribution is not known yet.

The change of management mode constitutes a substantial change except where the Commission "re-centralises" or reduces the level of tasks previously delegated to the beneficiary country, international organisation or delegatee body under, respectively, decentralised, joint or indirect centralised management.

Component 3 – direct centralised management

This component will be implemented under direct centralised management through the signature of a grant contract with the World Bank for participation to a multi-donor trust fund. The trust fund will be executed by the World Bank (BETF - Bank-Executed Trust Fund”) through its Centre for Financial Reporting Reforms.

The added value of implementing this component with the World Bank is the specific expertise and experience gained through the implementation of a similar project in the Western Balkans; but also the capacity of the World Bank to have direct access to high level decision makers and administrators, which is essential to achieve results.

A similar programme –REPARIS– is being implemented in the Western Balkan countries through a multi-donor trust fund. The programme has already demonstrated that significant results and tangible reforms could be accomplished in the area of accounting and auditing tasks through regional targeted activities complemented by country level engagement.

In addition to the EU support, the World Bank has secured funding from the Austrian Development Bank and the Austrian Ministry of Finance, although the amount of these contributions has not been confirmed yet. The World Bank is also in active contact with other possible contributors.

4.2 Procurement and award procedures

All contracts implementing the action must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

Participation in the award of contracts for the present action shall be open to all natural and legal persons covered by Regulation (EC) No 1638/2006 of the European Parliament and of the Council of 24 October 2006 laying down general provisions establishing a European Neighbourhood and Partnership Instrument. Extension of this participation to other natural or legal persons by the concerned authorising officer shall be subject to the conditions provided for in Article 21(7) of the ENPI Regulation.

Component 2 (joint management)

All contracts implementing the action are awarded and implemented in accordance with the procedures and standard documents laid down and published by the international organisation concerned.

4.3 Budget and calendar

The total budget for this action is EUR 10 million. The indicative budget allocation per component is as follows:

Component 1 – EUR 6.5 million (direct centralised management)

The indicative implementation period is 36 months from the signature of the contract (service contract), which is expected to take place in first half of 2014.

Component 2 – EUR 2.5 million (joint management)

The indicative implementation period is 36 months from the signature of the contract (standard contribution agreement), which is expected to take place in the second half of 2013.

Component 3 – EUR 1 million (direct centralised management)

The indicative implementation period is 60 months from the signature of the contract (administration agreement), which is expected to take place in the second half of 2013.

4.4 Performance monitoring

Objectively verifiable indicators (OVI), both qualitative and quantitative, will be proposed in the Terms of Reference/Description of the Action of each component and further detailed in the methodologies for implementation of each component. The final OVIs will be designed in accordance with the defined objectives and expected results.

A Steering Committee will be established to endorse strategic orientations, oversee projects execution and facilitate implementation of the activities.

A common Steering Committee reuniting all three components may be organised in order to improve synergies and favour cooperation under the programme. Representatives of the European Financing Institutions involved in the SME Financing Facility/Business Advisory Services and Enterprise Growth Programmes may be invited to participate in the meetings as well.

Internal monitoring will be ensured by the European Commission and the implementing organisations. External monitoring will be undertaken under the Results Oriented Monitoring (ROM) mechanism.

4.5 Evaluation and audit

Evaluation of the results achieved may be entrusted to independent consultants, as well as external audits (which will be carried out if necessary).

Evaluation and audit activities will be funded from other budgetary sources.

4.6 Communication and visibility

For component 1 (East-Invest II), the project's internet website shall be the main tool to ensure communication, visibility and dissemination of the project's achievements and of its current and forthcoming events.

For all components, the implementing organisations/consortium will ensure visibility in strict compliance with the *Communication and Visibility Manual for EU External Actions*. For actions implemented under joint management (component 2) and where

applicable the provisions included in the framework agreements signed with the international organisation will apply.

In addition to the website, each project will circulate an electronic newsletter intended not only for the key stakeholders, but also for future reference.

The projects will prepare their own communication strategies and develop specific awareness-raising, information and dissemination activities in order to inform partner countries and potential stakeholders of the opportunities that it provides.

Communication will also be ensured through the ENPI Info centre web portal (www.enpi-info.eu).