

# The study on viability of MSMEs supported by PIN Armenia in 2012-2022

February-April 2023



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## **1. List of Abbreviations**

BDS – Business Development Services  
BMC – Business Model Canvas  
BP – Business Plan  
EU – European Union  
FT – full time (job)  
IMC - The Institute of Management Consulting  
LLC – Limited Liability Company  
MFI – Micro Finance Institution  
MSME – Micro, Small or Medium Enterprise  
NGO – Non-Governmental Organization  
OO – Overall Objective  
PIN – People in Need  
PE – Personal Enterprise  
PT – part time (job)  
SO – Specific Objective

## 2. Introduction

From the period of 2012 to 2022, significant political, social, and economic changes occurred in Armenia, starting with the transformative 'Velvet Revolution' in 2018, followed by the impact of the Covid-19 pandemic and the 44-Day War with Azerbaijan in 2020.

This study examines the sustainability of small and medium-sized enterprises (MSME) supported by PIN and indicates an overall positive trend in their viability. PIN-supported businesses have shown better-than-average rates of operation. However, there is room for improvement in terms of skills training for program participants, considering the challenges faced during the program such as the pandemic and war.

The study findings cover various aspects, including the performance and limitations of MSMEs, employment, the participation of women in MSMEs, access to financial services and accounting, the support and business skills provided, and suggestions for future improvements.

Overall, the findings present a mostly positive outlook. The study highlights that rigid job creation requirements for start-ups were counterproductive, but the Business Model Canvas was highly regarded as a useful tool by trainees. Furthermore, the respondents expressed great value in training and post-grant support, and emphasized the importance of networking among beneficiaries.

The MSME study was conducted by People in Need's Markets and Enterprise Advisor, Bělíček Pavel, together with the PIN Armenia team from February to April 2023.

### 2.1 Purpose and Objectives of Study

Globally, improving livelihoods and environments is one of the **PIN strategic pillars** (pillar II. Climate Resilience) and a programming priority for almost all PIN's country offices worldwide. When doing so, PIN seeks **to engage with and provide support to private sectors that play a critical role in the socio-economic development** of every society. Engagement with private sector actors results in **high sustainability of our actions, creation of new employment opportunities for the vulnerable population, development of both practical and theoretical skills of employees and higher viability of the SME**. Finally, such activities target the **eradication of poverty and hunger, women's economic empowerment and support of gender equality and inclusion**, which are aligned with the objectives of **Sustainable Development Goals (SDG 1,2, 5, 10)**.

In Armenia, PIN has been active since 2003 implementing a huge portfolio of interventions. Most of our projects are targeting the **skills development of the vulnerable groups of populations** (displaced people) to improve their socio-economic situation and strengthen their independence with the help of donor'said or state assistance. We have actively supervised the **establishment of several businesses** in Armenia (for instance: Amasia, a wool factory in Shirak and a bakery in the town of Metsamor) **to stimulate the equal employment opportunities for vulnerable groups** included displaced people and women who are often excluded from the labour market.



Another part of our work in the sector is supporting micro, small and medium-sized enterprises (MSME) by strengthening their operation capacities and providing small grants, so that they are able to intact their business ideas. Since 2012, we have awarded the small grants to more than 100 local MSMEs and local initiatives, mostly under the core funding from the donors. The MSMEs supported by PIN in Armenia cover a myriad of business fields and sectors, including hospitality, tourism, handicrafts, construction and many others. “The Study on Viability of MSMEs supported by PIN between 2012 - 2022” will be targeting all the businesses who received funds from PIN. The main aim will be to collect the data about these businesses and analyze PIN’s approach while working with them. The study will achieve following objectives:

- To summarize all the organizational and financial data about MSMEs (and local initiatives) that PIN supported in the period of 2012-2022.
- To assess current resilience of SMEs and recommend on how to support SMEs` resilience in future programming.
- To analyze the amount of funds disbursed to all these businesses, scope of their business, success rate on the market, employment experience, challenges they faced, etc.
- To analyze different products development and marketing approaches.
- To assess GESI (Gender Equality and Social Inclusion) component of PIN’s work with MSME.
- To elaborate on the legal frameworks for MSMEs: challenges, lack of capacity.
- To provide constructive recommendations and insights on the recent trends and future of PIN’s work in this sector, including recommendations of the gender and inclusion matters for more systemic approaches with future interventions.

## 2.2 Political and Socio-Economic Development in Armenia, 2012-2022

Armenia is a small, landlocked country of approximately 2.98 million people. The period since its independence from the USSR in 1991 has been marked by conflict in Nagorno-Karabakh, closed borders with Azerbaijan and Turkey, high levels of migration, and changing economic conditions. The Azeri-Armenian conflict over this territory was settled by 1994 ceasefire agreement. The Madrid Principles prepared by the Minsk Group co-chairs in 2007 were meant to pave the way for a peaceful settlement of the conflict. Nevertheless, they did not sort out the status of Nagorno-Karabakh, instead they set a time bomb. The tensions between Azerbaijan and Armenia erupted in September 2020 in an open conflict between these two countries. **The 44-day war in Nagorno-Karabakh (NK)** resulted in severe casualties on both sides. According to data released by the belligerents, Armenia and de facto Republic of Artsakh lost 3,825 troops, with 187 servicemen missing in the action. In addition, it led to the **forced displacement of 90,000 of ethnic Armenians** from NK to Armenia, where many of them continue to remain today.<sup>1</sup>

Recently, Armenia must deal with the reality of the November ceasefire agreement, negotiate a return of the prisoners of war remaining in Azerbaijan, and manage the flow of displaced persons from Nagorno-Karabakh, who can expect more help from civil society and the diaspora than from the state. While Armenia and Azerbaijan, respectively, increased their dependence on Russia and Turkey through war, a direct dialogue between them to find a permanent solution to the NK status looks unlikely. In 2018, Armenia received global attention for the “Velvet Revolution” that brought an opposition coalition to power. The “Velvet Revolution” was a series of anti-government protests in Armenia from April to May 2018 staged by various political and civil groups led by a member of the Armenian parliament — Nikol Pashinyan (leader of the Civil Contract party). The protest actions and marches took place initially in response to then-President Serzh Sargsyan's third consecutive term as the most powerful figure in the government of Armenia and later against the Republican Party-controlled government in general.

The country has been severely impacted by the Covid-19 pandemic has forced the Armenian economy into shutdown and led to a steep economic contraction of 8 % in 2020. Despite signs of a gradual recovery and the development of new vaccines, there are still uncertainties on the pathway to a full economic recovery.

Since February 2022, Armenia has been experiencing a **huge influx of Russian citizens coming to Armenia to escape EU sanctions** imposed on the Russian Federation and avoid mobilization announced in September 2022. An unknown number of arrivals from Russia (and, to a smaller extent, from Ukraine) are ethnic Armenians who decided to return to their country of origin. In the first ten months of 2022, some 786,000 Russian citizens entered the territory of Armenia and 744,000 returned or left elsewhere, thus there are approx. 42,000 Russian citizens remaining in Armenia.<sup>[1]</sup>

At the end of 2022, tensions with neighboring Azerbaijan resulted further in (1) shelling and infringements on the territory of Armenia, which led to **displacement of 7,600 people**

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<sup>1</sup> [https://data.unhcr.org/en/documents/details/84390#\\_ga=2.241026501.718675798.1676796945-840905456.1675143158](https://data.unhcr.org/en/documents/details/84390#_ga=2.241026501.718675798.1676796945-840905456.1675143158)



(09/2022) and (2) **blockade of the Lachin corridor** connecting Armenia with the territory of NK, which can cause uncontrolled displacement of thousands of people (12-2/2023).

## 2.3 Overview of Assessed Projects

Overall objectives (OO) are following:

- ❖ Protect rights of Armenian citizens working abroad, ensure economic stability, support reintegration of labor/circular migrants, prevent irregular migration.
- ❖ Facilitate voluntary returnees to Armenia, reintegration through social, educational, and business support in all regions of Armenia.
- ❖ Boost employment and economic competition in the crafts sector in Shirak region.
- ❖ Strengthen civil society participation in poverty reduction and sustainable development in Syunik marz.
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Specific Objectives (SO) are:

- ❖ Empower stakeholders in Armenian migration for better development, increase knowledge on migration issues, enhance migration officers' capabilities, empower returnees.
- ❖ Create sustainable jobs in Shirak.
- ❖ Enhance competitiveness of SMEs in the wool value chain in Shirak.
- ❖ Foster collaboration between civil society organizations and local authorities in Syunik for sustainable development, particularly in the tourism sector.

### 3. Methodology

- Desk review: Project Documents, Business Plans (5 from each project), and monitoring report of one of the projects (Jan 2022),
- Phone survey – supported MSME -> database,
- 3 in-depth interviews with business experts,
- 23 in-depth interviews with selected MSME (incl. 2 which already finished business),
- Interview with Lentex company about PIN founded wool processing factory,
- Categorizing MSME according reported financial results and provided information,

#### **Rough Income:**

HIGH: profit 800 EUR or more per month

MEDIUM: 400-800 EUR

LOW: 50-400 EUR

NONE less than 50 EUR

#### **Enterprise Stability:**

This is considering: revenue, perspective of respondent, age of business, indebtedness, investments from profit, and number of employees.

GROWING: enterprise is growing and has potential to continue in it,

STABLE: enterprise is providing stable income, but it does not seem to be expanding,

STRUGGLING: enterprise struggles financially, it is vulnerable and may not survive in future,

BANKRUPTED: enterprise is no longer operational,

STARTUP: although revenues are low so far, the enterprise is relatively new (<2 years), which makes it too difficult to predict future development,

#### **Limits of research, risks of possible inaccuracies in collected data:**

- o Study examines a long period of programming, and not all data about beneficiaries were recovered.
- o Some old contact information may not be valid, only about 70% of grantees were actually reached.
- o Phone research to collect basic data has its own limits, there is always a risk of misunderstanding/mishearing online,

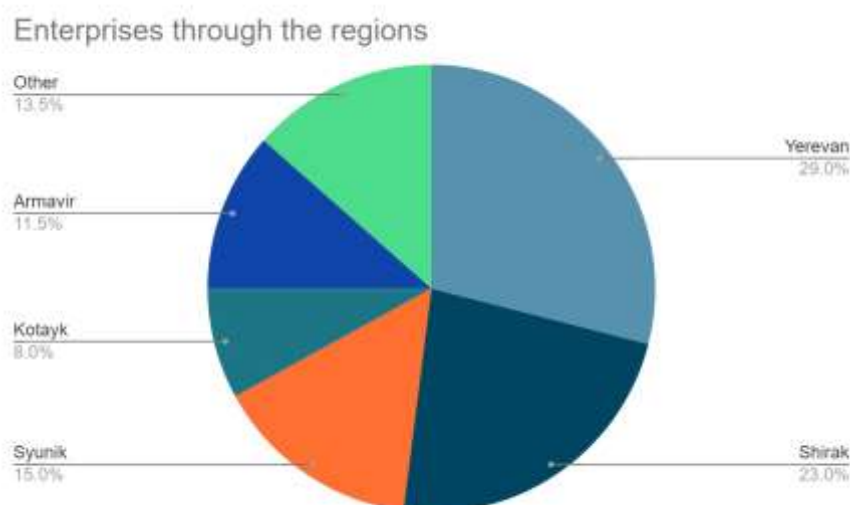


- o Respondents of phone survey were not ready and unsure what information to share, only low number of them actually provided information about their financial records and employment.
- o In person interviews were translated from Armenian to English language giving a space for errors, also some business terms could have been misunderstood.
- o Respondents may have provided incorrect/inaccurate data for various reasons (e.g. to look better, to be grateful, to hide information from competition or authorities). Although they have been assured that information will stay confidential, there were clearly differences between data provided by phone and in person.

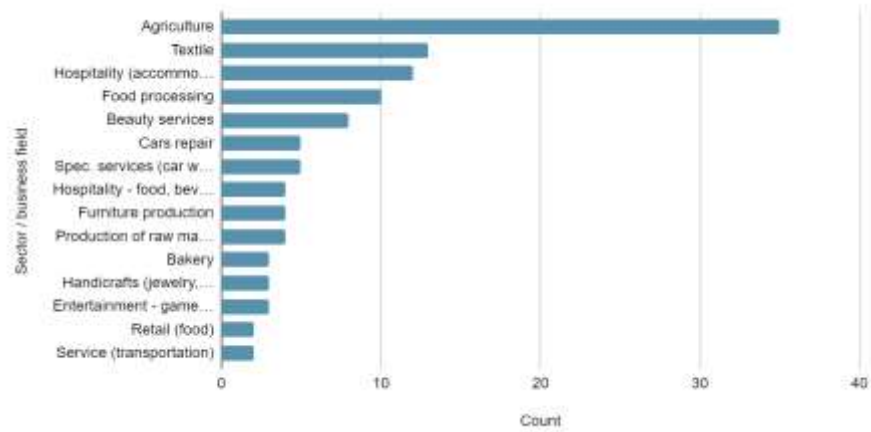
## 4. Findings

### 4.1. General Information

- The information about 113 beneficiaries was gathered in database,
- **77 are registered as PE**, 4 as LLC, the rest includes small farmers for whom the registration is not obligatory,
- **41 (36%) businesses are led by woman**, but the list includes many family businesses, so the women representation is certainly higher (as PIN mostly keep contacts for only one representative per business),
- Geographically, 33 (29%) enterprises are in Yerevan, 26 (23%) in Shirak region, 17 (15%) in Syunik, 13 (11.5%) in Armavir, 9 (8%) in Kotayk, and the rest falls in other regions. However, this distribution is affected by two projects, which were regionally limited to Shirak and Syunik,



- 35 (31%) of grantees are/were involved in agriculture, 13 (11.5%) in textile industry, 12 (10.5%) in provision of accommodation, and 10 (9%) in food processing.



- With **79 (70%)** of them, the contact was successfully established by phone for the purpose of assessment, as marked in the database,
- **58 (73%)** businesses out of 79 reached are still operational,

	P1	P2	P3	P4	Total
<b>Total in DB</b>	<b>12</b>	<b>6</b>	<b>7</b>	<b>88</b>	<b>113</b>
<b>Reached</b>	<b>11</b>	<b>5</b>	<b>4</b>	<b>59</b>	<b>79</b>
<b>Closed</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>17</b>	<b>21</b>
<b>Operational</b>	<b>10</b>	<b>3</b>	<b>3</b>	<b>42</b>	<b>58</b>
<b>Survival rate</b>	<b>91%</b>	<b>60%</b>	<b>75%</b>	<b>71%</b>	

## 4.2 Performance of MSMEs

### Survival rate

- Survival rate is the **ratio of businesses, which are operational/stayed operational** until the time of assessment, and can be compared to statistical average created from large sets of data,
- The average values were calculated by one of the researchers using publicly available **statistical data** from US, UK and Russian governments for standard registered businesses.<sup>2</sup> The averages are changing based on the time passed since establishment/registration of enterprises:
  - In 2 years about 70%-75% of survival rate
  - In 3 years about 60%
  - In 5 years about 48%
  - In 7 years about 42%
- The reason for terminating the business is not considered, and may not be always caused by poor management (it can be fully external, e.g. illness, moving, better opportunity, etc.)
- The survival rate of MSMEs **per project** is (the time is calculated since the project award):

○ Project 1	91% (2 yrs.)	+16%	(good result)
○ Project 2	60% (3 yrs.)	+0%	(usual value)
○ Project 3	75% (8 yrs.)	+ 33%	(very good result)
○ Project 4	71% (2-3yr. on average)		(usual value)

### Rough Income:

- Rough income was estimated as **average monthly profit** of assessed MSMEs in EUR, and sorted into these categories:
  - HIGH: profit 800 EUR or more per month
  - MEDIUM: 400-800 EUR
  - LOW: 50-400 EUR
  - NONE less than 50 EUR
- It provides perspective about beneficiaries' income from business, and allows comparison to potential income from employment.
- From 21 MSMEs, which provided requested information, **3 has no or almost no income**. It does not exclude possibility, that income will grow in future.
- At least **9 beneficiaries are earning similar or better income**, compared to average regular employment.
- The information is based fully on reported estimated profits (and their understanding of its calculation), and cannot be verified with other sources. The fact, that some beneficiaries reported profit as estimate percentage of revenue may raise doubts if all business expenses were properly deducted:

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<sup>2</sup> <https://resources.peopleinneed.net/files-filter/market-development-17c#key-resources-pin-2020-sme-cookbook-68-856>

	P	P2	P3	P4	Total
No income		2		1	3
Low income	4			5	9
Medium income	1		1	1	3
High income	1	1	2	2	6
<b>Total</b>	<b>6</b>	<b>3</b>	<b>3</b>	<b>9</b>	<b>21</b>

#### Enterprise Stability:

- This is another sorting, focused on current growth of MSMEs. It takes into the account: revenue, perspective of respondent, age of business, indebtedness, investments from profit, and number of employees.
- The purpose of this categorization is to foresee potential future development of enterprise:
  - GROWING: enterprise is growing and has potential to continue growing,
  - STABLE: enterprise is functional, providing stable income, however it does not seem to be expanding,
  - STRUGGLING: enterprise struggles financially, it is vulnerable and may not survive in future,
  - BANKRUPTED: enterprise is no longer operational,
  - STARTUP: although revenues are low so far, the enterprise is relatively new (<2 years) and it is impossible to judge future development at this moment,
- The sample again includes interviewed MSMEs which provided necessary information, the socks producing business from one of the projects , which already finished its operations is included as stable – which it was in the moment of closing (as it had not bankrupted for financial reasons),
- Almost 50% of stable and growing enterprises indicates **sustainable income** of projects' beneficiaries,
- The struggling enterprises can be considered as endangered by bankruptcy, which can be still avoided by changes in their business model,

	P1	P2	P3	P4	Total
Startup	2			4	6
Bankrupted		1			1
Struggling	1	1		2	4
Stable	2		2	1	5
Growing	1	1	1	2	5
<b>Total</b>	<b>6</b>	<b>3</b>	<b>3</b>	<b>9</b>	<b>21</b>

## Return of Investment

- The usual formula for Return of Investment (ROI) is

$$\text{ROI} = \text{Investment Gain} / \text{Cost of Investment} \times 100$$

- In our case, we use **slightly modified calculation**, which contrary to the usual method cannot fall under the 0:

$$\text{ROI} = \text{Yearly profit} / \text{Size of Grant} \times 100,$$

- It should testify to how long it takes for each business **to generate profit on the same money invested by PIN** (contribution is not considered). Anything under 3 yrs. is very good value, over 5 years may be considered as low to inefficient (it's mostly very low numbers, 60% over 10 years).
- This value tries to estimate how efficient the investment was in individual businesses, in term or achieving the goal of ensuring grantees a stable income.
- The used calculation also represents a kind of simplified Value for Money (not including other project costs) per each beneficiary.
- The statistic does not include bankrupted businesses.

ROI	P1	P2	P3	P4	Total
<1 yr. (>100%)	1		2	5	8
1-3 yrs. (33%-100%)	3	1	2	5	11
4-5 yrs. (20%-33%)	2		-	-	2
> 5 yrs. (<20%)	1	1	-	8	10
<b>Total</b>	<b>7</b>	<b>2</b>	<b>4</b>	<b>18</b>	<b>31</b>

- The **average values per projects are more or less similar**, and are very decent.
- The average yearly revenues and profits (in mil. AMD) are stated simply for illustration, they do not have much informational value.

	P1	P2	P3	P4	All
<b>Avg ROI</b>	<b>85%</b>	<b>29%</b>	<b>99%</b>	<b>99%</b>	<b>92%</b>
<b>Avg. Revenue (yr.)</b>	<b>5,99 m.</b>	<b>10,5 m.</b>	<b>16,25 m.</b>	<b>3,81 m.</b>	<b>6,51 m.</b>
<b>Avg. Profit (yr.)</b>	<b>3,4 m.</b>	<b>3,2 m.</b>	<b>4,5 m.</b>	<b>2,01 m.</b>	<b>2,72 m.</b>

## 4.3 Constraints of MSMEs

### Unsuitable business premises or inconvenient location

- Small or unsuitable business premises, high rent, and road access are the most frequent problems, reported by **13 respondents**.
- Reported mainly in Yerevan and Goris, and also by businesses in Shirak.
- **High and rapidly growing rents**, increased by influx of Russian citizens into the country (2022), makes this issue **unsolvable** for majority of respondents, who cannot afford moving to another space.
- One respondent mentioned high rent as one of the key factors of bankruptcy,
- Others cannot afford to pay higher salaries. They had to increase their sale prices, or work from their homes.
- One respondent, which was awarded in September 2022, still has not started a business and is in the process of searching for the business premises.
- Some places are small and **limit production capacity** of enterprises, meaning they must refuse some orders.
- Several businesses struggle with **access by road**, especially in rainy season, the problem of street lighting, heating and access to potable water are also notable issues.
- More problems include neighborhoods noise and smells from the farms

### Pandemic and war with Azerbaijan

- The Covid-19 pandemic and connected lockdowns, as well as the following armed conflict with neighbouring Azerbaijan, represented two major shocks for Armenian economy and society.
- It is very likely, that these two crises **affected almost all beneficiaries**. **However**, only 11 of them specifically listed them about main difficulties.
- MSMEs had or still have to cope with **decreased demand, lower accessibility of supplies, roadblocks, and loss of employees and customers**, who joined the military.
- The pandemic made one respondent significantly postpone their construction works; others had to change their business field.
- War impacted especially the **Syunik region** and enterprises in **tourism and hospitality sector**,
- The foreign tourists almost disappeared, and there were also a drop-in people coming from Yerevan and other regions, as well as a decrease in average spending for tourism,
- Most of Syunik businesses **adopted** themselves to local tourism, and **almost all sustained** themselves throughout this challenging period.
- One beneficiary mentioned, that he lost payment for contracted works as customers left to join the army and did not come back.

### Lack of finances for investment into the business

- 8 respondents struggled with lack of funds needed mainly for construction (guesthouse, barn), repairs (greenhouse) or specific equipment (car, video cameras).
- Some of them mitigated issues by taking out **bank loans**.

- Professional videography equipment was needed but unaffordable for one of the enterprises. Such equipment can only be rented in Yerevan, which means increased costs of transport (to regions).
- One MSME raised concerns about the limited opportunities in Armenia for attracting external investors.

#### **Business competition**

- 6 respondents face difficulty with competitors, including indirect ones.
- The problem is the number of competitors (hospitality in Syunik) or the lower prices competitors offer (e.g. in case of import from China, or production of large local companies).

#### **Inflation**

- Equally (for 6 respondents) inflation is concerning, which also contributes to the previously mentioned problem with high rent.
- The prices of **raw material or agriculture inputs** are increasing.
- Some businesses can respond by increasing their output prices (while risking decrease of demand); however, it is not possible to increase prices for smallholder farmers.

#### **Low sales, lack of marketing skills**

- 5 respondents complained about low sales, and possible lack of skills needed to promote their products or services.
- Another issue can be a generally low demand for their specific products (e.g. for traditional carpets in Gyumri), high price, or focus on wrong customer segment (e.g. Iranian tourists).

#### **Climate change, weather conditions**

- Were mentioned four times.
- **Droughts and strong winds** obstruct the farming efforts (“Agriculture is a lottery”).
- Some outdoor activities in tourism sector are **dependent on nice weather**, while enterprises are already constrained by **short summer season**.

#### **Other reported issues include:**

- Agriculture: access to fodder (solved), diseases resulting in death of animals, high margins of vegetable traders
- Hospitality and tourism: booking cancellation on online platforms, problematic guests who steal or break (children) equipment, projects supporting tourism focusing only Goris and no other localities (Kapan)
- Illness
- Accessibility of material in Armenia
- Customers insisting on cash payments
- Access to innovations.



## 4.4 Employment

- Respondents of phone survey are now **employing 96 people on full-time**, and 15 people on part-time.
- They also reported a number of jobs at the end of project. However, it is not certain if there were stated only paid employees, and whether the family members are included in these numbers or not. Thus, is better to understand these numbers only as approximate, informing more about overall trends and not giving exact information:

	P1	P2	P3	P4	Total
<b>FT</b>	<b>20</b>	<b>6</b>	<b>3</b>	<b>67</b>	<b>96</b>
<b>PT</b>	<b>10</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>15</b>
<b>FT Project End</b>	<b>23</b>	<b>27</b>	<b>13</b>	<b>30</b>	<b>93</b>
<b>PT Project End</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6</b>	<b>6</b>
<b>FT Change</b>	<b>-3</b>	<b>-21</b>	<b>-10</b>	<b>37</b>	<b>3</b>
<b>PT Change</b>	<b>10</b>	<b>1</b>	<b>2</b>	<b>-4</b>	<b>9</b>

- Across all projects, the total number of created jobs has remained relatively consistent since the conclusion of all the projects. However, there has been a significant decrease in jobs within MSMEs established by two of the projects. Conversely, MSMEs stemming from the third project have experienced a job increase of more than twice their previous count. The situation in the fourth project has not changed significantly.
- On the average, each supported business provides **1.31 additional jobs** besides of income to its owner (to simplify calculation, the part-time jobs are considered as 0.5 FT job).
- Most of the people are **employed formally**, few exceptions are related to occasional hourly waged jobs (e.g. cleaning lady, tourist guides).
- Most employers are satisfied with their current staff, some work relationships are already long lasting and have developed mutual trust.
- With exception in Syunik, only few MSMEs struggle to find qualified employees, mostly when **special skills** are required. Some employers deal with that by on-job training, in one case even with hired trainer. The art décor producer, which needs special craftsmen, claims to be still able find such people despite their skills are rare.
- A carpet producer in Gyumri is the only one who searched for people through the labour office. She is satisfied with this cooperation, and always trains the candidates send by the office together as a group.
- Only sector that struggles with hiring and keeping staff is the **hospitality sector**, particularly in Syunik region. Being a cook or waiters/waitresses carries a **negative perception**. Allegedly, such employees are often mistreated by local guests. Moreover, such jobs sometimes require **language skills**, but people with higher education systematically avoid them. According to one respondent, it is easier to find a dishwasher than a waiter.

- Also, the unemployed people in the region do not seek jobs in order to maintain their governmental subsidies.
- Some of the Syunik respondents are searching for staff in local villages and provide them with the training.

## 4.5 Gender and Vulnerability

- Using the records from the database, **women represent only 36% of supported beneficiaries**. The ratio is highest in Shirak project (83%), and lowest in Circular Migration project (14%),

	P1	P2	P3	P4	Total
<b>Total</b>	<b>12</b>	<b>6</b>	<b>7</b>	<b>88</b>	<b>113</b>
<b>Women</b>	<b>5</b>	<b>5</b>	<b>1</b>	<b>30</b>	<b>41</b>
<b>Women [%]</b>	<b>42%</b>	<b>83%</b>	<b>14%</b>	<b>34%</b>	<b>36%</b>

- However, the database in most cases contains only one person and considerable amount of supported MSMEs is created by **family businesses**, where the ownership mostly includes both genders. The following table shows the division in MSMEs which participated on interviews. Although some family businesses may involve only men (e.g. brothers), the reality is likely much more balanced than what would be concluded from the database.

	P1	P2	P3	P4	Total
<b>Women</b>	<b>1</b>	<b>2</b>		<b>3</b>	<b>6</b>
<b>Men</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>6</b>
<b>Families</b>	<b>5</b>		<b>2</b>	<b>4</b>	<b>11</b>
<b>Total</b>	<b>7</b>	<b>3</b>	<b>3</b>	<b>10</b>	<b>23</b>

- Almost all interviewed women entrepreneurs **do not feel disadvantaged in any way** by their gender; one of them even claims she did all construction works herself.
- Only one woman reflects that if she were a man, she would have a higher chance of successfully asserting her interests within the community. In this context, the community owns the property she is currently renting, and she is facing difficulties obtaining the necessary permission for certain construction work.
- Another woman sees no difference between genders, as “it is all about knowing a business”. According to her, women can be disadvantaged in certain sectors, e.g. construction which requires good knowledge of legislation, because “women have less information about government regulations and can get cheated by someone more experienced.”

- The average ROI of MSMEs owned by women, according to database data, is 88%, not far from the overall average of 92%. The difference is below the range of statistical error.
- Two of the family businesses mentioned that they **plan and take decisions jointly** (as a couple, or as a group of relatives). Also, several married couples participated in the interviews together, and seemed to make decisions jointly, (note: there was no explicit question about how they take decisions).
- Two business consultants say it was more difficult to start in consultancy because people were more suspicious towards young women. It was improved later with experience and recommendations. One of them thinks the environment has changed since then, and now the conditions are more equal for men and women.
- Two of the assessed projects directly target **migrant returnees**, which would be likely considering economic migration again if they did not receive the project support, as two of them directly said during the interview.
- It seems, that several families of reintegration project grantees have originally travelled to Western Europe in order **to seek medical care** of a family member. Even after the successful surgery or treatment, some of them are still paying for additional medical care, and many families are still repaying the bank loans connected to medical costs. In these cases, the business **profit usually helps families to cope with related financial constraints and extra costs.**
- Additionally, many MSMEs provide employment to other people. The following table contains only jobs reported by interviewed businesses and shows that approximately two thirds of these positions are filled by women:

	P1	P2	P3	P4	Total
<b>FT</b>	<b>6</b>	<b>4</b>	<b>2</b>	<b>15</b>	<b>27</b>
<b>PT</b>	<b>6</b>	<b>1</b>	<b>2</b>	<b>0</b>	<b>9</b>
<b>FT women</b>	<b>5</b>	<b>0</b>	<b>0</b>	<b>13</b>	<b>18</b>
<b>PT women</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>2</b>
<b>FT women [%]</b>	<b>83%</b>			<b>87%</b>	<b>67%</b>
<b>PT women [%]</b>	<b>17%</b>	<b>100%</b>			<b>22%</b>

## 4.6 Legal System

### Informality, business registration

- Almost all MSMEs from PIN projects are registered and **operate formally.**
- Exception are smallholder farmers, who are not obligated to register and 3 businesses with small income and low number of received payments (one plans registration when the business grows).
- Some MSMEs also admit occasional cases of unreported payments, or informal part-time employment (one-time shot-term jobs/tasks). The main reason is to avoid the administration.
- On a general level, interviewed business consultants believe there are still many informal entrepreneurs in the country, especially among those who do “home

services,” but they cannot estimate the ratio. One of the consultants thinks the reason is a low awareness about simplified taxing and registration.

### Tax system

- Armenia has **employee income tax** (20% in 2023) and **corporate income tax** (18%), but MSMEs have **special taxation** as long as profits do not cross 24 mil. of revenue. It means they are exempted from all types of taxes, paying only 5.000 AMD (12 EUR) per employee monthly.<sup>3</sup>
- This extremely favourable tax system for micro-enterprises together with a simple registration process (it can be done online) are the main reasons for the low number of informal businesses, and almost no discontentment with tax system among the respondents.
- On the other hand, 24 mil. AMD threshold may force some MSMEs to hide higher incomes, as crossing it means standard taxation applies. One respondent even claimed to not want to invest, and grow their business too much in order to avoid high taxes.
- However, the **system will change** on July 1<sup>st</sup> 2023, when 5.000 lump-sum will be replaced by standard 20% tax on salaries.<sup>4</sup> This creates concerns, among some respondents and among interviewed business consultants. It is hard to predict the extent to which this will grow the informal sector, but the environment may rapidly aggravate for start-ups and struggling MSMEs.

### Labour law

- As mentioned previously, most respondents employ people formally, obligated to pay only 5.000 AMD income tax per employee and month, and this will grow to 20% from July 2023.
- Apart from that, employed people born after 1974 are obliged to **social insurance payment** (5% for salaries under 500.000 AMD).
- Even among the consultants, there is no clear knowledge of what social benefits are provided from social welfare (vacations, maternity leave, pensions).
- The **health insurance is now voluntary**, usually provided only by larger companies as a benefit, but should become mandatory in future.
- According to consultants, informal employment is still common, although only 2 respondents from MSMEs admitted it and only for hourly waged employees (e.g. cleaning lady, tourist guides) to avoid connected bureaucracy.
- People who accept informal jobs usually have low awareness about their rights, and limited options in the labour market.
- Some larger employers may also not report the full amount of salaries in order to save on taxes, or provide employment through service contracts (to people who are officially registered as self-employed).

### Digitalization, bureaucracy and corruption

- It seems that there was recently significant **progress in digitalization** of public services, and many of them are now available online.

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<sup>3</sup> [https://en.wikipedia.org/wiki/Taxation\\_in\\_Armenia](https://en.wikipedia.org/wiki/Taxation_in_Armenia)

<sup>4</sup> <https://evnreport.com/law-society/proposed-changes-in-armenias-tax-system/>

- That includes business registration, and tax forms.
- However, to deal with taxes online is still challenging for many MSMEs, and they usually **delegate this task to their external accountants for a fee**. There might be a high interest in training on this, and on using digital services in general.
- Banking services are also online, and gradually used by more small entrepreneurs.
- In recent years, there are hardly any **complaints heard about bureaucracy** or corruption in relation to MSMEs, consultants describe conditions as “free and open.”
- One consultant mentioned long waiting times for permission for outdoor advertisement (municipalities).

#### **Contracts and legal protection**

- Only very few interviewed MSMEs have **any written contract** with their partners, not even those who keep long-term cooperation with other companies or organizations.
- Few exceptions are related to partnerships with large or foreign companies, or online suppliers, probably due requirements of the counterparts.
- Business consultants agree that the **formal agreements are necessary for their enforceability**, however they are **not customary** and there is a **lack of legal skills and awareness** among small entrepreneurs.
- One consultant mentioned how several MSMEs who rented shops informally were later easily forced to abandon them, as they did not have a contract.

#### **Legal skills, knowledge of law**

- Beneficiaries have not reported any issues or obstacles caused by policies or law.
- They do not see any constraints in understanding the law, some refer to their skills and experience with accountancy, others claim they can seek the advice of their outsourced accountants, the municipality, or from Impact Hub.
- On the contrary, business consultants believe that most of MSMEs lack the skills to orient themselves in law.

#### **Other**

- There were government projects focused on MSMEs support in the past, conducted in cooperation with banks.
- Part of the support was subsidized loans, but the project is over for now.
- It is difficult to ensure protection of intellectual property in Armenia.
- The registration of trade marks is available, but very few businesses do it.

## 4.7 Access to Financial Services

### Generally:

- From the interviews, it seems as though access to basic **financial services** in Armenia **does not seem to be a problem**.
- Although there are few respondents who still do all/most transactions in cash, the rest of entrepreneurs are using **bank accounts, debit cards** and **online banking**.
- One guesthouse owner is using a German bank account to save on online portal fees.
- Only one respondent confirmed paying any **insurance** (against emergencies and disaster).
- At least one business also **accepts card payments** (hospitality focused on foreign tourists), but considers the fees high, especially for small turnovers.

### Loans:

- 15 (65% of 23) of **respondents have a loan**, 6 of them personal and 9 for business.
- Only one respondent has borrowed money from a neighbour, all others have loans from **banks**.
- Loans seems to be most common among one of the projects beneficiaries, some of the personal loans served to cover medical expenses abroad, and were connected to causes of their travel to France or Germany (but still not paid off).
- Some personal loans were at least partially used for investment into the business.
- Some beneficiaries have business loans for other family enterprises (e.g. run by their children).
- One entrepreneur uses business loan only when he needs to purchase high amount of raw material in advance for large contract (short term loan).
- 3 of the respondents would consider taking a loan too risky, either for their current financial state, or generally for security situation (war).
- Opinions about loan conditions differ among the respondents, and change for diverse products and providers. Business loans should be less accessible to start-ups, while personal loans and mortgages have more fixed criteria and require simpler procedure (if applicant can provide collateral and prove sufficient income).
- According to one respondent the **interest rate**, she is paying, is 9-12%. It seems to be very favourable considering the inflation (8.3% in Dec 2022), however, it is still perceived as high by her. (*The interest rate is not sufficient information for judgement without information about associated fees*).
- The governmental **National Investment Fund** has probably the most favourable conditions, allegedly offering loans with 7% interest rate.

## 4.8 Received Support and Feedback

**Project Inclusions and Participant Satisfaction:** The MSMEs involved in one of the projects expressed high satisfaction with the training provided. However, one of them noted a challenge in instilling a business mindset in trainees. An entrepreneur described the process as competitive and felt delighted to be selected. Another participant expressed a desire for additional vocational training or coaching in design. The grants awarded ranged from 3.7 to 5 million AMD (8,500 to 11,700 EUR), utilized mainly for purchasing machinery, tools, and raw materials. One respondent appreciated being able to choose equipment independently instead of being limited to a PIN selection. However, another respondent found the subsequent year's reporting to PIN to be bureaucratic and hindering due to monthly reporting requirements conflicting with their numerous contracts.

**Project Inclusions and Grantee Feedback:** The project encompassed grants, business training (BMC), and subjects relevant to tourism and hospitality.

**Beneficiary Experiences:** Interviewed grantees unanimously praised their participation in the program. Besides establishing an income, they highly valued the training, CRM system, and procurement assistance. One respondent expressed a desire for more flexibility from PIN and rated the support an 8 out of 10. Another respondent emphasized the support's significance for start-ups, given that most local organizations only back existing businesses.

**Training Impact:** MSMEs in the Syunik projects underwent various trainings (marketing, cooking, tourist needs), and all participants found them beneficial. Some suggested the incorporation of even more training opportunities. While most responses were positive, a few challenges emerged. Beneficiaries gained new ideas in this engagement process, improved networking, and enhanced their understanding of outsourcing expertise. Some even became trainers themselves.

**Grants and Usage:** Grants varied from approximately 1.8 to 5 million AMD (4,400-11,700 EUR). These funds were predominantly allocated for furniture, equipment, solar panels, heaters, and occasionally for equipment used in camping, sports, and entertainment. Notably, one beneficiary acquired a food truck/caravan through the grant.

**Post-War Dynamics and Challenges:** Post-war government support in Syunik favored hotels but excluded other types of hospitality businesses like camping sites, restaurants, and coffee shops. The project's implementation was hindered by the Covid-19 pandemic, leading to a year-long delay. This period witnessed significant price hikes and changing needs in the tourism and hospitality sectors. While some budget adjustments were permitted by PIN, overall amounts remained constant, allowing for only minor modifications. The interviewers found PIN's procurement procedures to be challenging. However, applying for a PIN grant was easier compared to the requirements of other organizations.

**Business Plan/Application Template** was well-prepared and comprehensive, although lacking questions about strategic goals and customer market research, focusing mainly on competition.



## Development of value chain

**Production and Sales:** The SME engages in producing and selling blankets using a blend of wool and Sintepon. However, sales of blankets are not particularly high yet.

**Changes in Processes:** Several modifications have been made to the production process. Hand-spinning has been slowly turned to automatic spinning. Washing procedures have been semi-automated. Additionally, staff tasks have been redesigned to align with new demands.

**Expansion and Diversification:** The enterprise has ventured into producing carpets. The objective is to achieve automatic production of high-quality rugs featuring modern designs.

**Target Market and Expansion Plans:** The identified market is the Armenian diaspora residing abroad (such as the US, Russia, etc.). The primary task ahead is to create a showcase collection. The company plans to participate in three international fairs overseas in the upcoming year. Furthermore, there is consideration for producing decorative pillows, mainly for establishments like hotels and kindergartens, although this avenue will require demanding marketing efforts.

**Current Challenges and Involvement:** The enterprise is currently grappling with constraints stemming from various contextual factors, such as conflicts and blockades, which are having a detrimental impact on its import and export activities.

**Participant Support and Grants:** Within one of the projects, participants received grants with a higher threshold compared to other PIN projects. They also underwent business training (BMC) and were offered the opportunity to purchase raw materials at a discounted price.

**Positive Experiences and Success Stories:** One grantee expressed that without the project support, starting their business would have been impossible. They noted that people are often astonished by how rapidly and successfully their business grew. Other participants also praised the benefits of discounted raw material supplies (wool), as well as the learning, individual support, and advisory provided by the PIN team.

**Training Satisfaction and Networking:** A beneficiary from the project was particularly satisfied with the training. They appreciated gaining insights into market research, business planning, staff organization, and also highlighted the benefits of networking and collaboration with other participants.

**Utilization of Grants:** Grants, ranging from 1.7 to 13.5 million AMD (4,000 – 33,000 EUR), were used for various purposes, including construction repairs, machinery, and equipment.

**Business Outcomes:** One of the successful beneficiaries in Shirak, engaged in leather and fur processing, secured additional funding from other donor and considered further bank loans.

**Challenges and Suggestions for Improvement:** Proposed improvements for the grant competition include enhancing flexibility. One beneficiary realized later that investing in solar panels instead of hiring more employees would have been wiser. They faced challenges using saved funds for alternative purposes due to fund allocation restrictions. A suggestion was for PIN to advocate for time-limited tax reliefs to support start-ups.

**Another Project Overview and Beneficiary Gratitude:** Under a different project, most businesses were granted funds. In 2022, a small group of grantees also participated in a pilot business training (BMC) organized by PIN. The beneficiaries expressed deep gratitude for the support, emphasizing that they wouldn't have been able to initiate their businesses without it. Some mentioned they might have considered taking a loan otherwise, while others might have had to return to France or Germany. The support provided them with renewed strength and enthusiasm.

**Variety of Training and Learning Methods:** Two beneficiaries received business training from alternate providers, and another received training in agriculture. One respondent used internet resources and advice from competitors to further their learning.

**Training Impact:** While one beneficiary would be highly interested in marketing and promotion training, opinions on the overall helpfulness of training were divided. Interviewed MSMEs received grants ranging from 3,000 to 5,900 EUR (1.5 million – 2.5 million AMD). These funds were primarily allocated for construction works, greenhouses, machinery, furniture, equipment, and in one instance, a vehicle. Some respondents mentioned issues with machines breaking down after receiving grants.

**Additional Funding and Challenges:** One MSME secured another grant from a different donor, amounting to 3.5 million AMD (approximately 8,000 EUR). Another had been funded in 2017 for opening a shop. A beneficiary appreciated receiving funds directly instead of equipment, enabling them to acquire the exact tools needed. However, another respondent expressed dissatisfaction, noting that receiving money instead of equipment would be more efficient.

**Procurement Challenges and Donor Conditions:** Challenges emerged in cases where prices increased during the procurement process, leading to insufficient overall funding. Similarly, one woman experienced budgeting issues. She believed that advisory assistance on budgeting and financial planning would have been beneficial. Some respondents perceived the donor's conditions as overly restrictive. They believed supporting their existing business would be more efficient than starting anew. One grantee was denied funding for a transportation business (due to ineligible purchases like cars) and faced difficulties in pursuing the idea of rebuilding a petrol station due to discrepancies between promised foreign funds and offered amounts in Armenia. Consequently, they ventured into agriculture, facing labor-intensive work and low profits with minimal prospects for improvement.

## 4.9 Business Skills: financial management, marketing, business planning

- According to business consultants MSMEs usually have problems to handle:
  - Marketing (research market, advertisement, keeping customers),
  - Management of staff (organizing, controlling),
  - Planning (focus on growth, risk management, export requirements),
  - Investment (relying on donors)
- Consultants also mention that their clients lack a “business mindset”, and believe there are many beneficiaries, who join programs just for grant money, while they are not motivated to learn anything (stressing the importance of selection).

Note: Skills were assessed only among 23 interviewed businesses:

**Financial Management:** Among the assessed MSMEs, approximately 74% either save or reinvest a portion of their profits (only 60% for a specific project). Those who do not follow this practice either repay loans or allocate their profits entirely for personal purposes. Some explained that they require funds for medical care. Around 61% of MSMEs either plan their expenditures or regularly review certain outputs from their accounting (40% for a specific project). These approaches vary; some employ traditional tools like income or cash flow statements, while others make rough calculations, acknowledging that these might not always align with reality. One entrepreneur adheres to a 5-year plan based on advice from a business incubator. Another participant, though not a planner, is knowledgeable about their break-even point and consistently monitors profitability. A guesthouse maintains and updates sales statistics (including guest stays) in an Excel file. With only a few exceptions, almost all entrepreneurs maintain accounting records, often through the services of external providers. Five of them manage their accounting directly. One individual still uses a paper notebook for record-keeping (albeit sometimes forgetting to update it), another employs an online government system, while a third relies on a knowledgeable friend for guidance. One company outsources its accounting due to past negative experiences when managing it internally. Certain businesses offer various services through contracts, necessitating budget forecasts. One respondent admitted to performing calculations primarily for larger projects and relying on intuition for smaller ones due to the challenges of accuracy.

**Marketing:** Only 9 (39%) of the respondents possess at least some understanding of their customer base. The weakest responses included "all people," "everyone," or "locals and foreigners." 60% of respondents engage in advertising, with 52% opting for online advertising (primarily on free platforms). Among those not advertising, most rely on personal referrals. Three individuals cited limited production capacity (due to space constraints) as a reason for not advertising or reducing their advertisements. This includes one financially struggling business. In general, the preferred advertising platform is Facebook, although other social networks are also utilized. Two businesses are striving to have their products featured on prominent foreign online shops. Many MSMEs in the hospitality/tourism sector utilize online booking platforms such as booking.com. One of them boasts 50,000 followers on Facebook and attracts customers through blogs and online video advertisements, targeting Russian tourists. Not all entrepreneurs possess digital skills, leading to their children or external parties managing their online promotions. One respondent cited a lack of digital skills as a reason for the absence of advertisements. A handful of respondents use posters, billboards, signs, or participate in various public events. One respondent seizes every opportunity for advertising. To enhance promotion, some MSMEs offer and expand free ancillary services (like building playgrounds or pools, arranging free transport). One enterprise donates products to municipalities, which utilize them as gifts for esteemed guests (such as carpets in Gyumri). Although the interview questions did not delve into all aspects of marketing, some respondents appear to monitor their competitors, while others maintain individualized approaches to customers in order to uphold a positive reputation, particularly within the hospitality sector.

**Strategic planning:** In terms of business planning, participants from the business training programs in Syunik and Shirak utilized the Business Model Canvas (BMC), whereas project participants opted for the traditional business plan (BP). Among BMC users who responded to the question, approximately 70% either occasionally or regularly revisit and make changes to their plan, showing a general appreciation for the tool. The remaining

respondents mostly attribute their lack of usage to changes in their business since the plan's inception. Two BP users from a specific project stopped using the traditional business plan shortly after, but still believe that the foundational structure remains consistent with their approach. Another respondent attempted to align with the business plan for the initial two years, as they considered it a commitment to PIN. Those who did not receive training do not strictly adhere to what they initially wrote in their application. Some believe their current activities align with the plan, while others assert that either the plan is unnecessary or that their business has evolved beyond the original scope, rendering the initial plan obsolete. Many MSMEs with lower incomes exhibit a pronounced aversion to risk, often avoiding loans, significant investments, or adopting a stance of "we'll expand after repaying our debts." This attitude is potentially linked to what local business consultants and some entrepreneurs describe as a "lack of business mindset," which they consider challenging to cultivate.

## 4.10 Resilience

The resilience of supported MSMEs was examined and scored by its main components. In each category, the businesses could score up to 3 points (12 max. in total):

1. **Buffer capacity:**
  - If they make any considerable savings.
  - if there was any investment from profit, which will persist long term.
  - If they are free of debts (which would decrease their buffer capacity).
2. **Self-organization:**
  - If they have any horizontal partnership or if they participate in any associations.
  - If they keep formal contracts.
  - If there are signs of higher level of organization (e.g. division of roles, rules, procedures).
3. **Learning capacity:**
  - If they have a vision or realistic plans for future.
  - If they show adaptiveness and can make changes (in products, sales, target segment) over time.
  - If there is anything showing they are learning over time (trainings, from experience, improvements of products/skills).
4. **Diversity:**
  - If they do not rely on only one type of product/service.
  - If they do not rely on only one sales channel.
  - If they are seeking any innovations in their business model, approaches, product/services.

There can be other elements considered, but for the purpose of this study and simplified overview of MSME resilience, these criteria should be sufficient.

- From 31 interviewed operating businesses, **9 scored in 51-75%**, 7 scored in 26%-50%, and 2 scored between 0-25% in overall resilience.
- The average resilience of all respondents was 51%.
- On average, MSME are doing best in learning capacity (68%) and worst in self-organization (43%) and diversity (44%).
- They usually have a **good vision and plans** for future (80%), **cooperate** with partners, reinvest, and they are **capable to adapt** and make changes when needed (all 66%).

- Their biggest weaknesses are **informal agreements** (10% have any written contracts), **indebtedness** (29% are debt free), and **low diversity of sales channels** (33% has diverse channels), additionally there is also space to improve their skills and mindsets in creating reserves and innovating (both under 50%).
- The comparison across the projects would not make sense for low number of respondents in two projects, but it seems that average resilience of 56% was sufficient to sustain the recent crises in most affected region and sector (Syunik, hospitality) as we can also confirm it based on the high survival rate (91%) in there.

#### 4.11 Business Development Services

We conducted interviews with three business consultants. All three consultants offer their services to NGOs. All three consultants became involved in business development services during their tenure in the NGO sector.

Their personal experiences primarily revolve around facilitating business trainings (such as business planning, modeling, marketing, and management), coaching, and consultancy. Two of the consultants prefer to use Business Model Canvas (BMC) tools in their training sessions, while the third consultant has only experienced BMC tools for existing businesses. Additionally, one of them incorporates elements from the Lean Start-up methodology.

When it comes to obtaining information about projects, tenders, or vacancies, two of the consultants are usually contacted directly due to previous collaborations. The third consultant also monitors open information available on the internet. The incubator is actively involved in fundraising efforts.

Regarding the most effective approaches or tools for MSMEs, the consultants mentioned mentorship, the Value Proposition Canvas, customer-related tools, networking, and a community-oriented approach among project/course participants. They also emphasized an institutional approach that provides a balanced mixture of support. One consultant believes that building a program based on the results of skills assessment is always necessary.

When working on projects organized by INGOs or the government, the consultants observe common gaps such as the absence of mentorship or coaching after grant distribution. They also note a significant focus on grant delivery, indicators, and targets rather than the quality and impact of the projects. Despite varying donor rules and visibility requirements, they are adaptable to different situations.

For their personal professional development, the consultants utilize different online resources, receive newsletters, join online groups, keep in touch with international experts, and participate in different events when the opportunity arises. They have substantial experience with Training of Trainers (ToTs), although one consultant points out that the quality of ToTs can sometimes be a challenge, and inadequately trained individuals can do more harm than good. Coaching preparation has gained popularity in recent times among the ToTs.

The consultants also mention a local Armenian bank that organizes events and training sessions for consultants (largely following their own agenda), membership in the Armenian IMC network (which works effectively), and participation in online paid courses (despite their high cost).

They express a desire for experience-sharing events with international peers and improved coordination between business development service providers, particularly in terms of information sharing to avoid redundant funding.

## 5. Conclusions and Recommendation

### 5.1. Overall impact of MSME support

**Project Success and Livelihoods.** All assessed projects have achieved success by creating long-term livelihoods for the majority of beneficiaries who were supported in establishing their businesses.

**Employment Impact:** Furthermore, the supported MSMEs have contributed significantly to employment generation. These MSMEs have generated a total of at least 96 full-time jobs and 15 part-time jobs.

**Business Sustainability:** While a few grantees faced challenges in maintaining their businesses, the proportion of such cases is in line with or lower than the general statistics for new businesses. This indicates a reasonable level of success in terms of business sustainability.

**Stable and Growing MSMEs:** Within these projects, there are several MSMEs that stand out due to their stability and above-average income generation for their owners. Additionally, these businesses provide additional employment opportunities to others. Moreover, these MSMEs display strong potential for further growth and development.

**Return on Investment (ROI):** A simplified calculation of Return on Investment (ROI) reveals that the resources invested in these projects yield consistent income and profits for the beneficiaries. This highlights the efficiency of the investment. The primary limitation of this approach is its capacity to assist only a limited number of individuals. It's noteworthy that approximately half of the supported businesses achieve such a high level of stability.

### 5.2 Gaps in MSME performance and skills

The gaps reported by interviewed MSMEs can be categorized into two groups. The first group consists of fully external factors such as the pandemic, war, inflation, and climate change, which respondents cannot influence. The second group includes issues that can theoretically be solved or mitigated with better skills, such as low sales, competition positioning, premises improvement, and investment funding.

**Time-Bounded and Adaptability.** Issues in the first group, like the pandemic, are sometimes time-bound and can only be overcome through necessary resilience, requiring adaptability to changing circumstances.

**Challenges and Solutions Problems** in the second group persist as long as entrepreneurs do not address them directly or seek external help. For instance, modifying the business model can resolve low sales or competition positioning, and financial planning, savings, or financial services can eventually provide funds for investment or better premises.

**Financial Management and Literacy:** While nearly all grantees have accountancy, around two-thirds of them engage in basic financial management activities like savings,

reinvestment, planning, and cost calculations. The effectiveness of these activities varies among individuals, indicating room for improvement. The Business Model Canvas tool, integrated with fundamental marketing principles, has been effective in training beneficiaries. Roughly 70% of trainees continue to use it, which is a positive outcome compared to traditional business plans. A significant percentage of entrepreneurs struggle to define their target customers, leading to inefficient marketing efforts and lack of focus. Some respondents express interest in digital skills training, which could greatly impact their businesses, including online advertising, efficient tool usage, and leveraging digital public services.

**Resilience and Adaptability Examined:** MSMEs demonstrate average resilience, adaptability, and cooperation with other businesses. Strengthening these aspects is crucial for enhanced resilience. Enhancing contract formalization requires addressing skill and awareness limitations, thereby increasing overall project resilience.

### 5.3 Business Environment

The circumstances of minimal taxes, loan availability, and other financial services, low bureaucracy, and digitalization of public services create a highly favorable environment for the growth of MSMEs. This environment stands out particularly when compared to countries where similar programs are in place under the PIN initiative.

The combination of low taxation and a streamlined registration process also significantly contributes to the formalization of small businesses and employment. Simultaneously, the government is progressively introducing social welfare insurance, with plans to make health insurance mandatory as well. These measures are expected to bring about long-term improvements in the social conditions of workers in the labor market.

However, starting from July 1st, 2023, there will be a reduction in tax relief for MSMEs. The current lump-sum tax of 5,000 will be replaced by a standard 20% tax on salaries. While this step is understandable, it represents a substantial shift that could potentially impact the ability of MSMEs to cover labor costs. The consequences of this change are hard to predict, ranging from potential growth in informal employment to, in a pessimistic scenario, higher unemployment rates and the closure of labor-dependent enterprises already facing financial difficulties. Despite this, it's worth noting that MSMEs will still remain exempt from corporate taxes, mitigating the overall tax burden.

The extensive range of financial services and easy access to loans further contribute positively to the small business landscape in Armenia. While the evaluation of the safety and riskiness of available bank loans for MSMEs and vulnerable individuals is beyond the scope of this research, it is recommended for PIN to gather additional information or seek expert perspectives.

Should there be minimal risk of borrowers falling into debt traps, future support for MSMEs should be redirected towards partnerships with financial institutions or a combination of grants and commercial loans (blended finance). However, if there are concerns about high levels of indebtedness among project beneficiaries, careful monitoring and consideration are warranted.

While female entrepreneurs may face slightly more challenges than their male counterparts in establishing themselves, female respondents don't perceive any additional



business constraints due to their gender. Nevertheless, independent studies highlight that women in Armenia still have lower representation in leadership roles in public offices, contend with a significant wage gap (approximately 40%), and have limited involvement in formal employment while playing a larger role in informal sectors.

As a result, supporting women entrepreneurs remains crucial in PIN programming to promote gender empowerment, particularly in rural areas. Business Development Services (BDS) for MSMEs are primarily delivered through NGOs or government projects. Technology-oriented and social entrepreneurs have slightly more options. The majority of business trainers and consultants seem to emerge from the NGO sector, offering their services to NGOs. These professionals are often connected through The Institute of Management Consulting (IMC) Armenia network, occasionally convening for various events.

While some trainers adhere to traditional business planning approaches, many have adopted the Business Model Canvas for training. The Lean Start-up approach is known to a few, though it hasn't been fully embraced or promoted yet.

One notable gap in the Armenian small business landscape is the practice of informal agreements. Enhancing the quality of business relationships would allow MSMEs to better leverage partnerships and utilize the legal system to enforce agreements. This shift would be vital not only for local economic competitiveness and entrepreneurship resilience but also for the development of international trade and investor attractiveness.

## 5.4 Lessons learned

Requiring formation of jobs from start-ups is counterproductive: While the initial focus in grant competitions was on job numbers, it's evident that grantees began with a relatively high workforce count, but over time, these job positions were not sustained.

Wages contribute significantly to the costs of MSMEs and place substantial strains on enterprise budgets. When job generation becomes a direct prerequisite for selection in start-up grant programs, applicants tend to artificially inflate job figures to enhance their likelihood of success. Nonetheless, upon commencing operations, these jobs exert considerable financial pressure, potentially leading to premature business closures.

The elevated costs associated with human resources often render competitive pricing unfeasible. Without external financing over an extended period, newly established enterprises might face failure within initial months.

This scenario could contrast for established companies that are better equipped to project future requirements and revenues. However, even in such cases, a careful selection process is vital. It's important to identify MSMEs that are already stable, while also avoiding applicants who view grant awards as mere lifelines for failing businesses.

**The Business Model Canvas (BMC)** proves more effective than traditional business plans. A striking 70% of trainees exposed to BMC find it not only valuable but also continue to engage with and refine it. This stands in stark contrast to business plans, which often become neglected and forgotten over time. These trainees also report improved abilities to seek bank loans or secure grants from other organizations. Even in cases where business plans are mandatory, such as donor requests or collaboration with banks or microfinance

institutions, integrating the BMC tool, even for training purposes, is recommended. It serves as a beneficial exercise for eventual business plan formulation.

**The significance of training and post-grant support is evident.** All respondents who participated in training, even those with prior skills, expressed appreciation. Minimal negative feedback was typically tied to technical issues in online courses or minor disagreements with trainers, often aligned with contemporary knowledge. Training recipients frequently advocated for enhanced capacity-building, while some individuals who solely received funds were uncertain about the advantages. Additional post-grant support, whether advisory or procurement assistance, was equally valued. Business consultants echoed these sentiments, highlighting the importance of mentorship, coaching, or advisory support after grant awards. Notably, high-performing beneficiaries often received training from multiple sources, underscoring the substantial impact of capacity-building and non-financial aid, sometimes even surpassing financial funds. The significance of networking among beneficiaries surfaced in interviews. Participants from the same projects and training often collaborate, leveraging the competitive advantage of PIN-trained grant competitors. The role of networking was also highlighted by business consultants. Partnership and collaboration are pivotal for business success, with broader positive implications for project activities. Several improvements can be integrated into programs:

- Favoring in-person training over online sessions whenever possible.
- Facilitating informal communication and networking during and after training sessions or events.
- Arranging additional workshops or experience-sharing meetings several months after grant awards.
- Organizing networking events where beneficiaries can interact with entrepreneurs not involved in the project, as well as representatives from public and NGO sectors. Supporting participation in external events like trade fairs, conferences, or TED talks can also be beneficial

## 5.5 Notes to potential topics and sectors for programming

The tourism and hospitality sector in Syunik region are still in a developing stage, offering untapped potential in various regions due to their natural beauty, historical significance, and adventure sports opportunities. The success of the Syunik project underscores this potential, serving as a foundation for future endeavors. However, the risks associated with geopolitical instability must be considered. Noteworthy elements from the project that should be replicated include:

**Trail and Marketing:** Implementing a well-promoted trail not only aids marketing efforts but also benefits the entire industry.

**Tailored Trainings:** Going beyond conventional business training to cater to the unique needs of MSMEs.

**Promoting Business Links:** Facilitating connections among local businesses, which may have unintended positive outcomes.

Recommendations for future projects in this sector include adopting a Market System Development (MSD) approach, focusing on systemic activities beyond direct support. Additionally, building digital and language skills not only for entrepreneurs but also for their staff can enhance overall sector performance. Expanding the tourism season by introducing activities such as winter sports and festivals and promoting cooperation among entrepreneurs for communal projects can bolster the sector. Collaborations between the private and public sectors in tourism development are also crucial.

Agriculture and handicrafts represent sectors with mixed success rates constituted significant proportions among participants. Many individuals engaged in small-scale farming or manual production faced financial difficulties due to inherent challenges in these areas.

While traditional, working with existing smallholder farmers is more sensible than supporting the establishment of new small-scale farms, particularly those with less than a hectare of land. This is due to the limitations posed by land size and the difficulty in achieving profitability without expansion and automation. Niche products may be an exception, but generally, these businesses are constrained by size and automation.

**Handicrafts/Manual Production:** Businesses in this sector can only compete based on quality, not price. Success is possible if they focus on premium products sold at premium prices due to high labor costs. Manufacturing in the form of hand-made production is not the most efficient way to create jobs. Entrepreneurs in these areas should either consider automation or niche/luxury products.

Small businesses are crucial for job creation, accounting for around 70% of all existing jobs. Estimations based on average job creation per MSME and the typical survival rate indicate the number of jobs that can be generated over a three-year period by supporting new businesses. It's essential to balance expectations with reality and consider alternative paths to employment, such as supporting expansion within already stable companies.

The most successful enterprises are transitioning to a growth phase, which presents its own set of challenges. Expanding businesses require specialized support tailored to their individual needs, including reorganization, efficiency enhancement, market access, branding, and more. While some growth-stage businesses may need capital, they should have access to commercial loans. Partnerships with investors or financial institutions might be more suitable than conventional business grants, particularly for stable companies aiming to accelerate growth.

**Business Development Services (BDS):** BDS are predominantly available through development programs, with limited options for start-ups. To improve accessibility and affordability, PIN should consider partnering with established actors, facilitating affordable commercial services like online webinars, supporting connections with international peers, promoting certification of business experts, and fostering collaboration among BDS providers and other stakeholders. This can be integrated into existing projects that support MSMEs, offering a referral option for beneficiaries where full-scale training might not be feasible due to funding constraints.

