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Department
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PROJECT COMPLETION REPORT

ARMENIA APEX II LOAN FOR SMES AND MIDCAPS

Armenia

TABLE OF CONTENTS

Scope.....	2
Cost and Schedule	2
Performance.....	3
EIB Involvement	3
ESCS.....	4
Promoter's Optional Final Comment	4

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Scope

The purpose of the project was to improve the access to longer term finance for Armenian SMEs and Mid-Caps, which accounted for over 40% of employment and GDP in Armenia, allowing them to make the investments in upgrades to existing technologies and in new facilities, required economic growth. Such finance would be available to SMEs and Mid-Caps located across the territory of the Republic of Armenia.

Investment sub-projects financed under the project were not limited to specific sectors, although it was anticipated that the agri-food and tourism sectors would be significant beneficiaries. Investments would therefore inter alia involve upgrades to existing small and medium-scale production, processing and catering/accommodation facilities and development of new capacity. While the design of individual investments was expected to be in-line with current market needs in Armenia, they were nevertheless foreseen to demonstrate a gradual alignment of technologies and processes to EU and international standards.

The project addressed the EIB External Lending Mandate 2014-2020 (ELM) objective of local private sector development, in particular support to SMEs and was foreseen to have a positive impact on climate change, through the introduction of modern, resource efficient technologies, resulting in a net increase in quality produce reaching the market.

The project further supported three out of the five priority sectors identified in the Government in the Armenia's 2014-2025 Development Strategy: agriculture and rural development, tourism and SMEs.

The following assisted in implementation:

- The Programme Management Unit (PMU), acting on behalf of the promoter, was the German-Armenian Fund (GAF).
- Technical Assistance (TA) initiated with the Eastern Partnership Technical Assistance Trust Fund (EPTATF) support in Q1 2016 and implemented by IPC (Internationale Projekt Consult GmbH), which delivered its final report to the EIB in November 2018.

At outturn, the distribution of loan allocations shows that indeed, as foreseen, the main sectors benefitting from this financing were tourism (58.4% (accommodation and food service activities)) followed by agriculture (23.4%).

Allocations per sub project sector section	Jobs created	Sub Project Cost (EUR)	Allocated Amount (EUR)	Allocation Distribution (%)
SECTION A : AGRICULTURE, FORESTRY AND FISHING	391	24,532,937.2	11,093,784.3	23.38%
SECTION C : MANUFACTURING	36	3,077,771.32	2,623,269.54	5.53%
SECTION G : WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES	41	908,715.29	548,554.88	1.16%
SECTION I : ACCOMMODATION AND FOOD SERVICE ACTIVITIES	709	66,017,153.81	27,737,526.27	58.44%
SECTION R : ARTS, ENTERTAINMENT AND RECREATION	101	8,276,267.8	5,456,530.54	11.50%
Sum:	1,278	102,812,845.42	47,459,665.53	100.00%

The loan amount of USD 53 825 000 was signed on 18/11/2016 (equivalent to EUR 50.64m). The loan was fully disbursed and allocated to 61 sub-projects. Furthermore, it was foreseen at appraisal stage that at least 70% of EIB financing would go to SMEs. It turned out that from 61 final beneficiaries, 55 are SMEs and 6 are Mid-caps, for allocated amounts of EUR 36.6m for SMEs (77%) and EUR 10.9m for Mid-caps (23%).

Borrower name: Central Bank of the Republic of Armenia

Link to Website: <https://www.cba.am/am/SitePages/Default.aspx>

Cost and Schedule

Total project cost at outturn is EUR 102.8m, exceeding slightly the cost of EUR 100m estimated at project appraisal, for a total allocated amount of EUR 47.46m. Total amount signed was USD 53 825 000 equivalent to a total disbursed amount of EUR 47.46m as of 12/12/2020.

The implementation period for the project was five years from the date of the signature of the Finance Contract, i.e. from 18/11/2016 to 18/11/2021. Amounts were allocated before this date, however, and the project had been fully allocated by 12/12/2020.

Performance

The most significant funding gap for SMEs in Armenia is the availability of affordable local currency loans, especially at a longer tenor, as commercial banks themselves do not have access to such funds to lend. Commercial banks in Armenia also have high collateral requirements, well over 100% coverage, with an overwhelming focus on real estate. Such requirements often make loans unattainable for SMEs, especially smaller ones, which lack such resources. There is also a large segment of SMEs often deemed ‘unbankable’ by banks, especially those which lack the appropriate collateral to meet the banks’ requirements. Such entities are more likely to be in rural areas, engaged in agriculture, and classified as either micro or small enterprises.

The project was built on the experience of the Armenia APEX Loan for SMEs (2014-0045). Results of this follow-on operation were therefore expected to produce outcomes including significant SME (particularly micro-enterprise) outreach, extended loan tenor, increased intermediary capacity to lend to underserved sectors and in rural areas and increased appetite to develop products using own funds to meet demand for SME finance.

At PCR stage, the number of sub-loans is below what was foreseen at appraisal (61 in total vs 117 foreseen). Out of 61 final beneficiaries, 55 are SMEs and 6 are Mid-caps for allocated amounts of EUR 36.6m for SMEs (77%) and EUR 10.9m for Mid-caps (23%). The average loan amount was about EUR 745 000 for SMEs and EUR 1.82m for Mid-caps.

Technical assistance to support the implementation of the Armenia Apex Loan for SMEs included tasks addressing significant topics of the Armenian economy and can be summarised in the following six work streams:

- (1) Assisting the PMU GAF in monitoring activities and reporting to the EIB
- (2) Supporting Qualified Financial Intermediaries to improve SME lending with a focus on agriculture and tourism
- (3) Implementing procedures supporting environment and climate change
- (4) Supporting the access of women-led SMEs to finance
- (5) Training potential final beneficiaries in financial literacy
- (6) Developing a project website for “EIB Loans for SMEs”

The above listed 6 tasks were successfully implemented between February 2016 and September 2018 with a strong level of perceived impact by the promoter and beneficiaries.

Environment

While no significant environmental issues have arisen under the current operation, Armenia is constrained, particularly in primary agricultural production by environmental issues. The constraints include equitable access to water resources for its own population and for neighbouring countries. Furthermore, while recent legislation has shown an approximation to international environmental norms, its accession in 2015 to the Eurasian Economic Union (EEU) may result in increasing divergence from EIB requirements.

The experience of the EIB services in monitoring allocations of the previous operation, informed by gap analyses performed by TA engaged for the purpose have resulted in improved comprehension by all stakeholders and the design and application of improved procedures for the new project. Residual risk: low.

On that behalf, the German-Armenian Fund developed two new procedures: “Environmental & Social Risk Management Review Procedures” and “Procedure for Climate Action Impact Reporting and Monitoring”, and the TA conducted several workshops to inform stakeholders and assist in environmental monitoring.

EIB Involvement

Environmental and social disbursement conditions identified at appraisal:

- Prior to first disbursement the Borrower shall develop environmental and social screening and impact assessment, monitoring and mitigation procedures for use by financial intermediaries, to the satisfaction of the Bank.
- Comment at PCR stage: GAF has been assisted in implementing their new environmental screening procedure. As a result of TA and EIB collaboration, the key adjustments to the GAF are summarised as follows:
 - Inclusion of a grievance mechanism
 - Inclusion of ESA question and answer checklist
 - Inclusion of EIA Directive Annex III criteria

- Revision of environmental screening steps.

This condition is fulfilled.

Undertakings

- All sub-projects shall be in accordance with the Bank's Environmental and Social Handbook. No funds will be allocated to final beneficiaries for sub-projects requiring an EIA or with potential negative impact on a designated conservation area until the respective EIA and/or appropriate assessment, conducted by the relevant competent authority, is submitted to the satisfaction of the Bank. The Borrower shall provide all necessary input and support to TA consultants engaged by EIB in support of this project and shall commit participating financial institutions to cooperate with such consultants in their project-support activities.
- Comment at PCR stage: the TA has assisted GAF in implementing their new environmental screening procedure. The final draft of the procedures was shared with the EIB and GAF in May 2017. To inform the Qualified Financial Institutions (QFIs) about the procedural changes under the EIB APEX II Loan, IPC conducted a one-day seminar about the new GAF environmental screening procedures for representatives of the GAF and 14 QFIs (mainly current and future environmental officers) on 29 May 2017. The seminar covered the procedure itself, the presentation of the respective forms (Environmental and Social Screening form, ESA checklist), including an example of use of the form (work group/case study-based completion by participants) and in-depth discussions (for more detailed information about the training content, see the section related to Task 4). Afterwards, the applied training materials were provided to the EIB (in English) and the GAF as well as the QFIs (in Armenian language).

This was the second Apex loan for SMEs with the same promoter, and followed the same structure as its predecessor, Armenia Loan for SMEs (2014-0045). PJ involvement was central particularly to ensuring application of EIB environmental and social approaches to sub-project screening in that previous operation. This informed the design of the second project both through lessons learned and procedures established.

Source of PCR information

This PCR was prepared using:

- Allocation summary
- Final TA report

ESCS

The Environmental and Social Completion Sheet (ESCS) has been published separately.

Promoter's Optional Final Comment

The promoter had no comment to the proposed ESCS.