



This action is funded by the European Union

**ANNEX 2**

of the Commission Implementing Decision  
on the Annual Action Programme 2015 part 2 in favour of Central Asia

**Action Document for Central Asia Invest IV**

**INFORMATION FOR POTENTIAL GRANT APPLICANTS**

**WORK PROGRAMME FOR GRANTS**

This document constitutes the work programme for grants in the sense of Article 128(1) of the Financial Regulation (Regulation (EU, Euratom) No 966/2012) in the following sections concerning calls for proposals: 5.3.1.1; and in the following sections concerning grants awarded directly without a call for proposals: 5.3.1.3.

<b>1. Title/basic act/ CRIS number</b>	Central Asia Invest IV CRIS number: 2015/037-787 financed under Development Cooperation Instrument
<b>2. Zone benefiting from the action/location</b>	Central Asia The action shall be carried out at the following location: Central Asian countries
<b>3. Programming document</b>	Multiannual Indicative Programme Regional Central Asia 2014-2020
<b>4. Sector of concentration/ thematic area</b>	Sustainable regional development: Socio-economic development
<b>5. Amounts concerned</b>	Total estimated cost: EUR 10 700 000 Total amount of EU budget contribution EUR 10 000 000 This action is co-financed in joint co-financing by: - International organisation for an amount of EUR 100 000; This action is co-financed by potential grant beneficiaries for an indicative amount of EUR 600 000.
<b>6. Aid modality(ies) and</b>	Project Modality: Grants – call for proposal

<b>implementation modality(ies)</b>	Procurement of services Direct management with the OECD			
<b>7. DAC code(s)</b>	32130 – SME development			
<b>8. Markers (from CRIS DAC form)</b>	<b>General policy objective</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Main objective</b>
	Participation development/good governance	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Aid to environment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality (including Women In Development)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Trade Development	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Reproductive, Maternal, New born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<b>RIO Convention markers</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Main objective</b>
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>9. Global Public Goods and Challenges (GPGC) thematic flagships</b>	This action contributes to the GPGC “Trade integration for green and inclusive growth”			

#### SUMMARY

The overall objective of Central Asia Invest IV is to promote the development of the private sector, with special emphasis on encouraging the growth and expansion of Small and Medium Enterprises (SMEs). Through the increase of investments and the creation of jobs, this programme will enable to foster economic growth and help to reduce poverty in Central Asia.

The activities that will be implemented are the following:

1. Capacity building projects dedicated to local business intermediary organisations (BIOs) in their role to support the development of the private sector; this component should enable BIOs to offer better services to SMEs and influence policies in their favour.

2. At the policy level: this activity refers to the third phase of the “OECD Central Asia Initiative”. The initiative will include country-specific analysis and policy recommendations on how to enhance competitiveness of SMEs (by focusing on selected SME policy challenges), strengthening public-private dialogue process at country level and fostering regional dialogue and co-operation through peer review and exchange of best practices.

The expected results of the programme will be: Increased capacity of BIOs to assist local SMEs and to promote better policies in their favour; improvements in the policies related to SMEs competitiveness; increased competitiveness of SMEs on the internal and foreign markets as ultimate impact of the programme. The Central Asia Invest programme meets the objectives of CA regional multiannual indicative programme 2014-2020 on socio-economic development, and is in line with the EU Communication on private sector development.

## 1 CONTEXT

### 1.1 Sector/Country/Regional context/Thematic area

#### 1.1.1 Public Policy Assessment and EU Policy Framework

Central Asia is located at the cross-road between Europe and Asia and surrounded by large economies as Russia and China. The region benefits from high literacy rates, hydrocarbon and mineral resources as well as large arable land areas. Its economy and consequently its private sector therefore show a great potential for development.

The business regulatory environment in Central Asia varies across countries but is generally characterized by complex legislation and long-lasting administrative processes. Starting a business in the region is very difficult due to registration, licensing and infrastructure-related (e.g. access to electricity and electricity outages in Kyrgyzstan and Tajikistan) delays: it takes on average more than six months to obtain a construction permit in the region<sup>1</sup>. Central Asian markets lack innovation and technology, Kyrgyzstan in particular is ranked respectively 129th and 145th out of 148 assessed countries for "technological readiness" an "innovation" indicators<sup>2</sup>. Investors in Central Asia also encounter non-favourable tax and credit regulation systems. Moreover, the region suffers from a lack of transparency: the five countries are ranked between 140th and 168th out of 177 countries in the Corruption Perception Index<sup>3</sup>.

Although there are evident limitations as regards the potential for reforms in view of the overall state of governance including the absence of rule of law, Central Asian governments are interested in conducting certain reforms, with a view to improve the business regulatory environment and investment climate in their countries. Their agendas include new legislation and regulation on private entrepreneurship, support to the private sector development, professional training and reform of the credit system as well as trade and transit facilitation with immediate neighbours. For example, Kazakhstan launched in 2010 a national programme "Business Roadmap 2020" aiming at developing entrepreneurship in particular for Small and Medium Enterprises. The State offers lower interest rates on loans, loan guarantees, support to build industrial infrastructure and provides legal and accounting services to businesses. In its "National Sustainable Development Strategy 2013-2017", Kyrgyzstan presents its economic development priorities, one of them being improving business environment and investment climate. The government states that for SMEs "The primary goal is ensuring sustained SME development through creating enabling environment for improving SME competitiveness. Achieving this goal involves the following tasks: (1) strengthening of legislation on security of private property (2) reducing government interference in business regulation (3) providing financial, loan and insurance support to enterprise; (4) becoming a top-30 country in the Doing Business rankings". In its "National Development Strategy for the period to 2015", Tajikistan sets three priorities including "the development of the private sector and attraction of investments, based on the expansion of economic freedoms, strengthening property rights and the rule of law, and development of public-private partnerships". Turkmenistan has committed to a programme to develop the diversification of its economy and improve businesses' access to the international market. Uzbekistan eased the process of starting a business by introducing an online name reservation and eliminating the fee to open a bank

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<sup>1</sup> Ease of Doing Business 2013 edition, data available for KAZ, KYZ, TAJ, UZB (data is mainly collected from SMEs).

<sup>2</sup> Global Competitiveness Report 2013-2014 edition, data available for KAZ and KYZ.

<sup>3</sup> Corruption Perception Index 2013 edition, data available for KAZ, KYZ, TAJ, TKM, UZB.

account for small businesses. More generally, Uzbekistan and Kazakhstan appear among the ten economies that have improved the most their business regulatory environment since 2011<sup>4</sup>.

### *1.1.2 Stakeholder analysis*

Stakeholders include governments (through relevant ministries and government agencies), local and regional authorities dealing with private sector and SME development, business intermediary organisations as well as SMEs.

- Governments, national and local authorities have declared their intention to support the development of the private sector and to create a more suitable environment for SME development. However, often key policy makers need further business advice on suitable regulatory framework, trade barriers, SME financing etc. Fostering business-policy dialogue with local authorities and ensuring that effective actions are developed in shared sensitive areas of activity has proved to be essential to the success of cooperation actions. It is also critical that the governments recognise the importance of the rule of law and of combatting corruption for the investment climate, given that legal certainty and judicial independence are fundamental for both the attraction of foreign investors and the perspective of SMEs.
- Central Asian business intermediary organisations are normally well aware of the deficiencies related to their organisations. Notably, they have difficulties in providing local enterprises with the necessary support to develop their activities, often at a very basic level, and they lack international experience and networks to help businesses to develop internationally. Depending on their status (private or public), these institutions have a mixed readiness to promoting and advocating their clienteles towards authorities, in particular, in initiatives to enhance business environments through liberalisation of the existing legal and regulatory framework
- European business intermediary organisations, on the other hand, are experiencing an increasing interest from the companies they represent in Central Asian countries, and are expected to support SMEs in their approach to Central Asia. The EU is competing with China to be the leading trading partner for the five Central Asian countries, accounting each for approximately one third of imports and exports combined. The EU is the leading trading partner for Kazakhstan (47% of Kazakh external trade in 2010), the third largest for Turkmenistan and Uzbekistan and the fifth largest for Kyrgyzstan and Tajikistan. European business intermediaries and their members have some experience in the area but face difficulties in finding reliable interlocutors. They may face problems emerging from lack of knowledge of Central Asian markets, their legal and regulatory frameworks, business culture and traditions in formal and informal sectors as well as from language barriers.
- Examples of business intermediary organisations (BIOs), both in Europe and Central Asia, are chambers of commerce, regulatory bodies promoting trade, investment or commercial activities, sector specific trade, industrial and professional associations (including local associations of European business), employers' federations and agencies promoting trade, investment and commercial activities, non-governmental organisations, sector-based agencies concerned with working with SMEs.

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<sup>4</sup> "The ten economies improving the most across 3 or more areas measured by Ease of Doing Business in 2011/12", Ease of Doing Business 2013 edition.

- Central Asian SMEs, as described above, have very often a micro-dimension (fewer than 10 employees). Many of them still operate in the informal sector and lack the necessary management skills and tools to expand their activities both at a local and international level. At an international level, they will have to tackle unfamiliar markets and cultures and some language barriers.

Central Asian SMEs will be the final beneficiaries of the Central Asia Invest Programme, while BIOs promoting Private Sector Development will be the 1st component of the Programme's target group.

The consultation and involvement of local, regional and government authorities for the identification of reform agendas aiming at legislative and regulatory changes will be important for the political sustainability of the programme. The policy component represents the framework within which these consultations will be carried out.

At project level, Central Asia Invest will be a demand-driven, co-financed programme. Thus, applicants will commit themselves from an operational and financial point of view for the successful implementation of their projects and will have a direct interest in their sustainability. Furthermore, the sustainability of the projects' results will be increased by extending the length of the projects to at least 3 years and by encouraging BIOs to increase the number of members and develop paying services.

### ***1.1.3 Priority areas for support/problem analysis***

Despite some efforts and improvements, Central Asian countries still face great challenges in the development of their private sector. First, the significant skills gap between the educational system and the labour market causing insufficient and inadequate human capital resources. Linked to this the identified lack of entrepreneurial and risk-taking culture<sup>5</sup>. Another important issue is the over-dependence on natural resources (e.g. Turkmen's extractive sector as a whole is credited to generate around 40 percent of the GDP<sup>6</sup>) making the region's economies highly exposed to the hydrocarbons and other commodities market prices' volatility and putting pressure on environment. The limited regional integration in terms of private sector development, trade and investments is also a disadvantage for the building of enabling business environments. Finally, SMEs difficulties to access financial loans and services also harm the economic and social development of the region.

SMEs can act as the motor of an economy and considering their role as generators of public revenue and providers of employment, income, goods and services, they have the potential to play an important role in poverty reduction. SMEs are particularly important for countries in transition, facilitating the shift from mass production to a demand-driven and market-oriented economy<sup>7</sup>. The level of private sector development, especially in relation to SMEs, varies from country to country. Based on the limited available data, MSMEs<sup>8</sup> employ 4.5% of the labour force in Kyrgyzstan, 26% in Kazakhstan, 47% in Tajikistan and 65% in Uzbekistan<sup>9</sup>. However, some features are common to the region: SMEs lack access to information and are

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<sup>5</sup> Competitiveness and private sector development in Central Asia – Competitiveness Outlook 2011, OECD

<sup>6</sup> Natural Resource Governance Institute

<sup>7</sup> Smallbone, 2001

<sup>8</sup> Micro, Small and Medium Enterprises

<sup>9</sup> Limited data from 2005, 2007 and 2008, MSMEs indicators IFC

isolated from business knowledge and technological transfer (in particular on finance, human resources and marketing). One of the major difficulties they face is their limited access to finance as banks are more reluctant to provide credits to small businesses -associated to high risk perception- than to established large firms. SMEs also suffer from high administrative costs linked to small-scale lending and high collateral requirements. In Central Asia, financial institutions oblige companies to provide collaterals accounting on average for 170% of the loan value. This unfavourable framework leads to an SME financing gap with on average only 16% of small businesses using banks to finance investments in Kazakhstan, Kyrgyzstan and Tajikistan and no more than 8% in Uzbekistan<sup>10</sup>. Due to these difficulties, SMEs have low chances of finding partners and can hardly be competitive at national, regional or international level.

Business Intermediary Organizations can play a key role in the development of the private sector and in particular of the SMEs. Their functions are to represent businesses and provide them with advices and training. In Central Asia, BIOs have limited access to finance, business information and know-how. Therefore, they often cannot deliver services such as legal, technical and economic advice, support export and investment promotion or lobby and advocate in favour of SMEs needs. Further support is needed to enhance BIOs' influence on policy making and to improve their capacities in their role of connectors between the government and private stakeholders for the development of SMEs.

Trade, both within Central Asia and between Central Asian states and the rest of the world, continues to be hampered by numerous barriers. The countries in the region are ranked between 174<sup>th</sup> and 185<sup>th</sup> out of 185 for their easiness to trade across borders<sup>11</sup> and regional trade cooperation is very limited. Among the main reasons: delays for exports and imports of goods –a high number of documents is required and it takes on average respectively 73 and 78 days- and high transport costs -around 4 500 USD per container in Kazakhstan, Kyrgyzstan and Uzbekistan and up to 9 000 USD in Tajikistan-. These unfavourable conditions can result in a very limited percentage of exporting companies (either directly or indirectly); only 5.2 % in Kazakhstan and 2.1 % in Uzbekistan. Also, the above mentioned over-dependence on natural resources leads to a pressing need of exports diversification.

Foreign direct investments (FDI) constitute an important source of financing. At the regional level, after the 2009 crisis and credit crunch, FDI inflows globally increased but with major divergences between countries and years and a low region's global share –less than 1% of world stocks-<sup>12</sup>. Kazakhstan captures the majority of inflows in the region and mainly in extractive industries with USD 9.7 billion in 2013, followed by USD 3 billion in Turkmenistan and USD 1 billion in Uzbekistan. Kyrgyzstan and Tajikistan are still far with respectively USD 370 million and USD 200 million despite a recent significant increase in Tajik inflows<sup>13</sup>. FDI inflows mainly involve large multinational companies as they benefit from access to finance and knowledge, nevertheless they also represent a great opportunity for SMEs as they are often large companies' suppliers. This is why national and regional policies should associate FDI and SMEs growth establishing business linkages between multinational and small-scale companies to ensure knowledge and technology transfer. FDI can also encourage domestic firms to innovate to respond to the external competition. Therefore,

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<sup>10</sup> Enterprise surveys, World Bank group (data is mainly collected from SMEs).

<sup>11</sup> Ease of Doing Business 2013 edition, data available for KAZ, KYZ, TAJ, UZB.

<sup>12</sup> Data from 2009

<sup>13</sup> IMF, UNCTAD, World Development indicators 2013 edition

enabling business environments should be promoted -rapid administrative procedures and efficient policies and infrastructures- to attract investments.

The Central Asia Invest IV programme is in line with the EU Communication on private sector development as it supports the development of the private sector in Central Asia through the improvement of the business environment for SMEs and the reinforcement of the role and the capacity of Business Intermediary Organisations. Business intermediaries can play a key role in the reform process towards a market economy, contributing to civil society development and to the creation of new employment opportunities and income. By improving their capacity to assist small businesses and to create bridges between the governments and the private sector, they will contribute to the gradual economic transition of these countries and to the reduction of poverty.

Central Asia Invest IV expected results also meet the objectives of CA Central Asia regional multiannual indicative programme 2014-2020 on socio-economic development, i.e. “Support for a market regulatory and enabling business framework following EU/international practices for the development of sustainable private sector notably SMEs” and “Improve access to credit for SMEs”.

**2 RISKS AND ASSUMPTIONS**

<b>Risks</b>	<b>Risk level (H/M/L)</b>	<b>Mitigating measures</b>
Evolving political and economic situation in some of the CA countries. For example: CA countries that join the Eurasian Economic Union (currently: Russia, Belarus, Armenia, Kazakhstan and Kyrgyzstan) may lose interest in the European cooperation programmes and initiatives.	Medium	A dialogue driven approach should be promoted.
Insufficient ownership of CA governments resulting in a lack of measures and policies promoting the development of an enabling business environment. Therefore: administrative burdens and heavy reporting requirements and procedures might impede the development of SMEs and the private sector in the region.	Medium	Closer links with the policy dialogue agendas and closer involvement of CA partners in the programme design should be ensured.
European BIOs more interested in supporting European enterprises to invest and export to CA than to develop the local economies.	Low	EU investments and trade activities should be considered as a win-win situation. They represent an opportunity for the development of CA economies and for European BIOs to enhance the capacities

		of their local counterparts, in order to increase the trust in reliable partners who will be crucial for the future success and sustainability of initiatives in CA.
Local BIOs and SMEs may experience difficulties linked to the language and to EU specific templates and procedures.	Low	Relevant materials should be translated in Russian and the Delegation should liaise with local beneficiaries
Lack of coordination with other donors.	Low	Develop partnerships with other existing donors that are compatible with and complement the Competitiveness Programme.
<b>Assumptions</b>		
<ul style="list-style-type: none"> <li>• Delegations will retain the capacity and the resources to build relations and cooperate with multiple implementing partners and stakeholders across the region.</li> <li>• The Central Asian governments are committed to the objectives of the policy component and a constant dialogue is ensured.</li> <li>• Lessons learnt from the networking meeting and the evaluation of the Central Asia Invest programme, are effectively incorporated in the guidelines for the next Call for Proposals and in the policy component.</li> </ul>		

### 3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

#### 3.1 Lessons learnt

The evaluation carried out in 2014 and the feedback from the stakeholders in Central Asia at the networking meeting in September 2014 both underline the Programme's relevance to the needs of the private sector in Central Asia. The grant projects mainly achieved their objectives and in the case of on-going projects, are likely to do so in the future. The overall programme impact is estimated high: Through their activities, the grant projects successfully manage to enhance the capacity of BIOs, which will ultimately benefit SMEs. However, the dissemination of the information both internally (between projects and between the 2 components) and externally seems crucial in order to increase the coherence and sustainability of the programme.

Based on the findings of the evaluation and the discussions during the networking meeting, the following lessons learnt and recommendations need to be considered for the content of the programme:

- There should be more coordination between the grant projects in order to find synergies and avoid overlap between them. To enable the exchange of information, a networking meeting should be organised just after the selection of the projects.
- In order to avoid overlap between projects and give coherence to the programme, the portfolio of project proposals should be evaluated as a whole.
- The policy component has increased its impact by tackling issues at a national level (in Tajikistan and Kyrgyzstan). Further actions of that type could be developed in the other countries of the region. In order to increase interaction between the grant

component and the policy component some meetings could be organised in the countries by the delegations between the project managers of local entities and the OECD.

- The EU visibility should be increased in all the projects.
- Consequently, a networking component for the visibility actions (publications, content for the website...) and the organisation of the networking event, could be included in the programme. Information in Russian should be available on the websites of the EU delegations.

Furthermore, criteria for increased sustainability and impact will be added in the guidelines for the Call for Proposal to take into account feedback from the evaluator and from local stakeholders:

- The length of the projects will be of at least 3 years in order to increase their impact, efficiency and sustainability
- It is desirable to have projects ongoing in all Central Asian countries: a criterion might be added in order to balance the Central Asian countries benefitting from the programme
- The sustainability of the projects will be improved by encouraging BIOs to increase the number of members and to put in place a membership fee and develop paying services, or by favouring those which are already self-sufficient.
- Grant projects need to improve their outreach to SMEs that have not yet or only partially been reached. To better reach SMEs, BIOs should involve provincial areas and facilitate membership for fragile SMEs.
- The purchase of office equipment for a limited amount for local BIOs could be allowed in order to facilitate the implementation of the project
- Transfer of competences in the fields of the value-chain approach and soft skills may be considered as eligible activities

The evaluation report underlines that the OECD does not provide any support in the implementation of its recommendations. Both the end of the 2<sup>nd</sup> phase and the 3<sup>rd</sup> phase of the Central Asia Initiative address this issue through the organisation of workshops with the Central Asian governments and the monitoring at a high level at a roundtable in Paris.

### **3.2 Complementarity, synergy and donor coordination**

The Central Asia Invest Programme is complementary to recent and current SME-related activities funded by other donors, where insufficient attention is being paid to the potential role that could be played by Business Intermediaries in the development of private sector and in the policy dialogue.

Ongoing initiatives include the Central Asia Regional Economic Cooperation programme (CAREC) supported by 6 multilateral institutions (ADB chairing the Secretariat, EBRD, IMF, IDB, UNDP and World Bank). CAREC aims at promoting and facilitating regional cooperation in the areas of transport, trade policy, and energy. GIZ is implementing the program Support of regional economic cooperation by advising ministries on customs procedures and international technical standards. The project Aid for Trade is funded by the Government of Finland and implemented by the UNDP to enhance Central Asian countries' economic competitiveness. It targets SMEs, farmers and farmers' cooperatives along selected

trade corridors in Central Asia: in Kazakhstan's Semey region, Kyrgyzstan's Batken region and Tajikistan's Khujand region.

Close link can also be established with ongoing EC financed programmes:

- Within the Investment Facility for Central Asia (IFCA), several institutions implement projects in favour of SMEs that complement the Central Asia Invest Programme:
  - The EBRD carries out the “IFCA contribution to the SME Finance Facility in Central Asia” and the “Implementation of Enterprise Growth Programme and Business Advisory Services” in Turkmenistan. EBRD's programme TurnAround Management/ Business Advisory Services (TAM/BAS) provides advisory services to SMEs from experienced business advisors and consultants; TAM focuses on substantial managerial and structural changes while BAS targets specific projects such as feasibility studies and market analysis.
  - KfW works in Kazakhstan, Kyrgyzstan and Tajikistan to refinance micro-finance institutions in order to facilitate access to finance for micro and small enterprises
  - The EIB implements the project “KazAgro Climate loans for SMEs, Midcaps and MSMEs” in order to promote climate change adaptation and mitigation investments in the agri-food sector in Kazakhstan carried out by micro and small enterprises.
- The MCTAF (Multi Country Technical Assistance Facility) programme is currently being drafted and could help the implementation of the OECD recommendations to the governments to enhance SMEs competitiveness through technical assistance.
- Last but not least, synergies will be sought with the EU delegations with ongoing rural development projects in Central Asia in relevant activities of mutual interest.

### **3.3 Cross-cutting issues**

- With regard to the grant component, the Programme’s Guidelines for Applicants will underline that proposals must ensure equal opportunities and equitable participation of different genders in project activities. Beneficiaries will be systematically invited to take gender issues into consideration in the implementation of their projects. The participation of projects which involve women entrepreneurs or minorities will be encouraged.
- Environmental issues should also be addressed whenever possible and “green” projects will be encouraged. Particular attention not to harm the environment will be given in all the projects and actions selected under this programme. When applicable EIA screening will be carried out according to EU standards.

## **4 DESCRIPTION OF THE ACTION**

### **4.1 Objectives/results and options**

The overall objective of the Programme is to promote the development of the private sector in Central Asia, with special emphasis on encouraging the growth and expansion of SMEs. In addressing this overall objective, the Programme has the following specific objectives at regional level:

1. To reinforce the role and the competences of Central Asian Business Intermediary Organisations, specifically with regard to their capacity to support and offer services to SMEs and to influence policies in favour of SMEs;

2. To improve the business climate for SMEs, including encouraging regional economic integration.

The expected results of the programme will be:

1. Increased capacity of Business Intermediary Organisation to assist local SMEs and to promote better policies in their favour;
2. Improvements in the policies related to SMEs competitiveness (access to finance; human capital development; investment policy and promotion; value-chain competitiveness);
3. Increased competitiveness of SMEs on the internal and foreign markets as ultimate impact of the programme.

## **4.2 Main activities**

In order to achieve these objectives, **three components** will be developed: common actions and synergies between component activities will be undertaken.

### **Component 1: Capacity Building for BIO Meso Level**

Capacity building projects dedicated to local business intermediary organisations in their role to support the development of the private sector; this component should enable BIOs to offer better services to their members and help to improve the business environment for SMEs.

### **Component 2: Policy component Macro level**

This component should contribute to enhance the overall business climate and the competitiveness reforms at a government level both at national and oblast level. This component refers to the third phase of the “Central Asia Initiative”. The initiative will include (1) to develop country-specific analysis and policy recommendations on how to enhance competitiveness of SMEs, by focusing on selected SME policy challenges, such as access to finance, human capital, investment and trade policy and promotion, moving up the value chain in specific economic sectors; (2) to strengthen public-private dialogue process at country level and support the follow up on the recommendations; (3) to build a process for regional dialogue and co-operation based on peer review and exchange of best practices.

### **Component 3: Programme support activities**

This component will complete the previous two, providing for effective information and visibility, dialogue with stakeholders and beneficiaries of the programme. Activities will include the following:

1. Networking Facility: Networking events, promotion/dissemination of results (including publications and delivery of content for the website).
2. Call for Proposal assessment

Following the successful implementation of Central Asia Invest I, II and III, the fourth generation of this programme will be structured in a similar way:

The activities under component one will be built on partnerships between European and Central Asian BIOs, selected for co-funding through one restricted Call for Proposals. The

discussion during the networking meeting have reconfirmed that this approach is suitable to encourage local ownership and knowledge transfer. Around 6 grants are expected divided in 2 lots:

Lot 1: 2 grants of an amount of an indicative minimum of EUR 750 000 (EU contribution 85%)

Lot 2: 4 grants of an amount of an indicative minimum of EUR 1.5 M (EU contribution 95%)

This division enables to take into account several constraints:

- Lot 1 is for small business organisations and countries like Turkmenistan and Uzbekistan where the capacity of the BIOs to implement big projects and to give a higher financial contribution is limited.
- Lot 2 takes into consideration the need to increase the average amount of the grants. The EU contribution is higher in order to take into account the limited financial capacity of BIOs.
- In order to ensure the geographical coverage of the regional programme, the implementation of fewer projects would not be relevant.

At a policy level a PAGODA Grant with the OECD is foreseen in order to build and follow-up on the current project in Central Asia with the OECD called the “Central Asia Initiative”, of which phases 1 and 2 have been funded by DG DEVCO H2 for an amount of 2 M€. The initiative is part of the “Eurasia Competitiveness programme” which also includes Mongolia, Afghanistan, the Eastern Europe and South Caucasus (DG NEAR provides funds for an amount of 2.5 M€). The public-private working groups of the Initiative enable to include relevant stakeholders in the discussion on the best practices for specific private sector development issues in the country. Furthermore, local governments have shown their willingness to implement the reforms suggested by the OECD as they take part at a very high level in the working groups, and in the Eurasia Competitiveness meeting in Paris each year for the peer-review of their countries. Thus, a PAGODA Grant with the OECD allows working at a policy level without being directive with the Central Asian governments. Last but not least the OECD has invited financial institutions to take part in the Initiative: the EBRD participates to the Eurasia Competitiveness roundtable each year and is invited to the local public-private working groups.

A networking component will ensure the dissemination of the information between the projects and between the 2 components as well as outside the programme, to other stakeholders involved in the Private Sector development in Central Asia. Framework contracts taking care of the networking activities and the information on the programme would be a good option (organisation of the events/ Brochure/ Posters/ Content for website). The involvement of delegations for appropriate feedback and synergies between the 2 components is highly desirable (organisation of meetings between projects and the OECD when the OECD is onsite).

### **4.3 Intervention logic**

Through capacity building projects between European and Central Asian BIOs, Central Asian BIOs will improve their competences to help their members through the offer of better services and a better ability to advocate in their favour. SMEs will be helped by BIOs on several issues like certification, improving soft skills, better marketing their products, etc. The final result will be a higher competitiveness on the local and international markets. It will consequently foster growth and the creation of jobs in those countries, paving the way out of poverty.

Through the policy component, government policies related to SMEs competitiveness will be improved thanks to OECD analyses and public-private working groups which identify the main constraints and challenges on specific private sector development issues. Results of the working groups will then be peer-reviewed and presented in policy handbooks for the governments. Capacity building workshops will help the governments to implement the recommendations made by the OECD. Business climate will be improved (better access to finance, rapid export administrative procedures, etc.), thus promoting private sector development and SMEs competitiveness.

Both components encourage regional economic integration as the guidelines of the Call for Proposal require the implementation of the projects in at least two countries of the region, and the peer-review of the results in Paris involve all Central Asian countries around the table together with OECD countries.

## **5 IMPLEMENTATION**

### **5.1 Financing agreement**

In order to implement this action, it is not foreseen to conclude a financing agreement with the partner country, referred to in Budget Article 184(2)(b) of Regulation (EU, Euratom).

### **5.2 Indicative implementation period**

The indicative operational implementation period of this action, during which the activities described in section 4.2 will be carried out and the corresponding contracts and agreements implemented, is 60 months from the date of adoption by the Commission of this Action Document.

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

### **5.3 Implementation modalities**

#### **5.3.1.1 Grants: call for proposals Central Asia Invest IV (direct management)**

(a) Objectives of the grants, fields of intervention, priorities of the year and expected results  
This component comprises capacity building activities targeting Central Asian Business Intermediaries (such as business associations, chambers of commerce, international/European business organisations). The activities will be built on partnerships between European and Central Asian BIOs, selected for co-funding through one restricted Call for Proposals.

The local business intermediary organisations often lack basic organisation management, marketing and advocacy skills that threaten their capacities and sustainability. With proper assistance, they have much higher potential to effectively and sustainably provide services and protect interests of their members. While working through BIOs, projects should have direct impact on groups of SMEs which can benefit from their participation in the projects activities, for example with regard to international accreditation or the development of new export market opportunities.

Themes: To better align better the two main components of the programme and hence to increase its impact, the eligible themes will be the ones carried out by the OECD at the policy level.

- *Access to finance,*
- *Human resources development*
- *Investment policy & promotion*
- *Value-chain competitiveness*

Sectors: The EU delegations will be approached in order to ask for their views on the most relevant eligible sectors depending on the local contexts. Eligible sectors are amongst others: agro-business; food processing; tourism; handicraft.

(b) Eligibility conditions

In order to be eligible for a grant, applicants must

- be specific type of organisations:

(i) **Business intermediaries** representing Small and Medium-sized Enterprises and promoting trade and investment between Europe and Central Asia. This includes, *inter alia*, chambers of commerce, sector-specific trade, industrial and professional associations, regulatory bodies and agencies promoting trade, investment and commercial activities as well as sector based agencies concerned with working with SMEs **or**

(ii) **Public agencies** (typically boards of investment, trade promotion agencies etc) at regional and local level, which are not directly or strictly related to the governments **and**

- be established in a Member State of the European Union or of

(i) a Member State of the European Economic Area (Norway, Iceland and Liechtenstein)

(ii) an official Candidate Country as recognised by the EU (Iceland, Turkey, Former Yugoslav Republic of Macedonia, Montenegro)

(iii) any of the following eligible Central Asian countries: Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, Uzbekistan

Subject to information to be published in the call for proposals, the indicative amount of the EU contribution per grant is of an indicative minimum of EUR 750 000 for Lot 1 and of an indicative minimum of EUR 1.5 M for Lot 2, and the grants may be awarded to sole beneficiaries and to consortia of beneficiaries (coordinator and co-beneficiaries). The indicative duration of the grant (its implementation period) is 36 months.

(c) Essential selection and award criteria

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

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

(d) Maximum rate of co-financing

The maximum possible rate of co-financing for grants under this call is 85% for Lot 1 and 95% for Lot 2.

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

(e) Indicative timing to launch the call  
4<sup>th</sup> quarter of 2015

### 5.3.1.2 Procurement (direct management)

Subject in generic terms, if possible	Type (works, supplies, services)	Indicative number of contracts	Indicative trimester of launch of the procedure
Programme Support activities	Services – framework contracts	2-3	4 <sup>th</sup> quarter 2015

### 5.3.1.3 Grant: direct award Central Asia Initiative (direct management)

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

The OECD would carry out the following tasks:

- Assessment of reforms and guidelines for targeted reforms in Mongolia and Uzbekistan through a series of working group meetings that will include a capacity building component
- Peer review of Mongolia and Uzbekistan at the OECD Eurasia competitiveness roundtable with preparation for peer-review through workshops beforehand
- Monitoring of reforms implementation through capacity-building workshops for Tajikistan and Mongolia;
- Monitoring of reforms at the OECD Eurasia competitiveness roundtable for Kyrgyz Republic and Tajikistan;
- Publication of an OECD report “Central Asia Competitiveness Outlook”
- Organisation of a Ministerial Conference

The entrusted entity would therefore contribute to the following objective of the programme: Improvements in the policies related to SMEs competitiveness (access to finance; human capital development; investment policy and promotion; value-chain competitiveness);

(b) Justification of a direct grant

Under the responsibility of the Commission’s authorising officer responsible, the grant may be awarded without a call for proposals to the OECD.

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

- The OECD has built a solid relationship with Central Asian governments. They participate in the Public Private Working groups and in the Eurasia Competitiveness roundtable each year at the level of Minister of Economy and/ or Deputy Prime Minister.

- The OECD is an international organisation with a widely respected peer-review system that enables to gather around the table the Central Asian governments and some OECD countries that can exchange on good practices in a neutral framework. This type of activity also fosters regional integration.

- The Commission is contributing to an existing programme that has worked successfully with Central Asian countries on related topics: "The OECD Central Asia Initiative", which is part of a larger programme launched by the OECD called the Eurasia Competitiveness Programme.

- See §4.2

(c) Essential selection and award criteria

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

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

(d) Maximum rate of co-financing

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

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

(e) Indicative trimester to conclude the grant agreement

4<sup>th</sup> trimester of 2015

(g) Exception to the non-retroactivity of costs

The Commission authorises the eligibility of costs after the submission of the grant application as of 1 October 2015 as it will be the continuation of the current contract that expires on 30 September 2015.

#### **5.4 Scope of geographical eligibility for procurement and grants**

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply.

The Commission's authorising officer responsible may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

## 5.5 Indicative budget

	<b>EU contribution (amount in EUR)</b>	<b>Indicative third party contribution, in currency identified</b>
5.3.1.1 – Call for proposals Central Asia Invest IV (direct management)	7 500 000	600 000
5.3.1.2. – Procurement (direct management) : Communication and visibility, assessment of Call for proposals	500 000	
5.3.1.3. – Grant Direct Award OECD	2 000 000	100 000
5.8 – Evaluation, 5.9 - Audit	will be covered by another decision	N.A.
5.10 – Communication and visibility	N.A.	N.A.
Contingencies		N.A.
Totals	10 000 000	700 000

## 5.6 Organisational set-up and responsibilities

It is proposed to assign the management of this programme to the Delegation to Kazakhstan under centralised management. Therefore, the Delegation to Kazakhstan will manage the services contracts and the Grant to OECD as well as the Call for Proposals. Each grant contract resulting from the Call for Proposals will be managed by the Delegation of the country that has the largest share of activities under the aforementioned grant.

## 5.7 Performance monitoring and reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the logframe matrix (for project modality) or the list of result indicators (for budget support). The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

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

## **5.8 Evaluation**

Having regard to the nature of the action, a mid-term evaluation will be carried out for this action or its components via independent consultants, contracted by the Commission.

It will be carried out for learning purposes, in particular with respect to the adequacy of the grant projects and of the policy component with the local needs in order to adapt for a possible 5<sup>th</sup> phase of the Central Asia Invest programme.

The Commission shall inform the implementing partner at least 2 months in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

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

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

## **5.9 Audit**

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

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

## **5.10 Communication and visibility**

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

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section 5.5 above.

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

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

For implementation modalities please refer to component 3 of the action.

