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ARMENIA MICRO ENTERPRISE DEVELOPMENT INITIATIVE

YEAR 2 ANNUAL REPORT

(July 25, 2004 – July 24, 2005)

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CONTENTS

CHAPTER ONE: Overview of MEDI

Background. In July 2003 USAID awarded the three-year Micro Enterprise Development Initiative (MEDI) contract to Chemonics International to provide micro enterprises in Armenia, particularly those owned by women and the working poor, with greater and more reliable access to sustainable financial and business services. The MEDI project was designed to support the Mission's efforts to accelerate the systemic restructuring of the Armenian economy towards a market orientation through the creation of new jobs, an improved business and investment environment, and through increased attention to grassroots efforts to create jobs – whether through micro, small and medium enterprise growth or other experimental approaches.

Expected results. In September 2003 USAID approved MEDI's strategic, life-of-project plan which set forth three project intermediate results (PIR): PIR 1 increased access to finance; PIR 2 increased access to business development services and PIR 3 improved enabling environment for micro and small enterprises (MSEs). This strategic plan was developed with input from USAID and Armenian stakeholders, and it aligns MEDI's results with USAID/Armenia's 2004-2008 strategy which calls for increased employment in a competitive private sector (SO 1.3) through: (IR 1) an improved business environment and (IR 2) growth of micro, small and medium sized enterprises.[1]

In August 2004, MEDI updated its strategic plan and developed its second year work plan based upon experience gleaned during its first year of operations. The most significant change to the strategic plan was to modify PIR 2 from increased access to business development services to increased MSE ability to exploit market opportunities. MEDI's year two work plan was developed with input from MEDI's subcontractors, in-country counterparts, and USAID. In addition, Chemonics' senior vice president for Europe and Eurasia, Mr. Richard Dreiman, traveled to Yerevan to facilitate MEDI's year two strategic planning workshop, which also included the participation of Mr. James Butcher, MEDI's new senior business development advisor.

Approach. Since its inception the MEDI project has implemented a demand-driven approach to the development of the MSE sector, serving as an "honest broker" between key constituencies. At the enabling environment level MEDI has facilitated donor collaboration, fostered dialogue between the government and private sector, and provided independent, objective third-party research and analysis of key issues. At the institutional level MEDI's role could be described as that of an auditor – pointing out strengths and weaknesses – and working with institutions to develop plans to improve performance and deepen support for the sector. Despite the fact that MEDI, as a mediator, sometimes has had to deliver tough news to its partners and stakeholders, most feedback that MEDI has received from its stakeholders has generally praised its approach and commitment to integrity, transparency and diplomacy.

From a project management perspective MEDI's approach has been to focus on results, while remaining flexible and open minded. MEDI has worked closely with USAID to implement activities in accordance with its year two work plan, while adjusting to seize available opportunities.

[1] Within these two intermediate results USAID highlights the need for: IR 1.1: more effective policy, legal and regulatory environment; IR 1.2: more developed financial and capital markets; IR 2.1 improved competitiveness; IR 2.2 increased access to finance; and IR 2.3 increased capacity to conduct business.

CHAPTER TWO: Activities, Accomplishments and Results to Date

During the project's second year, MEDI leveraged the knowledge that it gained from its first year of activities – when much of its efforts were concentrated on conducting due diligence on its counterpart institutions and the MSE market – to facilitate sustainable institutional changes amongst its partners. Specifically, MEDI helped to implement major changes amongst its key counterparts including microfinance institutions (MFIs), banks, and government institutions. These changes will, in turn, enable them to significantly enhance their ability to facilitate the development of the Armenian MSE sector. The following summary highlights MEDI's activities by component, including results from the project's second year of operations.

Increased MSE access to finance (PIR 1). In order to have a lasting impact on the Armenian financial sector, MEDI took a long-term view toward developing the institutional capacity of its financial sector counterparts. During its first year of operations, MEDI conducted due diligence on both MFIs and banks and assessed the demand for financial services by MSEs. MEDI sought to clarify both the supply and demand sides of the MSE finance market in order to determine and prioritize its technical assistance interventions.

With this task accomplished, during its second year of operations MEDI was able to design and implement strategies that stimulated lasting institutional changes amongst both its MFI and bank counterparts that will significantly increase long-term MSE access to finance. With regard to its work with MFIs, MEDI took a two-pronged approach. First, MEDI focused on catalyzing deep, positive changes at the institutional level of Armenia's MFIs leading to financial self-sustainability. Second, MEDI addressed systemic issues affecting the entire MFI sector.

Background: Armenian MFI underperformance compared to industry benchmarks. MEDI discovered during its due diligence that all Armenian MFIs were significantly underperforming when compared to MFI industry benchmarks for Eastern Europe and the CIS region. This was primarily the result of heavy donor subsidization and poor corporate governance, which insulated MFI management from necessitating improved performance of their institutions. Furthermore, MEDI realized that there was a risk that the significant financial investment made by donors, including USAID, in the development of the MFI sector could be lost unless key MFIs reengineered their operations. They needed to become more competitive with formal financial sector institutions, such as banks, which were increasingly going down market in search of MSE clients.

Increased MSE Access to Finance
Year 2 Results

- Facilitated the development of five-year business plans for Armenia's four leading MFIs that provide roadmaps for how they will achieve long-term financial self-sustainability.
- Catalyzed dramatic institutional change amongst three major Armenian MFIs through business planning process.
- Improved Armenian microfinance sector transparency through Microfinance Information Exchange (MIX) training and ensuring that all seven MFIs will report to the industry standard MIX Market.
- Introduced new financial instrument, Purchase Order Finance (POF), to six Armenian banks resulting in twenty-one POF deals to sixteen MSEs valued at $1.8 million.
- Delivered two MSE Finance Workshops that trained over fifty commercial bankers and Central Bank of Armenia supervisors in new financial instruments such as POF, designed to increase access to finance for MSEs.

Securing founder/board commitment to achieving MFI financial self-sustainability. Given the need to make fundamental institutional changes as well as the inherent conflict of interest faced by MFI management in addressing the weaknesses of the institution, MEDI chose to deal directly with the board or founders of its prospective MFI partners in order to determine the commitment to improving the performance of the respective MFI. MEDI's questions to the board and/or founders of UMCOR Aregak, MDF-Kamurj, FINCA Armenia, and World Vision's SEF were "Were they committed to supporting the changes necessary to make their MFI financially self-sustainable over the long-term? Could they make this commitment considering impending regulation by the Central Bank of Armenia (CBA) and increased competition from the banking sector, the combination of which could make MFIs uncompetitive within the next two to three years?" Before posing these questions to the boards and founders of the MFIs, MEDI shared the institutional assessments of their respective institutions. As a result, MEDI gained credibility as an honest broker that not only knew intimately each MFI's challenges, but also was seen as a valuable resource that could help to overcome structural weaknesses.

In the summer and fall of 2004, MEDI's finance team met with the board members and/or founders of UMCOR Aregak, MDF-Kamurj, FINCA Armenia, and World Vision's SEF in Yerevan or the United States. MEDI received a written or verbal commitment from each party that they would support the development of five-year business plans that would chart how their respective MFI would achieve long-term financial self-sustainability.

MFI strategic/business planning workshops. After securing board/founder commitment from its four MFI partners, MEDI held a series of three-day strategic and business planning workshops for each MFI between October 2004 and March 2005. These workshops brought together a cross section of MFI management, loan officers, operational staff and, in some cases, board and founder representatives, in order to identify the strengths and weaknesses of their respective MFI's operations, identify and quantify the demand for credit, and develop the organization's lending strategy. The output from the workshops formed the foundation of each MFI's five-year business plan.

MFI business plan development. Utilizing the output from the workshops, MEDI worked with its partner MFIs to develop five-year business plans for how each would transform into a registered credit organization that is financially self-sufficient and prepared for imminent regulation by the Central Bank of Armenia. (Please note that, in the case of SEF, which is already registered as a credit organization, the plan focused on the reengineering process that would be required for SEF to turn itself around from a loss-making to a profit-making institution.)

In keeping with MEDI's participatory style, the business plans were developed with intense involvement of senior management from each MFI as well as with input from a cross-section of personnel from various layers of operations, including loan officers. After each MFI strategic planning workshop was completed, the MEDI microfinance team and MFI business planning expert Mr. Graham Perrett immediately delivered intense technical assistance to utilize the information and momentum gathered during the workshops. Once the plans were completed, they were submitted to each institution's board of directors for approval. To date, the boards of Aregak, SEF, and Kamurj approved their respective institution's business plans, while FINCA chose not to approve it.

With the exception of FINCA Armenia, the business plans were a catalyst for unleashing significant institutional change at each of MEDI's partner MFIs. For example, within Aregak, the business plan led to UMCOR taking the formal decision to spin off Aregak into a registered credit organization. Also, UMCOR chose to support the spin off by using their resources to hire an expatriate transformation advisor who is responsible for implementing the business plan. (The advisor arrived in country in April 2005.) In addition, UMCOR also agreed to let Aregak retain $800,000 from initial start-up operations.

In the case of SEF, the business plan served to highlight World Vision's required long-term managerial and financial commitment to make SEF a profitable institution and therefore place it in a position to have a lasting impact on financing Armenian MSEs. Until this plan was developed, World Vision was unclear what the financial costs and timeline for turning SEF around would be and therefore had trouble determining whether or not to keep SEF going. (The plan estimates that it will take SEF four to five years and approximately $3.5 million in external financial support to reach this goal.) In addition, the plan sent a wake-up call to middle management and line staff, some of whom were skeptical that SEF was in dire straits, that drastic action was needed to reengineer the institution.

With regard to Kamurj, the business planning process served to re-engage its founders, Save the Children (SAVE) and Catholic Relief Services (CRS), to its activities. Kamurj is the product of a merger between two local Armenian MFIs that were established by SAVE and CRS. Due to some internal issues, SAVE and CRS became disengaged from Kamurj after the merger, much to the detriment of Kamurj's ability to govern itself effectively. (For more information, please see MEDI's institutional assessment of Kamurj which highlights governance as a major weakness.) Fortunately, as a result of MEDI's role as an honest broker, SAVE and CRS were able to resolve their differences through the business planning process. The founders subsequently agreed to nominate two expatriate board members with microfinance expertise to solidify Kamurj's board and, in general, take a much more active role in developing Kamurj and preparing it for transformation. Issues of control still remain between Kamurj's executive director and its founders (the new board members have yet to be appointed); nevertheless, the business planning process was critical to reengaging the founders, the participation of whom is fundamental to infusing Kamurj with new energy and support so that it can overcome its lackluster performance and risk-averse culture to become, once again, a leader in the Armenian microfinance sector.

The fourth and final business plan developed by MEDI was for FINCA Armenia. Prior to embarking on the business planning process, MEDI participated in a lengthy conference call with FINCA International's regional director and FINCA Armenia country director to ensure that FINCA International agreed with MEDI's proposed approach and to ascertain whether or not FINCA International shared the same vision and commitment with regard to developing sustainable MFIs. It should be noted that FINCA International took issue with some of the conclusions MEDI reached in its initial institutional assessment of FINCA Armenia. In particular, FINCA was sensitive to the fact that MEDI had pointed out that the two percent affiliation fee charged by FINCA International doubles FINCA Armenia's operating costs and will, in the long run, make it uncompetitive. As a result of this issue, MEDI ensured that the affiliation fee was addressed in the business plan as it severely hampered FINCA Armenia's long term viability and, during the conference call, FINCA's regional director agreed as such. Thus, MEDI decided to invest considerable project resources in helping FINCA Armenia develop its business plan. Unfortunately, the business plan ultimately was rejected by FINCA International, due to the fact that the plan highlighted the costs of the affiliation fee and its impact on FINCA Armenia's financial self-sustainability. As a result of this difference of opinion, FINCA decided to suspend its partnership with MEDI, yet continued to avail itself of opportunities extended by MEDI to the entire Armenian microfinance sector, such as the MIX training.

Targeted technical assistance in support of partner MFIs. MEDI offered targeted technical assistance to Aregak and SEF given that both institutions had approved and begun implementing the five-year business plans that MEDI had facilitated. Given the wide range of technical assistance needs identified in each of their business plans, MEDI determined that it could gain the maximum leverage from its limited technical assistance budget by helping Aregak and SEF improve their management information systems (MIS), since MIS development was identified by each MFI to be a top priority. Moreover, a strong MIS is central to any MFI's ability to significantly expand operations, develop new products and scale-up its client base, all three of which are central to achieving long-term financial self-sustainability.

Toward this end, MEDI subcontracted eChange, a leading MIS and change management consultancy, to conduct in-depth MIS assessments of both Aregak and SEF. With regard to Aregak, the primary focus of the MIS assessment was for eChange to help Aregak choose a long-term MIS strategy as well as identify the first steps for implementing this strategy, taking into account the imminent regulatory changes facing AREGAK, Aregak's proposed spin-off from UMCOR, as well as Aregak's aggressive growth targets. As for SEF, eChange's MIS assessment focused on analyzing SEF's newly installed Arm-Soft system created by local software company Arm-Software. Per the request of SEF and the organization's founder, World Vision, special attention was paid to systems security.

Armenia microfinance sector development. Industry-wide, MEDI helped create an improved legal and regulatory environment for microfinance. This effort is detailed in the improved enabling environment for MSEs section of this report. In addition to this, MEDI addressed two other fundamental obstacles that have hindered the overall development of the Armenian microfinance sector: 1) a lack of transparency and 2) a lack of access to commercial sources of debt and equity.

Improving Armenian MFI transparency: Microfinance Information Exchange (MIX) Training. MEDI subcontracted the MIX to deliver a one-week workshop to Armenian MFIs in Yerevan in June 2005 on transparency, the MIX Market and the Readiness Assessment Course. The workshop covered the importance of transparency in microfinance, the services of the MIX Market and the MicroBanking Bulletin (MBB) as well as provided training on how to submit and update MFI profiles on the MIX Market and complete the Micro Banking Bulletin (MBB) data collection tool.[2]

MEDI is pleased that six out of seven Armenian MFIs participated in the training including the sector's largest and most influential institutions. Participants included Aregak, Kamurj, SEF, FINCA, ANIV, and ARMECLOF. (The Horizon Fund decided to decline MEDI's offer to participate. However, since Horizon reports to the MIX separately, the entire Armenian Microfinance sector will be fully covered by MIX reports.)

As part of the subcontract, during year three of the project, the MIX, together with MEDI, will produce Armenia's first-ever microfinance benchmarking report as well as customized reports on Armenia's leading MFIs including Aregak and Kamurj. These reports will incorporate previously confidential information, such as adjusted historical financial statements, gathered by MEDI during its first year of operations from five MFI institutional assessments. Making this sort of information publicly available will be critical to helping investors compare various Armenian MFIs to one another as well as to other institutions in Eastern Europe and the CIS. By increasing transparency, MEDI hopes to spur competition amongst Armenian MFIs as well as to facilitate foreign direct investment in the sector.

Helping MFIs access commercial sources of debt and equity: Microfinance Investors Conference (MFIC). The third major MEDI-led intervention designed to develop the overall viability of Armenian MFIs and thereby significantly increase MSE access to finance on a sustainable basis, was the organization of an international Microfinance Investors Conference (MFIC). If Armenian MFIs are to reach their full potential in terms of their ability to satisfy the large unmet demand for credit by MSEs, they will need to be able to access commercial sources of debt and equity in order to finance their long-term growth. A prerequisite is establishing a clear legal and regulatory environment for and improving the

[2] The MIX Market strives to facilitate exchange and information flows, promote transparency and improve reporting standards in the microfinance industry. The MicroBanking Bulletin (MBB) is the premier benchmarking source for the microfinance industry. Its benchmarks are widely used by investors, donors and other service providers to facilitate greater standardization and a better understanding of the development of the microfinance sector.

transparency of MFIs, both of which are MEDI's major focus areas. Finally, MEDI provided in-depth technical assistance to a limited number of leading Armenian MFIs that have committed at the board and/or founder levels to engage in a reengineering process designed to help them successfully transform into regulated financial institutions.

As a means of tying all of these related pieces together so that their sum is greater than their individual parts, MEDI decided to organize the MFIC. The idea behind the MFIC is simple: increase the likelihood of attracting foreign direct investment for Armenian MFIs by lowering the investment costs for prospective investors. MEDI plans to do so by pooling together the leading MFIs from Armenia and Georgia in a one-day conference with a primary focus on initiating deals. (MEDI decided to include Georgian MFIs in the conference to make the MFIC more attractive to institutional investors by increasing the pool of prospective MFI investment opportunities as well as to foster competition amongst Armenian and Georgian MFIs.)

MEDI's Chief of Party (COP) traveled to Washington, DC, in October 2004 to seek support from international donors for the MFIC, which MEDI is organizing for October 2005. Several key institutions such as USAID/Washington, IFC and CGAP pledged to participate and potentially share some of the costs of the event. In May 2005, the COP met with several major microfinance investors including Triodos Bank, Oikocredit, Blue Orchard Finance, and Cyrano Management during the Microfinance Center for Eastern Europe and CIS (MFC) annual conference in Bucharest, Romania, to explore their interest in investing in Armenian and Georgian MFIs. The discussions revealed that investors were eager to investigate new investment opportunities and several indicated that they would attend the conference. In particular, the investors said that they welcomed MEDI's role as an "honest broker" and focus on developing the overall sector.

Expanding access to finance for Armenian MSEs through Armenian banks. In order to achieve its goal of increasing MSE access to financial services that are delivered on a sustainable, massive, and nationwide basis, MEDI pursued a two-pronged strategy of 1) assisting top-performing MFIs in achieving financial self-sustainability and 2) training banks to design and implement asset-based lending products for MSEs. With regard to the latter, during its first year of operations, MEDI, in conjunction with its subcontractor Crimson Capital, identified new product opportunities for banks interested in serving the financial needs of MSEs. Based on its assessment of both the supply and demand of existing financing options appropriate for MSEs, MEDI determined that there was an acute need for working capital loan products. As a result, during the second half of year one, MEDI began identifying partner banks and introduced a new working capital loan product called purchase order finance (POF) to them.

Purchase order finance. POF is a form of working capital finance that enables companies to produce and prepare their products to fill "purchase orders" or "sales contracts", hence the name "purchase order finance". When a company gets an order or contract for its products, the financial institution advances the funds so that the company can buy the necessary materials, packaging and/or trade goods to prepare the order for shipment to the customer. When the customer pays for the order, the financial institution is repaid for the amount it advanced, plus interest and fees. Since the typical purchase order transaction, from advance of funds to final repayment, lasts 60 – 150 days, the company only pays interest for a short period of time. An additional benefit of POF is that the purchase order or contract serves as collateral for the loan, thereby reducing the need for MSEs to pledge real estate or other fixed assets that they often do not have or have already committed to secure long-term financing for equipment or other physical assets.

Collaborating with the Central Bank of Armenia to make POF viable. One of the major issues facing Armenian banks desiring to develop new lending products such as POF is the issue of what collateral the Central Bank of Armenia (CBA) deems to be acceptable so that they do not classify a loan as blank. (A blank loan is a loan that is considered unsecured and therefore must be fully provisioned – i.e. it must be one hundred percent secured by the bank's own capital – which drives up the banks costs and therefore discourages them from making such loans.) The challenge facing growing businesses is that their financing needs are often greater than the 'hard' asset collateral such as real estate, gold, or cash liquid assets that they have available. Thus, without the necessary 'hard' collateral, Armenian banks have tended to turn away MSEs from loan applications or have charged them extremely high interest rates that make bank loans untenable for them.

While Armenia's Banking Law and the CBA's Policies and Procedures, Rules and Regulations theoretically allow commercial banks to take alternative collateral (subject to adequately meeting criteria on due diligence, e.g. risk appraisal, financial records/assessment, etc.), commercial banks have assumed that the CBA on-site supervisors would interpret the rules in such a way that 'alternative' collateral such as trade finance receipts/invoices would be considered unacceptable and that the corresponding loans would be classified as blank. This increases a bank's provisioning requirements which, in turn, negatively impacts its balance sheets and makes it very cautious about developing new products. On the other side, the CBA on-site supervisors tend to believe that bank credit officers do not perform adequate due diligence and/or adequately document their loans. These communications and procedural barriers have grossly inhibited lending to MSEs and the development of new financial instruments for the Armenian market.

The MEDI/Crimson team held meetings with the CBA in November 2004 to aggressively address these obstacles. The CBA officials confirmed that the CBA could, in fact, allow 'alternative' collateral, but that the loans would need to be documented properly and the CBA would need to be confident that the commercial bankers were well trained in making these types of loans and using these types of collateral effectively, utilizing proper risk management techniques. In fact, based on collaboration with MEDI, the CBA's Head of Banking Methodology and Analysis is very keen to utilize MEDI's introduction of POF as a means to develop the lending capacity of commercial banks. He fully supports MEDI's initiative and told MEDI that he believes that "POF is a vital instrument for the banking industry right now – the Central Bank will now support the Purchase Order Contract as collateral for these loans."

Technical Assistance and training to select Armenian banks for MSE lending. The MEDI/Crimson team provided customized technical assistance to several Armenian banks since the first half of 2004 to guide and assist them in adopting new working capital instruments, in particular, POF. Specifically, MEDI/Crimson worked closely with six Armenian banks: ACBA, Armenian Development Bank (ADB), Ardshininvest, Anelik, Converse, and INECO. MEDI/Crimson reviewed existing lending procedures at these banks and, based on this information, worked to fill in various procedural and technical gaps by providing them with access to new policies and procedures and advice on how to incorporate POF into their formal product offerings. MEDI/Crimson also reviewed numerous credit applications from its partner banks to help various lending officers develop expertise in POF and other trade finance products geared toward MSEs. The following table summarizes MEDI's institutional impact on each of its partner banks through the end of the project's second year.

Table I – Institutional impact of MEDI technical assistance to select partner banks

Bank	Increased Use of Trade Finance (Including POF)	Increased Use of Alternative Forms of Collateral	Increased Use of Cash Flow Analysis in Lending Decisions	Adopted New Trade Finance Policies/ Procedures	CBA Approved Trade Finance Policies/ Procedures
ACBA	✓	⇨	✓	✓	⇨
ADB	✓	✓	✓	✓	✓
Anelik	✓	✓	✓	⇨	⇨
Ardshininvest	✓	✓	✓	✓	⇨
Converse	✓	✓	✓	✓	⇨
INECO	✓	⇨	✓	⇨	⇨

✓ = yes ⇨ = in development

In addition to building the capacity of its partner banks, the practical benefits of MEDI's technical assistance can be measured concretely in terms of number of loans given, number of banks using new products, and the total value of loans disbursed. These clearly demonstrate the significant impact of MEDI's achievements in improving access to finance for MSEs. MEDI's six partner banks are now providing and promoting POF utilizing their own lending resources. At least twenty-one deals in a number of industries were completed totaling $1,834,000 with no defaults on repayments. Several firms received repeat POF loans that are growing in loan size and three export orders totaling $104,000 were funded by POF. Table 2 below details the deals that have resulted from MEDI's technical assistance, as reported by the partner banks.

Table 2 – POF deals completed by select partner banks with MEDI assistance

Bank	Business	Industry	Loan Amount (USD)
ACBA	New Force Ltd.	Chocolate/coffee importers & distributors	$55,000
ADB	Alpha Pharm.	Pharmaceuticals	$20,000
			$6,000
Anelik	*	Equipment production	$60,000
	Naco Ltd. P. Hakobyan & Friends Amavarshin	*	$100,000 (3 deals)
Ardshininvest	*	Computer equipment sales	$300,000
	*	Electronics manufacturer	$150,000
	*	Agricultural	$60,000
	*	Horse rental	$3,000
Converse	Vitamax	Nutrition	$15,000
			$27,000
	Lightening White	Plastics	$70,000

	Concern Duran	Fertilizer distribution	$300,000
			$300,000
	*	Food	$100,000
	Gris Cheese	Cheese making	$125,000
	*	Grocery packing	$50,000
	Medisor	Chemical additives	$70,000
INECO	Mangug	Pipe importers	$23,000
Total			**$1,834,000**

* = information withheld for confidentiality purposes.

Micro and Small Enterprises (MSE) Finance Workshops. A major reason that MEDI was successful in introducing POF and other trade finance products is that, in addition to coordinating its activities with the CBA, MEDI also complemented its technical assistance with two MSE finance workshops. The first of these was held from December 9 – 11, 2004 and the second from July 14 – 15, 2005.

The principal objectives of the workshops were threefold – 1) to train banks in credit assessment techniques, 2) to provide an introduction and orientation to POF and other trade finance products and 3) to build relationships between commercial banks and CBA staff.

To emphasize the seriousness of the workshops and promote a high level of active participation, the commercial banks were charged a fee – depending on the number of participants they sent – between $30 and $50 per day. This principle was readily accepted in the banking community and participants subsequently reported that the trainings were worth more than the charged fees. They also reported that they want workshops and training programs from MEDI on a regular basis.

Nineteen representatives from seven major Armenian banks participated in the first workshop as well seven supervisors from the CBA. Twenty-three credit officers from seven banks took part in the second training in addition to individuals from the CBA, the Financial Banking College Foundation, and the entire MEDI North Office team.

Development Credit Authority (DCA) in support of POF. During the first quarter of 2005, the MEDI/Crimson team aggressively pursued the possibility of utilizing a DCA guarantee mechanism to accelerate the adoption of POF and to encourage its partner banks to lower their fixed asset collateral requirements for working capital loan products targeted toward MSEs. A DCA would be issued by USAID's Office of Development Credit (ODC) and provide a U.S. government guarantee of up to fifty percent of non-recoverable assets to banks that qualify for it. Qualifying for a DCA guarantee is a rigorous process. Fortunately, two of MEDI's partner banks, Converse and INECO, already hold DCA guarantees for different lending activities. Taking advantage of this fact, MEDI, in close cooperation with its Cognizant Technical Officer (CTO), drafted two concept papers for DCA deals ($1 million each) that would support Converse and INECO's efforts to promote POF provided that they lower the collateral requirements for MSEs. While the ODC was favorably disposed to the idea, USAID/Armenia decided not to pursue this option for the time being.

Increased MSE ability to exploit market opportunities (PIR 2). In year two of the project, MEDI continued to make significant progress towards achieving its contractually defined objective of assisting Armenian MSEs to access business development services (BDS).

In order to better understand the underlying key constraints and opportunities that BDS providers face in Armenia, MEDI conducted a supply and demand survey in year one of the project. The resultant gap analysis, along with other analyses, served as the bases for year two activities in this component. A number of these initiatives focused on elevating the skills and knowledge of micro and small entrepreneurs, as well as those individuals hoping to start a small business. Other activities were carried over from year one or initiated to address identified weaknesses in MSE's access to markets. These activities included the continuation and expansion of the MicroPlan training, the opening of the MEDI north offices (MNO), and two business to business (B2B) meetings. All of these had the aim to increase MSE access to BDS and in doing so enable them to exploit market opportunities.

Increased MSE Ability to Exploit Market Opportunities Year 2 Results

- Trained 15 BSP representatives in the MicroPlan curriculum.
- Completed four Market Linkage Assessments identifying more than $42 million of MSE subcontracting and outsourcing opportunities.
- Opened three MEDI north offices that have developed five MNO client contracts worth an estimated $92,000 in increased sales during the first three months of operations.
- Held two B2B meetings, the latter of which resulted in an estimated increase in sales of $90,000 for three participants whose results were sampled one month after the event.

MicroPlan. MicroPlan is a course that teaches pertinent business skills in planning, management and finance, and is one of the many tools that MEDI employed to help entrepreneurs develop skills needed to succeed in a competitive environment. MicroPlan is unique because it creates a simulated business environment that encourages participants to think critically, challenge assumptions about business, and apply this knowledge to real situations. Through MicroPlan, MEDI taught business service providers (BSPs) about market dynamics, allowing them to play a more meaningful role in the development of a market-based economy in Armenia.

In year one, MEDI certified ten trainers on the MicroPlan curriculum. Two training of trainers (TOT) participants were certified during year two making a total of twelve certified trainers from MEDI's year one training.

The benefits of providing TOT certifications for MicroPlan are multifaceted. First, participant BSPs benefit from intensive course work and experiential training, allowing them to improve their understanding of business fundamentals and strengthen their ability to provide meaningful services to businesses. By providing BSP representatives, chosen through a competitive application process, with market-oriented business knowledge along with a marketable product, MEDI strengthened the ability of participant BSPs to improve their service provisions.

Secondly, the TOT program is scalable. BSPs, newly armed with highly relevant and desirable tools and techniques, are more able to train their MSE clients, creating a much larger impact on the business knowledge and skills of Armenia's MSEs.

Finally, MEDI found through its survey of the BSP community that other trainings in the market do not provide start-up and existing MSEs with a complete set of tools to examine their businesses from a holistic perspective. To exploit market opportunities, MSEs need to understand all aspects of the demand for their products and services and the costs and risks associated with bringing their products to identified markets. Furthermore, the growth of MSEs must be managed in a coherent and logical fashion, from human resources to accounting to accessing proper finance. Once MicroPlan trainers have completed this program, they are in a proper position to identify the priorities from the plethora of MSE needs and, more importantly, they have the tools and techniques to provide MSE business owners with the knowledge and market-based orientation to help them continue to exploit market opportunities and grow their businesses.

In year two, the twelve certified trainers took the MicroPlan curriculum to their communities and clients and provided the training to various groups. For example, in late November 2004, MEDI hosted MFI representatives and MicroPlan trainers in a small workshop to market MicroPlan trainings as a means of strengthening the business skills of MFI clients. Thirteen MFI representatives from seven organizations (UMCOR Aregak, FINCA Armenia, Aniv, Horizon, ECLOF, MDF-Kamurj, and SEF) and eight MicroPlan trainers participated. Following the presentation, UMCOR Aregak contracted with one of the BSPs to utilize MicroPlan during the staff development portion of their annual retreat on December 22 and 23.

At the end of year two MEDI polled the twelve certified MicroPlan trainers for the following data:

Date of MP training	**Target Group**	**Number of participants**	**Female**	**Male**	**Part of MP curriculum used**	**Price charged (if financed by project, state)**

Their responses documented that 232 MSEs had been trained in MicroPlan. We expect that MEDI's intensive training of trainers followed by support for their efforts to market and conduct trainings will ensure that this initial investment will be met with continually expanding returns.

From July 6th through 10th, 2005 MEDI held its second training of trainer's (TOT) session for MicroPlan with fifteen participants. Feedback from the first training revealed that in order to create the greatest probability for the successful adoption of the MicroPlan curriculum and training methodologies, certain minimum conditions must exist in terms of the trainer's background, experience and motivation to deliver services to MSEs. Therefore, when identifying trainers and consultants for this second training, MEDI developed specific criteria including (in no particular order):

- Background: Instructors should have a strong background in experiential education/training with an interest in microenterprise/entrepreneurship OR a strong background in hands-on enterprise development with an interest in education. Given MEDI's mandate to strengthen BSPs, MEDI selected the trainer pool from a number of existing BSPs and judged potential trainers based on their experience working with MSEs and their training experience. As a caveat, we found that strong experience with a didactic training background is not necessarily an asset, as the experiential learning process requires trainers to accept and be comfortable with their role as facilitator as opposed to lecturer.
- Availability: Potential participant's time and support from their supervisor were key considerations in identifying TOT candidates. This time and support extended not only to the training days, but more importantly to the implementation of the curriculum During the selection process we explained to each candidate that learning and delivering the MicroPlan training requires a significant investment of time – albeit with financial returns expected – and this commitment is necessary following the training in order to stimulate demand for this new training product in the Armenian market.
- Attitude: This criterion was difficult to gauge. Nevertheless, MEDI explored the following questions for potential trainers:
    - Is the candidate committed to delivering services to micro and small enterprises?
    - Are they open to a creative, participatory learning environment and risk taking in the training room?
    - Are they entrepreneurial and do they view what they do as a business or a service?
    - Do they have the confidence of community members or clients as someone to trust with confidential business information?
- Gender considerations: MEDI determined that the MicroPlan program was best implemented by a mix of men and women as trainers, despite cultural considerations

in Armenia that might restrict women's interaction with men and might impact their ability to enroll in training courses.
- Geography: As MEDI targets areas outside Yerevan, we paid careful attention to ensuring that there was adequate representation of trainers from rural areas. In our planning for the TOT we included considerations for trainers coming from the rural areas such as differences in client profiles, training experience, etc.

Based upon these criteria the MEDI team created a list of over twenty potential participants to interview, which yielded fifteen candidates who were invited to attend the TOT session.

An underlying goal of the MicroPlan curriculum is to introduce an experiential and outcome-based approach to MSE training, which uses a facilitator-driven, group-discovery learning process. Therefore, the TOT training process was intensively focused on the discovery of business concepts through activities and discussions. Trainers learned to facilitate the MicroPlan process as opposed to the traditional lecture and rote learning approach of many business trainings available in Armenia.

To date, fourteen of the fifteen TOT participants have completed the five day TOT session. In coming months these participants will be required to provide a "practical session" by offering a MicroPlan training to MSE owners and other entrepreneurs from Armenia's business community. The completion of these practical sessions is a prerequisite for participant certification as a MicroPlan trainer.

In addition to the fourteen TOT participants, two Master Trainers, who had been certified as MicroPlan trainers in 2004, were trained in July 2005. As Master Training candidates they helped to facilitate the MicroPlan TOT sessions and supervised the practical sessions. During a future visit, Mr. Andrew Baird of MEDI subcontractor Making Cents will assess their qualifications for certification as Master Trainers of MicroPlan. If certified, the Master Trainers will be able to provide future TOT sessions on MicroPlan and thereby allow for sustainability of the MicroPlan curriculum in Armenia after MEDI project ends.

Because MicroPlan is delivered by local certified trainers, further marketing training is needed to ensure that the curriculum is used to its fullest potential. With a program as complex as MicroPlan, follow-up training is necessary to ensure a maximum return on this investment. Specifically, MEDI will provide two two-day workshops to certified MicroPlan trainers who have conducted at least one MicroPlan training supervised by a MicroPlan master trainer. Workshop topics will include among other things:
- Addressing practical implementation and adaptation issues encountered by newly certified trainers.
- Assessing trainer's current marketing strategies for the course, their understanding of potential clients, and their understanding of how to incorporate MicroPlan into existing service offerings.
- Developing pricing strategy for services.
- Monitoring and evaluation of MSE clients, and evaluating impact.

MicroPlan a "Most Important Training"

According to Mr. Zoromo Mardanyan, a certified trainer from Yerevan, the MicroPlan training was one of the most important trainings of his career: "It is difficult to get these types of training tools for my business service. It adds to my toolkit of training techniques and I am, in turn, more marketable to entrepreneurs and businesses."

Market Linkages Assessments. MEDI's BDS supply and demand surveys showed a significant disconnect between BDS suppliers and MSEs' demand for these services. Primarily, MSEs were demanding profit-impacting BDS services with short-term solutions, but BDS providers were offering services with more medium- and long-term solutions. Furthermore, an informal survey of BSPs operating outside of Yerevan showed little if any for-fee services provided to MSEs. Based upon these findings and MEDI's approach of working with MSEs outside of Yerevan, where the need to access markets and BDS services is the greatest, MEDI began to explore a means of creating a demonstration project, which showed that MSE services could be provided effectively to this target group. During year two MEDI began to explore the one significant market that had not been fully exploited by MSEs: the large- and medium-sized firms that often subcontract to MSEs for inputs and services.

To initiate this exploration MEDI hosted a Market Linkages Assessment Roundtable on September 9th, 2004. The purpose of the event was to solicit input from BSPs regarding potential market linkages (MSEs to large- and medium-sized businesses) throughout Armenia. The following issues were presented and discussed:

- MEDI's BDS market assessment results.
- The rationale behind MEDI's Year 2 objectives and resulting opportunities to cooperate with BSPs.
- The identification of geographic areas in Armenia where commerce is concentrated.

Seventy-two organizations from around Armenia participated in the roundtable, including thirty-two that came from marzes outside of Yerevan. Following this event, MEDI released its Market Linkages Assessment (MLA) request for proposals (RFP) on September 15th, 2004 in order to hire up to six BSPs to conduct market linkages assessments outside of Yerevan.

In October 2004, MEDI chose four BSPs to conduct the survey in seven of Armenia's ten marzes outside of Yerevan. Over the course of eight weeks these four BSPs completed four MLAs. These assessments provided an indication of the current and potential demand for outsourcing and subcontracting to MSEs. MEDI designed a web-enabled database in order to manage the MLA process, which resulted in the survey of 227 medium- and large-sized companies.

In December 2004 MEDI hosted USAID and the four BSPs that had conducted the MLA to discuss the findings. Three of the four BSPs made presentations that identified a potential demand for MSE outsourcing and subcontracting of a little more than $42 million. These presentations also cited specific businesses in each marz where opportunities had been identified.

The MEDI North Offices (MNO). A fundamental premise behind MEDI's approach to linking MSEs with larger businesses and in conducting the MLAs is that demand drives supply and MSE producers must meet buyers' demands in terms of quantity, quality and delivery deadlines in order to grow and create jobs. This approach can be summed up in the dictum "produce what you can sell" and not "sell what you can produce". Putting this seemingly simple statement into practice in Armenia is no easy task given the command economy mentality that is the legacy of the former Soviet Union.

Based upon the MLA findings, MEDI determined that the best way to connect micro and small producers in Armenia with buyers is through agreements with larger-scale processors, wholesalers, brokers and retailers. For Armenia's economy to grow and become competitive, the key to success is not vertical integration, but rather the establishment of alliances to maximize the strengths of each participant in the production and value chain.

This "economic corridors" strategy emphasizes existing road connections and, in so doing, connects poor rural areas with cities, which in turn connect with other higher ranked cities on the commercial and production level. The MLAs helped MEDI to define Armenia's economic corridors. Based upon two basic criteria - economic potential and MSE access to medium and large enterprises, MEDI decided to direct its assistance toward the northern corridor through the establishment of the MEDI North Office (MNO).[3]

To procure the services of BSPs to operate the MNO, MEDI released a request for proposals (RFP) on 21 December 2004 and received three proposals on 21 January 2005. MEDI undertook a two-phase proposal process to select one MNO operator. During phase one, MEDI reviewed proposals, interviewed each applicant's nominated candidates and created a short-list of applicants to participate in phase two of the selection process. During phase two, short-listed applicants from phase one, 3R Strategy and Training and Development (T&D) LLC, provided presentations to and completed interviews with the MEDI team.

Following phase two, 3R Strategy was determined to be the best value candidate by virtue of the evaluation committee's combined technical scores and their proposed cost, and was invited to negotiate a subcontract. However, during the subcontract negotiations, 3R Strategy repeatedly changed their financial and technical proposals, and after several warnings MEDI notified 3R Strategy that they were disqualified from the procurement. Thereafter, the MEDI evaluation team asked the second ranked applicant, T&D LLC, to respond to technical questions in order to determine the viability of their proposal and proposed candidates. As their responses were favorable, MEDI invited T&D LLC to negotiate a subcontract and awarded them a fifteen-month subcontract in February 2005.

The MNO officially opened for operations on March 3rd, 2005. The opening ceremony was attended by several members of USAID/Armenia including the Deputy Mission Director, Karl Fickenscher, Contracting Officer, David Brown, and MEDI CTO, John Caracciolo. Richard Dreiman, Chemonics Senior Vice President for Europe and Eurasia, also attended as did approximately fifty members from the Ijevan community including the Marzpet of Tavush.

MEDI devoted much attention to the initial operations of the MNO to ensure that the four business advisors working for the MNO and T&D LLC understood the economic corridors approach. To align the priorities of the MNO advisors with the terms of their subcontract, MEDI established an incentives system to encourage advisors to make daily decisions that: 1) lead to increased client sales in the short-term, and 2) reinforce the idea of return on investment (with client sales as the return and the advisor's time as the primary investment). The MNO incentives scheme rewards MNO advisors for creating client sales, but it also reinforces the decision-making process that allows the advisors to prioritize their efforts and make sales happen.

Also, MEDI instituted a three month start-up period to motivate the MNO advisors to start working right away and mitigate their initial fears about contacting businesses. MEDI gave the advisors a three-month grace period before operational costs started applying to their incentives ratio and provided ten percent of the available bonus money to the advisors after they had achieved three benchmarks: 1) five contracts approved by the central office; 2) a fully operational office; and 3) an approved twelve-month work plan.

During the first three months of MNO operations, MEDI held five one- to two-day trainings and attended multiple client visits with MNO advisors. This hands-on work was critical for both the development of the MNO advisors and the oversight of MNO operations by the MEDI team. These trainings were instrumental in determining areas where the advisors were excelling and where they needed help.

[3] The northern economic corridor is defined as extending from Gyumri in the west to Vanadzor, Dilijan and Ijivan in the East. It extends south to Sevan and north to the Border with Georgia.

Given the MNO advisors' initial indisposition to contacting businesses, MEDI assisted the advisors in identifying potential clients. At an induction workshop held in late February, MEDI trained the MNO team on the demand-driven economic corridors approach with the assistance of Mr. Mauricio Moscoso, a business development advisor from the USAID PRA project in Peru. The workshop included the following topics:

- Overview of the economic corridors approach.
- The goal of MNO - to increase sales in MNO client businesses.
- Steps to achieving the MNO goal.
- MNO incentives structure.
- Start-up operating plan development.

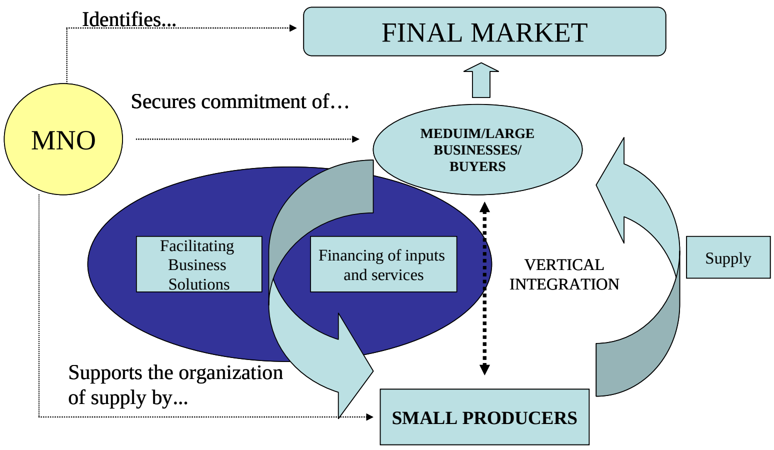
Also, following the opening of the MNO, Andrew Baird of MEDI subcontractor Making Cents provided a one-week client management training for the MNO staff. This training provided an understanding and appreciation for:

- Approaching businesses.
- Structuring consulting visits and work plans in a client driven manner.
- Building and maintaining relationships with the clients.
- Developing interview skills.
- Devising strategies for structuring fees.

The training was primarily delivered on the job with Mr. Baird observing MNO advisors conducting actual site visits to clients. Mr. Baird offered specific feedback to each MNO advisor as well as a one-day group discussion of the individual cases and lessons learned during the on-the-job trainings.

In mid-March 2005 MNO team members participated in a purchase order finance (POF) workshop delivered by Mr. Desmond Nelson of MEDI subcontractor Crimson Capital. Mr. Nelson presented in detail the concept of POF, explained the difference between factoring and POF, described the procedure banks use to issue this type of financing, and distributed the list of banks providing POF. Prior to the workshop MNO staff observed Mr. Nelson making a presentation on POF to the Gyumri Knitting Factory. This was extremely valuable for the MNO staff as one of the goals of MEDI is to leverage its partnerships with MFIs and banks to increase access to finance to MSEs through the MNO.

On May 3rd and 4th, 2005 Dr. Jim Riordan, an expert from Chemonics, provided a training during which the MNO advisors presented their best fourteen clients. Of the fourteen it was concluded that four were ready for contracts. During the training Dr. Riordan and the MNO team wrote a draft contract based on one of the more ideal cases presented. Dr. Riordan worked with the MNO to analyze potential clients according to their place in the value chain (to the right).



In many cases, the advisors, by virtue of their previous experience working with businesses in the corridor, knew buyers and sellers of products and services, but they had not really considered how these businesses fit into the value chain. For example, when a textile manufacturer was presented and discussed, it became clear that the cost of raw materials, specifically cotton imported from Central Asia, was a real impediment to the business. Next, the advisors considered other sources of raw materials such as locally produced cotton (which was not a feasible option) or wool, which was readily available in the northern corridor of Armenia. Finally, they discussed the final destination of the product, the buyer of the finished goods. By using the value chain as a tool to discuss the specific inputs and outputs of a business, the advisors began to consider buyers and their demand conditions.

Dr. Riordan focused on the complexities of each individual opportunity and emphasized the importance of having a buyer in place instead of finding a supplier first and then searching for buyers. The key to this technique is knowing that buyers will provide their specific conditions to sellers (such as a real recent example of 700 kilos of fat free cheese delivered once a week for which the buyer is willing to pay 450 AMD/kilo). This focus on the buyer helps advisors to keep their eye on the ball which in the end is finding buyers and helping suppliers in our corridor satisfy their demand.

A final technique conveyed during Dr. Riordan's training helped advisors to prioritize their opportunities based on an estimated return on investment (with investment as the advisor's time and MNO budget and return as client sales). In general, a five to one ratio is the minimum point at which the advisor should spend time and resources assisting the client beyond the initial contacts to identify the opportunity. In the case of the MNO, the incentives scheme is maximized with $1 million in sales, and given the fact that the operating budget for the MNO is around $100,000, the group agreed that a ten to one ratio would be optimal. This technique, along with the value chain analysis discussion, helped to guide the analysis of the fourteen potential clients during Dr. Riordan's training, and in the end narrowed the list to the four cases that the group agreed were the best to pursue.

On 30-31 May 2005 an annual MNO planning workshop was held in Tsakhkadzor, at which the MEDI team helped the advisors develop a twelve-month work plan to achieve MNO targets by the end of their contract in May 2006. MEDI utilized some techniques gained from the MNO's participation in a strategic planning workshop that was organized by the Chamber of Commerce and provided by CSP Caucasus, a local consulting firm. Also, the MEDI team addressed MNO advisor concerns and the difficulties that they had encountered. During these discussions and a subsequent evaluation exercise, it was determined that the MNO team leader was not performing as expected. As a result, he was replaced after a probationary period by the strongest member of the MNO staff. Because the MNO team paved the way for this change, it did not cause a slow down of MNO operations.

During the initial three months of MNO operations, the advisors reached their target of five signed contracts. While developing and working on these five cases, the MEDI and MNO teams learned some valuable lessons that are especially applicable to the difficulty of evaluating the merits of working with one client over another such as:

- In some cases a buyer's very specific demands for a product were easily met by a supplier. In these cases, the MNO advisor added value by providing information and facilitating the deal to bring the two sides together. However, in many cases, after the advisors identified a buyer and secured their commitment to engage MNO clients in discussions (should suppliers be found who can potentially meet their needs), the real hard work began. Challenges included the complexity of working with new technologies, competing local and international suppliers, and facilitating the production of a product with complex standards. However, in all cases, MNO advisors determined first and foremost if their clients could meet the demand conditions for the product and if not, what could be done to assist them in doing so.
- It is important to identify the key constraints that do not allow suppliers to meet demand including transportation, storage/collection, quality, etc.
- A client must have the ability and willingness to change identified constraints to meet demand.

- Economic activity creates commercial opportunities for BSPs. Once advisors have successfully supplied a buyer's needs, there is potential to expand the relationship to increase sales even further. For example, MNO advisor Ms. Khachatryan made contact with a textile producer, Saro Zargaryan, whom she assisted in making inroads into a nearby marz within the northern corridor. Once this relationship was established and the textile company had increased its sales by accessing this market, Ms. Khachatryan turned her attention to the much larger market for underwear in Yerevan. After meeting with buyers in Yerevan, Mr. Zargaryan began to understand that his line of products needed to be redesigned. Ms. Khachatryan, at Mr. Zargaryan's request, identified two tailors from Gyumri, one of which was hired by Mr. Zargaryan to redesign his line of products. By facilitating transactions, the MNO ably demonstrated how BDS providers can seize upon commercial opportunities to provide services that increase MNO client sales.

In the most basic sense, all of the initial MNO trainings helped the advisors to set their priorities around efforts to create sales for businesses in their corridor. MEDI discovered that success for the MNO was a function of creating an appropriate system that gave MNO advisors incentives to prioritize their time effectively and provided the tools and techniques needed to implement identified priorities.

Finally, during the three-month start-up period, MEDI developed a monitoring system for the MNO, which became a key component to MNO operations. The MNO incentives and monitoring system is based upon the following process:

1. The MNO identifies demand for products or services.
2. The MNO uses specific demand conditions to identify potential clients.
3. If potential clients can meet the buyer's demand conditions, the MNO advisor signs a contract with the client. The contract is submitted to the MEDI office for review and approval.
4. Once the contract is approved, the MNO advisor takes a baseline of the last twelve months of sales, exports, production and employment at the firm. The baseline is submitted to MEDI for verification and approval.
5. Once the baseline is approved, the MNO assists the client in fulfilling the identified demand for their product or service (according to the terms of the contract).
6. Throughout the period of MNO assistance (assuming that the assistance caused a change which continues to help the client grow) updated sales, export, production and employment data are collected and submitted to MEDI for verification and approval.

According to this system, only results from clients who have signed approved contracts, submitted to baselines, and received assistance can be counted toward MNO advisor incentives. The incentives pool is paid out on a graduated scale based upon increased sales in client firms, making the monitoring system is an integral part of the MNO system.
To ensure that the monitoring of MNO activities is a transparent, organized and logical process, the MEDI team developed an electronic MNO monitoring system. This system is fully web-enabled allowing daily monitoring of MNO activities from any IT portal in the world. Furthermore, the system allows for inputs and feedback by both the MNO and MEDI management teams. A second more robust version of this monitoring system is in process.

Business to Business Meetings (B2Bs). A key objective of MEDI's assistance to MSEs is providing businesses with a means to link with other companies in their industry's value chain as well as to access new business opportunities and thus generate increased employment and growth. To achieve this objective, MEDI began to hold semi-annual "Business-to-Business" (B2B) meetings, which are based upon a model that was used successfully in other transition economies in the Balkans and Eastern Europe. At the time of writing this report, MEDI had hosted two B2B events and is planning a third to be held in late 2005.

The B2B concept is different from usual trade expositions. It is not an event simply to exhibit products. Rather, it is an opportunity for companies to meet with pre-screened counterparts in order to conduct business – that is, buy or sell each other's products and/or services. Companies working in a specified sector are identified who are in the market to buy or sell specific products or services, or who are looking for a partner for specific projects. Participants are matched prior to the event with other companies that can fulfill identified needs, and the B2B provides a forum where deals can be discussed and transactions or partnerships take place. The goal of the MEDI B2B, for example, is to provide an opportunity for construction sector firms to meet other companies, find buyers for their products or services, find suppliers for products or services that they need in their business, develop partnerships, obtain financing and get business advice.

The B2B meetings have focused on two areas where disconnects in the supply chain often occur in Armenia.

1. The first area concerns those medium- and large-sized Armenian firms that are exporting their products already or are ready to do so. For this reason, MEDI continues to work to identify and encourage overseas companies to attend these events.
2. The second area of focus is the micro- and small-sized enterprises (MSEs) and the disconnect with their natural market, which is often Armenian medium and large businesses. These local subcontracting and outsourcing opportunities have been a major focus of MEDI's work to-date.

On Saturday, December 11th, 2004 MEDI hosted a business to business (B2B) exchange between banks offering purchase order financing and partner BSPs and their clients. Over thirty-three businesses, in addition to several banks and the Central Bank of Armenia, participated. This B2B was scheduled the day after the end of the MSE Finance workshop described above and provided the banks with the opportunity to introduce new financial instruments detailed in the workshop to potential new customers.

In January 2005 MEDI began preparations for a B2B in the tourism sector with USAID approval. Later, USAID determined that they did not wish a B2B to be held in the tourism sector and, as a result, MEDI re-evaluated the remaining options and chose to hold a B2B in the construction and building materials sector. This sector was chosen due to its importance to the Armenian economy, the recent strong growth in the sector, its diverse and far-reaching value chain (from raw materials such as sand all the way to real estate), and its international and national links.

A lot of preparation goes into B2B events in order to ensure that the three hours of B2B meeting time are as productive as possible. Over 210 companies/organizations were invited (including 50 companies from Georgia). Invitees interested in participating were requested to complete a profile of their organization detailing their operations, specific programs and their interests for buying, selling, and identifying partners. This information was compiled into profiles (Armenian and English versions) which were delivered to all confirmed participants prior to the event so that they could identify specific firms and opportunities of greatest interest to them. MEDI's facilitators also prepared their own pre-screening list of companies interested in financing, business support services, and specific products/services that matched with other companies' profiles or needs.

The Construction sector B2B was held on July 18th, 2005 from 2 – 6 pm at the Congress Hotel in Yerevan. Seventy-two (72) organizations participated including 7 companies from Georgia, 8 financial institutions and 5 BSPs. Eighty-two (82) participants formally registered, though in reality about 100 people were present at the B2B. MEDI had seven facilitators who worked with specific groups of companies to enable matchmaking and direct companies to financing and business support opportunities.

The format of the event was quite simple. After some short opening remarks from MEDI's COP, Chrysanthos Miliaras, Michael Gold of Crimson Capital, a MEDI subcontractor, explained how the event would operate. Then participants had the remainder of the allotted time to move freely throughout the room to meet potential partners. A microphone was strategically stationed where participants could request meetings with potential clients. Several Armenian firms were interested in meeting with the Georgian companies present, and the MEDI team helped facilitate those introductions.

Participants throughout the B2B made positive comments about the event's organization and usefulness for their business development. Several leading Armenian firms in the construction sector were present at the event as well as firms from various towns in the marzes such as Kapan, Vanadzor, and Dilijan. Many international companies were represented by their regional offices, including RENCO (an Italian firm building residences and hotels in Armenia) and Britania (a Dutch firm selling paints and coatings). In addition, invitations for the B2B were specifically targeted toward businesses and funds in the construction and building materials industry that were owned by the Armenian diaspora. This resulted in the attendance of Cascade Capital (funded by the Cafesjian Foundation) and the Lincy Foundation (funded by Kirk Kerkorian). The MEDI team made a special effort to link these two important organizations together with Armenian suppliers and buyers.

Another important element for the success of the event was the involvement of Georgian companies. Several Armenian firms mentioned at the event and also in their evaluations that the involvement of Georgian companies and the opportunity for cross-border business activity made it especially attractive. Georgian construction companies were identified through contact with Georgian associations, with the Employers Association of Georgia playing a central role in identifying and contacting Georgian construction companies. As a result of this feedback, planning for the next B2B is proceeding with a strong emphasis on securing the participation of international companies.

Directly after the B2B on July 18th, 2005 the B2B team including Michael Gold and Greg Jacobs of Crimson Capital, met to discuss the B2B and determine the strengths of the event as well as potential areas of improvement for future B2Bs. Highlighted from this discussion was the need to involve more international companies as well as companies from the region, initiate the planning and invitation process further in advance to allow for great pre-event matchmaking of companies, to identify a larger space where all businesses, banks, and BSPs can fit into one room and to increase collaboration with local partners and other organizations/projects in the planning and implementation stages.

The team discussed potential sectors to focus on in future B2Bs and determined that another B2B in the construction sector in November along with increased regional and international participation would have the highest potential for maximum economic impact and would be the most effective and productive use of MEDI resources. The feedback received from participants and the MEDI team from the debriefing was utilized in mapping out and initiating preparations for the second construction B2B.

Since this meeting, a lot of work went into preparing for the next B2B. It was decided that the event would be held on 9 December 2005. The primary preparation to date focused upon creating the infrastructure necessary to involve international companies and to reach out to Armenian organizations throughout the country that are in a position to ensure that all (or as many as possible) construction and building materials firms in the country are contacted and notified about the upcoming event.

The MEDI team evaluated July's B2B in two ways to capture the overall impact of the B2B. At the event, participants were requested to complete an evaluation form which focused on their overall satisfaction of the event and several related categories. The results are summarized below in Table 1, based on a five point scale.

Summary Analysis of Evaluation Responses of B2B Participants

Overall satisfaction (on a scale of 0 -5)	Able to Identify new business	Organization of event	Conference facilities	MEDI facilitation	Business Opportunities Identified
4.12	3.49	4.43	4.66	4.65	63

As most of the business arising from the B2B will take time to develop, the MEDI team developed an impact monitoring template. Participants were contacted one month following the event and will be contacted again in October 2005 (3 months following the B2B). The following information is being sought and recorded:

- Number of new business contacts generated
- Number of new business deals (initiated and completed)
- Value of new business deals (including exports)
- Jobs created as a result of the MEDI B2B
- Number of firms receiving assistance from consulting firms as a result of the MEDI B2B
- Number of firms receiving financing and other products/services from financial institutions as a result of the MEDI B2B

During the initial calls to monitor the B2B one month following the event, samples of successes were identified which illustrate the type of impact created by the July event. They also provided evidence of the success in focusing on MSEs' connections to medium and large firms as well as medium and large firms' connections with large domestic or international buyers.

1. Alfina, a small business located in Kapan, was able to secure 2 deals with Shen Concern during and following July's B2B. These 2 deals were worth approximately 2 million AMD. Alfina's owner was very pleased with these deals because they allowed him to meet with various competitors resulting in an agreement to buy materials directly from Shen Concern. This agreement also led to Alfina becoming Shen Concern's representative in the region and in this capacity a retailer for their products. The company representative was very enthusiastic about the B2B and said that events like this are an efficient way for him to meet and gain access to suppliers and other businesses that are directly beneficial to his interests. In this B2B he is looking forward to meeting other manufacturers or importers in the field of sanitary engineering porcelain slabs.

2. Hakhverdyan Shinmontage was able to develop four ongoing deals worth a monthly total of $3,500-$5,000. The companies they developed deals with are: Gapex, Tri Al Plast, Eurostan Uyut, and R&V Comfort. Hakhverdyan Shinmontage Company is a big importer of aluminium, metal and plastic products and agreed to purchase glass packs from the above-mentioned companies.

3. Berma and Huntsman initiated a deal at the B2B. Berma offers crushed stone and slag (cinder). The deal is still in the process and the price of the deal is approximately 1.2 million AMD per month.
4. Manet tiles attended the previous B2B with the intention of finding a Georgian importer of their products. They interviewed several of the Georgian business people in attendance and initiated a deal with one of the businesses. This deal is to import a

partial container of Armenian tiles into Georgia as a trial shipment to see how the market responds.

Improved enabling environment for MSEs (PIR 3). The creation of a favorable enabling environment for MSEs is necessary to stimulate the growth of sales, jobs and investment and to increase financial intermediation. During year two, MEDI effectively facilitated dialogue and brokered solutions to improve policy and regulations that positively impacted the MSE sector.

Creating a legal and regulatory environment for microfinance. During the second year of operations, MEDI continued to make great progress towards fulfilling one of its primary goals: creating a legal and regulatory environment for microfinance. The significance of this task cannot be underestimated. Ever since the establishment of the Credit Organizations Law, all Armenian microcredit organizations, with the exception of SEF (which is registered with the Central Bank of Armenia (CBA) as a credit organization), have been operating illegally. This situation was tolerated temporarily due to a variety of reasons, including the fact that the Government of Armenia (until recently) was unable to determine which government body would regulate microfinance. Moreover, existing regulations for credit-only institutions are overly onerous and not suitable for microcredit institutions. Unless this situation could be solved, and an appropriate legal and regulatory environment for microfinance established, Armenian MFIs would, at worst, be forced to shut down. At best, Armenian MFIs would remain on the fringes of the financial sector, thereby severely curtailing their ability to raise commercial sources of debt and equity, which would prevent them from achieving the scale necessary to achieve long-term financial self-sustainability and therefore have a meaningful impact on Armenia's economic development. Fortunately, given the progress that MEDI made during its second year in this area, it appears highly unlikely that these pessimistic scenarios will come to fruition.

Improved Enabling Environment
Year 2 Results

- Secured World Bank conditionality requiring Government of Armenia to improve enabling environment for microfinance.
- Appointed by Central Bank of Armenia (CBA) to lead MFI working group tasked with developing regulations that are in line with global best practices for microfinance.
- Organized video conference hosted by World Bank between CBA board members and CGAP legal advisor that led to consensus on basic parameters for microfinance regulation development.
- Provided the SME DNC with a $50,000 institutional strengthening grant.
- Developed the SME DNC intranet in coordination with the UNDP.
- Published, launched, and began distribution of The Entrepreneur's Roadmap: How to Register Your Business.
- Conducted 7 roadshows to distribute the roadmap in the regions.
- Participated in the SME coordination council and assisted the SME Department in restructuring the council.
- Coordinated a financial services focus group in support of the revision of the G.o.A.'s update of the state SME development strategy.

World Bank Conditionality. The fundamental issue holding back the establishment of a clear legal and regulatory environment for microfinance was the Government of Armenia's (GoA) inability to determine which government body would regulate microfinance. Much progress was made during the project's first year in terms of educating the competing agencies within the GoA – namely the CBA and the Ministry of Finance and Economy (MoF) – vying to regulate microfinance on global best practices for microfinance supervision and regulation. And, fortunately, both prospective regulators agreed to the basic tenets espoused by MEDI with regard to this subject. However, the project had reached a critical juncture that was preventing it from moving forward in terms of developing specific regulations that would apply to microcredit institutions. The GoA was at a deadlock in terms of selecting who MEDI's counterpart would be, and without such a determination, MEDI could not move forward.

To solve this problem, MEDI coordinated very closely with the World Bank's Armenia country office. From the project's inception, MEDI forged a close partnership with the World Bank, which was very interested in seeing these legal and regulatory issues solved. This relationship proved fruitful when the World Bank offered to make improving the enabling environment for microfinance a condition of the World Bank's $20 million Poverty Reduction Support Credit (PRSC) agreement that it was negotiating with the GoA during the summer of 2005. After a lengthy negotiation process within the World Bank and subsequently between the Bank and the GoA, the conditionality became formalized when, in November 2004, the Government of Armenia (GoA) signed the PRSC agreement with the World Bank. In essence, the conditionality provided the leverage necessary to force the GoA to determine which institution would regulate the microfinance sector, and the GoA chose the CBA.

The CBA, with which MEDI had established a very close working relationship during the project's first year, agreed to work closely with MEDI to help it fulfill its conditionality. In addition, the World Bank indicated that it was very pleased to have MEDI serving as its informal agent in this process. To help define next steps, MEDI drafted a report in December 2005 that it delivered to the CBA, focusing on the main issues related to improving the microfinance enabling environment including:

- Establishing the legal basis for transformation/formalization of current MFIs as licensed credit organizations,
- Identifying the legal barriers for such formalization,
- Recommending changes to the regulations/laws to make such transformation possible/smooth,
- Identifying the main practical steps to be taken by MFIs in order to transform.

CBA appoints MEDI to lead MFI working group. In early 2005, MEDI and the CBA met several times to discuss MEDI's December 2004 report and to address the issues contained therein. Many of the technical challenges were solved and feedback was provided on the specific regulations of the Credit Organizations Law (COL) that would govern microcredit organizations. The COL tended to apply prudential regulatory standards more appropriate for deposit taking institutions instead of focusing on transparency based, non-prudential regulations, which are the global best practice for non-deposit taking financial institutions. Thus, it was agreed that certain CBA regulations – specifically, regulations 13, 14, and 15 – would need to be modified for the CBA to help the GOA fulfill its conditionality to the World Bank.

To accomplish this task, MEDI suggested that a working group of select MFIs be established to provide feedback on these regulations. The reason for this was twofold: 1) the MFIs have the detailed operational knowledge necessary to analyze how existing regulations would affect their operations; 2) without MFI participation, there would be significant risk that the MFIs would not buy-in to the changes, which could potentially cause unforeseen political issues in the future. Thus, the CBA officially appointed MEDI to facilitate the working group in March 2005 and tasked it to provide the CBA with detailed guidance and feedback on modifying its regulations to bring them in line with global best practices regarding the regulation of non-deposit taking microcredit organizations.

Working group challenges. Initially, MEDI asked Armenia's seven MFIs to select three representatives for the working group. After considerable delay, three MFIs – Horizon, Aniv, and FINCA Armenia – were selected and the first working group meeting was held at MEDI on April 8, 2005. The meeting was focused on establishing the general principles of how the working group would function and covered other organizational issues. It was agreed that members of the working group would review CBA Regulations 13 (on Registration and Licensing of Credit Organizations) and 15 (on Reporting Requirements), two of the primary regulations governing credit organizations.

Unsurprisingly, due to the underlying fact that nearly all the MFIs did not want to become regulated, it became evident rather quickly that the initial MFI working group members wanted to pursue their own agenda rather than focus on the critical issue of preparing for impending CBA regulation of the microfinance sector. Specifically, Horizon, Aniv, and FINCA wanted to try to influence the GoA to overturn its decision that the CBA would regulate the microfinance sector even though this position had been formally expressed in the letter of conditionality. As a result, MEDI, in its role as CBA appointed working group facilitator, asked the representatives from Horizon, Aniv and FINCA to decide by April 22, 2005, whether or not they would work within the established parameters of the working group's mandate.

Unfortunately, MEDI did not receive any response to its request from the working group by the deadline that had been established. Thus, MEDI decided to invite Aregak, Kamurj, and SEF – its three closest partners – to form a reconstituted working group, and all three MFIs readily accepted. This was fortuitous given the fact that the new members represent over eighty percent of the microfinance market in terms of portfolio outstanding and numbers of clients. Furthermore, with the inclusion of SEF in the working group, it had the benefit of receiving input from the only regulated MFI (SEF registered as a credit organization in 2003).

Once the working group was reformed, progress moved ahead rapidly with all three MFIs working in earnest with MEDI to outline key issues related to the regulations. The working group's findings were discussed in person with MEDI microfinance legal and regulatory advisor Mr. Timothy R. Lyman during the MFC Conference in Bucharest at the end of May 2005 and during subsequent conference calls during the month of June with Mr. Lyman and his colleague Ms. Kate Lauer.

World Bank/MFC Video Conference. MEDI assimilated the feedback from its external legal advisors and presented the key issues identified by the working group to the CBA by mid-June. These were formally discussed during a video conference on Microfinance Regulation on June 30, 2005, that was sponsored by the MFC and hosted by the World Bank in cooperation with CGAP. Participants included World Bank Armenia country manager Roger Robinson and economist Karen Grigorian, CBA board member Vache Gabrielyan, Mr. Lyman, and MEDI's microfinance team.

The video conference was extremely productive. It should be noted that the conference provided the appropriate setting and forum for discussing how to make significant changes to key regulations governing Armenia's financial sector. In fact, the video conference was the culmination of many months of effort by MEDI to lay the ground work with the CBA, the World Bank, and the Armenian microfinance sector to regulate microfinance according to global best practices. In general, the conference revealed that the CBA agreed that the regulation of non-deposit taking MFIs should be based on transparency. While there are still some minor points of disagreement between MEDI and the CBA, the CBA provided detailed and constructive feedback on all issues raised by the working group and clarified what further information would be needed for the CBA to draft changes to regulations 13, 14 and 15. Once completed, during the first few months of MEDI's third year of operations, the CBA will forward them to MEDI and the working group for comment before the CBA formally adopts the updated regulations.

Dissemination of MEDI results in improving the enabling environment for microfinance. MEDI's significant success toward creating a favorable enabling environment for microfinance has not gone unnoticed among microfinance industry practitioners. MEDI was cited in an Occasional Paper: Interest Rate Ceilings and Microfinance: The Story So Far published by CGAP in September 2004. Specifically, MEDI's legal advisor, Timothy Lyman, and local legal specialist, Monica Harutyunyan, provided extensive input to CGAP in the development of this paper. In addition, Ms. Harutyunyan was invited by CGAP to participate in the Boulder Microfinance Training Program (MFT) in Turin, Italy (July 25 - August 12, 2005). The MFT is recognized as the leading training seminar in microfinance and offers a wide range of courses and a unique opportunity to share experience with a diverse group of participants. Specifically, Ms. Harutyunyan was selected to participate as a result of her involvement in MEDI's work in improving the legal and regulatory environment for microfinance in Armenia. In addition, she also developed a case study for the Regulation of Microfinance course on the development of a private credit information bureau in Armenia and the implications of such a development on the microfinance sector.

Increasing advocacy for improved policy and regulatory development. During its second year of operations, MEDI worked closely with both the government and private sector to increase advocacy, to improve the environment for business services and financial intermediation.

On the business support side MEDI provided substantial support to the SME DNC. For instance, MEDI provided the SME DNC with a $50,000 institutional strengthening grant that helped it establish six new offices in Aparan (Aragatsotn marz), Charentsavan (Kotayk marz), Gyumri (Shirak marz), Ijevan (Tavush marz), Sisian (Syunik marz), and Stepanavan (Lori marz) by financing the procurement of technical equipment (computers, software, printers, etc.) and furniture. Grant funds were also used to develop an accounting policy for the SME DNC.

Due to MEDI and the institutional strengthening grant, the SME DNC central and branch offices are now well equipped. Our assessment of the SME DNC branches that received grant funding shows that all of their basic needs are met including computers and a network to connect the various offices, printers, a phone system (PBX), furniture, flipcharts and many other related items, all of which enable the SME DNC to operate their newly established branch offices and provide appropriate working conditions in those offices. In addition to physical assets, the SME DNC developed a clear and improved version of their accounting policy and procedures, which allow them to coordinate activities better with their branch offices. Now that these new policy and procedures have been adopted, the SME DNC is developing software to automate the accounting policy and associated procedures.

It should be noted that this grant helped to leverage a $200,000 grant from the United Nations Development Program (UNDP) to the SME DNC. The UNDP grant was a direct result of a donor working group initiated by MEDI that includes the UNDP and GTZ. Also, this was the first grant application to be received under MEDI's Targeted Grants Program.

A memorandum of understanding (MoU) detailing MEDI's continued assistance to the SME DNC was signed in March. This assistance was coordinated with the UNDP and GTZ's PROSME project. The MOU serves as the basis for MEDI's remaining assistance to the SME DNC including:

- *Website/Intranet.* MEDI signed a contract with Broncoway (formerly TIB) for the development, design, and maintenance of a database server, and the maintenance of an intranet, client database, and website for the SME DNC. The work on the SME DNC database server covered by our subcontract is now complete. MEDI coordinated this work with the UNDP, which is funding the design of the database and the website.
- *SME DNC branch libraries*. MEDI developed a questionnaire for the SME DNC branches as the first step in assisting the branch offices of the SME DNC to obtain hardcopy business materials and distribute these materials among the SME DNC branch offices.
- *Study tour.* MEDI, in coordination with the UNDP, developed a study tour that will take place from 9-16 October 2005 in Prague, Czech Republic. Planning for this event included a meeting in Prague between MEDI's Senior Business Development Advisor, James Butcher, and a Czech subcontractor, Educon, which is providing

much of the logistical support for the study tour. Michael Gold of Crimson Capital, a MEDI subcontractor, also provided assistance in planning this event by lining-up such notable organizations as CzechInvest, CzechTrade, and the US Chamber of Commerce for the Czech Republic.

- *PR materials development*. As detailed in the MOU, MEDI conducted a lengthy search for a communications materials development specialist at the SME DNC's request. This search was concluded by the SME DNC rejecting the candidates whom MEDI had short listed and deciding that Karen Gevorgyan, an SME DNC Yerevan office employee, would fill this need. The SME DNC asked that the savings to MEDI for this portion of the MOU be allocated to another line item in the MOU that requires a 50/50 cost share on communications materials printing. The SME DNC does not, as they reported to MEDI, have the money to split the cost of these materials as the MOU requires. MEDI is exploring the possibility of amending the MOU to satisfy this change and subsequent request.

Coordination Council for Support of Small and Medium Entrepreneurship in Armenia. In April 2004, MEDI became an inaugural member of the SME Coordination Committee, which was established by the government to coordinate donor efforts in the SME sector. Several working groups were established and MEDI is currently a member of the working group focused on coordinating donor efforts toward SME DNC.

During its second year of operations MEDI attended all coordination meetings and was very active in the council. In fact, the SME Department requested MEDI's assistance to reorganize the Coordination Council for Support of Small and Medium Entrepreneurship in Armenia in May. The SME Department proposed that MEDI lead one of the working groups within the Council as well as assist the SME Department in restructuring the Council so that members are more active and involved. MEDI's recommendations on revising the Council structure were adopted.

The second area in which MEDI assisted the SME Department was to revise the Armenia state SME development strategy, along with ASME and GTZ PROSME. The three projects shared the costs of providing technical assistance to the SME Department in order to ensure that the SME development strategy reflects initiatives that are relevant and impact Armenia's SMEs. As such, MEDI helped organize and facilitate a roundtable at the Congress Hotel on May 27, 2005. MEDI made a presentation on Access to Finance and facilitated a roundtable discussion on the topic. More than sixty participants attended the roundtable including members of the Armenian Government, BSPs, international organizations, and select SMEs. As a result of the roundtable three workgroups were formed to research and analyze the issues of SME access to finance, technical support, and an enabling environment conducive to business growth. Following the roundtable meeting it was agreed that the three supporting projects, MEDI, ASME, and PROSME would hire a local BSP to coordinate and facilitate the work group topics. MEDI provided support for the financial services work group. The work group discussions are expected to provide recommendations for improvements in each of the identified areas.

Entrepreneur's Roadmap. The Entrepreneur's Roadmap: How to Register Your Business was released to the public in a major kick-off event in October 2004. The event, which included introductory remarks from the United States Ambassador to Armenia, the Honorable John Evans and the Deputy Minister of Trade and Economy, Mr. Armen Gevorkyan, was well received and favorably covered by the press.

Following the roadmap kick-off event several "road shows" were organized by MEDI and held in SME DNC branch offices in Gyumri, Ijevan, Stepanovan, Charentsavan, Sisian, and Charentsavan. MEDI also held one road show to promote the Roadmap in the Gegharkunik region that currently does not have an SME DNC branch office. Authorities from the local

State Registry, tax office, marzpetaran, business centers, and NGOs attended the road show, at which there were twenty two participants and over 100 roadmaps were distributed.

In March a public service announcement for the Entrepreneur's roadmap was aired on three Armenian television stations for a total of two weeks. The public service announcement and media campaign increased awareness of the Roadmap, which is being distributed to the public across Armenia through the SME DNC.

The roadmap distribution strategy initially called for the SME DNC to provide the roadmap directly to MSEs through its branches for a fee of 500 AMD (approximately one dollar). The SME DNC agreed to serve as a wholesaler of the Roadmap by selling it to business service centers and BSPs for 350AMD who, in turn, sell it to the public. By charging a nominal fee for the roadmap, production costs were defrayed and reproduction became self-sustaining.) This system was pursued until the summer of 2005 when MEDI recognized problems with the SME DNC's efforts to distribute the guide stemming from inadequate customer service, a lack of enthusiasm, and accounting difficulties (of Roadmap sales and income generated through the activity). As such we decided to employ other organizations, along with the SME DNC, in order to ensure that the guide was fully distributed.

Given these issues, we adjusted our distribution strategy in the following ways:

- MEDI is now the responsible organization for identifying and distributing orders of multiple copies of the Roadmap.
- Previously the guide was sold to organizations for 350 AMD and could be resold for 500 AMD. MEDI lowered the cost of multiple copies of the guide to 200 AMD for for-profit entities with nonprofit entities receiving the first 100 copies free if they co-host a road show with MEDI.
- MEDI is working with other organizations to distribute the guide.

MEDI is working on an update to the guide that will be available in early 2006, after which the roadmap will be transformed into HTML and available on a number of websites of interested Armenian NGOs, donor projects, and the SME DNC.

CHAPTER THREE: Project Communications

During MEDI's second year, the project fully implemented its communications strategy including:

- *Launched the MEDI website: www.medi.am*. The goal of the website – which is available in both English and Armenian – is to inform all stakeholders in Armenia's MSE sector – financial institutions, BSPs, government bodies, donors, etc. – what MEDI is doing to further the development of the MSE sector and, in so doing, create jobs. The website is user friendly and contains the following five sections:

    1. **About MEDI**, where you can find information on MEDI's goals and objectives and contact information on MEDI team members and implementing partners;

    2. **Project Activities** provides details on previous, current and upcoming MEDI activities;

    3. **Business Resources** contains MEDI's quarterly newsletter (which includes practical information on business services such as finance and registration), select technical reports on Armenia's MSE sector, and a catalogue of MEDI's library;

    4. **Counterparts** lists contact information on MEDI's partner institutions including: associations, banks, BSPs, and MFIs.

    5. **Success Stories** features briefs on individuals whose lives have been impacted as a result of MEDI's work.

  As a result of its effectiveness as a communications tool, USAID featured MEDI's website on its *MicroLinks* website.

- *Issued its project newsletter, the Market MEDIator.* The MEDIator endeavors to provide relevant, meaningful information to Armenia's MSE community that will help it to operate more profitably and, in so doing, create jobs. For instance, in the first edition, the MEDIator profiled one of MEDI's key partners, the SME DNC. Each MEDIator also contains a section entitled "toolkit" that features important products and resources for Armenian businesses. This first edition's "toolkit" featured purchase order finance (POF). Finally, the last page of every MEDIator includes a "calendar" section, which lists upcoming business related events.

- *Developed two success stories: Making Business Registration Simple and Helping Entrepreneurs Transform Armenia's Economy.* The former story describes the positive impact that MEDI's Entrepreneur's Roadmap for Business Registration is having on helping MSEs overcome corrupt business registration practices by arming them with a clear understanding of the business registration process and official costs. This success story was recently featured on USAID's *MicroLinks* website. The latter story illustrates the benefits of MEDI's *MicroPlan* training curriculum in helping Armenian MSEs gain the tools they need to successfully operate in a market economy.

- *Designed its project brochure*. This simple one page document, available in both English and Armenia, details MEDI's mission and three focus areas.

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