

Programme: Private Sector Development South Caucasus (PSD SC): EU-Co-financing
“Support to SME Development in Armenia” (SMEDA)

PN: 13.2144.7.010.00

AV: Katja Kammerer

TL: Eva Maria Näher

Activity: Support of mapping of innovation ecosystem and strategy development

Period: **20th of June 2017 to 15th of December 2017**

1. Brief Introduction

The private sector in Armenia faces several challenges such as the lack of cohesion and coordination of different small and medium-sized enterprises (SME) support programmes, inefficient steering mechanisms for the SME development process, a fragmented landscape of stakeholders, and an inefficient public private dialogue as well as an inefficient decision-making process. The donor coordination process in different intervention areas is currently not government-driven.

The involvement of the private sector in SME development strategies is not effective and interests of SMEs are in fact not reflected in decision-making processes. Supporting services are insufficiently available – both in quality and quantity. Underdeveloped capacities within the organised private sector are main obstacles and barriers to the envisaged development.

Few innovative ideas are developed and transferred into business cases. Research and development are limited, in particular in the SME sector with not sufficient cooperation of businesses and research entities. The innovative and creative potential of young specialists is not fully employed.

Access to finance is another major challenge for SMEs. Due to high debts – accrued during the global financial crisis and an associated decline in GDP (estimated 14% in 2009) – many Armenian SMEs have only limited access to further credits and loans. In general, lending policies of most banks and financial institutions do not encourage investments in SMEs.

With this situation for the private sector in Armenia, the EU-co-financed, GIZ-implemented project “Support to SME Development in Armenia” (SMEDA) was initiated in 2016. The project is in line with the EU Single Support Framework 2014-2017 for Armenia. It is furthermore consistent with the strategic framework documents of Armenia (Armenia Development Strategy and SME Development Strategy 2016-2018) in order to facilitate their implementation.

The objective of the project is to improve the national business and investment climate and support the creation and development of SMEs to enable broad based growth.

The SMEDA-Project is part of the Regional Private Sector Development in South Caucasus Programme, which is operating in the three countries of the South Caucasus, Armenia, Azerbaijan, and Georgia. This umbrella programme faces the challenge of generating broad based inclusive growth to reduce the urban-rural gap and poverty above all in rural regions. In view of the small domestic markets with low purchasing power, the primary aim is to strengthen private sector development.

The PSD SC Programme is currently divided into 4 components with a budget as follows:

- PSD SC Programme (regional programme): EUR 8.6 Mio for four years (2017-2020).
 - Project “Economic Integration of Syrian Refugees in Armenia”: EUR 2.5 Mio EURO for two years (2015-2017).
 - EU-co-funded Project “DCFTA and SME Development” in Georgia: EUR 5 Mio EURO for four years (2015-2019).
 - **EU-co-funded Project “Support to SME Development in Armenia”: 6.4 Mio EURO for four years (2016-2019).**

The “Support to SME Development in Armenia” (SMEDA) Project is focusing on the following result areas:

- (1) Improved policy making process and coordination of supports to SME development for a conducive business development framework,
 - (2) Strengthened private sector organisations to implement SME policies,
 - (3) Improved process of commercialization of ideas linking research institutions and businesses via cooperation networks,
 - (4) Improved design and management of economic clusters (business incubators, techno parks, and Free Economic Zones),
 - (5) Diversified access to finance for innovative start-ups and small businesses.

The project is co-funded by the European Union and implemented by the GIZ Programme Private Sector Development South Caucasus (PSD SC) and its country component in Armenia. The PSDSC-Programme is commissioned by the German Federal Ministry for Economic Cooperation and Development (BMZ). The SMEDA-Project is designed for four years from 2016 to 2019 with a total budget of EUR 6.400.000.

SMEDA Overall Objective

Create employment opportunities by enhancing private sector development in Armenia.

SMEDA Specific Objective

The specific objective is to improve the national business and investment climate and support the creation and development of SMEs to enable broad based growth.

SMEDA Indicators

1. Increase the proportion of SME within the overall economy: increase the share of SME from 7% to 15% in overall number of micro, small and medium enterprises in Armenia.
 2. Increase share of SME in employment from 25% to 30%.
 3. Increase share of SME in GDP from 27% to 35%.
 4. Increase of added value created by SMEs.

Partner structure: executing agencies and intermediaries

The project is guided in its implementation by a Technical Project Steering Committee (PSC), which is co-chaired by representatives of the EU Delegation and the Ministry of Economic

Development and Investments (MEDI).

Target Group and Implementing Partners

The target group is composed of all relevant stakeholders involved in the development of SMEs in Armenia. This includes the political lead partner, the Ministry of Economic Development and Investments in Armenia, and the Small and Medium Entrepreneurship Development National Centre (SMEDNC), related sector associations, the Armenian Chambers of Commerce and designated SME support organisations.

An important project partner is the Armenian Enterprise Incubator Foundation (EIF), which implements parts of the project activities related to managing and monitoring of funds for start-ups and small businesses.

Another important target group is females and males, owners and employees of SMEs.

Planned Activities of SMEDA-Project

- Support to policy making by assisting the Armenian government to implement the SME strategy and to introduce a review mechanism for the SME development strategy and its action plans
- Support to policy implementation by strengthening the institutional capacities of the Ministry of Economic Development and Investments and the SMEDNC in terms of coordinating the implementation of the SME strategy and related action plans as well as developing an information portal to support business performance on foreign trade transactions
- Support to Public-Private Dialogue (PPD) by strengthening the capacities of the Ministry of Economic Development and Investments to manage the PPD process as well as to assess and recommend on dispute settlement mechanisms and platforms
- Provide technical assistance to private sector organisations to improve and expand services and to increase their network with European businesses
- Strengthening the capacities of private sector organisations to participate in PPD platforms and to utilize the opportunities of technology transfer as well as to promote entrepreneurial skills, clusters and value chain development
- Support to linking research institutions and the private sector to foster innovation
- Support to state bodies and the private sector to access EU innovation support resources and platforms such as the new EU Framework Programme for Research and Innovation (Horizon 2020)
- Strengthening capacities of the Ministry of Economic Development and Investments to design, implement and promote clusters
- Support to improving cluster management, linking clusters to European networks as well as developing and promoting new areas for business incubation
- Supporting the provision of grants to support technology start-ups and SMEs promoting new services/products
- Support to EIF and SMEDNC to design and implement business acceleration and coaching programmes for entrepreneurs and grant recipients

2. Context and current situation in the field of assignment

The SMEDA-Project embraces five result areas and a team headed by a team leader and composed of three project experts, a communication expert, a financial and administrative manager as well as support staff.

The aim of SMEDA's result area number 3 is to give technical support to the Ministry of Economic Development and Investments for the development of a comprehensive Government strategy and action plan including an impact-oriented monitoring and evaluation system to foster innovation with a special focus on SMEs ensuring complementarity with existing related strategies. At the moment, there are existing on one hand varied strategy and policy documents in fields that are linked to the innovation ecosystem such as science, SME and industrial development, IT. However, the development of a new innovation strategy is of great importance in Armenia.

Currently, no comprehensive overview for innovation activities in Armenia nor sufficient corresponding data on this field is available. Some pieces of information and data are available, but not yet in a clear and well-structured manner. The innovation ecosystem comprehends a variety of actors as e.g. universities and research institutes, R&D intensive companies, techno parks, incubators, business support organizations and further enablers such as fairs and platforms. These actors conduct their work with a certain effectiveness and efficiency. A coordination mechanism between the different functions and entities is not sufficient yet. The Ministry of Economic Development and Investments coordinates the cooperation with other relevant stakeholders, but this coordination mechanism needs to be structured more clearly and efficiently. Despite the fact that resources for the implementation of activities and measures are limited. One of the main challenges is the low level of Science2Business interchange. This is due to the low absorption capacity of the Armenian economy with a low R&D intensity and not sufficient qualified intermediary structures.

Nevertheless, these challenges, the Armenian IT sector is developing very dynamically during the last years with more than 15.000 employees and growth rates above 20% as one of the leading innovative industries in Armenia. This development is mainly borne by outsourcing industry. Moreover, in recent years the Armenian technology start-up ecosystem is being well established. The majority of projects have been conducted in the IT-field so far. In 2016alone, the development of over 100 start-ups has been recorded for this sector. There are several well-known start-ups grown in Armenia - for example PicsArt, Joomag, SoloLearn, Teamable. Traditionally, there is a strong linkage to the United States and especially the Silicon Valley. For example, there are over 160 companies in the technology field in foreign ownership. Furthermore, there are strong linkages to Russia and CIS due to Armenia's former role as the Soviet Union's "engineering hub", where more than 30% of all military electronics, R&D and production took place.

Although Armenian start-ups often offer very good technical and engineering expertise, they are lacking business and management skills and experience. The development of business models in including operations model as well as marketing and sales are rather weak. This in combination with the still not sufficient exposure to business problems, potential suppliers, clients as well as competitors due to a very small domestic market is a severe problem

especially for companies with B2B products. It shall be noted however, that the Government of the RA is currently prioritising on improving the business environment.

3. Conditions of the assignment

3.1 Objective and tasks

SMEDA seeks to contract a company/expert or consortia to support the project component “*Improved process of commercialization of ideas linking research institutions and businesses via cooperation networks*”. The goal of the assignment is to improve the understanding of the innovation ecosystem and the involved actors, institutions and policies (**Innovation Ecosystem Mapping**) and to develop a comprehensive government strategy and action plan/roadmap including an impact-oriented monitoring and evaluation system to foster innovation with a special focus on SMEs (**Strategy Development**).

To raise the effectiveness of this process two assignments will be commissioned. This assignment for Armenian national experts (ANE) with the aim to provide national expertise, knowledge of the national context and access to stakeholders in the field, will be complemented by the assignment of international experts (INE). The coordination of activities of both project teams is part of the assignment.

The national contractor is responsible for the data collection and coordination of all activities on-site in Armenia. The international experts are respectively responsible for the final mapping, the results of the strategy development including the support for formulation of an innovation strategy for Armenia. In the beginning, both contractors need to present a joint working programme.

ANE and INE are responsible for the overall success of this approach and shall contribute with their assignments. For all major adjustments and feedback SMEDA is acting as a steering point.

The mapping and strategy development process will incorporate the following parts.

I. Preparation and pre-assessment

As a first foundation of the process the contractor shall asses the existing materials such as studies, strategies, statistical data relevant for the innovation ecosystem in Armenia including related fields and policies as science policy, SME, tax, etc. (especially taking into account preliminary work of MEDI and SMEDA). Furthermore, he shall suggest a list of relevant institutions to be focused on and included in the innovation mapping process and to suggest a mapping heuristic and methodology for the data collection from institutions with different functions. As basis for the overall project process, the coordination and supervision between the contractor and INE needs to be set up.

II. Innovation Ecosystem Mapping

To facilitate the data collection and analysis of status quo of the Armenian Innovation Ecosystem and the existing development strategies the contractor shall develop a comprehensive overview in a virtual data room. This overview shall include amongst others

all studies and relevant statistics relevant for the innovation ecosystem in Armenia, key industries and related fields; relevant policies, strategy, positioning papers etc., overview on relevant international donor projects; overview on institutions (public, private or international) relevant for the innovation ecosystem such as research institutes, universities, business, support infrastructure, free labs etc. in functional division, including innovation input and output variables; overview on enabling platforms like fairs, conferences, websites etc. and financing opportunities for innovation projects, business ideas, R&D etc.

The contractor shall prepare and facilitate a 6-day on-sight visit for the INE (*Mission I*) including several interviews, roundtables and site visits with key stakeholders. The contractor shall provide a list of suggested institutions. The decision for the final agenda is taken by SMEDA and MEDI. Furthermore, part of the assignment is an ongoing assessment of the effectiveness and efficiency of additional Armenian institutions in the innovation ecosystem. Therefore, the concrete methodology will be suggested by the INE. To capture the results an overview on the innovation ecosystem, its innovation activities in administration, science and business the contractor shall develop a concept for an Armenian Innovation Report (AIR).

III. Strategy Development

As support to the planned strategy development process mainly carried out by INE during *Mission II* the contractor shall prepare, organise and support the facilitation of 1-2 strategy development workshops.

IV. Strategy Implementation - Armenian Innovation Report

To support the implementation of the developed strategy the contractor shall develop and implement the first edition of the annual Armenian Innovation Report. Therefore, the contractor shall collect in cooperation with MEDI and SMEDA the relevant data and develop a publishable draft. The report shall focus on output and activities of different stakeholders in the innovation ecosystem. The main content of the report shall incorporate the description of these activities.

The assignment starts from June 20th 2017 and lasts until December 15th 2017.

3.2 Deliverables and resources

The following deliverables are to be submitted during the assignment period:

Tasks & deliverables	Timeline/ Location	Man days (max.)
I. Preparation and pre-assessment		
A) Screening of existing materials, studies, strategies, statistical data relevant for innovation ecosystem in Armenia including related fields and policies such as science policy, SME, tax, etc. (especially taking into account preliminary work of MEDI and SMEDA)	24 – 27 June 2017	3
Deliverable: Short inventory of existing materials, studies, strategies, statistical data etc.	27 – 28 June 2017	1
B) Preliminary suggestion for scope of relevant institutions to be assessed and included in the innovation mapping process	28 – 30 June 2017	3
Deliverable: List of institutions to be included in the innovation mapping. C) Development of mapping heuristic and suggestions for methodology to the data collection from institutions with different functions (including coordination with INE on requirements and demands for this) <ul style="list-style-type: none"> • Moreover, coordination with INE on requirements and demands for the Innovation data base and time planning for the project Deliverables: Short mapping concept (incl. heuristic); Joint time planning of ANE and INE for all deliverables including SMEDA comments.		
II. Innovation Ecosystem Mapping		
A) <u>Data collection and analyse of status quo of the Armenia Innovation Ecosystem and the existing development strategies</u>		
i) Development a of comprehensive Innovation data base This shall include a comprehensive inventory for the following materials and data under consultation with MEDI and SMEDA:		
<ul style="list-style-type: none"> • All studies and relevant statistics regarding Innovation ecosystem in Armenia including related fields • All policies, strategy, positioning papers etc. on Innovation ecosystem in Armenia and related fields as science policy, SME, tax, etc. • International (donor) projects regarding innovation • Overview on institutions (public, private or international) relevant in the innovation ecosystem as research institutes, universities, business, support infrastructure, free labs etc.) in functional division, including innovation input and output variables • Overview on enabling platforms like fairs, conferences, websites etc. • Overview on financing opportunities for innovation project, business ideas, R&D etc. 	30 June – 12 July 2017	10

<ul style="list-style-type: none"> Overview on innovation related services of Enterprise Support Services and associations (public, NGO or private) <p>Deliverables: Virtual data room including all above-mentioned materials and a structured inventory</p>		
<p>ii) Supporting data collection and analysis of status quo of Armenia Innovation Ecosystem by INE in a 6-day visit (<i>Mission I</i>)</p> <ul style="list-style-type: none"> Preparation and organisation of 6-10 on-site visits and a series of qualitative interviews (8-10) with the main actors and institutions of the innovation ecosystem Preparation and organisation of 2-3 roundtables with different groups of stakeholders in the ecosystem (including venue, invitation, moderation etc.) Implementation of Roundtables and on-site visits <p>Deliverables: Schedule of interviews, plan of roundtables including methodology, participants list, facilitation, debriefing workshop with MEDI & SMEDA</p>	<p>12 - 17 July 2017</p> <p>18 - 25 July 2017</p> <p>(final dates are determined with INE)</p>	<p>3</p> <p>3</p> <p>6</p>
<p>iii) Innovation Mapping</p> <ul style="list-style-type: none"> Assessment of effectiveness and efficiency of additional Armenian institution(s) in the innovation ecosystem (concrete methodology will be suggested by INE) <p>Deliverable: Database of research results e.g. in excel to include all contacts, raw data and findings</p>	<p>26 July - 15 August 2017</p>	<p>15</p>
<p>iv) Development of a Concept for the Armenian Innovation Report (AIR)</p> <p>Concept for output oriented report with innovation activities in administration, science and business including the following aspects</p> <ul style="list-style-type: none"> General structure of the report Data collection scheme Specification for needed editing Comprehensive set of templates for data collection Implementation plan for AIR <p>Deliverables: Report concept, implementation plan & templates for different actors accounting for SMEDA & MEDI comments</p>	<p>Until 15 September 2017</p>	<p>10</p>
<p>III. Strategy Development</p> <p>A) Preparation and organisation of 1-2 strategy development workshops to support INE in a 5-day visit (<i>Mission II</i>)</p> <ul style="list-style-type: none"> Reflection on elaborated results, recommendations and scenarios with 	<p>1 October to 15 October</p> <p>(final dates are determined with</p>	<p>10</p>

different stakeholders of the ecosystem (including invitation, moderation, participants etc. in coordination with MEDI & SMEDA)	INE)	
<ul style="list-style-type: none"> • Documentation of results <p>Deliverable: Report on Workshop</p>		
<p>IV. Strategy Implementation - Armenian Innovation Report</p> <p>i) Drafting Armenian Innovation Report (in English)</p> <ul style="list-style-type: none"> • Coordination and collection of data, best-practice example and recent developments in relevant institutions • Development of draft report • Feedback session with MEDI & SMEDA and other representatives <p>Deliverables: Draft of the Armenian Innovation Report including MEDI and SMEDA comments; short presentation at Business Innovation Forum</p>	15 October - 10 November	20
<p>i) Finalisation & Publication of Armenian Innovation Report</p> <ul style="list-style-type: none"> • Editing and publishing • Coordination with MEDI & SMEDA <p>Deliverable: Published Armenian Innovation Report</p>	10 November - 31 November	5
<p><u>Final Report</u></p> <p>Deliverable: Final Report including reflection on mapping & strategy development process and recommendations as basis for implementation of future AIR, accounting for SMEDA comments</p>	Due 10 December 2017	3
Total (up to)		92

3.3 Conditions and payment terms

The contractor's offer must include:

- The **financial offer** requires the contractor to submit for consideration a summary of costs with respect to the above sections
 - National expertise for up to 92 days
 - Costs for Workshops (transport, material, venue, catering etc.) will be separately covered by SMEDA
 - Publishing costs for AIR (print, design etc.) will be covered by SMEDA
- The **Technical offer** requires the Contractor to submit details pertaining to the Contractor's organization; the Contractor's experience in the field of industry studies and strategies; the Contractor's embeddedness in the Armenian Innovation

ecosystem, the Contractor's experience in organization of roundtables (workshops) and publishing of publicly recognised studies and documents.

3.4 Coordination and communication

The Contractor reports to the Team Leader of the SMEDA-Project, Ms. Eva Maria Näher, and closely collaborates with the responsible Project Experts, Mr. Peer Priewich and Mr. Davit Kartashyan, as well as with the administrative support team in Armenia.

Moreover, the Contractor shall actively coordinate the activities with the INE during the planning phase as well as during the assignment. In case of further coordination demand, arising questions or conflicts, the SMEDA Team is in charge of coordinating both assignments.

3.5 Submission Requirements

The Contractor must fulfil the following requirements:

- Strong proven expertise in the area of assignment
- Proven networks to stakeholder in Armenia's innovation ecosystem
- Proficiency in English and Armenian languages (written and spoken)

3.6 Additional Documentation

- Description of Action
- Log Frame for SMEDA-Project