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**Programme:** Private Sector Development and TVET in South Caucasus (PSDTVET SC)

**PN:** 16.2179.6-002.00

**AV:** Katja Kammerer

**TL:** Wilhelm Hugo

**Activity:** Support to the implementation of new Training Courses for Development of SMEs strategies in the field of IT/PE

**Period:** 25.09. - 13.11.2017

## 1. Brief information about the programme

The Private Sector Development and Technical Vocational Education and Training programme which has been developed jointly with the Public partners and private sector in the South Caucasus Countries, aims at promoting the private sector development with a high attention to employment impacts and a close integration of vocational education and training.

Due to the small domestic markets with limited purchasing power, the South Caucasus Countries have focused so far on expanding foreign trade to promote economic development. The export-dedicated strategy achieved only limited success in improving the employment situation and living conditions. Employment growth in sectors that afford the greatest potential for *pro-poor growth* and employment promotion in comparable economies and also in South Caucasus, such as tourism and agricultural, cannot be sustained, because businesses lack well-trained skilled labour.

The core challenge consists thus in the difficult framework conditions for sustainable economic development in the sectors relevant for employment. The capacities available are not yet sufficient to generate the envisaged employment and growth momentum.

Therefore, the programme **module objective** is: The conditions for sustainable economic development have improved in selected sectors relevant for employment.

The programme will adopt the integrated approach of German development cooperation in employment promotion. It will address both the supply and demand side of the labour market to lay a better foundation for employment. Development assistance will focus primarily on involving the private sector in vocational training.

To do this, the programme will operate in three intervention fields:

**Intervention field 1** will aim to strengthen capacities for improving competitiveness in the sectors relevant for employment. In the case of Azerbaijan, it was decided to be the tourism and agriculture sectors.

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In **intervention field 2**, private and public actors will cooperate to improve the labour-market relevance of selected training courses for these sectors.

**Intervention field 3** will seek to strengthen the regional and international exchange of experience in sustainable private sector development and dual-oriented vocational training.

Improving the promotion of economic development will contribute to raising demand for labour. At the same time, supporting vocational training and qualification will increase the supply of qualified labour, i.e. trainees that have successfully completed initial and continuing education and training will be better prepared to cope with the requirements and their tasks in enterprises. In the medium and long term, this will make a contribution to reducing structural unemployment and underemployment and to social and sustainable economic development.

The programme is scheduled for a term of 3 years (from April 2017 to March 2020).

## **2. Context and current situation in the field of assignment**

Armenia has retained its huge potential for technology development, and is regarded as a hub for software development, industrial computing, electronics, and production of semiconductors, even under the Soviet Union. It continues to be the regional leader in IT and high-tech industry, due to its competitive labour, its share in GDP, as well as the constant growth in the number of companies and total turnover. It is already a widely accepted fact that information and high technologies, as well as their commercialization in different industries, are the main factors driving growth in the world economy in the last decades.

In 2008, the Government adopted a new 10-year industry development strategy focused on building infrastructure, improving the quality of IT graduates, and creating venture and other financing mechanisms for start-up companies. The main goals of this new strategy are to build a developed information society in Armenia, make Armenia part of the knowledge creation global network, and form a strong and advanced information technology sector. The strategy aims at increasing the rates of computer and internet penetration in all segments of the economy, building new technology parks and incubators, establishing a major venture fund, developing a domestic market for local IT products and services, increasing foreign direct investments, developing other measures targeting the expansion of the ICT sector, and developing an information society in Armenia.

Since 2008, allocations have been made from the National Budget to the RA Ministry of Economy for providing government support to development of the IT sector. Those funds are used for IT industry research; industry status survey; preparing guidelines for the industry and enterprise rates; organization of industry related events of local, regional, and international importance in Armenia, including exhibitions, forums, conferences, and competitions; Armenia's participation in major international events abroad; and the co-financing of joint projects and events with foreign governments, international institutions, and transnational organizations of the IT industry.

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Today, about 450 ICT companies operate in Armenia, generating an average annual growth of 10%. The majority of these companies are Yerevan-based (about 88%), but it is necessary to mention that the number of companies operating in other regions of Armenia is growing from year to year, due to the development of educational and scientific infrastructure, particularly in the Shirak and Lori regions. In 2016, 70 new companies were established, creating nearly 400 new jobs. In addition, the workforce in the ICT sector increased by around 1200.

Annually Enterprise Incubator Foundation (EIF) prepares Armenian ICT sector report. Based on 2016 report the following key challenges to ICT operations were mentioned:

- Approximately 70% of survey respondents representing company leadership emphasized the challenges related to attracting highly qualified workforce. The shortage of highly qualified staff was mentioned by 59% as a major impeding factor, which confirms the fact that there is an increased demand for technical workforce with superior qualifications and experience. Consequently, the demand results in increased compensation for such a technical workforce. Furthermore, 44.8% of surveyed companies pointed to the brain drain as a main cause for this situation.
- According to the answers provided by the surveyed companies, tax and customs procedures are also barriers (40.8% and 42.5%, respectively) that hinder developments in the sector. It should be noted that for 31% of these companies, their turnover is less than \$500,000 USD annually. The respondents claim that the VAT and the corporate tax use up a significant portion of their revenues. Moreover, local authorities determine the customs rates. In addition, the respondents pointed to the lack of accessible financing and the lack of support from state authorities and non-governmental organizations – both factors that limit growth in the software and services sector in Armenia. Respectively, 53% and 36% of surveyed companies cited such challenges.
- Nearly 20% (19.5%) of surveyed organizations face challenges related to entry into world markets. As noted by the respondents, the underlying reasons for this is lack of awareness in regard to Armenia among several international partners or a lack of trust in representatives of a country with low or average income levels. Interestingly, about 6% of survey participants noted problems related to unclear tax legislation, although it was not mentioned to them by the interviewers. Only 1.1% of the companies included in the 2016 ICT survey cited challenges related to low manufacturing capacity, while nearly 13.79% noted issues related to market saturation and inequality in relation to state attitude as barriers to business development.

The number of Armenian ICT companies developing their own products and investing in R&D is growing from year to year, which is a positive indicator that the ICT sector of Armenia is transforming from an outsourcing destination for foreign companies to a technology development hub. The average revenue generated from products and services of companies included in the survey sample have grown to 47% of average revenue in the industry.

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Innovation-related revenue generation in large companies is mainly correlated with the number of company employees, i.e., the larger the company, the higher the investment in R&D.

In 2016, the number of specialists employed by the firms varies significantly within the industry. Only 4% of all businesses employ 100 or more specialists, constituting 43% of the total workforce, while 81% have fewer than 25 employees, constituting 30% of the total workforce. Thus, as the numbers shows, the distribution of ICT companies in Armenia related to the workforce tends towards small businesses.

The economic situation and conditions encourages SMEs to implement sound corporate governance standards as a means to improve performance, increase access to finance, and foster sustained growth. It helps companies operate more efficiently, improve access to capital, mitigate risk and safeguard against mismanagement, which makes companies more accountable and transparent to investors and gives them the tools to respond to stakeholder concerns. Corporate governance structures can be seen as frameworks to help organisations achieve long-term success for their stakeholders.

### **3. Conditions of the assignment**

Key supporting instruments for companies in establishing their corporate culture, improving sustainability and competitiveness, strengthening their own development are implemented through corporate governance tools. Development management requires targeted and motivated actions, as well as the existence of a plan for their implementation.

#### **3.1 Objective and tasks**

The Objective of this assignment is to design and conduct new Training Courses for SMEs of IT and Precise Engineering (PE) sectors with tools for implementation of processes and structures. The training should focus on strategic development, monitoring environment and shaping of favourable business relations with business beneficiaries. The training aims:

- to support businesses to evaluate their governance system and promote adaptation of practises oriented towards proper development;
- to provide entrepreneurs with practical guidance and tools to identify their own development project and initiate its implementation.

The Training Course should have a practical output as development project for the SMEs and the contractor will design the training program based on the case of VOLO Software Development Company for the IT sector and Festo GmbH for the PE.

Selection of the target group (up to 30 participants) will be done by the PSD TVET programme experts in close cooperation with the Union of IT Enterprises (UITE) for IT sector and Development Foundation of Armenia (DFA) for Precise Engineering sector SMEs. Each

participating SMEs is expected to consist of two persons, one of whom is a person with authority to make decisions and the other is an employee charged with the promotion and implementation of the development project.

The objective of the assignment will support the Human Capacity Development (HCD) for SMEs in IT and PE sectors and will ensure advisory services and further training opportunities available in Green and Inclusive Economy.

### 3.2 Deliverables and resources

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

Tasks & Deliverables	Man days (max) / location
Develop and design of Training Course, materials and agenda <b>Deliverable:</b> final training materials and agenda	4 (Yerevan)
“Development Management for IT companies” Training <b>Deliverable:</b>	2 (Region)
Coaching of IT companies <b>Deliverable:</b> Development projects are finalized	4 (Yerevan)
Final Report 1: (electronic; in English), including <ul style="list-style-type: none"> <li>a) Training Results;</li> <li>b) Coaching Results;</li> <li>c) Recommendations for further steps.</li> </ul>	2 (Yerevan)
Develop and design of training materials and agenda <b>Deliverable:</b> final training materials and agenda	4 (Yerevan)
“Development Management for PE companies” Training <b>Deliverable:</b>	2 (Region)
Coaching of PE companies <b>Deliverable:</b> Development projects are finalized	4 (Yerevan)
Final Report (electronic; in English), including <ul style="list-style-type: none"> <li>a) Training Results;</li> <li>b) Coaching Results;</li> <li>c) Recommendations for further steps.</li> </ul>	2 (Yerevan)
Structure and elements of the Training Course “Corporate Governance in SMEs” guidebook is developed: <b>Deliverable:</b> Structure and elements are agreed and presented	5 (Yerevan)
“Corporate Governance in SMEs” Training guidebook successfully developed: <b>Deliverable:</b> Final draft of guidebook presented	20 (Yerevan)
The final version of “Corporate Governance in SMEs” training guidebook presented for printing: <b>Deliverable:</b> The content of guidebook edited and ready for	20 (Yerevan)

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Tasks & Deliverables	Man days (max) / location
printing.	
<b>Total</b>	69

### 3.3 Conditions and payment terms

The assignment starts from 25<sup>th</sup> of September and lasts until 14<sup>th</sup> of November 2017. The pre-discussions with the PSD TVET expert will be organized before implementation of each training and development of guidebook structure. The PSD TVET programme is responsible for selection of training venue and technical organization of required resources (e.g. laptop, beamer and etc.).

The contractor's offer needs to include:

- The **Financial offer** requires the contractor to submit for consideration a summary of costs with respect to the above sections;
- The **Technical offer** requires the contractor to submit details pertaining to the contractor's organization; the contractor's experience; comments/suggestions on the Terms of Reference, description of approach, methodology and work. The description of approach, methodology and work plan must include activities and deliverables as indicated in above table.

#### Payment terms:

- Payment will be done upon fulfilment of the contract after presentation Final Report 1, Final Report 2 and final version of the Training Course "Corporate Governance in SMEs" guidebook.

### 3.4 Coordination and communication

The consultant reports to the Team Leader of the PSD TVET project, Mr. Wilhelm Hugo and closely collaborates with the responsible Project Expert Ms Yulia Stakyan, as well as with the administrative support team in Armenia.

### 3.5 Submission Requirements

The group of three experts will be selected based on following requirements:

- Proven facilitation and internal coaching skills;
- Proven expertise in the field of assignment no less than 5 years;
- Expertise in strategic management and monitoring;
- Proven English language writing skills.