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Social Entrepreneurship in Armenia and Georgia

**The Overview of the Social Economy of Armenia:
Social Enterprises of Shirak, Tavush and Lori
marzes**

Report on Market assessment

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May, 2020

Yerevan



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Table of content

EXECUTIVE SUMMARY	4
INTRODUCTION.....	8
OVERVIEW OF THE SOCIAL ECONOMY SECTOR OF ARMENIA.....	11
1.1. Defining social entrepreneurship.....	11
1.2. Nature and size of the social economy sector.....	12
1.3. Enabling environment for social enterprises	13
1.3.1. The role of the donor community	14
1.3.2. Networks and social business support structures	16
1.3.3. Access to finance	18
1.3.4. Legal regulations and policies	18
1.3.5. Education.....	20
1.3.6. Summary of Key stakeholders: current state and priorities for development...	23
1.4. Barriers and limitation of development of social entrepreneurship.....	24
QUANTITATIVE SURVEY RESULTS	26
ANNEX 1: Survey tools	45
Annex 1.a: Key experts interview guide	45
Annex 1.b: Questionnaire for the social enterprise	47
ANNEX 2: Additional tables.....	56
ANNEX 3: Additional figures	60
ANNEX 4: List of interviewed experts.....	63
ANNEX 5: Cases.....	66
Bibliography	69



LIST OF ABBREVIATIONS

ASEA	The Association of Social Enterprises of Armenia
CSO	Civil Society organization
EU	The European Union
USAID	United States Agency of International Development
EIF	Enterprise Incubator Foundation
IHY	Impact Hub Yerevan
KEI	Key expert interview
LLC	Limited Liability Company
MFO	Microfinance organization
NGO	Non-government organization
IDP	Internally displaced person
SE	Social enterprise
SME	Small and medium enterprise
SME DNC	Small and Medium Enterprise Development National Centre of Armenia
SEAG	The Social Entrepreneurship in Armenia and Georgia
SDG	The Sustainable Development Goal
SBI	The Social Business Initiative



EXECUTIVE SUMMARY

In response to the European Commission’s EU4Youth initiative, Mercy Corps and regional partners – the Association of Business Consulting Organisations of Georgia (ABCO) and Armenian NGO, Development Principles (DP) initiated a programme, aimed at *fostering youth employment and societal change* through the **Social Entrepreneurship in Armenia and Georgia (SEAG)**.

To build SEAG partners’ market awareness and inform project further activities, participatory market assessment of social enterprises was commissioned by the project team from **March 1 to April 30, 2020**. The assessment overviews the current state of the social economy in Armenia, identified key stakeholders of the field, mapped the existing social enterprises of Shirak, Tavush, and Lori regions and conduct an analysis of their main features.

The methodology of the survey included a **desk review, 10 key expert interviews and a quantitative survey with 49 identified social enterprises**.

KEY FINDINGS

Despite a growing number of social enterprises in recent years, there is not still a common understanding of the concept at the national level. However, due to the efforts of the sector representatives, the Social entrepreneurship development concept has been drafted and now at the stage of the circulation and discussion with the government. The document provides definitions and criteria for the specification of social entrepreneurship activities, suggests the criteria for distinguishing social enterprise from any other business or non-profit organization.

No specific legislation is in place, regulating the social entrepreneurship sector in Armenia. De-facto, social enterprises are ‘hidden’ among diverse legal forms, notably amongst individual enterprises, limited liability companies, ngo, foundations and cooperatives. **In the experts’ view**, there are around 100 SEs, already established in Armenia. A very few enterprises operating in Yerevan, around 80-85% are located in the regions.

From a chronological point of view, Armenian social enterprises are at the infancy stage of development. Existing social businesses have approximately 3-5 years of experience, on average.

Mainly, social enterprises emerge by the support provided by donor organizations to non-governmental organizations to ensure their further self-reliance and financial sustainability. There are no financial institutions in place to offer financial products and services specifically tailored for social businesses. Existing banks and microfinance institutions offers business support or individual loans with a very high-interest rate (varying from 12% to 20%).



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There are limited, but growing number of social business support structures and networking opportunities in Armenia. The key stakeholders in this regard are The Association of Social Enterprises of Armenia and Impact Hub Yerevan. However, they are still in the initial stage of formation.

There are a few, but important initiatives have been already undertaken in terms of the promotion of entrepreneurship education at private and public levels. What comes to the higher education system, entrepreneurship education is rather promoted through universities' extension programs and different incubators and centers located within universities than through academic curricula.

Specific findings on the social enterprises of Shirak, Tavush, and Lori regions:

- 1) More than one third (39%) of regional SEs are set up as Individual Entrepreneurs, around one fifth (23%) operates as NGOs, 12% have reported that their legal status is LLC and only 2% are registered as cooperatives.
- 2) Preferences in choosing this or that legal status were mostly dependent on the advantages of the taxation system, reporting forms, prestige, and donor requirements. Being registered as an Individual Entrepreneurship ensures certain tax and reporting reliefs notably suitable for start-up businesses.
- 3) The three priority sectors of operation of regional social enterprises are Agriculture and Farming, followed by traditional handicrafts and culture, sport, and educational services.
- 4) The majority of entrepreneurs (51%) reported that their business activities are limited to one region, around one-third of social enterprises (28%) expanded their business activities inside and outside the country.
- 5) The survey results indicated that the overwhelming majority of regional SEs were established during the last five years. Around 90% of social enterprises are 2-5 years old.
- 6) Overwhelming majority of entrepreneurs (73%) consider increasing employability of vulnerable groups (IDPs, disabled, emigrants, etc.) the primary social goal of their business activities, followed by activities aimed at supporting the personal and professional development of locals in diverse fields of works (27%) and enhancing the quality living of the Youth in the rural areas (22%).
- 7) Despite the increasing trends of doing business, the majority of entrepreneurs (80%) pinpointed that their turnover did not surpass 9 million in 2019, only 2% of entrepreneurs had turnover exceeding 115 million AMD.
- 8) In 2019, 63% of entrepreneurs reported that they reinvested on average 52% of their profit to improve the business, 59% of entrepreneurs also spent on average 44 % of their profit directly on social goals, and only 14% of businesses stated that distributed on average one-third of their profit among owners.



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- 9) The donor funds are considered as a key external financial source by the overwhelming majority of social entrepreneurs in all stages of their business development. The results have shown that the higher portion of social enterprises (83 %), in the startup phase applied for external financial support to launch their businesses. Moreover, out of those entrepreneurs who received external financial support, the overwhelming majority (94%) received International grants.
- 10) In comparison to the traditional businesses, social enterprises are significantly less likely to be entirely men-led. The women-led enterprises composed 59% of the sample, and only 27% were entirely male-led organizations.
- 11) Similar to small and middle enterprises, the observed social businesses are predominantly micro-businesses with less than ten employees in 63% of the observed cases, 33% are small organizations, and only 4% of enterprises are of middle size with more than 50 employees.
- 12) The overwhelming majority of the observed enterprises (75%) would like to receive consultancy in marketing strategies and financial and tax accounting (54%).
- 13) Almost all enterprises have individual clients (90%), 54% also cooperate with private companies.
- 14) The key obstacles for doing effective business are lack of access to credit/finance (55%), followed by a lack of access to skilled employees/labor (51%) and access to markets (40%).

Key barriers and constraints	Recommendations
Misunderstanding and poor awareness about social entrepreneurship: Poor recognition of social enterprise concept among the general public, policymakers, investors, costumes, etc. Lack of criteria for differentiation and acknowledgment of the added value created by social enterprises.	Increasing visibility and recognition of the social entrepreneurship concept at the state level. The promotion of the concept of social entrepreneurship by the state will be an important step forward in the institutionalization of the social entrepreneurship system in Armenia. It is also necessary to include the social economy sector in the national strategies and plans combating against unemployment and poverty.
Absence of a unified bank of information: No unified database and information of social enterprises exist in the country.	Unified database: It is necessary to create a unified database on existing organizations, specifying their characteristics and diverse business models. It will allow identify best practices, replicable models, and enable discussion on lessons learned.
Insufficient business support infrastructure and services: Mentoring and consultancy schemes, diverse special incubators and peer support groups and networks are under-developed in the country.	Promoting social business support services: It is important to develop a broad variety of business development services and support schemes specifically designed for social enterprises and social economy, including such as exchange platforms, diverse consultancy and mentoring services, peer support networks. These structures should operate



	permanently and provide SEs with support at all stages of their development.
Insufficient diversification of financial sources: Special financial products for social enterprises do not exist in Armenia. Armenian SEs are mostly deprived of opportunities to apply to credit sources since the interest rate is remaining very high. There are limited options for scale-up financing.	Diversification of financial sources: Social Impact investment system should be promoted in the country. Multiple schemes are possible. Among different models experts suggest, for instance, large business entities to donate amounts for SEs within their corporate social responsibility. They also pinpointed the important role of Diaspora in terms of investments in the sector. To ensure organizational development and sustainability of social businesses mixed financial schemes could be employed, including grants and loans, provided together in different combinations.
Skills and management: Most of SE founders are NGO sphere people who have limited business skills and mindset. There is a serious problem with business and financial planning and literacy. In many cases, the founders do not hire a professional CEO to run the business.	Skills and leadership: There is a need to develop business and finance skills among social entrepreneurs. New schemes of cooperation among entrepreneurs should also be promoted.
Poor education system: There are limited opportunities to get professional education in this field. Nation-wide education system on social entrepreneurship is under-developed.	Education: There should be pilot laboratories in the institutes, schools, colleges. Social Entrepreneurship should find its place in the formal education system.
The dependency on donor funds: Donors support is considered as the main source of funding by SEs. The dependency on grants used to result in business degradation after these funding sources exhausted.	Donor support: It is of paramount importance to set new approaches and standards at the grantee selection stage. Not only CSOs should be eligible to establish social enterprises. The involvement of business entities and private sector might be encouraged. More support to social enterprises at scale-up levels could be provided.
Lack of coordination: Despite of increasing number of different stakeholders, services, and initiatives, there is an obvious lack of coordination and in some cases duplicities among different activities. No specific structure exists that addresses social entrepreneurship-related policies, plans, and activities.	Coordination and synergy: More horizontal coordination is needed among different structures and initiatives to avoid duplication of efforts and ensure more addressed support to social enterprises. The ASEA and/or School of Social Entrepreneurship might take more leading roles in the dissemination of information on needs, priorities, and current trends of development of local social enterprises. Certain state bodies might be formed to synergize the plans and policies related to social enterprises.



INTRODUCTION

Armenia is a lower-middle-income and landlocked country with a population of 3 million and GDP per capita \$3,872 in 2017. It is bordered by Azerbaijan, Georgia, Iran, and Turkey. Its borders with Azerbaijan and Turkey remain closed due to a hostile policy of blockade and isolation. The most important issues facing Armenia are poverty and unemployment. 30 percent of the population still lives under the national poverty line (\$3.3 per capita per day)¹. More than one in three respondents in the 2017 Caucasus Barometer indicated that unemployment, at 18 percent in 2017². Half of Armenian youth and adults lack a job. The fact that young people do not work is not necessarily a problem if they are still studying and building up productive capacity for the future. However, two in five inactive youth (ages 15-24) are idle, meaning they are neither studying nor working. Women in both urban and rural areas are approximately 16 percentage points less likely to be employed than men, even when education, age, and location are taken into account.³ Young men and rural youth are more likely to become vulnerable workers. One in five (around 23%) of employees do not have any signed contract with their employer. Young men are more likely to get involved in non-contractual relations with an employer than young women. Over one half (53.8%) of the inactive labor force are young people with higher education. Both men and women with post-graduate education are unlikely to stay unemployed. Female youth unemployment slightly exceeded male rates in groups with vocational education (16.5% of females against 14.3% of males)⁴.

The Velvet Revolution in 2018 brought change and, most importantly, raised the perceptions about job prospects, especially among youth. The Program of the new government, adopted in February 2019, prioritizes job creation through entrepreneurship, innovation, improved investment climate, exports, and enhanced human capital potential. The government is also in the process of developing the new **Labor Market Strategy 2019-2024** and recently launched **the Work, Armenia! initiative** to coordinate efforts to promote employment by different ministries, government agencies, educational institutions, and employers. (World Bank, 2018)

¹ Source: UN, SDG implementation voluntary national review , 2018.

https://sustainabledevelopment.un.org/content/documents/19586Armenia_VNR_2018.pdf

² Source: Caucasus Barometer, The annual household survey about social economic issues and political attitudes (Georgia and Armenia), 2018, <https://caucasusbarometer.org/en/cb2017/factsheet/>.

³ Source: World Bank, Work for a better future in Armenia: an analysis of jobs dynamics, 2019.

<http://documents.worldbank.org/curated/en/387401564380250230/pdf/Work-for-a-better-future-in-Armenia-An-analysis-of-jobs-dynamics.pdf>

⁴ Source: Save the Children, Youth-focused and gender-sensitive labor market research in Armenia, 2018.

https://armenia.savethechildren.net/sites/armenia.savethechildren.net/files/library/LMR%20Report_Eng.pdf



The importance of the development of youth entrepreneurship was also highlighted in the “**Armenia Development Strategy 2014-2025**”⁵, by acknowledging the importance of promoting youth and female entrepreneurship and improving their business skills and capacities.

During the recent year social entrepreneurship as a new form of doing business gained special attention in European countries. Its role in developing of sustainable and equitable social economy was declared in different EU documents. To promote a 'highly competitive social market economy', the Commission has placed the social economy and social innovation at the heart of its concerns, in terms of both territorial cohesion and the search for new solutions to societal problems, in particular the fight against poverty and exclusion, under **the Europe 2020 strategy**⁶. Social enterprises, which employ entrepreneurial approaches to explicitly address social issues, were the main target of **the European Commission’s Social Business Initiative (SBI, 2011)**⁷. The Commission Expert Group on Social Entrepreneurship (GECES), issued by European Commission, argued for **a European Action Plan for the Social Economy and Social Enterprises**, which would provide new impetus to promote an enabling environment for social enterprises and the social economy to flourish, building on their core values such as democratic governance, social impact, innovation, profit reinvestment or the central place given to the human in the economy⁸.

Promotion of youth entrepreneurship was also stressed through the Eastern Neighborhood **EU4YOUTH project** (2017-2020), the goal of which is fostering the active participation of young people in society and their employability, by developing youth leadership and entrepreneurship through a variety of actions, including capacity building, fellowships, support to policy dialogue, as well as providing grants to organizations active in these areas⁹.

In response to the European Commission’s EU4Youth initiative, Mercy Corps and regional partners – the Association of Business Consulting Organisations of Georgia (ABCO) and Armenian NGO, Development Principles (DP) initiated a programme, aimed at *fostering youth employment and societal change* through the **Social Entrepreneurship in Armenia and Georgia (SEAG)**. The 30-month SEAG programme will build on and complement approaches and lessons learned from the EU4Youth programme launched in 2017, as well as Mercy Corps, ABCO, and DP market development and youth programmes over the past 19 years in Georgia and Armenia. Aligned with the EU4Youth priority issues, SEAG’s overall objective is to **foster the entrepreneurial potential of young people (ages 18-29) from Armenia and Georgia in the field of social entrepreneurship, notably to contribute to social cohesion, employment, inclusion, and reduction of inequalities.**

⁵ <https://www.gov.am/am/prsp/>

⁶ Source: European Commission, Europe 2020: A strategy for smart, sustainable and inclusive growth, 2010.

<https://www.eea.europa.eu/policy-documents/com-2010-2020-europe-2020>

⁷ Source: European commission, Social Business Initiative, 2011, <https://ec.europa.eu/transparency/regdoc/rep/1/2011/EN/1-2011-682-EN-F1-1.Pdf>

⁸ Source: European Commission, Social enterprises and the social economy going forward, 2016.

https://ec.europa.eu/growth/content/social-enterprises-and-social-economy-going-forward_en

⁹ <https://www.euneighbours.eu/en/east/stay-informed/projects/eu4youth>



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To inform project activities and capture a comprehensive picture of the social economy sector in the targeted regions, a participatory market assessment on social enterprises was conducted from **March 1 to April 30, 2020**. The survey was dedicated to assessing their key characteristics, challenges, needs, and trends of development of social enterprises of Shirak, Tavush and Lori regions.

The outcomes of the action are: 1) a comprehensive and adaptable map of existing social enterprises in target regions; 2) finalized baseline survey data points; 3) empowered young people with skills and confidence to conduct and analyze research; 4) youth exposure and connections to the social enterprise market and the wider business community; 5) learning of socially conscious trends in local businesses, and what skills employers are looking for in hiring vulnerable youth; and 6) where they can acquire skills training or other resources such as career services.

Methodology: The methodology of the survey was based on a mixed-methods approach which includes:

- 1) **Desk review** of statistical data, policy papers, relevant research works and revision of SEs online platforms
- 2) **Informal key expert interviews** (KEI) with main stakeholders of the project (*see interview guide in Annex 1a*)
- 3) **Telephone and online survey** with SEs of Shirak, Tavush and Lori regions (*see questionnaire in Annex 1b*)

Thus, the information presented in the survey is based on 10 KEIs, and a survey with 49 SEs identified the target regions. Not to exclude any existing organization and initiative, the project team decided to involve in the survey all “de-facto” social enterprises, those that match social and business goals in their activities. That approach allowed us to review the whole spectrum of existing SEs and key trends of development in this field.



OVERVIEW OF THE SOCIAL ECONOMY SECTOR OF ARMENIA

1.1. Defining social entrepreneurship

At the international level the idea of social entrepreneurship has gained importance in the early 90ths. There is a bulk of evidence demonstrating the significant role of social entrepreneurship in promoting resilient, and sustainable society. By adhering to the ideas of social inclusiveness and innovation, social enterprises have proven their abilities in overcoming multiple social-economic challenges and absorbing system crises.

Despite a growing number of such forms of organizations in recent years, there is not still a universal understanding of the concept, widely accepted at the international level. Interpretations of the idea vary from country to country and mostly depend on national specifics of operating organizations and existing legal regulations.

While operationalizing the definition of social enterprise, this study has not elaborated on a new one, rather, as a starting point for mapping and identifying existing SEs in the country, it referred to widely acknowledged classification of “social businesses”¹⁰ elaborated by **Communication on the Social Business Initiative of the European Commission**¹¹.

Key dimensions of social enterprises according to SBI Communication of the Commission are the following:

- those for which the social or societal objective of the common good is the reason for the commercial activity, often in the form of a high level of social innovation,
- those where profits are mainly reinvested to achieve this social objective,
- where the method of organization or ownership system reflects their mission, using democratic or participatory principles or focusing on social justice.

To try to identify as many social enterprises as possible, out of these three dimensions suggested by SBI, a criterion of making a profit with a view of achieving societal objectives was chosen as a prior condition for distinguishing this form of organization from other non-profit and for-profit organization

¹⁰ The term of social business is used as identical to social enterprise

¹¹ https://ec.europa.eu/growth/sectors/social-economy/enterprises_en



for this survey. Initially developed a dataset of organizations that categorized themselves as social businesses was refined by using a rapid diagnostic questionnaire, encompassing a few questions based on this criterion.

1.2. Nature and size of the social economy sector

It remains highly challenging to measure the growth and potential of social enterprises in Armenia, given the fact that most of such initiatives take place ‘under the radar’. Lack of state recognition and comprehensive database hinder the possibility of capturing the whole spectrum of existing social enterprises in the country. **As the experts suggest**, SEs in Armenia are predominantly led by civil society organizations. **As it was stated in the 2018 Civil Society Organization Sustainability Index report for Armenia**¹², there were **4 222 public organizations, 1120 foundations, and 244 legal entity unions** registered in Armenia as of the end of 2018, out of which around 240 are associated with entrepreneurship activities. However, it is difficult to track whether they meet criteria inherent to social enterprises. Moreover, not all of the SEs are registered as separate entities – in some cases, they are running as a project of non-governmental organizations. De-facto, there are also social enterprises that are ‘hidden’ among other existing legal forms, notably amongst cooperatives, individual enterprises, and limited liability companies. In the country where neither the law or policy recognizes social enterprises at all, it is very hard to decide which enterprises are social enterprises and which are not. **In the experts' view**, there are around 100 SEs, already established in Armenia. A very few enterprises operating in Yerevan, around 80-85% are located in the regions. However, as one of the experts mentioned: *“there is a need to employ a more balanced approach further by promoting the bolder presence of social enterprises in Yerevan”*. Most of the enterprises are still not at a level of self-sufficiency, operational efficiency, and sophistication as comparable commercial businesses in the country. It is also problematic to obtain a statistically robust picture of what social enterprises do.

According to expert estimations, from a chronological point of view, Armenian social enterprises are at the initial stage of development. Existing social businesses have approximately 3-5 years of experience, on average. Armenian social enterprises are mainly concentrated in specific niches – notably in agriculture, tourism, crafts, and arts sectors.

¹² Source: 2018 Civil Society Organization Sustainability Index, For Central and Eastern Europe and Eurasia, 2019, <https://www.fhi360.org/sites/default/files/media/documents/resource-csosi-2018-report-europe-eurasia.pdf>



1.3. Enabling environment for social enterprises

The features of enabling environment for social enterprise- necessary to overcome challenges to growth – tend to be slowly emerging in Armenia. The conceptualization of a social enterprise eco-system is based on commonly recognized features able to contribute to providing an enabling environment for social enterprise¹³.

Scheme 1. The features of an eco-system for social enterprise



It is worth noting that some features of a well-known scheme changed since not all elements are existing in the country and/or applicable to our context. The following subsections summarize the current state of development of these characteristics.

¹³ Source: European Commission, A map of social enterprises and their ecosystems in Europe, 2014, <http://ec.europa.eu/social/main.jsp>



1.3.1. The role of the donor community

In Armenia the development of the social economy was mostly fueled by the availability of donor funds for this purpose. The major stakeholder in this regard is **the European Union**, that has made significant investments in developing social entrepreneurship in the country during recent years. By promoting this sector growth, the international organizations, mainly aims at creating favorable conditions for local CSOs to become self-reliant and sustainable organization and/or to increase employability and ensure income generation opportunities for vulnerable social groups.

Among the recent projects funded by the EU are the following:

The EU4Culture: Stronger Communities and Initiatives project (2018-2021) is implemented by DVV International Armenia country office, aimed at cultural and tourism promotion in Shirak, Kotayk, and Gegharkunik regions of the Republic of Armenia. During the project, a total of 120 CSOs of these regions were trained to enhance their capacity in developing and implementing cultural, environmental and tourism projects that emphasize benefits for the communities. Within the project, competitive seed funds were provided to the trained CSOs to establish 10 social enterprises to promote local tourism development¹⁴.

The Bridge4CSOs programme (2017-2020) is implemented by the Armenian General Benevolent Union (AGBU) in partnership with the Eurasia Partnership Foundation. The three-year programme with a total budget of EUR 2.2 million aims to strengthen the capacity of Armenian civil society organizations to better respond to citizens' needs. One of its components is the provision of seed funds to social enterprises. Up to 15 organizations received various grants to start up and scale up their businesses¹⁵.

EU4Women: Economic Empowerment through Social Enterprise project (2017-2019), implemented by Near East Foundation UK and Women's Development Resource Center Foundation (WDRC) and supported 12 local civil society organizations in Aragatsotn, Gegharkunik, Lori and Syunik Marzes to launch or further develop social enterprise activities with focus on benefits going to the women in their communities¹⁶.

Community Development through Social Entrepreneurship programme (2015-2017) (CODE-SE) was implemented by the International Center for Intercultural Research, Learning, and Dialogue. The programme aimed at sustainable community development and enhancement of the capacity of

¹⁴ <http://www.dvv-international.ge/armenia/projects/eu4culture/>

¹⁵ <https://agbu.am/en/bridge-for-csos/2986-bridge-for-csos/>

¹⁶ https://eeas.europa.eu/delegations/armenia/38334/node/38334_tk



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civil society organizations to generate income via social entrepreneurship projects. During the project 10 social enterprises have been established and running in the communities.¹⁷

Besides, there are also other local and regional projects indirectly contributing to the sector growth:

EU4Youth: Fostering potential for greater employability regional project (2018-2021) has been developed by the Danish Red Cross (Dansk Rode Kors) and its partners in co-applicants Belarus Red Cross Society, Armenia Red Cross Society, and Georgia Red Cross Society. The project improves education and employment opportunities for disadvantaged youth groups. In Armenia, it involves 4000 disadvantaged young people aged 16-30 years in Tavush and Gegharkunik marzes. Within the project 60 young women and men will be supported with their business ideas¹⁸.

EU4Youth - SAY YES Skills for Jobs project (2018 –2021) is implemented by World Vision Deutschland VE, "Global Development" Fund, Association "Anika", Georgia Farmers' Association (GE) in Georgia in Armenia. The project under the EU4Youth initiative has been designed by World Vision Germany in close collaboration with World Vision offices in Armenia and Georgia as well as the Global Developments Fund to address unemployment and lack income opportunities for youth in rural areas. The project will target young women and men aged between 15 and 35 years old, particularly those with fewer opportunities and support them to get a job or start their own business¹⁹.

EU4Youth: Better Skills for Better Future regional project (2018-2020) under the EU4Youth initiative was developed by Stichting Save the Children Nederland (NL) and Oxygen Foundation for Protection of Youth and Women Rights (AM), Children And Youth Development Fund (GE) and CF Slavic Heart (UKR) ..The project develops the entrepreneurial potential and increase employability of disadvantaged youth in three Neighborhood countries, ensure their increased access to education and training opportunities and advocate for development and implementation coherent and cross-sectorial youth policies at local and national levels. Young Armenians' entrepreneurial capacities and young entrepreneurship opportunities were promoted through trainings, small-grant support, and coaching by professional consultants²⁰.

Boosting Technological Development in Shirak Marz project (2016 – 2019) implemented by the Microsoft Innovation Center Armenia and Gyumri Information Technologies Center – supports

¹⁷ <http://www.eu4business.eu/programme/community-development-through-social-entrepreneurship>

¹⁸ https://eeas.europa.eu/delegations/armenia/41666/eu4youth-fostering-potential-greater-employability_kk

¹⁹ <https://www.wvi.org/georgia/article/say-yes-skills-jobs>

²⁰ https://eeas.europa.eu/delegations/armenia/41664/eu4youth-better-skills-better-future_ro



economic development in the Shirak marz by boosting the skills of young unemployed, and business development of the IT community through training and financial assistance²¹.

Boosting competitiveness of regional SMEs (2016 – 2019), implemented by SME Development National Centre of Armenia. The project works to boost the competitiveness of regional SMEs and to create employment opportunities in the Armenian regions (marzes) of Lori, Syunik, and Armavir, focusing on the sectors of food-processing and tourism. It promotes the development of entrepreneurship by creating favorable conditions for start-ups and strengthening the capacity of local SMEs, while also providing relevant skills to job seekers, and developing local capacity to encourage the further promotion of economic development initiatives²².

1.3.2. Networks and social business support structures

The role of social business support structures is indispensable in the development of sustainable business models. There are limited, but growing number of such services in Armenia.

The Association of Social Enterprises of Armenia²³ was established in 2015 by seven non-governmental organizations from five regions of Armenia with the support of the British Council. At the same year, it was registered as an association of legal entities. The ASEA mission is to promote civil society development through fostering social entrepreneurship. It aims to unite and direct all efforts and resources that are contributing to the establishment and development of social businesses.

In addition to SE –related association, a strong foundation for the sector growth provides social business incubators that help on building entrepreneurial communities, support entrepreneurs with tangible solutions to social problems, offer resources and collaboration needed to ensure social impact and sustain. **Social Innovation Development Foundation (also known as Impact Hub Yerevan)**²⁴ as a part of the Global impact hub network was established in 2015 in Armenia. It is a social innovation incubator, community, and space with a mission to support social impact projects and enterprises that implement positive social change in Armenia and beyond.

²¹ <http://www.eu4business.eu/programme/boosting-technological-development-shirak-marz>

²² <http://www.eu4business.eu/programme/boosting-competitiveness-regional-smes>

²³ <http://www.eu4business.eu/files/medias/asea-eng.pdf>

²⁴ <https://yerevan.impacthub.net>



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Kolba Lab²⁵ is an innovation lab in UNDP Armenia which is funded by the European Union in 2011. Kolba supports activists, entrepreneurs and change-makers within government in Armenia who have a good understanding of societal problems and feel passionate about solving them. It initially started as a social enterprise incubator and organized the first social innovation camps in the country.

There are also other business support initiatives and organizations, directly not focused on the social economy, but contributing to the overall development of entrepreneurship in the country. Some of them are specialized in particular fields and target specific social groups.

In 2017, the UNDP, in collaboration with Impact Hub Yerevan and the Catalyst Foundation, launched the first impact accelerator in the country, called **the ImpactAim Venture Accelerator**²⁶, as part of the UNDP's strategy to use impact investment for the achievement of the sustainable development goals. ImpactAim Accelerator, the key component of the global UNDP Impact Investment Vehicle concept, is an independent platform that aims to develop different, field-based acceleration programs to support early-stage and established start-ups that address identified gaps of achieving the Sustainable Development Goals.

As part of an EU funded program designed to increase the resilience of Syrian Armenians and to host population, **IRIS Business Incubator**²⁷ has been established in Armenia by Armenian Caritas Benevolent NGO and SME Cooperation Association. The mission of the IRIS Business Incubator is to enhance the economic integration of Syrian-Armenians and to host population through raising the competitiveness of the local economy by stimulating innovation and entrepreneurial spirit in Armenia. The potential residents of IRIS Business Incubator are self-employed Syrian Armenians, repatriates, and locals with business ideas, as well as start-ups and small and medium-sized enterprises.

Enterprise Incubator Foundation²⁸ is one of the largest technology business incubators and IT development agencies in the region, operating in Yerevan, Armenia. Established in 2002 within the framework of the World Bank's "Enterprise Incubator" project, EIF aims to support the development of information and communication technology sector in Armenia. Their activities cover every aspect of sector development –ICT-related legal, business and educational reforms, investment channeling and creation of funding schemes for startups, individualized services and consulting for IT companies, talent identification, and workforce development.

²⁵ <http://kolba.am/en/page/how-kolba-lab-incubates/>

²⁶ <https://impactaim.com/>

²⁷ <https://www.strategieast.org/eu-funded-iris-business-incubator-opens-in-armenia/>

²⁸ <http://www.eif.am/eng/about/>





National Center of Armenia Small and Medium Enterprise Development Fund²⁹ was set up by the government in 2002. The main body of the SME Development National Center of Armenia's Board of Trustees is headed by the minister. The activities of SME Development National Center of Armenia includes communication between state institutions and SMEs improving the efficiency and competitiveness of SMEs ensuring the availability of business development services for SMEs, SMEs access to financial resources, supports the implementation of innovation, research and development programs, support the creation of new SMEs and their internationalization.

1.3.3. Access to finance

Like any other form of business, social enterprises need to diversify their financial flows to expand their business operations. **The experts highlighted** that social enterprises in Armenia face serious obstacles to access finance. There are no financial institutions in place to offer financial products and services specifically tailored for social businesses. Existing banks and microfinance institutions offers business support or individual loans with a very high-interest rate (varying from 12% to 20%). Mainly, social enterprises emerge by the support provided by donor organizations to non-governmental organizations to ensure their financial sustainability. Frequently, after grants ended, entrepreneurs tend to cease their business activities since the habit of relying on “free money” makes them reluctant for doing business on their own and trying to seek other than grants financial contributions. Besides, a major part of available funds are allocated to start-up initiatives. Only limited funding opportunities are affordable for organizations trying to scale up their businesses.

1.3.4. Legal regulations and policies

There is still no specific legislation in place regulating the social entrepreneurship sector in Armenia. However, **most of the experts denied** the need for having a separate law on social enterprise at this stage of social entrepreneurship development in the country. Their main concern is related to potential risks of increasing of unethical and corruptive practices among traditional business entities, which might try to get registered as “social enterprises” and gain all advantages or tax privileges stipulated by law without ensuring any social impact. This situation could significantly drag backward

²⁹ <https://www.developmentaid.org/#!/organizations/view/90407/sme-dnc-small-and-medium-entrepreneurship-development-national-center-of-armenia>



overall sector development and negatively effects on attitudes of the general public toward the idea of social entrepreneurship.

Meantime, recently, due to the efforts of the sector representatives, the Social entrepreneurship development concept³⁰ has been drafted and now at the stage of the circulation and discussion with the government. **Most of the experts agreed** that acceptance of the “Social entrepreneurship development concept” by the State is of critical importance for the sector growth.

The document provides definition and criteria for specification of social entrepreneurship activities, suggests the criteria for distinguishing social enterprise from any other business or non-profit organizations:

Thus, according to the concept, the social enterprise should be described based on the following criteria:

- It operates based on “**social issue-business model-business solution-positive social transformation**” principle;
- It does not operate in a sector prohibited for social entrepreneurship (such as animal fur production or mining sectors) and does not violate the principle of “green thinking”, and/or created to ensure the labor integration of the socially vulnerable people, or at least 40% of employees, but not less than 4 people, are people with disabilities
- it reinvests 50% or even more of its profit in promotion of their social mission, its allocations for donations and grants do not exceed more than 30% of turnover.

Before 2017, Article 51, Clause 4 of the RA Civil Code prohibited NGOs from engaging in direct business activities if the latter did not serve the purposes outlined in the organization's charter. And even in case of compliance, according to the Law on Non-Governmental Organizations, in order to carry out business activities, the NGO had to register a separate trading company (daughter enterprise) or become a participant in it. In 2014, the Ministry of Justice of the Republic of Armenia developed and put into circulation a new legislative bill regulating the entrepreneurial activity of the NGO, which was adopted in December 2016³¹. Article 8 (1) of the amended version of the Law on Non-Governmental Organizations stipulates that NGOs can directly engage in entrepreneur activities. However, paragraphs 2 and 3 of the same article stipulate that the organization must keep separate financial records of business activities, including information on it in the reports stipulated by law, and use the profits only for the statutory purposes of the organization³². According to experts, in reality

³⁰ <https://www.e-draft.am/projects/1180/about>

³¹ Source: the same as above

³² <https://www.arlis.am/DocumentView.aspx?docID=110802>



these changes in law do not help NGOs to handle their financial issues, instead they imply tighter control of NGOs by government agencies.

1.3.5. Education

Entrepreneurship education plays a crucial role in developing the social entrepreneurship sector in the country. There are a few, but important initiatives have been already undertaken at private and public levels in this regard.

To promote entrepreneurial knowledge and skills among Armenian school graduates, **the compulsive subject “entrepreneurship education”** was piloted in several schools of Armenia. Following its results, in 2017, the RA Ministry of Education and Science jointly with the “Junior Achievement of Armenia” NGO incorporated a component of business education in the subject of "Technology" from 2-10th grade, also in the 11th grade as a practical component.³³

What comes to the higher education system, entrepreneurship education is rather promoted through universities’ extension programs and different incubators and centers located within universities than

through academic curricula. For instance, in 2015 **YSU Student Affairs Centre**, jointly with UNIDO, initiated an educational program “**Global innovation program of cleantech for SMEs in Armenia**” for YSU students to teach them about innovation, entrepreneurship, business model base, funding sources, and other topics³⁴. In its turn, to support higher education reform and respond to unemployment rates, the American University of Armenia launched its **Entrepreneurship and Product Innovation Centre (EPIC)** on-campus center in 2015. The center helps AUA students, alumni, and other entrepreneurs to advance their ventures from idea to success by providing a network of mentors, advisors, and investors.³⁵ There is also a course on entrepreneurship suggested by AUA open education center that mostly aimed to support start-ups to understand the basics of doing business in Armenia³⁶. According to the chair of the Association of social enterprises of Armenia, there are some initial arrangements with AUA Open Education center to elaborate a three-month training course devoted specifically to social entrepreneurship. **The Association of Social Enterprises of Armenia**, also has recently implemented series of pilot projects at selected schools, VET colleges and Universities on the introduction of “social entrepreneurship education” or “social entrepreneurship laboratories” in the framework of a sub-project under EU funded “Commitment to Constructive Dialogue” project (2016-2019).

³³ Source: Youth entrepreneurship in eastern partnership countries: the way forward, 2018, http://eap-csf.eu/wp-content/uploads/YOUTH_ENTREPRENEURSHIP_IN_EAP_THE_WAY_FORWARD.pdf

³⁴ <http://ysu.am/gender/en/Entrepreneurship-training-for-student>.

³⁵ <https://epic.aua.am/>

³⁶ <https://openeducation.aua.am/entrepreneurship/>



National Center of Innovation and Entrepreneurship State non-commercial organization is conducting the “**Young innovator’s school**” program (launched in 2015), which aims at supporting the engagement of young people in innovative entrepreneurial activities, developing their business skills, supporting the commercialization of innovative business ideas, etc³⁷.

Another major player in disseminating entrepreneurship knowledge is **SME DNC**, which is besides financial support, provides various consultancy and technical support to enterprises.³⁸

Microsoft Innovation Center Armenia (MIC) was established in 2011 through the combined efforts of the RA Government, the Microsoft Corporation, USAID, NPUA, and EIF, Microsoft Innovation Center Armenia provides world-class resources and support focusing on skill development and innovative thinking that local and international markets demand.

The **CODE-SE project**, which ended in December 2017, has developed an **online education module on social entrepreneurship**, which could potentially be used by universities in the future. One of the members of the consortium that implemented the CODE-SE project, the KASA Foundation, has committed to maintaining technical support for the online education module, and the Association of Social Enterprises of Armenia has been provided ownership of the content.³⁹

One of the recent initiatives contributing to the institutionalization of entrepreneurship education in higher education was the “**Creative Spark: Higher Education Enterprise**”⁴⁰ Programme implemented by the British Council. The programme is a five-year initiative to support international university and institutional partnerships to develop enterprise skills and creative economy across seven countries in Central Asia (**Kazakhstan, Uzbekistan, Kyrgyzstan**), South Caucasus (**Azerbaijan, Armenia, Georgia**) and **Ukraine** through UK support. In 2018, the British Council funded six Creative Spark partnerships, involving seven universities and creative institutions from Armenia.

Among private initiatives that contribute specifically to the development of social entrepreneurship in Armenia, it is worth highlighting a recently established (2018) **School of Social Entrepreneurs**. The school provides basic education for those who plan to start up a social business. Thus the School of Social Entrepreneurs not only promotes dissemination of SE education, but also support business ideas and initiatives. During 2018-2019, around 600 people participated in the trainings.⁴¹

³⁷ Source: Youth entrepreneurship in eastern partnership countries: the way forward, 2018, http://eap-csf.eu/wp-content/uploads/YOUTH_ENTREPRENEURSHIP_IN_EAP_THE_WAY_FORWARD.pdf

³⁸ <https://smednc.am/https://mic.am/about-us/>

³⁹ Source: Youth entrepreneurship in eastern partnership countries: the way forward, 2018, http://eap-csf.eu/wp-content/uploads/YOUTH_ENTREPRENEURSHIP_IN_EAP_THE_WAY_FORWARD.pdf

⁴⁰ <https://www.britishcouncil.am/en/programmes/education/creative-spark>.

⁴¹ <https://www.facebook.com/Schoolofsocialentrepreneurs/>



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Another major stakeholder in providing educational and mentoring services on social entrepreneurship in Armenia is **Impact Hub Yerevan**. The Hub provides professional coaching and mentorship services, peer- to- peer learning platforms and initiate different fellowship projects to support different social group initiatives. Among recent ones, it is worth mentioning **The Women Entrepreneurship Incubation Program** that lasts 9-month and aimed to supports women entrepreneurial activities. The specific objective of the project assists women-led startups to develop, validate and implement their social innovation ideas, to connect women entrepreneurs to a national and international community of entrepreneurs, mentors, and so on⁴².

⁴² <https://yerevan.impacthub.net/women-entrepreneurship-incubation-program/>



1.3.6. Summary of Key stakeholders: current state and priorities for development

Key stakeholders	Experts remarks
Financial institutions	There are several universal credit or microfinance institutions in Armenia, including Kamurj, SEF international, FINCA, CARD AgroCredit , and so on. None of them provides credit products specifically designed for social businesses. SEs are treated in the same manner as any other business structure. Interest rates remain very high. It is time to have new products specifically designed for social enterprises.
Donor organizations	There are a lot of representations and branches of international organizations that implement diverse grant projects to foster this sector growth. The European Delegation and USAID are the key players in the field, by funds of which, most of the social enterprises were established in the country. The final recipients of financial support are local CSOs, which provided grants to contribute to solving regional social-economic issues and/or become more self-reliant and sustainable structures. The prominent role of the donor community in developing this sector is undeniable. However, more donor cooperation is needed to increase coordination and avoid duplicities of the projects. The European Delegation always encourages cooperation between EU funded projects, but it does not always happen. The experts also stressed the importance of revising the sub-grantees selection schemes. Not only CSOs should be eligible to establish social enterprises. The involvement of business entities should be encouraged. For instance, at the selection stage, there could be allowed different coalitions and partnerships involving both representatives of traditional businesses and non-governmental organizations. More support at scale-up levels of social enterprises could be provided.
State	Ministry of Economy and Ministry of labor and social affairs of Armenia through their various bodies and agencies (for instance, SME DNC or State Employment Agency) are currently the main players in the field. However, there is a need to enhance the role of the Ministry of Territorial administration and development , since most of SEs are operating in regions and address community issues. More coordination is needed among different state agencies and structures. Currently, the state does not differentiate SEs from other SMEs. Designated state agency might be formed to address specific social entrepreneurship-related policies and activities. Social partnership and synergy are also required among business support structures and the government. The Government could support social business by providing infrastructures (local state land buildings) or by simplifying the implementations of rules concerning the State aid (for instance, 5 % of reserved quota for SE), procurement system, or delegation of their services provisions. In this case, the government ensures certain advantages to SEs, and meantime solves social issues by their means.
Social business development structures and networks	Various incubators and business support structures have been emerging during the recent years in Armenia. However only a very few directly address issues of social enterprises and act as networking, experience exchange platforms, promote visibility of the field, and educational opportunities for social entrepreneurs. The ASEA and IHY are the main actors in this regard. ASEA is in its initial stage of development. Currently, the Association involves around 50 members, including both social business entities and individuals. It operates on a volunteer basis. The managerial team is mainly comprised of busy people, no hired support team is available. Financial, membership fees are not enough to develop association. Structural and operational changes are required to ensure the sustainability and effectiveness of the Association. In the experts' view, to sustain itself, the Association could become social enterprise itself to generate resources for the field development and become financially viable structure. Impact Hub demonstrates itself as an effective operational model of SE. Around 70% of funding sources of IHY are generated through entrepreneurship activities. Currently, there are around 230 members in IHY, including individual entrepreneurs, social enterprises, NGOs, tech start-ups, and other types of enterprises/organizations. It unites not only social enterprises but also various local and international experts. It could cooperate more with Association, EU, and different business structures within its different acceleration or value-added programs.
Other stakeholders	Diaspora was cited by the expert as a potential stakeholder in this field. Armenian Diaspora has a huge potential to contribute to this sector growth, not only in terms of financial contribution, but professional and technical support. The Association, Impact Hub, and other structures should be able to provide them with information concerning SE situation in Armenia, introduce SEs, and explain how SEs can be helped.



1.4. Barriers and limitation of development of social entrepreneurship

Each social business faces its specific constraints, however, several common ones, hampering overall sector growth, were highlighted by the experts as follows:

Misunderstanding and poor awareness about social entrepreneurship: Poor recognition of social enterprise concept among the general public, policymakers, investors, costumes, etc. Lack of criteria for differentiation and acknowledgment of the added value created by social enterprises. Perception of social business as a charity, corporate social responsibility, or integration of disabled people in the job market.

Absence of a unified bank of information: No unified database and information of social enterprises exist in the country. It is difficult to quantify the current size, track, and analyze the dynamics of the sector development. No follow up measures are undertaken after start-up levels, neither information preserved or handed over properly.

Lack of Aggregated Impact measurement system: SEs in Armenia are not engaged in proper social impact measurement and reporting, making it difficult for them to gain evidence of their real social impact. Many social economy organizations and social enterprises collect certain data at the level of individual projects to provide to donors and investors. However, there are no common mechanisms for measuring and demonstrating the aggregated impact.

Insufficient business support infrastructure and services: Mentoring and consultancy schemes, diverse special incubators and peer support groups and networks are under-developed in the country. Although social business passes the same stages of development as any other business, and their needs are mostly the same, they have some peculiarities that require tailored approaches. According to experts, the business support to social enterprises in Armenia is fragmented and mainly stuck at the start-up level.

All SE programs we had in Armenia were short term, 2-3 years, the problem is that after programs completed, SEs still are not ready to operate on their own. The trainings and grant provision programs are closed just at the stage when SE enter the market, try to acquire customers. And even if the SE gets support from the program there is no clear process where SE can pass all stages from the beginning till becoming fully operational.

Expert opinion, 20 of March, 2020

Insufficient diversification of financial sources: Special financial products for social enterprises are non-existent in Armenia. Social business-oriented investment and financing system is under-



developed. Armenian SEs are mostly deprived of opportunities to apply to credit sources since the interest rate remains very high. There are limited options for scale-up financing.

Lack of access to markets: Many social enterprises are constrained when it comes to access to the market, even if they do have a product that is in demand. There are various reasons for this lack of access – the SE could be geographically far from the market or could have no resources or skills to penetrate this market well.

Many SEs decide on their product or service based on their personal preferences, without understanding whether the market needs or wants what they are offering.

Expert opinion, 9 of March, 2020

Skills and management: Most of SE founders are NGO sphere people who have limited business skills and mindset. There is a serious problem with business and financial planning and literacy. In many cases, the founders do not hire a professional CEO.

People who established SE mostly come from NGOs and they lack business skills. The main priority for them is social impact, if they pursue it more it can affect business. For example, you can renovate a school by 2 stages, half now and half next year, the other amount is better to spend on buying new equipment and expanding business.

Expert opinion, 10 of March, 2020

The more grants they get the more difficult will be business mentality development. At some stage all should understand that SE is a social business, yes, it is different from the regular business, but cannot operate against business principles. It means, if you operate as a SE you should think and act as a business.

Expert opinion, 9 of March, 2020

Poor education system: There are limited opportunities to get professional education in this field. Nation-wide education system on social entrepreneurship is under-developed. Social entrepreneurship is very poorly addressed in existing academic curricula and programs.

The dependency on donor funds: Donors support is considered as the main source of funding by SEs. Most of the SEs in Armenia were established due to the availability of donor funding sources, which had an important role in the promotion of the concept of social entrepreneurship in Armenia. However, according to the experts, the dependency on grants used to result in business degradation after these funding sources exhausted.



When I say dependency on international grants, I mean a lack of diversification of financial flow. Very often after completion of the program the process stops, and the inventory, office equipment remain without any use. We need other financial sources. SEs do not realize that grant is not just money to spend and they have to continue doing business after the grant money is spent. That is why I am against grants and also I don't want that in Armenia (at the commercial sphere, government) get an idea that SEs cannot survive without grants, that SE is an artificial idea and needs to be sustained using grants.

Expert opinion, 10 of March, 2020

Lack of coordination: Despite of increasing number of different stakeholders, services, and initiatives, there is an obvious lack of coordination and in some cases duplication of efforts by different activities. No specific structure exists, addressing social entrepreneurship-related policies, plans, and activities.

QUANTITATIVE SURVEY RESULTS

The sample for this research was composed of 49 social enterprises located in **Shirak, Tavush, and Lori regions** (see **Table 1**). Since the comprehensive database of Armenian social enterprises does not exist, to collect information on the enterprises, the multiple data sources were used, including datasets provided by the Association of Social Enterprises of Armenia and other stakeholders of the field. Besides these sources, the snowball method, google search were employed to identify existing social businesses in the target regions.

Table 1. Number of identified social enterprises in Tavush, Lori and Shirak regions

	N	Percent
Shirak	17	35%
Lori	11	22%
Tavush	21	43%
Total	49	100%

The standardized questionnaire included 34 questions and addressed the questions related to legal status and age of the enterprises, area and sectors of operation, social goals and impact, income sources, size, employment, and so forth. It is worth stressing that since some questions only applicable to the specific subsets of enterprises (smaller sample size), the results should be interpreted with some caution.



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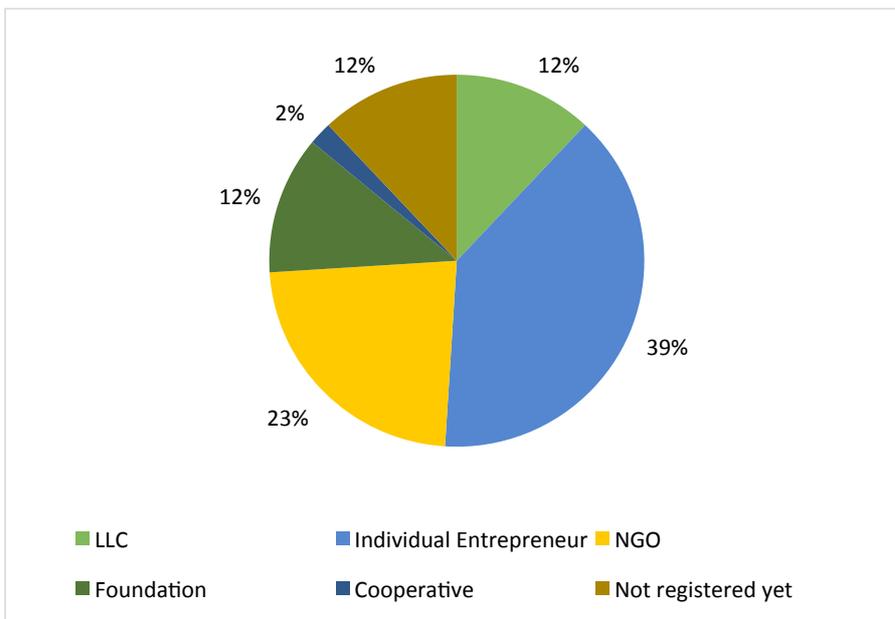
The quantitative survey was conducted from 17 to 29 March 2020. Due to the declared State of Emergency over COVID-19 in Armenia, the telephone survey was conducted in some cases as an alternative to the initially planned face to face interviews,. On average, responders completed to answer questions in 30 minutes. Further the data was entered, processed, and analyzed via using SPSS software.

Profiles of social enterprises: Shirak, Tavush and Lori regions

This section profiles social enterprise regarding their legal status, age, area, sectors of their activities, and social goals.

Legal Status of Social Enterprises. In Armenia, neither the law recognizes social enterprises nor does the tailor-made legal status typically dedicated to them exist. SEs are set up in diverse legal forms of non-governmental organizations, foundations, and for-profit business models like limited liability companies or individual entrepreneurs (IE). As shown in **Figure 1**, more than one third (39%) of regional SEs are set up as Individual Entrepreneurs, around one fifth (23%) operates as NGOs, 12% have reported that their legal status is LLC and only 2% are registered as cooperatives.

Figure 1. Legal status of social enterprise

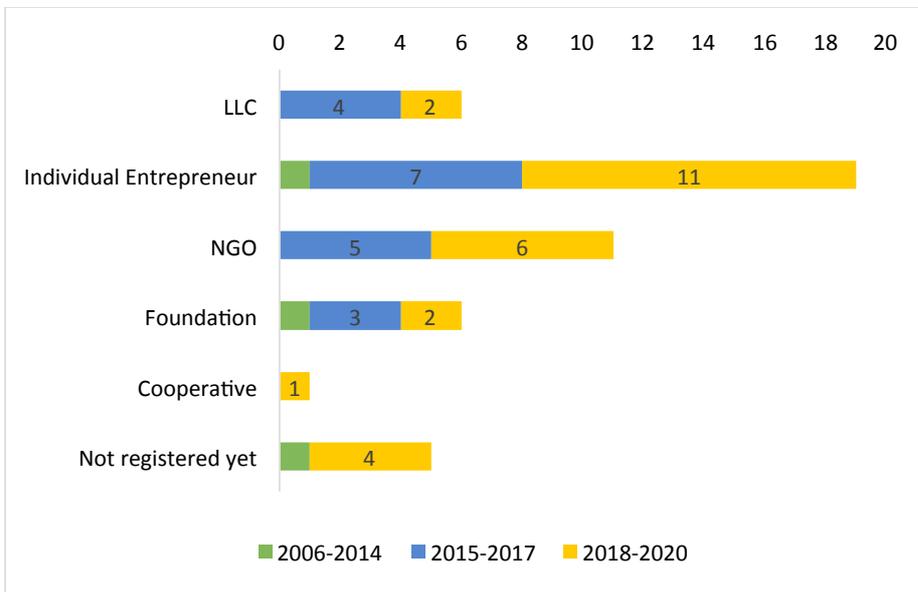




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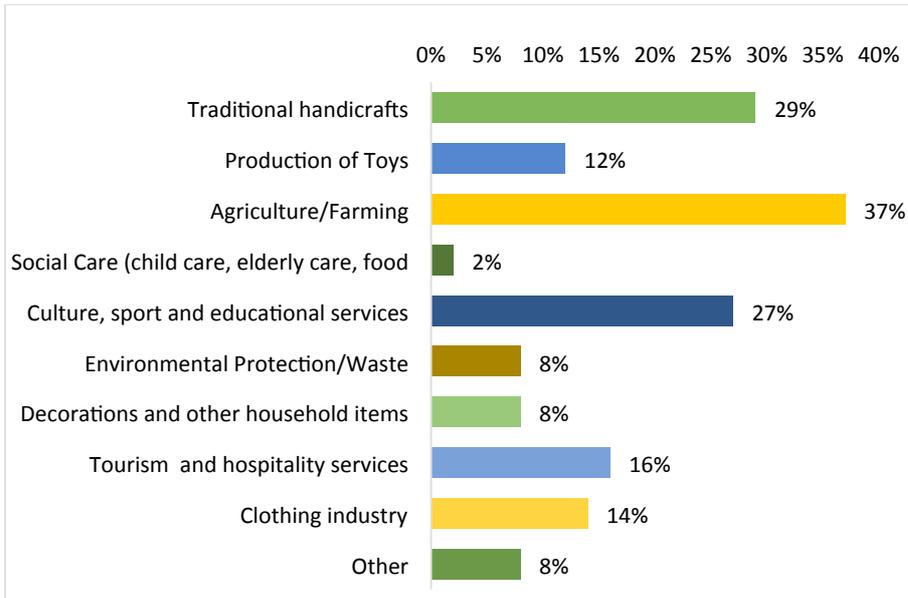
12% of SEs have no legal status yet. Most of them have recently emerged and have not decided which legal status is more suitable for their business activities. However, as can be seen in **Figure 2**, there is a growing trend for SEs to register as an Individual Entrepreneurs. As it was also revealed during the survey, preferences in choosing this or that legal status were mostly dependent on advantages of the taxation system, reporting forms, prestige and donor requirements (see Annex 2, **Table 2**). In this regard, being registered as Individual Entrepreneurship ensures certain tax and reporting reliefs notably suitable for start-up businesses. Meantime, alongside with being registered as for-profit structures, most LLCs and individual entrepreneurs are subsidiary organizations and /or closely connected with diverse NGOs and foundations.

Figure 2. Legal status and year of establishment (N)



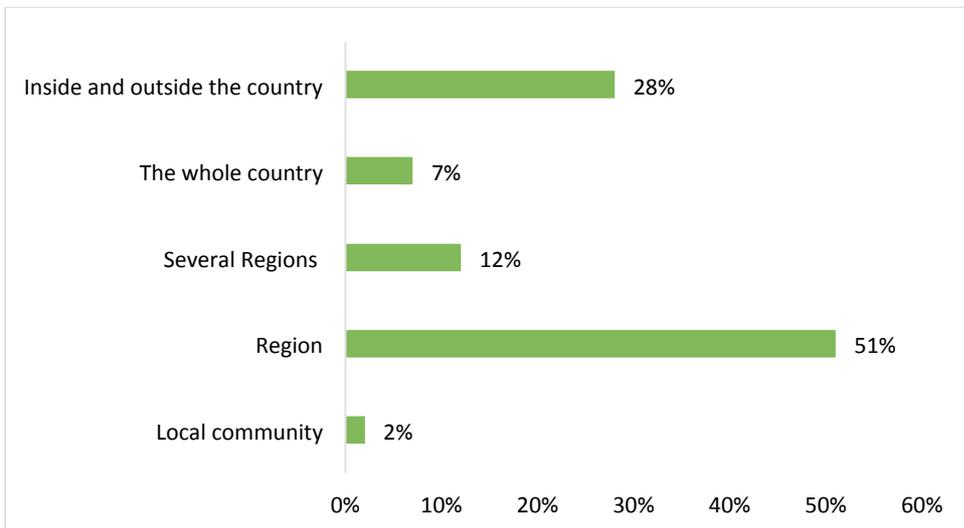
The Sectors and area of operations. **Figure 3** demonstrates the different industries sectors the social enterprises operate in. 37% of social entrepreneurs operate in Agriculture and Farming sector, 29% have also reported about their activities in traditional handicrafts sectors, 27% mentioned that provide culture, sport and educational services, while a further 16% work in tourism and hospitality, 14% in clothing and 12% in toy production industries.

Figure 3. What sectors do social enterprise operates in (% of cases)



Majority of entrepreneurs (51%) reported that their business activities are limited with one region, 12% enterprises work in several regions, and around one-third of social enterprises (28%) expanded their business activities inside and outside the entire country, in addition to 7% of entrepreneurs whose activities are still localized within the country (see **Figure 4**).

Figure 4. The Area of Operation



Years of Operations of the social enterprises. The survey results indicated that the overwhelming majority of regional SEs were established during the last five years (see **Tables 3 and**





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4). Around 90% of social enterprises are 2-5 years old. These results mainly coincide with experts' estimations about the level of this sector development in Armenia and once again witness that the social economy is still in the infancy stage of its growth. Meantime, growing numbers of the founded social businesses (54%) during the last two years demonstrate an increasing interest in this field.

Table 3. The year social enterprise started operation

	N	Percent
2002-2014	6	12%
2015-2017	23	48%
2018-2020	19	40%

Table 4. The year social enterprise was founded

	N	Percent
2006-2014	3	6%
2015-2017	19	40%
2018-2020	27	54%

Social Goals. Prioritizing social goals above profit is one of the main criteria of being regarded as a socially-oriented business entity. Due to this, entrepreneurs were asked to indicate the social goals they affiliate to. **Table 5** indicated that the overwhelming majority of entrepreneurs (73%) consider increasing employability of vulnerable groups (IDPs, disabled, emigrants, etc.) as the primary social goal of their business activities, followed by activities aimed at supporting the personal and professional development of locals in diverse fields of works (27%) and enhancing the quality living of the youth in the rural areas (22%).

Table 5. Social goals

	N	Percent of cases
Bio farming and bio non-farming production	10	20%
Increase employability of vulnerable groups (IDPs, disabled, emigrants etc)	36	73%
Integration of prisoners	2	4%
Enhance the quality living of the children with development issues/delays and youth	3	6%
Enhance the quality living of the Youth in the rural areas	11	22%
Working for youth civic engagement	6	12%
Traditional handcrafts, sport, etc	10	20%
Offering solutions to environmental problems	7	14%



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Offering social care to the elderly and other vulnerable groups	2	4%
Supporting personal and professional development	13	27%
Other	5	10%

The goals prioritized by enterprises reflect the social-economic issues of the regions they are trying to address through their work (see also Annex 2, **Table 6**).

Finance sources

In this section, income sources, types of finance social enterprises are applying for, received external

Figure 5. Income sources in 2019 (% of cases)

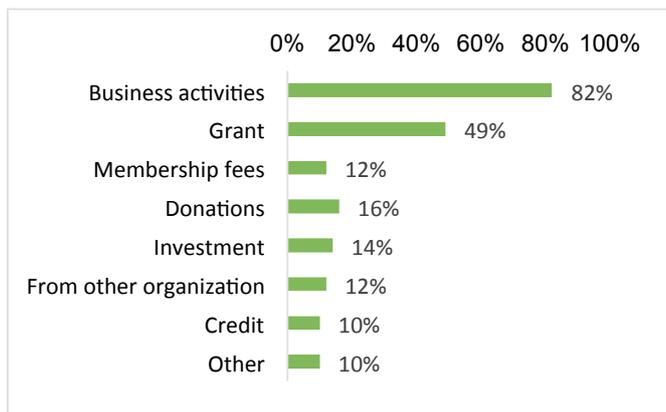
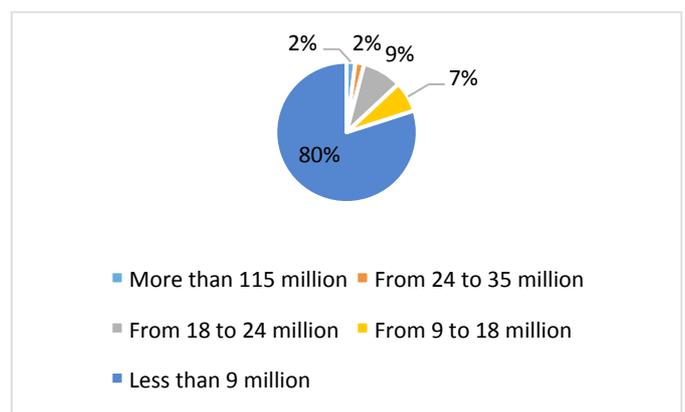


Figure 6. Turnover of social enterprises in 2019



finance, turnover, profit distribution, etc. were investigated.

Income sources and turnover in 2019. The budget of businesses may be composed of various financial sources. **Figure 5** demonstrated, that in 2019, the majority of SEs generated their income from business activities (82%), out of them around 38% reported that the whole income (100%) was received from this source. Almost half of the respondents (49%) also reported using grant sources, but only 13 % of them stated that was the only financial source of finance during that year. Only 10% used credit sources. Moreover, income generated from credit sources didn't exceed 30% of total income in all observed cases(see Annex 2, **Table 7**). Despite the increasing trends of doing business, the majority of entrepreneurs (80%) pinpointed that their turnover did not surpass 9 million in 2019, only 2% of entrepreneurs had turnover exceeding 115 million AMD (see **Figure 6**).



Profit distribution in 2019. To determine whether the organization is a social enterprise or not, the way it distributes the profit is regarded as another important criterion for the identification of these types of entities. A widely acceptable approach suggests that social enterprises should reinvest more than 50% of their profit in social goals and/or enlargement of business aimed at consistent support to target disadvantage social groups. In our sample, in 2019, 63% of entrepreneurs reported that they reinvested on average 52% of their profit to improve the business with this aim, 59% of entrepreneurs also spent on average 44 % of their profit directly on social goals, and only 14% of businesses stated that they distributed on average one-third of their profit among owners (see **Table 9**).

Table 9. Profit distribution in 2019	Percent of cases	Average % of distributed profit
Distributed profit among owners	14%	28%
Reinvested to improve/develop the business	63%	52%
New project funded	14%	35%
Spent on social goal	59%	44%
Spent on operational costs	59%	34%

Among those who contributed to social goal, 56% reported creating income generation opportunities for disadvantage groups, 36% - organized different free of charge trainings, master classes, and seminars, 40% - initiated different community development activities, such as playground construction, organization of diverse public events, provision of tangible support to schools and kindergartens (see **Table 10**).

Table 10. If spent on social goals, what kind of activities it was spent?

	N	Percent of cases
Income generation opportunities for the disadvantage groups	14	56%
Organization of the free of charge trainings, master classes and seminars	9	36%
Community development initiatives (construction of playgrounds, organization of public events, tangible support to schools and kindergartens and so on)	10	40%

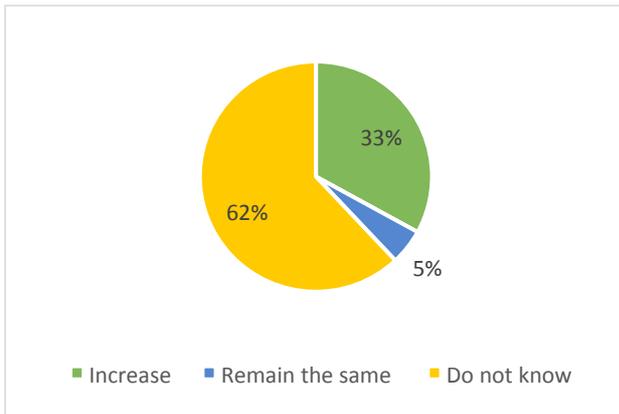
Forecast of income change in 2020. The respondents were also asked to estimate their income change in 2020. More than half of the entrepreneurs (62%) were unable to make any forecast of their income change for this year. All of them feel uncertainty in terms of their business future explained by the situation that occurred due to the coronavirus outbreak and followed it lockdown. Mostly, negative



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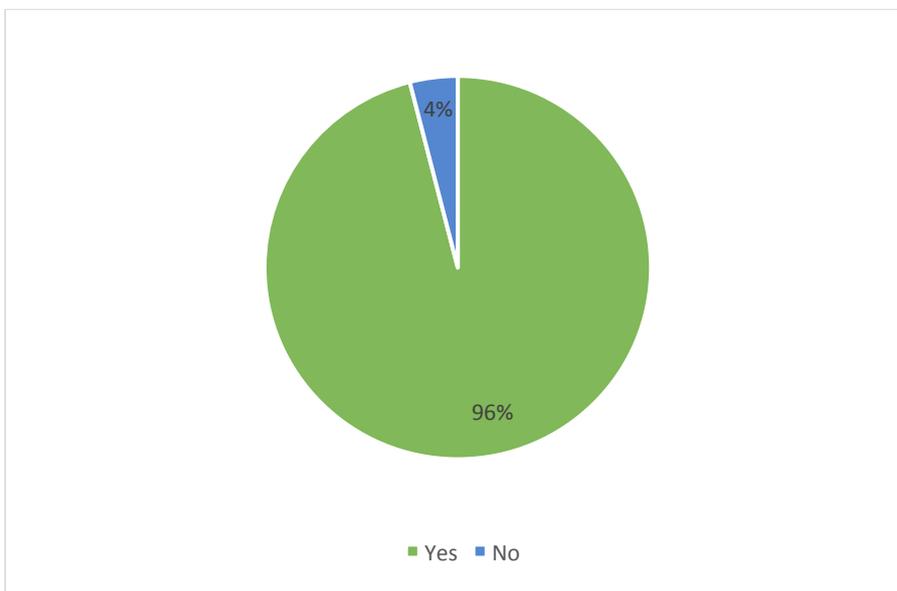
forecasts were voiced by representatives of tourism-related sectors such as hospitality, culture, and traditional handicrafts. Meantime one third (33%) of respondents still anticipate on average 57% of income increase this year (see Annex 2, **Table 11**). Finally, 5% stated that their income will remain the same.

Figure 7. Income change predictions for 2020



However, despite some expected negative trends in business development due to COVID-19, the overwhelming majority of respondents confirmed that they are planning to expand their businesses in 2020-2021 (see **Figure 8**, Annex 3, **Figure 18**).

Figure 8. Are you planning to expand your enterprise in 2020-2021?





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External financial sources. The survey results have indicated that donor funds are considered as a key external financial source by the overwhelming majority of social entrepreneurs in all stages of their business development.

The results have shown that the higher portion of social enterprises (83 %), in the startup phase applied for external financial support to launch their businesses. Moreover, out of those entrepreneurs who received external financial support, the overwhelming majority (94%) received international grants, 16% also got funds from the state program and only 3% applied for credits (see **Figure 10 and 11**). In 90% of the cases, the received amount did not exceed 10 million AMD (see Annex 2, **Table 12**).

Figure 10. Did you receive any financial support such as grant, credit, or any type of donation when the enterprise started operation?

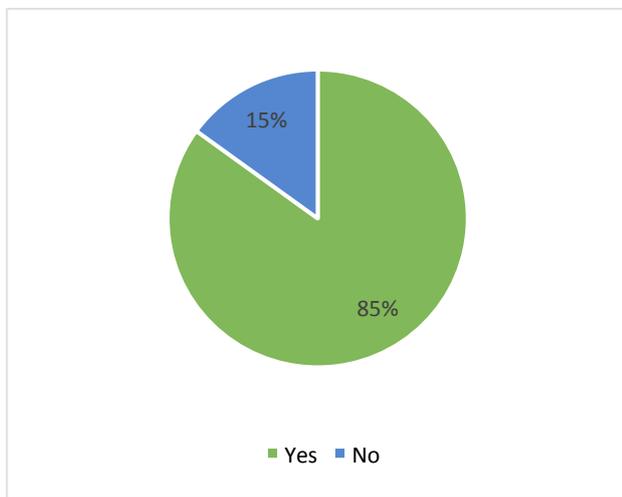
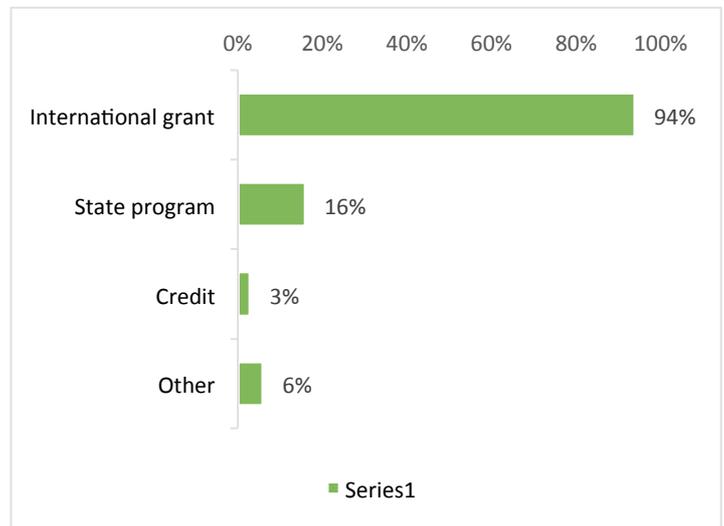


Figure 11. Did you receive any financial support such as grant, credit or any type of donation when the enterprise started operation? (% of cases)



The respondents were also asked what source do they have in mind to mobilize the financial resources for expanding the business. The received results once again witnessed that even in the future donor support viewed as the main external financial source by the majority of the social entrepreneurs. First of all, entrepreneurs think to apply for international grants (88%), 45% will also apply to the state programs, only very few enterprises think about receiving credits (14%) (see Annex 3, **Figure 13**). In 93% of observed cases, the obtained resources will be used to expand businesses (obtain new facilities and equipment, renovate, rent, etc.) (see **Table 15**)

Table 15. For what main purposes do you want to use the additional finances?

	N	Percent of cases



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To hire new employees	3	10%
To expand business (to obtain new equipment and facilities, renovation and so on)	28	93%
To pay off debts	1	3%
To organize new trainings and seminars for disadvantage social groups	2	7%

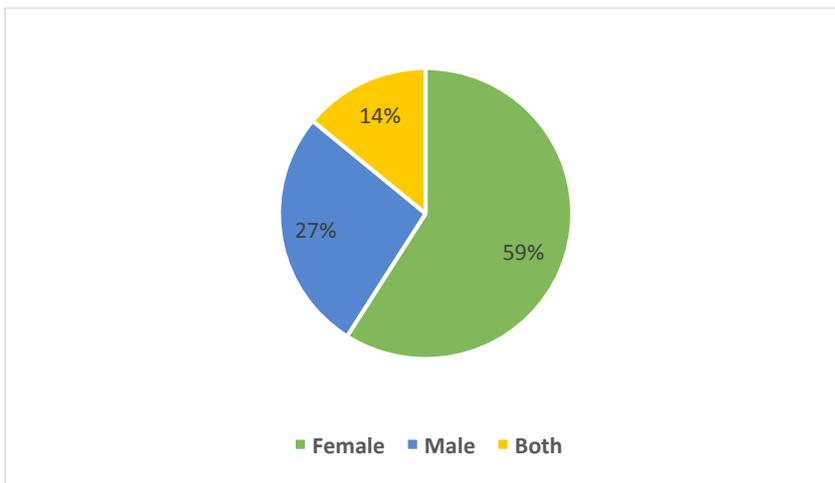
Owners/employees

In this chapter, the size of the social enterprises, gender, age, status of employees, and owners will be reviewed.

Gender, age of the owners of the social enterprises: The majority of social enterprises have only one owner. Specifically, 62% reported that they have one owner, 20%-two owners, 11% -three owners, and only 7% have more than 4 owners (see Annex 2, **Table 16**).

In comparison to the traditional businesses, social enterprises are significantly less likely to be entirely men-led. In our sample, women-led enterprises composed 59%, and only 27% were entirely male-led organizations, in 14% of the observed cases the ownership was shared between both genders (see **Figure 14**). Around one-half of females (49%) are in 36-45 age group, vs. to 61% of males who are 30-35 years old, only 16% of females vs 11% of males are less than 29 years old (see Annex 2, **Table 17**).

Figure 14. Gender distribution of the owners of social enterprises



Size of the social enterprises. Similar to small and middle enterprises, the observed social businesses are predominantly micro-businesses with less than ten employees in 63% of the observed



cases, 33% are small organizations, and only 4% of enterprises are of middle size with more than 50 employees (see **Table 18**).

Table 18. Size of the social enterprises: number of employees

	N	Percent
1-9 employees	25	63%
10-49 employees	13	33%
More than 50 employees	2	4%

Employees/Labor force. There are approximately three times more female employees than male involved in the social businesses. The major share of female employees are within 30-40 years old (39%), followed by 18-29 years old employees (34%), in contrast, the majority of male employees are within the 18-29 age group (56%), 32 % are of 29-40 years old. The major part of employees are engaged as service providers, followed by full and part-time employees (see **Table 19**).

Table 19. Employment features of the social enterprises

Age group	Total N of employees within the age group	Share within each gender	Full time	Part-time	Service providers	Volunteers	Status
18-29 female	125	34%	36	8	79	2	12
30-40 female	142	39%	26	8	103	5	8
40+ female	99	27%	12	17	70	0	6
18-29 male	76	56%	18	35	22	1	10
30-40 male	43	32%	10	12	5	1	4
40+ male	17	13%	3	2	8	2	0

Business trends and obstacle of development

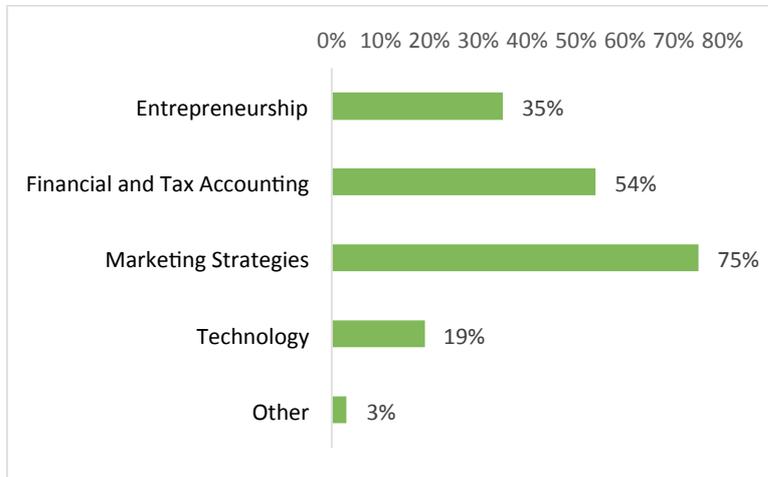
This section explores the demand for business consultancy, types of the clients that social enterprises may have, products, and services diversified, innovations, obstacles for development, and so on.

Consultancy. According to the survey results, the overwhelming majority of the observed enterprises (75%) would like to receive consultancy in marketing strategies and financial and tax accounting (54%), 35% also reported that they are interested to get more knowledge on



entrepreneurship, in addition to 19% that would like to learn about different technologies (mainly related to digital marketing and advanced agricultural techniques).

Figure 16. In which field you would like to receive the consultations/ trainings? (% of cases)



Diversification of products and services. Most of the enterprises declared that they have undertaken different steps to improve their businesses over the last two years. Thus, 76% of social enterprises reported about introducing a new product and service over the last two years. Most of them (68%) reported that it was innovation only for their business, meantime 43% pinpointed that a new product and service were innovation for the country too. Almost half (46%) of the social enterprises also mentioned that they increased the coverage area, 41% -attracted new targets, and around one third (30%) of enterprises also added new spheres to their businesses (see **Table 20 and 21**).

Table 20. Changes that have been made in business over the last two years

	N	Percent
The coverage area was increased	21	46%
New targets were attracted	19	41%
New spheres were added	14	30%
New products and services were introduced (moved to next question)	35	76%
Remained the same	4	9%

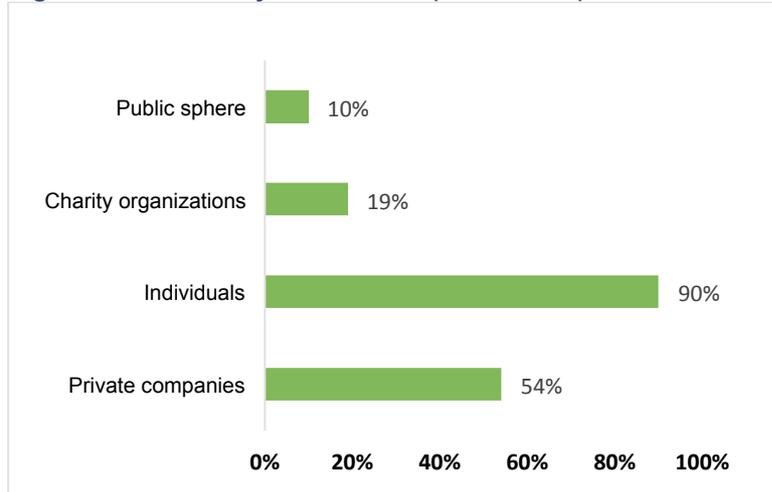
Table 21. New product/service is an innovation for your business or not only your business

	N	Percent
Innovation for my business	27	68%
Innovation for the region	13	33%
Innovation for the community	10	25%
Innovation for the country	17	43%



Clients of the social enterprise. Figure 17 illustrates that almost all enterprises have individual clients (90%), 54% also cooperate with private companies. SEs are significantly less likely to have customers from a public sphere (10%) and/or charity organizations (19%).

Figure 17. Who are your clients? (% of cases)



Obstacles to succeed in the business. The survey also explored the potential constraints that social enterprises perceived as restricting their business success. To identify the constraints, the respondents were asked to indicate the three main problems for their business activity by importance. The results demonstrated that the key obstacles for doing effective business are lack of access to credit/finance (55%), followed by a lack of access to skilled employees/labor (51%) and access to markets (40%) (see Table 24).

Table 24. What are the three main constraints for your business activity?

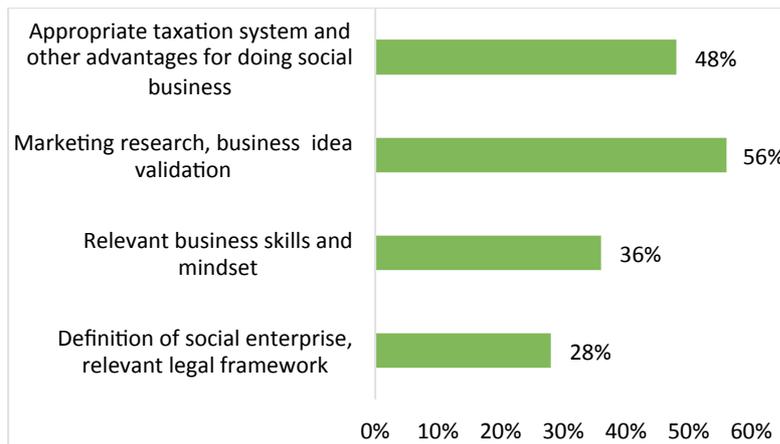
	N	Percent of cases
Access to credit/finances	26	55%
Access to capital (building, land, machinery, etc.)	10	21%
Access to inputs (raw materials and resources that are used for finished products and services)	13	28%
Access to information	4	9%
Access to skilled employees/labor	24	51%
Relations with the clients	1	2%
Government regulations (taxes, business regulations, food safety)	5	11%



Access to Markets (including infrastructure, e.g. roads)	19	40%
Infrastructure –road, power, water, gas supply	9	4%
Natural disasters (hail, frost, drought, wind, etc.)	2	4%
Other (write down)_____	1	2%

Priority issues for doing social business. The respondents were also asked to prioritize issues for doing effective social business (see **Figure 19**). According to the majority of entrepreneurs to set up social business first of all marketing research and idea validation are needed, 48% also reported that appropriate taxation system and other advantages are required, more than one third (36%) stressed the importance of having relevant business skills and mindset.

Figure 19. What is needed to develop social enterprises? Please indicate priority issues (% of cases)





Conclusions and recommendations

The idea of social enterprises becomes quite popular during the recent years in Armenia. Despite a growing number of such forms of organizations, it remains highly challenging to measure the growth and potential of social enterprises in Armenia, given the fact that most of such initiatives take place ‘under the radar’. Lack of state recognition and official statistics hinder the possibility of capturing the whole picture of existing social enterprises in the country. It is hard to distinguish social enterprises legally from other forms of traditional businesses.

According to the experts, most of the existing social enterprises are still not at a level of self-sufficiency, operational efficiency, and sophistication as comparable commercial businesses in the country. It is also problematic to obtain a statistically robust picture of what social enterprises do, their rates of development, areas, and sectors of activities, social impact they created. There are not common mechanisms in place of monitoring and measuring aggregating social impact at the national level.

In Armenia the development of the social economy was mostly promoted by the availability of donor funds for this purpose. The major stakeholder in this regard is the European Union, that has made significant investments in developing social entrepreneurship in the country during recent years. By promoting this sector growth, the international organizations, mainly aims at creating favorable conditions for local CSOs to become self-reliant and sustainable organization and/or to increase employability and ensure income generation opportunities for vulnerable social groups. Although the donor community plays a critical role in boosting the sector developing and promoting the culture of social entrepreneurship in the country, consistent dependency on donor funding results in degrading of social businesses. Meanwhile the international experience demonstrates other ways of doing social businesses. Most of SE founders are NGO sphere people, who often lack the appropriate business skills and mentality. There is a serious problem with business and financial planning and literacy. In many cases, the founders do not hire a professional CEO. The trend seems to be that as SEs become an increasingly popular concept, CSOs create an SE component without proper market research, without a viable business model, and without knowledge of the market or industry.

There are limited opportunities to get professional education in this field. Nation-wide education system on social entrepreneurship is under-developed. Social entrepreneurship is very poorly addressed in existing academic curricula and programs.

Diverse business support services and incubators have been emerging during the recent years in Armenia. However only a very few directly address issues of social enterprises and act as networking, experience exchange platforms, promote visibility of the field, and educational opportunities for social





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entrepreneurs. The ASEA and IHY are the main actors in this regard. However, they are in the initial stage of formation.

The experts also highlighted that social enterprises in Armenia face serious obstacles to access finance. There are no financial institutions in place to offer financial products and services specifically tailored for social businesses. There is still no specific legislation and policy in place regulating the social entrepreneurship sector in Armenia.

Recommendation for the sustainable growth of the social economy sector

Increasing visibility and recognition of the social entrepreneurship concept at the state level.

All experts have acknowledged that the promotion of the concept of social entrepreneurship by the state will be an important step forward in the institutionalization of the social entrepreneurship system in Armenia. It is also necessary to include the social economy sector in the national strategies and plans combating against unemployment and poverty and create a **unified database on existing organizations**, specifying their characteristics and diverse business models. It will allow identify best practices, replicable models, and enable discussion on lessons learned.

Increasing the visibility of social entrepreneurship, particularly among the young generation is of critical importance. Negative perceptions about social businesses should be broken and despite the fact that it is too far to speak about the labeling or certification system, but positive attitudes and acknowledgment of social business products will be an achievement. Any person in Armenia should understand while going to the shop that this product, sour cream, for example, is an ordinary product and the other one is produced by a Social Enterprise.

Expert opinion, 9 of March, 2020

The sphere should get strategic importance for all governmental structures. Because it's the best option for communities' development. It is not our opinion; it is recognized on the International level. Current state and other structures cannot solve communities' problems right now with current tools. SE is an ideal tool for communities' problem-solving.

Expert opinion, 10 of March, 2020

Promoting social business support services: It is important to develop a broad variety of business development services and support schemes specifically designed for social enterprises and social economy, such as exchange platforms, diverse consultancy and mentoring services, peer support networks. These structures should operate permanently and provide SEs with support at all stages of their development.



Association should be a very active “boiling” place for SE community, involving people from regions. Everyone should be able to go there and get help. It should take more initiative and lead different processes as a representative body of SEs.

Expert opinion, 9 of March, 2020

Skills and leadership: There is a need to develop business and finance skills among social entrepreneurs. New schemes of cooperation among entrepreneurs should also be promoted. According to the experts, it will be useful to involve in the social economy sector representatives of traditional businesses through their partial share and ownership in social businesses. The best option is creating coalitions including representatives from both traditional business and CSO sectors. Such forms of cooperation will compensate and balance the lack of business skills and mindset among the majority of representatives of social businesses.

I agree with the idea that people with social mentality should work together with businessmen. They cannot cooperate well if one of them is devoted to earning money and the other one to public wealth, in that case, they will move in different directions. But if their purpose is the same and they have different skills it will be the ideal case.

Expert opinion, 9 of March, 2020

A social entrepreneur is a person who can gather other people around him/her, “contaminate” with ideas, and first of being a leader, have business skills, be caring. There is a strong bond between being caring and SE, have networking skills that are also very important, and be a kind person.

Expert opinion, 9 of March, 2020

We have a stereotypical perception of businessmen, that it’s a brutal person who easily fires employees, but it is not correct. The difference between businessmen and social entrepreneurs is that one is earning money the other one is creating value. The origin of the money is also very important, if someone invests in community but earns that money with fur hunting production cannot be considered SE. The Value system of a leader is very important.

Expert opinion, 10 of March, 2020

Education: There should be pilot laboratories in institutes, schools, colleges. Social Entrepreneurship should find its place in the formal education system.

...it is starting, but every child should understand that it’s a form of legal and right business and that our state supports it. We should start even from kindergartens, the sooner the better.

Expert opinion, 9 of March, 2020



Diversification of financial sources: Social Impact investment system should be promoted in the country. Multiple schemes are possible. Among different models experts suggest, for instance, large business entities to donate amounts for SEs within their corporate social responsibility. They also pinpointed the important role of Armenian Diaspora in terms of investments in the sector. To ensure organizational development and sustainability of social businesses mixed financial schemes could be employed, including grants and loans, provided together in different combinations.

The idea is the following: SE gets a grant that comes with a loan, for example, 1mln grant and 3 mln loan. Grant can reduce the tax burden, or cover some expenses, which SE could not do with loan money. It means that SEs will have credit obligations and at some point in a year or later I need to have income to pay off that loan. In the case of a grant, SE does not have any obligations, I have worked with many donors and can say that they oblige enterprise to provide reports, but after the project competitions, they became less motivated. In this case if you are under the risk you treat your business completely differently. Being obliged to pay a certain amount each month ensures completely different effectiveness of everyday work. It means each day I think how to acquire new customers, if I do it on grant it's ok if it worked, if it didn't work it is still ok.

Expert opinion, 20 of March, 2020

New credit products for SEs with favorable terms or/and flexible credit payment schedules should be created. Microfinance organizations should be able to differentiate SEs from other organizations, provide loans with a lower interest rate and flexible pay off systems. In this regard, to ensure relevance to such credit sources, it is also important to create a mechanism for tracking the social impact of such organizations.

One entrepreneur can say I will pay off within 6 months, another one within 1 year, another cannot pay first month but will pay the following 10 months, etc. Microfinance organizations should be able to provide financing based on individual features. It can be a tourist office which does not work in winter so they should be able not to pay in winter, etc. In this regard we don't have respective MFO. Either the current MFO should change their approach or new ones should appear which can provide such solutions. Bank also can have their role in this process, Let's not call MFO but rather financial organizations, Banks also should be able to provide solutions to this problem. Here also is a very important calculation and reporting on social impact. Banks should be able to differentiate SE, which might receive loans with a lower interest rate and flexibility. Advantages for SE should be business solutions, but not provide them the opportunity to be a freeloader, get taxation privileges, but get advantages as customers with obligation.

Expert opinion, 20 of March, 2020

SEs are usually very small companies with very small capital and for getting a credit as we all know a collateral is required. It is not a proper job for banks - to provide loans based on guarantee only. They should analyze if the business idea has real potential, and if it has then to provide a low-interest loan to SE. And we often can see how people take a consumer credit and start a business with it, and in case of small businesses we know that income is very low and they usually cannot afford credit.

Expert opinion, 22 of March, 2020



Donor support: It is of paramount importance to set new approaches and standards at the grantee selection stage. Not only CSOs should be eligible to establish social enterprises. The involvement of business entities and private sector might be encouraged. More support to social enterprises at scale-up levels could be provided.

Coordination and synergy: More horizontal coordination is needed among different structures and initiatives to avoid duplicities and ensure more addressed support to social enterprises. The ASEA and School of Social Entrepreneurs might take more leading roles in the dissemination of information on needs, priorities, and current trends of development of local social enterprises. Designated state bodies might be formed to synergize the plans and policies related to social enterprises. It is also worth stressing that SEAG project under its **third objective** will target ecosystem stakeholders who promote the development of social entrepreneurs (international and local NGOs), coordinate activities of existing social enterprises (Social Enterprises Alliance in Georgia, Association of Social Enterprises of Armenia), and decision-makers influencing and forming legislation and policies around social enterprises (parliament, government). SEAG will invite representatives of the above to participate in cooperation fora to create white papers, policy recommendations, and proposed legislation toward a more favorable ecosystem for social enterprises.



ANNEX 1: Survey tools

Annex 1.a: Key experts interview guide

[Notes for interviewer]

Introduce yourself, tell about research goals, objectives, implementing and funded organization, as well as the criteria of selecting experts and duration of the interview. To provide a letter of consent and ensure confidentiality of received information.

Current state of development of SEs in Armenia

1. Please, evaluate the level of development of the social economy sector in Armenia?
2. At which stage of development are Armenian SEs?
3. How many SEs do we have in Armenia?
4. What is the difference between regional and Yerevan SEs (quantitative/quality)?
5. What type of SEs are prevailing in Armenia and why?
6. What are the key criteria of defining organization as SE in Armenia?
7. How many Youth-led SEs do we have? In which sectors do they mostly operate in?

Sustainability and effectiveness of Social enterprises

8. What are the key constraints of the operation and development of Social Enterprises?
9. What are the key factors for the sustainable development of social enterprises?
Examples of Best practices.
10. What kind of support do they need, in general? What is needed for the sector growth?

Legislation and policies

11. Is there any legal framework for SEs existing in Armenia?
12. If yes, how effective is it? What should be changed?
13. What kind of policy do we need? Do we need a precise definition (legal) of social enterprise?
14. Are there any tax privileges and breaks for SEs?

Funding sources

15. What kind of funding sources are available in Armenia for SEs?
16. What type of funding sources are needed?
17. Who are the key players in this field? What type of new players are needed?
18. What kind of financial support model is applicable for SEs?

Leadership and management of SE

19. What is the typical portrait of SE manager?
20. What background do the leaders of enterprises have?



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21. What are their strengths and weaknesses?

Capacity Building

- 22. What kind of skills do SEs need?
- 23. What are their major weaknesses?
- 24. What kind of training and mentorship is needed?

Key stakeholders of the field

25. Who are the key stakeholders of the field please evaluate the effectiveness of each of them, as well as make recommendations for improvement of their work.

Stakeholders	Main functions	Effectiveness of work	Required operational and structural changes
Microfinance organizations			
Donor organizations			
The State			
Business support structures and networks			
Other			



Annex 1.b: Questionnaire for the social enterprise

A. General Information

Questionnaire for the Social Enterprise			
No of the questionnaire			
Name and surname of the interviewer			
Date of interview	Day	Month	Year
Region			
Community			
City/village			

Q1. Name of social enterprise:

Q2. Legal Status of social enterprise:

1. LLC
2. Individual Entrepreneur
3. NGO
4. Foundation
5. Cooperative
6. Other (specify _____)

Q 3. Why did you choose this legal form for your organization?

Q4. What sectors do social enterprises operate in (choose all the relevant responses)?

1. Traditional handicrafts





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- 2. Production of Toys
- 3. Agriculture/Farming
- 4. Social Care (child care, elderly care, food service and/or accommodation)
- 5. Culture, sport and educational services
- 6. Environmental Protection/Waste Management
- 7. Decorations and other household items
- 8. IT and Digital Industry
- 9. 3D printing
- 10. Other (specify _____)

Q5. a. The Year Social Enterprise was founded: b. The year social enterprise start operation

-----Year

----- Year

Q6. The Area of Operation:

- 1. Local community
- 2. Region
- 3. Several regions (specify _____)
- 4. The whole country
- 5. Inside and outside the country
- 6. Other (specify_____)

Q7. What is specifically social impact of your entrepreneurship activities?

Q8. Contact information:

Name, Surname: _____

Mobile: _____

El. address/web mail: _____

A. The Goals of the social enterprises

Q9. Organizations/businesses may have different goals such as financial goals, or offering solutions to social or environmental problems. I will now read out several of these goals. Please indicate the social goals of your social enterprise. You can select till three responses and tell whether each of it has been of high, medium, or little importance to your business over the last year (2019).





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	1. High importance	2. Medium importance	3. Little importance
a. Bio farming and bio non-farming production			
b. Increase employability of vulnerable groups (IDPs, disabled, emigrants etc.)			
c. Integration of prisoners			
d. Enhance the quality living of the children with development issues/delays and youth			
e. Enhance the quality living of the youth in the rural areas			
f. Working for youth civic engagement			
g. Traditional handcrafts, sport and etc.			
h. Offering solutions to environmental problems			
i. Offering social care to the elderly and other vulnerable groups			
j. Supporting personal and professional development			
k. Other (specify _____)			

B. Finance Sources

Q10. The budget of your business may be composed of various financial sources. Please, indicate how was your budget distributed according to the various income sources in 2019?

	=100%
1. Business activity (production, trading, service)	
2. Grant	
3. Membership fees	
4. Donations	
5. Investment	
6. From other organization created by you or by your involvement	
7. Credit	
8. Public sector	
9. Other (specify _____)	

Q11. From the below listed which category of turnover (in AMD) was relevant for your business in 2019?

1. More than 115 million
2. From 35 to 115 million
3. From 24 to 35 million
4. From 18 to 24 million
5. From 9 to 18 million
6. Below 9 million
7. Other(specify _____)

Q12. Does the income of your business increase, decrease or remain the same in 2019 compared to 2018?

a. 2019	← 2018
1. Increased (write) _____ %	



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2. Decreased (write) _____ %
3. Remained the same

Q13. How will the profit you received in 2019 be distributed?

	=100%
1. Distributed on owners/partners	
2. Reinvested to improve/develop the business	
3. New project was funded	
4. Spent on the social goals (move to Q14)	
5. Spent on operational costs	
6. Other (specify _____)	

Q14. If spent on social goals, what kind of activities it was spent?

Q15. In your opinion how will your income change in 2020?

1. Will increase (specify) _____ %
2. Will decrease (specify) _____ %
3. Will remain the same
99. Do not know

C. External Financial Sources

Q 16. When you established your enterprise, did you expect any financial support from any institution (donor organization, state or business organization)?

1. Yes
2. No

Q16.a. Did you receive any financial support such as grant, credit or any type of donation when the enterprise start operation?

1. Yes

Support organizations	Amount (AMD)
1	
2	
3	

2. No



Q17. Besides the above mentioned, did you receive any financial support during last two years?

1. Yes

Support organizations	Amount (AMD)
1	
2	
3	

2. No

Q18. Are you planning to expand your enterprise in 2020-2021?

1. Yes
2. No

Q19. What source do you have in mind to mobilize the financial resources for expanding the business?

1. State Program
2. International Grant
3. Credit
4. Other (specify) _____

Q20. For what main purposes do you want to use the additional finances? (max three responses)

1. _____
2. _____
3. _____

D. Owners/Employees

Q21. How many owners does your company have?

Total number of owners _____

	Sex	Age	Status
	1. Female	1. 18-29	(write code) ⁴³
	2. Male	2. 30-35	
		3. 36-40	
		4. More than	

⁴³ Codes: disabled (1), national minority (2), IDPs (3), socially vulnerable (4), other (5) (specify _____)



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		40	
1.			
2.			
3.			
4.			
5.			

Q22. Will the employees increase, decrease or remain the same in 2020 compared to 2019?

1. Will increase
2. Remain the same
3. Will decrease
99. Do not know

Q23. How many employees in total work in your business/organization?

Total number of employees _____

a. 18-29 years old					
1. Female	Full time	Part time	Service provision	Volunteer	Status ⁴⁴
2. Male					
b. 30-40 years old					
1. Female					
2. Male					
c. More than 40 years old					
1. Female					
2. Male					

E. Consultancy/Business Support

Q24. In which field you would like to receive the consultation/ training? (max. three responses)

⁴⁴ Codes: Codes: disabled (1), national minority (2), IDPs (3), socially vulnerable (4), other (5)(specify _____)





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1. Entrepreneurship
2. Financial and Tax Accounting
3. Marketing Strategies
4. Technology (specify _____)
5. Other (specify)_____

F. Product Diversification/ New Product

Q25. Now we are interested in the changes that have been made in your business over the last two years? Please, choose from the statements below:

Over the last two years: (choose all relevant responses)

1. The coverage area was increased
2. New targets were attracted
3. New spheres were added
4. New products and services were introduced (move to the questions Q.26 and Q.27)
5. Remained the same (move to the Q. 28)

Q26. New product/service is innovation for your business or not only your business?

1. Innovation for my business
2. Innovation for the region
3. Innovation in the community
4. Innovation in the country

Q27. Please, describe new product(s) and services

1. _____
2. _____
3. _____

Q28. Who are your clients? (several responses possible)

1. Private companies
2. Individuals
3. Charity organizations
4. Public Sector
5. Other (specify _____)

Q29. What was the primary plan of your business in 2020 and what is the primary plan for 2021?





	Year 2020	Year 2021
1. To attract the new clients by product diversification/new product		
2. Expand business coverage area		
3. To establish the partnership relations (finance agencies, public and INGO sector)		
4. To receive the knowledge, skills		
5. Other (specify _____)		

G. Constraints

Q30. What are the three main constraints for your business activity? Indicate the problem by importance

	1 st place	2 nd place	3 rd place
1. Access to credit/finances			
2. Access to capital (building, land, machinery, etc.)			
3. Access to inputs (raw materials and resources that are used for finished products and services)			
4. Access to information			
5. Access to skilled employees/labor			
6. Relations with the clients			
7. Government regulations (taxes, business regulations, food safety)			
8. Access to Markets (including infrastructure, e.g. roads)			
9. Infrastructure –road, power, water, gas supply			
10. Natural disasters (hail, frost, drought, wind, etc.)			
11. Other (write down) _____			
-99. No response/No problem			

Q31. Please speak more on the response you chose.

Q32. In future do you plan to continue working as a social entrepreneur?

1. I plan
2. I do not plan

Q33. If you do not plan, please, tell us why?



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Q34. What is needed to develop social enterprises? Please indicate priority issues

1. _____
2. _____
3. _____



ANNEX 2: Additional tables

Table 2. Why did you choose this legal form for your organization?

	N	Percent of cases
Advantages of the taxation system	15	60%
Easy reporting system	6	24%
Prestige	3	12%
Donors requirements	4	16%
Cannot explain	2	8%

Table 6. What is specifically the social impact

of your entrepreneurship activities?

	N	Percent of cases
Employment and income generation for disadvantage groups	36	76%
Educational opportunities for disadvantage groups	36	73%
Awareness raising aimed at changing public attitudes	5	10%
Contribution to community development (construction of playgrounds, tangible support to schools and kindergartens, tourism promotion, etc.)	4	8%
Cultural preservation	5	10%
Promotion of different artists groups and platforms	1	2%

Table 7. Income sources in 2019

	N	% of cases	Average % of generated income	Maximum % of generated income and % of cases within the category
Business activities	40	82%	66%	100% 38%
Grant	24	49%	46%	100% 13%
Membership fees	6	12%	27%	50% 33%
Donations	8	16%	17%	33% 13%
Investment	7	14%	50%	100% 14%
From other organization created with their participation	6	12%	30%	70% 17%
Credit	5	10%	23%	30% 40%



Table 8. Income change in 2019 in comparison to 2018

	Percent	Average % of change
Increase	56%	80%
Decrease	8%	28%
Remain the same	36%	

Table 11. Income change in 2020

	Percent	Average % of expected change
Increase	33%	57%
Remain the same	5%	N/A
Do not know	62%	N/A

Table 12. Support amount received to establish a social enterprise

	N	Percent
less than million	5	18%
1-2 million	7	24%
3-5 million	10	34%
6-10 million	4	14%
more than 10 million	3	10%

Table 13. Received support during the last two years

	N	Percent
International grant	10	59%
State program	5	29%
Other	2	12%

Table 14. Received amount during the last two years

	N	Percent
less than million	4	24%
1-2 million	2	12%



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3-5 million	6	34%
6-10 million	2	12%
more than 10 million	3	18%

Table 16. How many owners/founders does your company have?

N of employees	N	Percent
1	27	62 %
2	9	20%
3	5	11%
More than 4	3	7%

Table 17. Age of owners of the social enterprises

Age	N of females	Share	N of male	Share
18-29	7 persons	16%	3 persons	11%
30-35	14 persons	33%	17 persons	61%
36-45	20 persons	47%	2 persons	7%
More than 45	2 persons	5%	6 persons	21%

Table 19 a. Number of employees with vulnerability status

	Female 18-29	Female 30-40	Female more than 40	Male 18-29	Male 30-40	Male more than 40
Social vulnerable	26	38	13	12	14	
Disabled	4			9	8	
IDPs	3	3		1		

Table 22. Please, describe the new product(s) and services

	N	Percent
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New masterclasses, trainings for the disadvantage groups	2	9%
Food delivery services, stand-up meal services	2	9%
Production of new toys, clothes, bijouterie	9	39%
New design, packaging, logo	5	22%
Introduction of new tour packages	5	22%

Table 23. What was the priority plan of your business in 2020 and what is the priority plan for 2021?

	N	Percent of cases in 2020	N	Percent of cases in 2021
To attract the new clients by product diversification/new product	39	91%	30	73%
Expand business coverage area	32	74%	34	83%
To establish the partnership relations (finance agencies, public and INGO sector)	31	72%	26	63%
To receive the knowledge, skills	38	88%	29	71%



ANNEX 3: Additional figures

Figure 9. When you established your enterprise, did you expect any financial support from any institution (donor organization, state or business organization)?

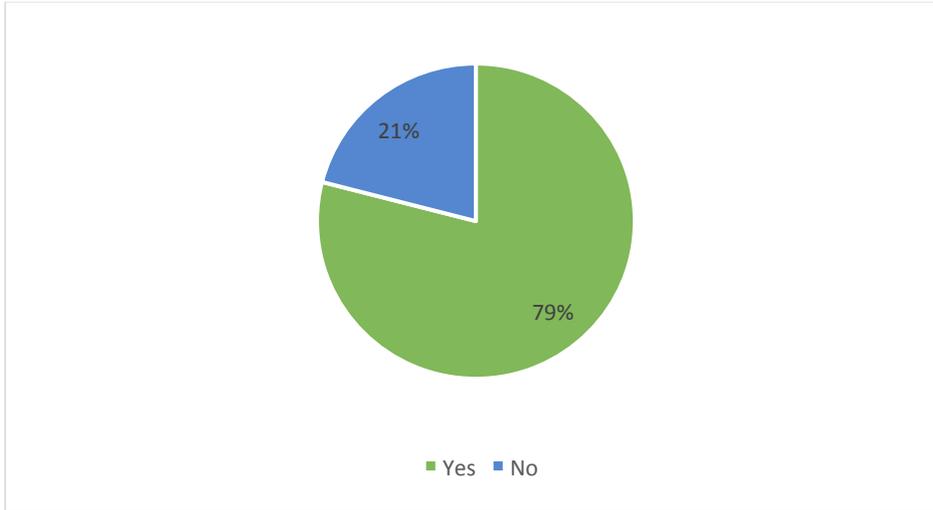


Figure 12. Did you receive any financial support during the last two years?

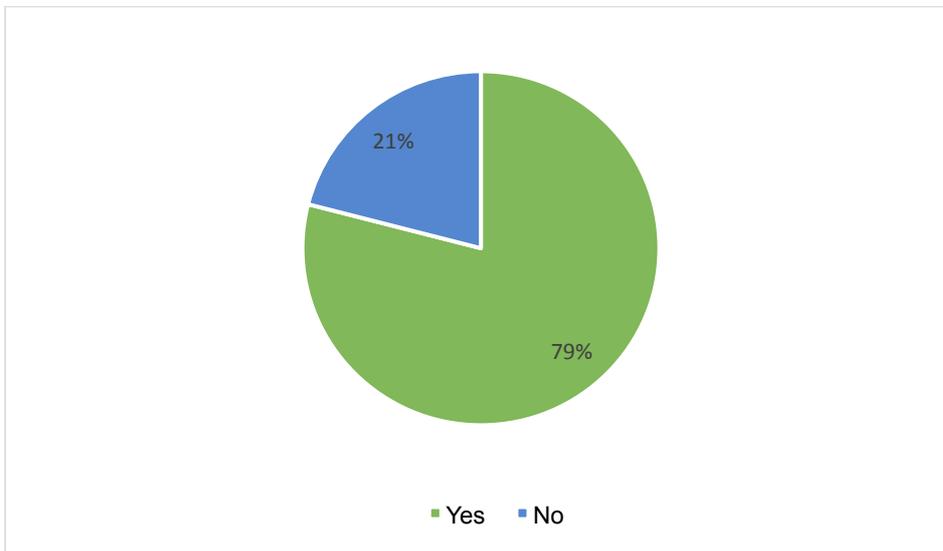




Figure 13. What source do you have in mind to mobilize the financial resources for expanding the business? (% of cases)

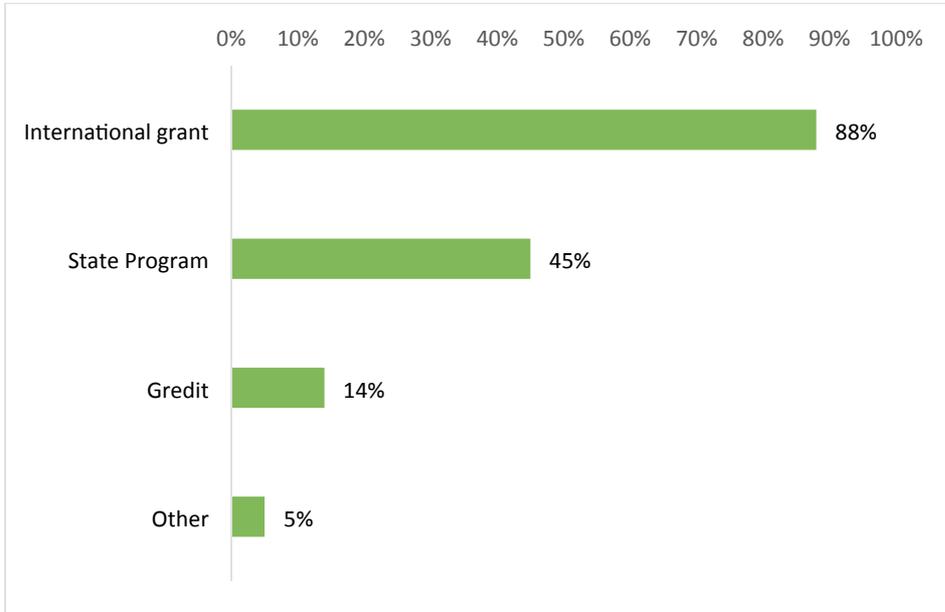


Figure 15. Will the employees increase, decrease or remain the same in 2020 compared to 2019?

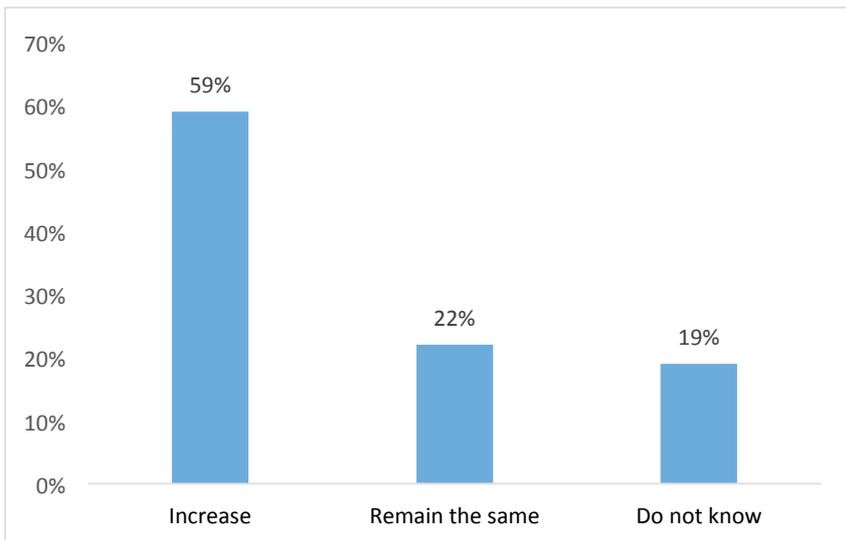
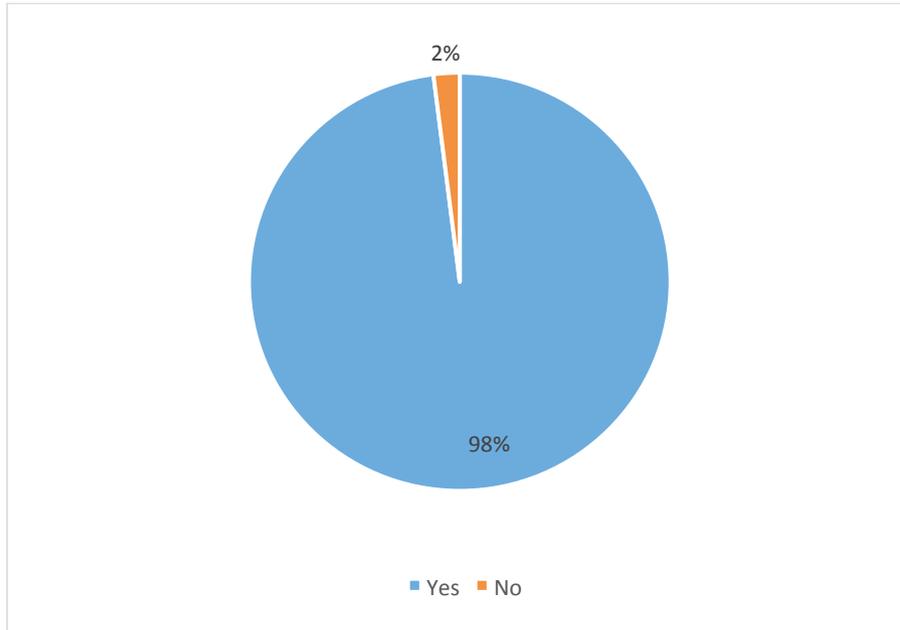




Figure 18. In future do you plan to continue working as a social entrepreneur?





ANNEX 4: List of interviewed experts

Areg Tadevosyan, President of the Intercultural research and development center, Social entrepreneurship trainer, consultant

Suren Mkhitarian, Social entrepreneurship trainer, consultant

Karen Sargsyan, Social entrepreneurship trainer, consultant

Nazareth Seferian, Social entrepreneurship trainer, consultant

Inga Manukyan, Executive Director in Guardian Development Foundation

Gevorg Poghosyan, Senior consultant in Business Support Office

Satik Badeyan, President of the Association of Social enterprises of Armenia

Gohar Mkoyan, Chair of the School of social entrepreneurs

Piruza Manukyan, Program Manager at the Eurasia Partnership Foundation-Armenia

Gayane Mkrtchyan, Program Manager at the Eurasia Partnership Foundation-Armenia



ANNEX 5: List of interviewed social entrepreneurs

##	Marz	Name of SE	Legal status of SE
1	Lori	Apricot	Individual Entrepreneur
2	Lori	Bee Life	Individual Entrepreneur
3	Lori	Ecolab	Foundation
4	Lori	TUK	NGO
5	Lori	Origanum	LLC
6	Lori	Spitak Helsinkyan	LLC
7	Lori	Crossing Roads	NGO
8	Lori	Ereo style	Individual Entrepreneur
9	Lori	Nurik center	LLC
10	Lori	YFC	NGO
11	Lori	Arevatun	NGO
12	Shirak	Urakh Tractor	NGO
13	Shirak	Aregak bakery&café	NGO
14	Shirak	Arpi eco tourism	NGO
15	Shirak	Naro Dolls	Individual Entrepreneur
16	Shirak	Zanan photo atelie	LLC
17	Shirak	Amel&Gaspar guest house	Individual Entrepreneur
18	Shirak	M Koshtoyan handmade	Individual Entrepreneur
19	Shirak	Sun food	Individual Entrepreneur
20	Shirak	Ashot Mirzoyan	Individual Entrepreneur
21	Shirak	LilitGlyughoghlyan	Individual Entrepreneur
22	Shirak	Qristine Zayemlyan	Other



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23	Shirak	Patuhan	NGO
24	Shirak	Khachmeruk	Foundation
25	Shirak	Amasia wool factory	Foundation
26	Shirak	Get a bike,get a life	Individual Entrepreneur
27	Shirak	Sargsyan's honey jam, guest house	LLC
28	Shirak	Miassin	Foundation
29	Tavush	Pahapan foundation	Foundation
30	Tavush	Telik	NGO
31	Tavush	ARMMAT	Individual Entrepreneur
32	Tavush	Tsirane	Individual Entrepreneur
33	Tavush	Aghavnatun	Individual Entrepreneur
34	Tavush	Totik	Individual Entrepreneur
35	Tavush	Armenecoop	Individual Entrepreneur
36	Tavush	Karktan	Other
37	Tavush	Nanson Textile	Individual Entrepreneur
38	Tavush	Yell extreme park	LLC
39	Tavush	Berkaber Eco food	Other
40	Tavush	Yereqnuk Handicraf	Individual Entrepreneur
41	Tavush	Mount Lodge, Sari	Individual Entrepreneur
42	Tavush	Berd Bears	Foundation
43	Tavush	Quick lunch	Individual Entrepreneur
44	Tavush	Maqur Khohanoc	NGO
45	Tavush	Chibukhchyan Art Studio	Individual Entrepreneur
46	Tavush	Berqaber toys	Other
47	Tavush	Made	Other
48	Tavush	Shamshadin Meat combinat	Cooperative
49	Tavush	Berqaber	NGO



ANNEX 6: Cases

Shirak region: Aregak Bakery & Cafe



Aregak Bakery & Cafe is a project of the Emili Aregak Centre (EAC) of Armenian Caritas, Gyumri's support, and resource center for youth with disabilities between the ages of 2 and 18. Established in September 2018 as the first inclusive and barrier-free bakery/coffee shop in Gyumri, Aregak was co-financed by the European Union, the Austrian Development Cooperation, and Caritas Austria.

The idea of Aregak Bakery & Café grew when EAC staff saw that there were few opportunities in Gyumri for young adults with disabilities. After receiving therapy, support, and guidance at Emili Aregak Centre, these young adults often struggled to find a niche in the Gyumri community. Physical barriers, including inaccessible workplace facilities and transportation options, and cultural/attitudinal barriers, including stigma, poor education and lack of training, usually obstruct their entry into the labor market.

Construction on Aregak Bakery & Café began in 2017. An abandoned storefront on Gyumri's historic Abovyan Street was selected as a prime location for the project. In alignment with the disability rights mantra "Nothing About Us Without Us," young people from the Emili Aregak Centre aided in construction efforts and disability rights leaders consulted the staff on ways to optimize accessibility.

Aregak Bakery & Café has become a robust, renowned and beloved Gyumri attraction for both locals and tourists alike. Aregak Bakery & Café aims to break down barriers by raising awareness of the rights of people with disabilities (PWD) and modeling inclusive employment practice. We have trained more than 15 bakers and baristas, and currently employ eight young adult PWD and four mothers of PWD. All of our young adult employees with disabilities have participated in and graduated from the course "Nine Steps to the Labor Market," a multifaceted programme run through the Emili Aregak Centre that equips PWD to succeed in the workplace.



Tavush region: Pahapan foundation



Pahapan foundation in 2018 with support of the European Union started a project to strengthen the meat value chain in Berd area villages most affected by poverty and migration. The main objective of the project was to create a plant of natural fodder for farmers in Navur village and to facilitate their access to larger markets where the quality meat is most demanded. As a result the social entrepreneurship model described below during 2018-19 about 3000kg of high-quality meat was produced and marketed locally and in Yerevan restaurants with facilitation of Pahapan foundation. The income created from that business was invested in further development of the value chain. Additionally, 20 tonnes of quality fodder was produced for farmers engaged in meat production VC in Berd area villages.

As a co-benefit, about 13 hectares of abandoned lands in Norashen village (belonging to 64 households) were converted into arable fields, which started to supply quality, safe and affordable fodder for the livestock of small farms specialized in production of meat and poultry. Secondly, the promotion of the cooperation among farmers – members of the value chain - naturally led to the creation of a cooperative in Navur village named “Shamshadin Eco Meat”. Moreover, together farmers set up a meat processing factory in Navur, and with support of Pahapan, FAR, other NGOs, EU and private investors purchased meat processing and storage equipment, also they renovated the factory and its premises. To further promote the new brand of meat products on B2B and retail markets Pahapan developed branding of the “Taste of Shamshadin” and featured “Bicheena” delicatessen. Currently, the cooperative employs 6 locals engaged in agriculture in Norashen and Navur factory. Most importantly, the production of the fodder and the kick-off of the factory had an immediate positive effect in villages as it stimulated the growth of meat farming and increased use of “green” fodder for their livestock versus the GMO feed with hormonal additives traditionally used by farmers. The latter affects both the quality of pork and the health of the livestock, especially pigs known for their sensitivity to illnesses. Contrary to this, the use of the “green” fodder produced by Pahapan significantly minimizes the risk of disease in animals and increases control over the safety of the products. Currently the cooperative has about 140 pigs, few calves, and a dozen of turkey and procures meat from local farmers at higher than the average market price (2500 AMD vs 2200). This creates great agitation and strengthens motivation among farmers to grow quality meat, thus stimulating the growth of the VC.



Lori region: TUC (Tourism Unique Center)



In 2016, within the framework of one of the programs implemented by the NGO Center, a camp base was built in the village of Dsegh, Lori region, which was originally intended for cyclists. The camp is an area of 1,500 square meters with two stone toilets and bathrooms, as well as a kitchen storage area. However, the camp was used for this purpose quite a bit, so it was decided to try to set up a camp for another propose in particular, to organize a thematic camp for young people. The experiment was very successful, in 2017 such a camp was organized with the participation of 40 people. The camp was called TUC - Tourism Unique Center.

After 2017, the camp has become almost unrecognizable. Today, the camp provides about 28 names of services, which in 2020 are expected to reach 35, they are mainly divided into several directions.

Cultural: visit to H. Tumayani House-Museum, St. Gregory 13th Century Monasteries, Forty Children's 13th Century Monasteries, Bird -watch Museum ... **Training** that includes many topics such as: Team building . Leadership, Social enterprise, community mobilization, Introduction to flora and fauna..., **Adventure:** Zilling, hiking, boating, horseback riding, cycling... **Entertainment: various games:** French Revolution, Flag Flag, Family Olympiad... **"Rural color"** is a series of opportunities during which guests get acquainted with rural life by hosting a beekeeper, or visit a rural family, see the process of making cheese, have the opportunity to pick berries and close cans with a rural family, and even stay in a rural family. -2 days becoming a part of their life. Of course, urban children are more interested in the latter.:

Nowdays, TUC is considered to be the most diverse and comprehensive tourist service provider, which by its nature and services is unique. Out of 1,040 guests in 2019, only a small percentage were foreigners, most from different regions of Armenia, mainly from Yerevan. They are the ones who come to TUC with their young children. At the same time the beneficiaries of our camp are the local teenagers, the children who, as a rule, always take part in our camps on a free basis. This is done on the basis of the ideology of the social enterprise.

TUC" is operating as a social enterprise, which means that most of the profit is directed to the solution of community problems. And most of the employees of the TUC are villagers and the food that is served in TUC is largely obtained in the village, which not only contributes to the improvement of the economic life of the village, but also provides healthy rural food to our guests.



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