



EU4Business

COUNTRY REPORT

ARMENIA

May 2017

 Armenia  Azerbaijan  Belarus  Georgia  Moldova  Ukraine

INVESTING IN SMEs IN THE EASTERN PARTNERSHIP



Armenia



EU4Business

STRATEGIC PRIORITIES



1

Improving
access to
finance



2

Strengthening policy
and regulatory
frameworks



3

Improving
knowledge base
and business skills



4

Improving
access to
markets





EU4BUSINESS ON THE WAY TO ECONOMIC GROWTH

Reinforcing economic resilience and promoting stabilisation at the EU's borders are key goals of both our new Neighbourhood Policy and of our Eastern Partnership initiative. Citizens across the Eastern Partnership countries aspire to economic development and greater prosperity. They are awaiting concrete and tangible results, such as getting a good job or growing their businesses.

It is in this spirit that the European Union launched the EU4Business initiative. The objective is to support our partner countries' commitment towards improved business climates and to support their SMEs and entrepreneurs in investing in their skills, in their ideas and reach-out to new market opportunities.

Our Eastern neighbours have all made considerable progress in promoting SMEs. Most have also made substantial progress in the design and implementation of business and investment climate reforms. This includes the simplification of business-related legislation, streamlining technical barriers to trade and upgrading quality infrastructure, and the improvement of the legal and regulatory environment in the financial sector. Partner countries are also increasingly aware of the need to support SMEs not only financially, but also by creating dedicated SME agencies and assistance programmes, and specific instruments to encourage SME access to finance and stimulate exports.

Under EU4Business, the EU and its partners have also achieved a lot, supporting countries in the design and implementation of SME policies, encouraging public private dialogue, reinforcing the role of business support organisations, as well as providing access to finance to SMEs. Through our DCFTA facility for example, the EU provided €200 million of grants which will unlock at least €2 billion of new investments. As a result of our joint efforts, more than 90 000 enterprises received already increased access to finance while about 93 000 jobs have been supported! You will read even more of our achievements in this report.

However, there are still important challenges ahead. Access to finance is often limited to foreign currencies exposing SMEs to currency risks. Many SMEs in the region remain tied in low valued-added sectors. Enhancing SME capacities to become more innovative, and to connect to new markets is especially pertinent today as some SMEs have been cut off from traditional markets. We should therefore consider additional support to realise quick commercial wins while fully benefiting from the opportunities offered by closer economic cooperation with the EU. I know that the three DCFTA signatories face a particular challenge in that respect. We have already achieved a lot. Let us now keep the momentum to further improve EaP countries' economic resilience, to support SME trade with the EU and to deliver concrete and positive impact for the life of all people.

Johannes Hahn

Commissioner for European Neighbourhood Policy and Enlargement Negotiations

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CHAPTER 1:

COUNTRY OVERVIEW

1.1 Country overview – overall update on the economic situation

Armenia is a small, landlocked, lower-middle income country with a population of about 3 million, a large diaspora population of around 7 million, and an average GDP per capita of USD 3 489 (World Bank, 2016). The country's economy has been traditionally driven by the industrial sector, and recently the Government of the Republic of Armenia initiated an export-based industrial policy in order to expand the exportable sectors of the economy and develop new areas of economic growth. As a result, in 2016, annual export growth rose 20% in comparison with the preceding year (RA Ministry of Finance, 2016). In the decade preceding the global economic and financial crisis, real GDP growth was more than 10% per annum, strongly fuelled by remittances. However, the global economic crisis has had a devastating effect on the economy, reducing the GDP growth by 14.1% (World Bank, 2015). Nevertheless, during the years 2013 and 2014, the economic situation improved and, as a result, in early 2015 the GDP growth was maintained close to the 2013 level (EBRD, 2017). In 2016, GDP grew by 0.2% on the back of a strong export performance (National Statistical Service of the Republic Armenia, 2016).

The landlocked situation of the country and the absence of any diplomatic relations with two out of four neighbouring countries, Turkey and Azerbaijan, leave Armenia highly dependent on commodity exports and

large capital inflows which are necessary to finance the high current account deficit. The current account deficit shrank from 7.6% of GDP in 2014 to 2.7% of GDP in 2015 (EBRD, 2017). The country's economy is highly dependent on the regional dynamics, political situation and influx of remittances from Armenians working abroad. As a result of the recession in the Russian economy in 2015, the amount of remittances dramatically decelerated, which in turn affected the country's import of consumer goods (World Bank, 2016). Growth in 2015 and 2016 was maintained at close to the 2013-14 level, despite negative spillovers from Russia, an adjustment of regional currencies, reduced remittances and lower copper prices. Growth of 3% in 2015 was driven by Government consumption and an improvement in net exports, although gross capital formation decreased slightly and household consumption was down by nearly 8% in real terms (EBRD, 2017).

Participation in international trade

Armenia is a member of over 40 different international organisations, such as the Asian Development Bank, CIS, Council of Europe, EBRD, EEU, IFC, IMF, OSCE, UN, World Bank/IDA, WTO, etc. Armenia has been a member of the WTO since the end of 2003. In the framework of the agreement, a free trade regime is in force with CIS countries and Georgia.

Table 1: Key macroeconomic indicators of Armenia ⁽¹⁾

INDICATOR	2013	2014	2015	2016
Nominal GDP (million USD)	11 121	11 610	10 529	10 536
Per capita (USD)	3 712	3 861	3 489	3 487
Reserves, foreign exchange (million USD)	2 250	2 250	1 772	2 197
Inflation	5.8%	3.0%	3.7%	-1.4%
Population (thousand)	2 996	3 007	3 018	3 022
Net budget surplus (deficit) (% of GDP)	0.03%	-0.02%	-0.01%	0.00%
Net imports (USD)	2 206	2 146	1 281	100

Source:

⁽¹⁾ <https://services.oxfordeconomics.com/data>



Figure 1: Real GDP growth, 2006-16 ⁽²⁾

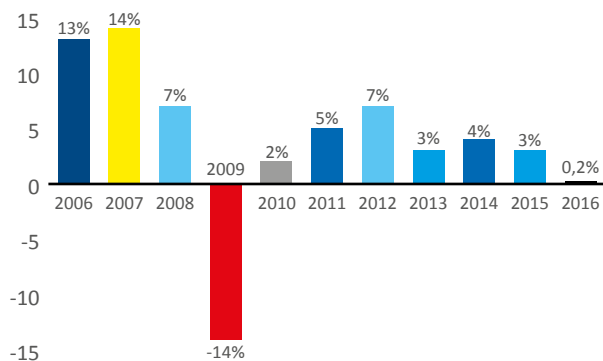
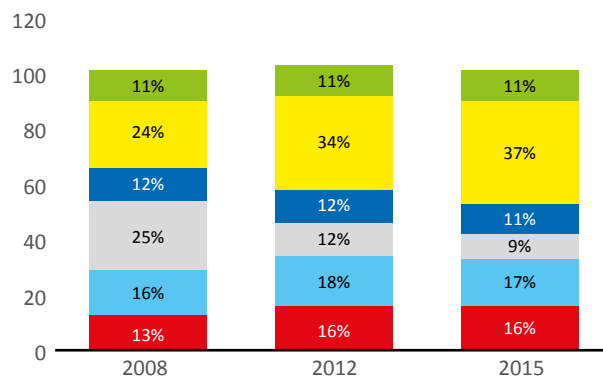


Figure 2: Structure of GDP, 2008-15 ⁽³⁾



In 2014, Armenia decided to join the Eurasian Economic Union (EEU) and in January 2015 the country officially became a member of the Union. Subsequent to the EEU membership, to match the EEU’s average external tariff rate with the European Union (EU), Armenia will increase its import tariffs from 2.4% to 9% (Armenia was granted a temporary waiver, allowing it to apply its current, low tariff on 800 goods in the transition period) (EBRD, 2017). Imports of goods and services declined by 26.8% in 2015, which was followed by a 1.6% increase in 2016 (National Statistical Service of the Republic of Armenia, 2017).

Armenia is continuing its cooperation with the EU and is now in the process of political and trade dialogue with the EU to make its criteria also compatible with EEU requirements.

- Industry
- Construction
- Services
- Agriculture
- Trade
- Next taxes

Source:

- ⁽²⁾ National Statistical Service of the Republic of Armenia
- ⁽³⁾ Ministry of the Republic of Armenia. Macroeconomic Indicators

1.2 Country overview – overall update on the political situation

Armenia has been a parliamentary republic since December 2015 when, as a result of a nationwide referendum, the semi-presidential representative style of governance was changed.

Table 2: Political stability risk rating of Armenia

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2022
Political stability risk rating (7=lowest risk)	3.7	3.6	3.8	4.0	3.8	3.9	4.0	4.1	3.8	3.8	4.5	4.8

Economic development of Armenia is considerably impacted by political risks. Aside from business factors, political decisions also have an impact on SMEs. Among the various decisions made by the Government that affect SMEs are decisions relating to the tax and customs regulations, and the legislative framework for starting, operating and closing businesses. They affect the business environment by creating entry and growth barriers for start-ups and burdening the administration of the business. According to Oxford Economics Data, the political stability risk rating for Armenia has drastically decreased over the years. In 2000, Armenia had a political stability risk rating of 3.3 out of 7, characterising the lowest possible risk, whereas in 2016, it had already reached 4.5 and is still forecasted to improve.

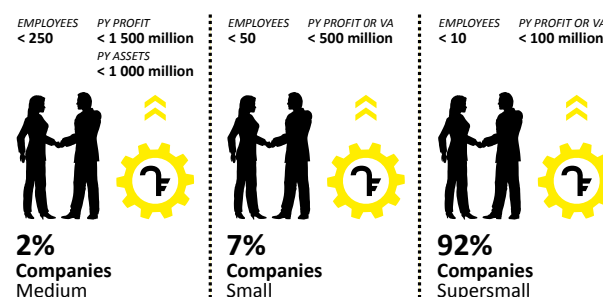
1.3 Country overview – overall presentation of the SME sector policy & strategy

SMEs play an important role in facilitating the country’s economic growth, creating new jobs, improving living standards, building a middle class within society and ensuring social and political stability inside the country. According to the database of the Republic of Armenia’s Ministry of Finance, as of 2012 there were 74 365 SMEs, which represented 98% of all registered legal entities. This was assessed at 99.7% as of 2015 according to estimations made by the National Statistical Service of the Republic of Armenia. The employment level in the SME sector was 80% in 2014 (ARMSTAT, 2016).

Even though Armenia’s SMEs account for the majority of businesses in the country, their contribution to GDP, employment, foreign trade and foreign investment remains low. According to the ‘Small and Medium Entrepreneurship Development National Centre’ (SME DNC) report on the SME sphere in Armenia 2010-12’ based on the latest available data, the SMEs’ contribution to the GDP of the country was 27.1% in 2012 (SME DNC, 2013). In 2015, the share of SMEs in GDP increased to 30% (BSO by EBRD, 2016).

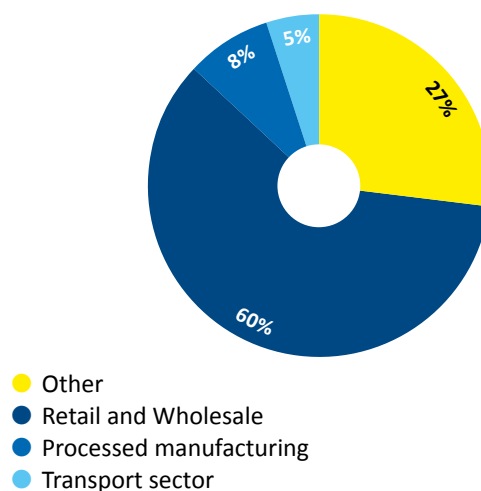
The SME sector is one of the priority directions for development of the Armenian economy. Therefore, the Government of the Republic of Armenia continually takes steps towards creating a State support system for SMEs. One of the first steps in this direction was the ‘Concept for SME Development Policy and Strategy in Armenia’ (adopted by the Government of the Republic of Armenia in August 2000), which set the main social, economic and political goals for SME development policy.

Figure 3: According to the Law of the RA on State Support of Small and Medium Entrepreneurship



This document provided preconditions for adoption of the Law of the Republic of Armenia ‘On State Support of Small and Medium Entrepreneurship’ (adopted by the National Assembly on 5 December 2000), which first defined SME standards and the main directions of SME State support in the Republic of Armenia. In 2010, this law was amended in order for the standards of SMEs of Armenia to comply with the standards set for SMEs by the EU.

Figure 4: SME breakdown per sector, 2016

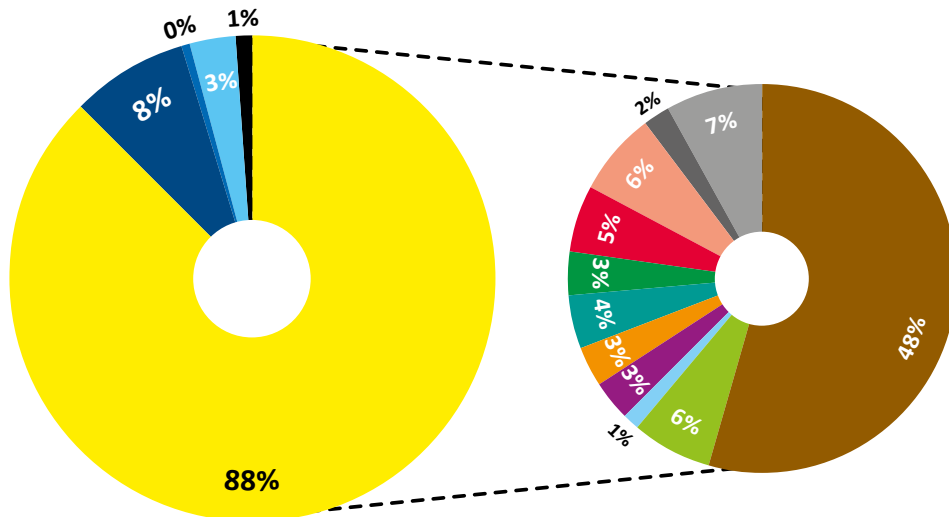


In order to facilitate the implementation of State support annual programmes, the SME DNC of Armenia Fund was established by Decree N282 of the Government of the Republic of Armenia on 19 March 2002. It is now considered to be one of the most dynamic SME agencies in the region. The main purpose of the SME DNC is to support development of the SME sector in Armenia, as well as represent and advocate the interests of SMEs by serving as a liaison between the Armenian Government and the business community (OECD et al. 2015).

On 1 October 2015, the SME Development Strategy (2016-2018) was approved, and covered the situation of SMEs in Armenia, an analysis of the situation, the strategic objectives of the SME sector over the following

three years, the ways and means to implement them, a study of international experiences, the fields that policy addresses, and an analysis of strengths and weaknesses (Ministry of Economy, 2015).

Figure 5: SME breakdown per industry, 2016 ⁽⁴⁾



Source:

⁽⁴⁾ National Statistical Service of the Republic of Armenia (ARMSTAT)

- Industry: **2 802**
 - Agriculture: **106**
 - Construction: **925**
 - Transport: **432**
 - Culture, entertainment and leisure: **447**
 - Education: **1 089**
 - Health and social work: **880**
 - Real estate services: **1 329**
 - Telecommunication: **1 104**
 - Administrative and supporting services: **1 871**
 - Professional, scientific and technical services: **2 073**
 - Financial and insurance services: **647**
- Other categories:**
- Wholesale and retail trade: **16 966**
 - Accommodation and public catering: **2 032**



CHAPTER 2:

EU4BUSINESS PROGRAMMES UNDER IMPLEMENTATION

2.1 EU4Business ongoing projects in Armenia

In the tables below we present active EU4Business initiatives related to Armenia.

EU4Business initiatives in the sphere of improving access to finance

EBRD WOMEN IN BUSINESS PROGRAMME IN THE EASTERN PARTNERSHIP

<i>IMPLEMENTING AGENCY</i>	EBRD
<i>START DATE</i>	2015
<i>DURATION (YEARS)</i>	7
<i>COUNTRIES COVERED</i>	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
<i>TARGET BENEFICIARIES</i>	Women-led SMEs
<i>PURPOSE AND DESCRIPTION</i>	The project aims to improve access to finance for women-led SMEs as well as business development know-how.

SME FINANCIAL FACILITY I

<i>IMPLEMENTING AGENCY</i>	EBRD
<i>START DATE</i>	2010
<i>DURATION (YEARS)</i>	9
<i>COUNTRIES COVERED</i>	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
<i>TARGET BENEFICIARIES</i>	SMEs
<i>PURPOSE AND DESCRIPTION</i>	Facility aims at offering a wide range of financial services and products to SMEs and financial intermediaries throughout the region.

NEIGHBOURHOOD WINDOW OF THE EUROPEAN FUND FOR SOUTH EAST EUROPE (EFSE)

<i>IMPLEMENTING AGENCY</i>	KFW
<i>START DATE</i>	2009
<i>DURATION (YEARS)</i>	10
<i>COUNTRIES COVERED</i>	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
<i>TARGET BENEFICIARIES</i>	SMEs
<i>PURPOSE AND DESCRIPTION</i>	The Fund aims to foster economic development and prosperity in the South East Europe & Caucasus region through sustainable provision of additional development finance.



SME FINANCE FACILITY – PHASE I WITH EIB

<i>IMPLEMENTING AGENCY</i>	EIB
<i>START DATE</i>	2010
<i>DURATION (YEARS)</i>	10
<i>COUNTRIES COVERED</i>	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
<i>TARGET BENEFICIARIES</i>	SMEs
<i>PURPOSE AND DESCRIPTION</i>	Emphasis is given to stimulating local currency lending, particularly for MSMEs.

FINANCIAL SECTOR INSTITUTION BUILDING AND CRISIS RESPONSE

<i>IMPLEMENTING AGENCY</i>	EBRD
<i>START DATE</i>	2009
<i>DURATION (YEARS)</i>	9
<i>COUNTRIES COVERED</i>	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
<i>TARGET BENEFICIARIES</i>	SMEs
<i>PURPOSE AND DESCRIPTION</i>	The programme aims to rebuild financial intermediaries' confidence to extend financing to SMEs, including micro-enterprises, following the financial crisis.

EU4Business initiatives in the sphere of improving access to finance in combination with Agriculture, Energy or Green for Growth

SOUTH CAUCASUS SUST. ENERGY FINANCE FACILITY: IMPLEMENTATION SUPP.

<i>IMPLEMENTING AGENCY</i>	EBRD
<i>START DATE</i>	2013
<i>DURATION (YEARS)</i>	13
<i>COUNTRIES COVERED</i>	Armenia, Azerbaijan, Georgia
<i>TARGET BENEFICIARIES</i>	SMEs
<i>PURPOSE AND DESCRIPTION</i>	The Facility provides credit lines to Participating Financial Institutions (PFIs) for on-lending to private sector borrowers.

GREEN FOR GROWTH – EXTENSION TO NIF EAST REGION

<i>IMPLEMENTING AGENCY</i>	EIB
<i>START DATE</i>	2013
<i>DURATION (YEARS)</i>	5
<i>COUNTRIES COVERED</i>	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
<i>TARGET BENEFICIARIES</i>	SMEs
<i>PURPOSE AND DESCRIPTION</i>	Contributes to overcoming the lack of sufficient legal, policy and other framework conditions by providing long-term financing instruments.

EU4Business initiatives in the sphere of improving access to markets

EAST INVEST I + II

<i>IMPLEMENTING AGENCY</i>	EUROCHAMBRES
<i>START DATE</i>	2010
<i>DURATION (YEARS)</i>	7
<i>COUNTRIES COVERED</i>	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
<i>TARGET BENEFICIARIES</i>	Business Support Organisations (BSOs) and SME associations
<i>PURPOSE AND DESCRIPTION</i>	<ul style="list-style-type: none"> • The overall purpose of the East Invest programme is to develop mechanisms encouraging new flows of foreign direct investments and to strengthen the ongoing investment promotion process between the EU and the Eastern ENPI countries as well as between the Eastern countries, which will contribute to the enhancement of trade in the region. • East Invest provides training and technical assistance to SMEs in the Eastern Partnership countries, to enhance their networking and trading competences and opportunities. • It contributes to the economic development of the Eastern ENPI region and to the improvement of its business environment within the context of developing networking: on one hand between the EU and the Eastern ENPI partners and on the other hand between the Eastern partners. The East Invest projects work to facilitate the exchange of best practices and cooperation between the EU and Eastern Neighbourhood BSOs, particularly those with a focus on SMEs. Its focus includes promoting mutual trade and the transfer of technology, and aligning customs procedures and investment.

SUPPORT TO THE EUROPEAN BUSINESS ASSOCIATION ARMENIA

<i>IMPLEMENTING AGENCY</i>	European Business Association
<i>START DATE</i>	2016
<i>DURATION (YEARS)</i>	1
<i>COUNTRIES COVERED</i>	Armenia
<i>TARGET BENEFICIARIES</i>	SMEs
<i>PURPOSE AND DESCRIPTION</i>	Functions as a voice of EU Businesses in Armenia to direct their needs toward Armenian authorities and advocating their interests for the elimination of corresponding obstacles.

EBRD SMALL BUSINESS SUPPORT (SBS) PROG. – ENTERPRISE GROWTH PROGRAMMES (EGP) AND BUSINESS ADVISORY SERVICES (BAS) PHASE II

<i>IMPLEMENTING AGENCY</i>	EBRD
<i>START DATE</i>	2015
<i>DURATION (YEARS)</i>	3
<i>COUNTRIES COVERED</i>	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
<i>TARGET BENEFICIARIES</i>	SMEs
<i>PURPOSE AND DESCRIPTION</i>	<ul style="list-style-type: none"> • SBS programmes – the EGP and BAS – help MSMEs in the region to improve their competitiveness and ability to attract external financing by improving the financial literacy of senior managers and by facilitating their firms' access to high-quality business support services, enhancing managerial capacity in all areas and striving to develop the capacity of the local consultancy market to deliver the services needed. The SBS programmes seek to achieve enterprise-level change and the development of a sustainable infrastructure of BAS. • Continuation of the SBS activities in the Eastern Partnership region. It assists SMEs in the EaP countries in improving their competitiveness and ability to attract external financing.

SUPPORT TO SME DEVELOPMENT IN ARMENIA

<i>IMPLEMENTING AGENCY</i>	GIZ
<i>START DATE</i>	2016 - Requested by GIZ Team Leader
<i>DURATION (YEARS)</i>	4
<i>COUNTRIES COVERED</i>	Armenia
<i>TARGET BENEFICIARIES</i>	SMEs
<i>PURPOSE AND DESCRIPTION</i>	Overall objective is to create employment opportunities by enhancing private sector development in Armenia.

COMMUNITY DEVELOPMENT THROUGH SOCIAL ENTREPRENEURSHIP

<i>IMPLEMENTING AGENCY</i>	INTERKULTURELLES ZENTRUM
<i>START DATE</i>	2015
<i>DURATION (YEARS)</i>	2
<i>COUNTRIES COVERED</i>	Armenia
<i>TARGET BENEFICIARIES</i>	SMEs
<i>PURPOSE AND DESCRIPTION</i>	Capacity building of Civil Society Organisations (CSOs) in Armenia while promoting innovation.

EU4Business initiatives in the sphere of improving the policy and regulatory framework

STRENGTHENING AUDITING AND REPORTING IN THE COUNTRIES OF THE EASTERN PARTNERSHIP (STAREP)

<i>IMPLEMENTING AGENCY</i>	World Bank (CFRR)
<i>START DATE</i>	2013
<i>DURATION (YEARS)</i>	5
<i>COUNTRIES COVERED</i>	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
<i>TARGET BENEFICIARIES</i>	Government/auditors
<i>PURPOSE AND DESCRIPTION</i>	This is a regional programme aimed at creating a transparent policy environment and effective institutional framework for corporate reporting within the countries that make up the EU's Eastern Partnership. STAREP is designed to assist them in adopting and implementing international standards and fostering the alignment of their financial reporting frameworks with international best practices and EU standards.

SME COMPETITIVENESS REFORMS IN EAP

<i>IMPLEMENTING AGENCY</i>	OECD
<i>START DATE</i>	2013
<i>DURATION (YEARS)</i>	4
<i>COUNTRIES COVERED</i>	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
<i>TARGET BENEFICIARIES</i>	Government
<i>PURPOSE AND DESCRIPTION</i>	Country-level activities were provided for those countries which have expressed a high-level political commitment to implementing SME policy reforms and agreed to undergo a peer review examination of these reforms.

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2.2 EU4Business projects planned to start in Armenia

EU4Business initiatives planned to start in the sphere of improving access to markets

INTEGRATING SMES FROM EAP COUNTRIES INTO DOMESTIC AND GLOBAL VALUE CHAINS

<i>IMPLEMENTING AGENCY</i>	ITC
<i>START DATE</i>	Planned
<i>DURATION (YEARS)</i>	Under preparation
<i>COUNTRIES COVERED</i>	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
<i>TARGET BENEFICIARIES</i>	SMEs
<i>PURPOSE AND DESCRIPTION</i>	The project will help SMEs from EaP countries integrate into domestic and global value chains and access new markets with a focus on the EU.

EU4Business initiatives planned to start in the sphere of improving the knowledge base and business skills

SMEFAF (SME FINANCE AND ADVISORY FACILITY)

<i>IMPLEMENTING AGENCY</i>	EBRD
<i>START DATE</i>	Planned
<i>DURATION (YEARS)</i>	Under preparation
<i>COUNTRIES COVERED</i>	Armenia
<i>TARGET BENEFICIARIES</i>	SMEs
<i>PURPOSE AND DESCRIPTION</i>	Under preparation



CHAPTER 3:

SME NATIONAL POLICY AND FUTURE MEASURES PLANNED IN THE NATIONAL STRATEGY

The annual programmes on SME State support have been developed and implemented in the country since 2001, and aim at implementation of the directions of the SME sector State support stated in the Republic of Armenia's law on 'State Support for Small and Medium Enterprises' as maintaining and strengthening support infrastructure for SME entities, local economic development, support for sectoral businesses, etc.

'The Government of the Republic of Armenia programme 2012-17' also includes clauses to support SMEs, particularly aimed at improving access to finance, business education/skills, access to markets and informational support to SMEs. In 2014, the 'Armenia Development Strategy 2014-25' was adopted by the Government of the Republic of Armenia and also includes support policies for SMEs, such as maintaining State loan guarantees for new and existing SMEs, improving business skills for start-ups, ensuring access to public procurement for SMEs and providing informational support to ensure access to market as well as access to finance.

National initiatives in the sphere of improving access to finance/access to market and improving business skills

<i>ACTION ITEM</i>	Medium-Term Expenditure Framework 2017-19 stimulating SME development in the country through instruments of national SME direct support
<i>STATUS</i>	Present
<i>IMPLEMENTING AGENCY</i>	Government of the Republic of Armenia
<i>SOURCES OF FINANCING</i>	AMD 152.6 million for 2016 is dedicated to the SME DNC from the State budget
<i>DURATION, YEARS</i>	2017-19

<i>ACTION ITEM</i>	Partnerships for Rural Prosperity empowering rural communities to discover and realise their hidden potential
<i>STATUS</i>	Present
<i>IMPLEMENTING AGENCY</i>	SME DNC of Armenia
<i>SOURCES OF FINANCING</i>	Donor funded
<i>DURATION, YEARS</i>	2017

National initiatives in the sphere of improving business skills/access to finance

<i>ACTION ITEM</i>	Start-up entrepreneur support programme providing support to start-up entrepreneurs to help in the implementation of their business ideas Women entrepreneurship support programme aiming to encourage women's entrepreneurship through training, informative campaigns, financial support
<i>STATUS</i>	Present
<i>IMPLEMENTING AGENCY</i>	SME DNC of Armenia
<i>SOURCES OF FINANCING</i>	Donor funded
<i>DURATION, YEARS</i>	2017

National initiatives in the sphere of improving access to finance

<i>ACTION ITEM</i>	Loan Guarantees Provision programme allowing entrepreneurs to qualify for loans by guaranteeing up to 70% of the principal of the loan and the interest rates for up to 5 years.
<i>STATUS</i>	Ongoing
<i>IMPLEMENTING AGENCY</i>	SME DNC of Armenia
<i>SOURCES OF FINANCING</i>	Donor funded
<i>DURATION, YEARS</i>	2017
<i>ACTION ITEM</i>	New generation cash register machines' cost compensation programme
<i>STATUS</i>	Ongoing
<i>IMPLEMENTING AGENCY</i>	SME DNC of Armenia
<i>SOURCES OF FINANCING</i>	The State budget
<i>DURATION, YEARS</i>	2017

National initiatives in the sphere of improving business skills

<i>ACTION ITEM</i>	Local economic development and sectoral support programmes for businesses aiming to create, develop and increase competitiveness of community-based SMEs
<i>STATUS</i>	Ongoing
<i>IMPLEMENTING AGENCY</i>	SME DNC of Armenia
<i>SOURCES OF FINANCING</i>	Donor funded
<i>DURATION, YEARS</i>	2017
<i>ACTION ITEM</i>	Private Sector Development in South Caucasus
<i>STATUS</i>	Ongoing
<i>IMPLEMENTING AGENCY</i>	SME DNC of Armenia
<i>SOURCES OF FINANCING</i>	Donor funded
<i>DURATION, YEARS</i>	2017

In 2015, the 'Strategy for Small and Medium Enterprise Development 2016-18' was adopted by the Government of the Republic of Armenia. The SME Development Strategy goal over the following three years is to ensure a competitive environment for small and medium business activity, through promotion of enterprise development and dissemination of knowledge in entrepreneurship, access to finance, simplifying the tax

system and improving the mechanisms for dialogue with the private sector, as well as through the promotion of innovation and sustainable development.

Within the framework of the State support for SMEs programme of 2002, as the programme activity, the 'Small and Medium Entrepreneurship Development National Centre of Armenia' Foundation was established

by Government Decree N282 dated 19 March 2002 (SME DNC of Armenia), which is the main structure implementing SME sector State policy in Armenia and programmes aimed at development of the sector. The SME DNC of Armenia is the implementing agency for the SME Development Strategy.

The national Strategy for SME Development for 2016-18 states that in contrast with the previous years, when the SME development policy was predominantly focused on areas such as growth and resource availability in the future, the plan is to highlight projects that focus on knowledge, enhancing quality and competitiveness. The Strategy for SME Development 2016-18 includes the following activities below and their corresponding measures.

Activities aimed at forming a legislative and operational environment to improve business, simplify legislation and legal arrangements, and establish a stable legislative framework. The measures include:

- Implementation of activities according to the annual programmes on SME state support based on the Republic of Armenia's law on 'State Support for Small and Medium Enterprises':
- maintain and strengthen support infrastructure for SME entities;
- business training support (capacity building);
- business information and consulting support to SME entities;
- financial and investment support;
- local economic development;
- support to sectoral businesses;
- support to women's entrepreneurship;
- support to export of local products;
- ensuring expansion of international cooperation for SME entities;
- development/implementation of SME development joint programmes with international donor organisations.
- Implementation of measures aimed at improvement of indicators in the World Bank's 'Doing Business' report:
 - establishment of companies;
 - obtaining construction permits;
 - registering property;
 - getting credit;
 - connection to electricity supply;
 - protection of investors;
 - paying taxes;
- foreign trade;
- enforcement of contracts;
- recognition of bankruptcy.
- Development of procedures in accordance with the 'First think small' principle.
- Establishment and implementation of public administration based on SMEs' needs.
- Help SMEs to maximise the benefit of opportunities offered by the EU single market.
- Ensure access to information on the establishment of SMEs and entrepreneurship opportunities.
- Coverage of support programmes and policies implemented in the SME field.
- Ensure active involvement of the private sector in legislative changes.
- Improving public-private sector dialogue.
- Ensure active participation of business associations and provide feedback on implemented measures.
- Strengthening SME Development Support Institutions.
- Implementation of active public discussions by using various means during the implementation of legislative changes.
- Attracting various business associations and public sector representatives to ensure the implementation of all the objectives reflected in this Strategy. Use of the SME Development Council as a platform for implementation of the relevant objectives and actions.

Activities to ease the access of SME entities to finance, which includes the development of a corresponding legal and business environment, and the introduction of alternative financing opportunities. The measures include:

- study the needs/requirements for financial resources for SME entities;
- study the SME demand for funds;
- continue providing affordable loans to SMEs;
- provision of loan repayment guarantees for SMEs;
- provision of advice to newly established SMEs on opportunities to attract funds;
- support and training for business plan development.

Activities aimed at the promotion and modernisation of SME entrepreneurial skills and application of all kinds of innovations. The measures include:

- **Promote and develop entrepreneurial capacity (culture):**
 - ensure awareness of SMEs of instruments in financial markets;
 - study SME needs for financial resources;
 - creation of affordable financial instruments, provision of long-term loans through specific target programmes to enable establishment of innovative research and technologies, product development and introduction by SMEs;
 - creation of favourable conditions for production of innovative products by SMEs through involvement of research and consulting organisations, and provision of affordable long-term financial loan resources.
- **Increase the internal and external competitiveness of SMEs:**
 - creation of a business environment, where the companies can thrive;
 - help SMEs benefit from the opportunities provided by the EU and the EAEU single markets;
- encourage and help SMEs to benefit from the markets' expansion;
- encourage resource-efficient activities of SMEs and increased 'green' production/services.
- **Help SMEs to internationalise:**
 - activities for ensuring standard compliance of SMEs' production;
 - increasing exporting capacity, provision of professional consulting services, supporting participation in exhibitions and business conferences held abroad;
 - design and implementation of targeted programmes for export financing and insurance;
 - identification of SMEs with export potential and their capacity building.
 - Strengthen SME Development Support Institutions.

Activities aimed at elimination of existing entry and development barriers for SMEs. The measures include:

- establish development-enabling environment for small and medium as well as family enterprises;
- create an environment where 'honest' businesses that have gone bankrupt will be able to get a second chance;
- encourage SMEs to turn environmental challenges into opportunities and benefit from market growth;
- promote women's entrepreneurship, as well as support for start-up businesses;
- maintain the principles of competition and equal conditions while developing/implementing economic policies, establishing a favourable legal framework, making little changes in the legislation regulating SME activities, and envisioning soft management and administrative procedures related to SMEs in a non-discriminatory and consistent manner.

GENERAL CONCLUSION

4.1 Main challenges for SME development

Compared with other EaP and EU countries, the level of SME development in Armenia is quite high. According to the OECD SME Policy Index 2016, Armenia has made substantial improvements over the last four years and positions itself in the top three rankings in 10 out of 12 dimensions. It has made the most significant improvement in the dimensions of Public procurement and Innovation. The situation described demonstrates a high potential for SME development, which is capturing interest from the local governmental, private sector and international corporations. Being a priority direction for Armenia's economic development, the SME sector attracts a lot of funds and technical support. It demonstrates some positive trends in development and is expected to expand with support from the special tools and mechanisms developed for the SME sector.

Overall, the sector is supported with a strong legislative framework, which is implemented based on mid-term strategic plans and annual programmes. The latter are aligned with EU strategic documents, which helps to ease the process of project implementation with the participation of international institutions.

As defined in the SME Development Strategy 2016-18, the focus of further projects for SMEs should be directed towards knowledge improvement areas. According to the statistics, out of 13 194 projects realised in 2015, 11 897 were directed towards 'Business information and consulting' and 407 to 'Training', which proves that actions follow the adopted Strategy.

The main challenges that SME development in Armenia is facing are:

- access to finance;
- improving the policy and regulatory framework;
- improving skills and knowledge;
- lack of statistical data and insightful analysis.

4.2 Access to finance

Although vast efforts are invested in the development of the SME sector, the business environment, including the tax and customs administration, access to financial resources and unfair competition still remain a burden for the development of the SME entities.

The positive trend is that new mechanisms of funding are being introduced to the market. In the last few years, local currency funding opportunities from international organisations have been implemented.

Still, there is an obstacle to providing collateral and/or guarantees for the financing, which creates a need for alternative funding opportunities, elimination of entry and growth barriers and improved support infrastructure. Financing opportunities with low servicing cost can be developed for rural areas. All these improvements should be supplemented with technological solutions to facilitate stakeholders' involvement in SME projects. This may include centralised information about financing opportunities and selection criteria, which will open access to finance and to markets through information availability for a broader audience.

The solution to the above-mentioned issues will increase the attractiveness of the sector for the local and international investors and decrease the possibility of wasting resources on overlapping projects.

4.3 Improving the policy and regulatory framework

In the regulatory framework of SME development, it is important to address the bureaucratic obstacles more, as they still remain one of the major issues for the SME sector. Care should be taken to avoid the regulatory framework becoming redundant, thus it is important to make complete documents, which include certain sources of information and capture the whole picture of SME development. As of now, there are different parties responsible for different pieces of SME sector development and the information is not always complete and well organised. For the best payoff from the regulatory framework, it should be aligned with the general directions of available international practices, but include a unique value proposition, which reflects the local vision.

The State support is only conducted through the SME DNC, however this support is not enough to ensure the

development of the sector, and many activities of the SME DNC rely on fundraising opportunities. Steps towards strengthening the public-private support dialogue should be taken in order to reach out to as many stakeholders as possible and to ensure the synergy effect of all activities taken in this area on the country level. As of now, a lot of effort is being made by the European Business Association to facilitate public-private dialogue. The ‘Evidence-based Advocacy for Reform’ project has been launched.

As a result, business people will be able to report anything that hinders business and is related to tax, customs, licenses and permits, fair competition, public procurement and other areas. Under this project, the Armenian Lawyers’ Association will also provide free legal assistance to SMEs in Yerevan, Gavar, Gyumri, Kapan and Vanadzor.

Figure 6: SME Policy Development Index Dimensions for Armenia, 2016 ⁽⁵⁾

POLICY DIMENSION	SME POLICY INDEX ARMENIA			
	2012*	2016*	EaP average, 2016	Armenia’s rank among EaP countries, 2016
1. Entrepreneurial learning and women’s entrepreneurship	2.40	2.63	2.52	2
2. Bankruptcy and second chance for SMEs	3.17	3.16	2.71	1
3. Regulatory framework for SME policy making	3.00	3.38	2.95	3
4. Operational environment for SMEs	3.64	4.05	4.01	4
5a. Support services for SMEs and start-ups	3.28	3.93	3.13	1
5b. Public procurement	2.14	3.42	3.12	2
6. Access to finance for SMEs	3.00	3.53	3.28	2
7. Standards and technical regulations	2.38	3.33	3.76	4
8a. Enterprise skills	2.13	2.67	2.66	3
8b. Innovation policy for SMEs	2.83	2.91	2.57	1
9. SMEs in the green economy	1.84	2.39	1.99	2
10. Internationalisation of SMEs	2.50	3.37	2.79	2

Source:

⁽⁵⁾ OECD Policy Index EaP countries, 2016

* Score range 1-5, with 1 being the weakest, 5 being the strongest

4.4 Improving skills and knowledge

Another priority direction of SME development is the improvement of business skills, which indicates that SME sector leaders are not always financially literate, this creating additional obstacles in the process of integrating to the system. This creates a need for developing some user-friendly tools, such as templates and online registers, which will enable their participation based on formal market requirements.

4.5 Lack of statistical data and insightful analysis

To maintain control over the stable growth of the sector, which ensures greater returns, higher impact and, especially, important long-term development, all the market forces should regularly be examined and analysed. The quantitative and qualitative analysis of the chain of processes included in SME development is important. It is only possible to monitor the process and assess the impact if proper statistics are calculated. The lack of statistical data is another major issue creating obstacles for the sector's development. The statistical information is not being updated, so stakeholders might instead rely on different sources of information, which are not always current and do not reflect the real picture. There is no proper database with complete information available for sector monitoring.

This may lead to wrong decisions about the progress of the sector on the one hand and influence its subsequent initiatives on the other.



CHAPTER 5:

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