

ARMENIA




1. Introduction

Armenia has a vibrant entrepreneurial environment where it is relatively easy to start a business. In addition, administrative burden associated with tax payments are decreasing. However, Armenian small and medium-sized enterprises (SMEs) face difficulties in accessing finance, exporting internationally and improving labour productivity.

The global pandemic, combined with the policy decisions taken in response to it, have significantly impacted Armenia's economy. In 2020, Armenia's GDP dropped by an estimated 7.1%¹. Several sectors experienced a particularly sharp downturn in economic activity. Most notably, the GDP of the *accommodation and food services* sector dropped by 45.5% and in the *transportation and storage* sector it fell by 27.5%. In contrast, the *information and communication* sector performed strongly in 2020, with GDP growing by an estimated 10.7%.

SMEs play a particularly important role in the 'non-financial business economy' of Armenia. In 2019, they generated 65.4% of value added and 69.7% of employment, exceeding the respective EU averages of 53.2% and 65.0%. However, the average productivity of SMEs, defined as value added per person employed, was only EUR 12 600 in 2019, far below the EU average of EUR 42 600. SMEs in Armenia employed an average of 3.3 people, slightly fewer than the EU average of 3.7.

Figure 1: Number of enterprises, persons employed and value added in 2019

	 Number of enterprises			 Number of persons employed			 Value added		
	Armenia		EU-27	Armenia		EU-27	Armenia		EU-27
	Number	Share	Share	Number	Share	Share	€ billion	Share	Share
Micro	69 574	93.1%	93.3%	95 368	26.9%	29.6%	1.125	23.7%	18.7%
Small	4 260	5.7%	5.7%	79 600	22.5%	19.7%	1.017	21.4%	17.0%
Medium-sized	740	1.0%	0.9%	72 034	20.3%	15.8%	0.966	20.3%	17.3%
SMEs	74 574	99.8%	99.8%	247 002	69.7%	65.2%	3.108	65.4%	53.0%
Large	135	0.2%	0.2%	107 360	30.3%	34.8%	1.647	34.6%	47.0%
Total	74 709	100.0%	100.0%	354 362	100.0%	100.0%	4.755	100.0%	100.0%

Source: These data are based on data provided by the Statistical Committee of the Republic of Armenia. The data cover the 'non-financial business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed).

2. Key strengths

It is relatively easy to start a business in Armenia

The country performs especially well in indicators related to starting a business. According to the World Bank's Doing Business index, Armenia ranks 10th among 189 countries in this area. Starting a business in Armenia only takes 4 days – significantly below the EU average of 12 days – and requires only 3 procedures – 2 less than the EU average. Paid-in minimum capital is not required to start a business².

In addition, it takes only 8 days to register property – against an EU average of 27 days – and the cost to do so is significantly below the EU average³.

Armenia has a vibrant entrepreneurial environment

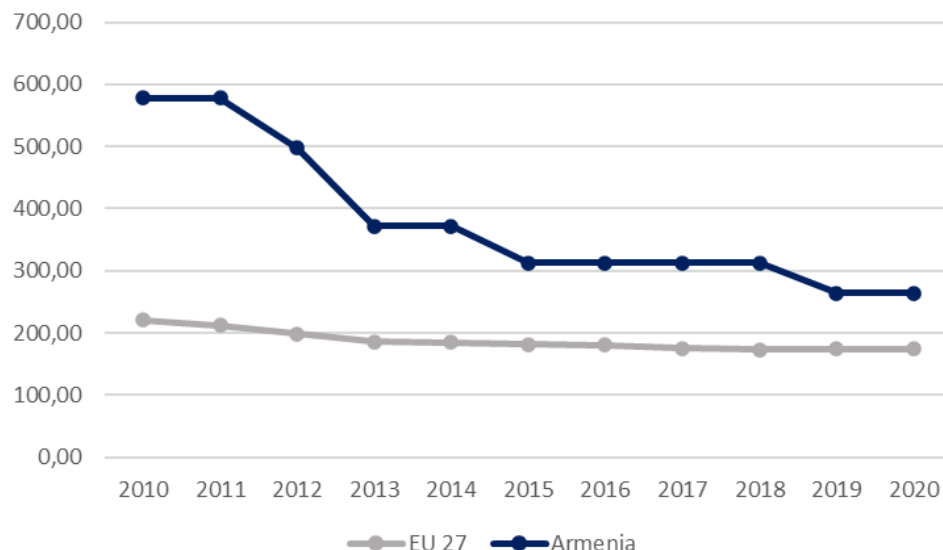
The country has doubled the EU average in terms of total early-stage entrepreneurial activity, both in general and for female entrepreneurship. Approximately three out of ten Armenians intend to start a business in the next 3 years – a share also close to doubling the average for EU Member States⁴.

Indeed, these strong indicators are sustained by Armenians perceiving entrepreneurship in a very favourable light. Armenians hold some of the most favourable views towards starting a business and the most favourable in the Eastern Europe region⁵ – 87% of Armenians consider entrepreneurship a desirable career choice, almost 30% above the EU average. 73.4% of those surveyed agree that successful entrepreneurs enjoy high status and respect in the country⁶.

Administrative burden associated with tax payment is decreasing

It takes Armenian businesses 264 hours a year to pay taxes – 91 hours more than the EU average. Although there is still significant room for improvement, the number of hours has fallen steeply over the last decade⁷.

Figure 2. Payment of taxes (number of hours per year)



Source: World Bank's Doing Business, 2020⁸

Furthermore, in 2020 the country introduced a simple and favourable tax regime for micro and small businesses, as well as for businesses in the IT sector, aimed at reducing the tax burden as well as the administrative burden linked to tax payments. Businesses with annual sales of less than AMD 115 million (approximately EUR 183 300) can qualify for this tax regime. These businesses can take advantage of a special tax regime that substitutes corporate income tax (CIT) and VAT – currently 18% and 20% respectively – with a turnover tax ranging from 1.5% to 5%. Micro-businesses, defined as businesses with annual sales of less than AMD 24 million (approximately EUR 41 400) are exempt from CIT and VAT⁹.

3. Key challenges

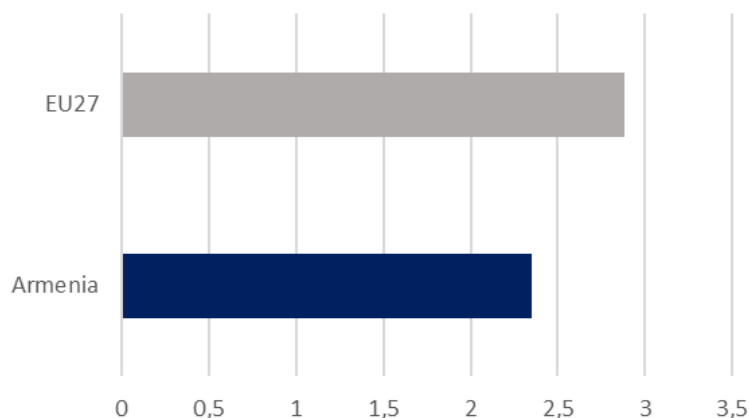
Access to finance remains one of the main issues limiting SME development

According to SME Financial Forum Centre data, SMEs in Armenia suffer from a financial gap of 10.8% of GDP. Overall, 37.62% of Armenian companies are experiencing financial limitations – a comparatively high rate¹⁰.

According to the OECD's SME Policy Index 2020, difficulties experienced by SMEs in obtaining credit from financial institutions are related to credit history requirements or the lack of access to the required collateral¹¹.

Traditional bank loans continue to be the predominant form of financing in Armenia, as other funding options – including government funding and alternative finance – are very limited¹². Business angel funding for new and growing firms is also below the EU average¹³.

Figure 3. Availability of business angel funding for new and growing firms (1-5)



Source: National Expert Survey of the Global Entrepreneurship Monitor, 2019¹⁴

Measures to improve access to finance for SMEs is expected in the coming years, as the government recognises this is one of the four key issues requiring action under its SME Development Strategy 2020-2024 (*Փոքր և միջին ձեռնարկատիրության զարգացման 2020-2024*)¹⁵.

The labour productivity of Armenian SMEs is well below the OECD average, and significantly below that of large companies

The value added generated annually by the average SME employee in Armenia is almost 2.5 times lower than the OECD average¹⁶. According to Armstat data, productivity in SMEs is 30% lower compared to large companies on average¹⁷.

This is also recognised as a key challenge in the SME Development Strategy, which aims to reduce this gap through measures to improve SMEs' technological capacity. The government aims to achieve average annual growth of 3.9% in productivity until 2024¹⁸.

Armenian SMEs are lagging behind in internationalisation – especially in exports

Armenian SMEs face a number of barriers in accessing export markets, such as low productivity and competitiveness, associated costs in logistics and marketing, and limited awareness of exporting procedures.

Approximately 1 out of 4 Armenian SMEs (27.4%) is engaged in foreign trade. However, participation is closely linked to SME size – only 26% of micro enterprises export or import compared to 51% of medium-sized companies.

There is also a clear imbalance in terms of exports/imports – this is reversed only in the case of high-tech industries. Only 6.2% of SMEs are engaged in exporting activities. However, the number of importing SMEs is nearly four times higher. Only 16% of SMEs engaged in manufacturing export their products, while the number of importers in this sector is almost twice as high (31%). However, for high-tech industries, the share of exporting SMEs grows considerably (45%) and surpasses the share of importing SMEs (22%)¹⁹.

Ensuring international market access for SMEs is also one of the four key issues for SME development identified by the SME Development Strategy. Accordingly, actions to help SMEs access to markets are expected in the coming years²⁰.

4. Other key SME-related brief insights



IMPACT OF COVID-19 CRISIS ON SMES

Armenian SMEs were significantly affected by the COVID-19 crisis during 2020. Additional requirements to prevent COVID-19 outbreaks increased the cost of doing business in many sectors – affecting SMEs in particular due to their more limited resources²¹. The government launched several support measures targeting SMEs, mainly in the form of grants, lending/refinancing and other financial support, as well as some other measures directed in particular at the *tourism, transport and grape processing* sectors.



GREEN TRANSITION OF SMES

According to the OECD SME Policy Index 2020, Armenia performs below the Eastern Partner Countries' average in the green transition of SMEs. Some measures to tackle this issue, such as loans with green and environmental components, are in place²². The SME Development Strategy proposes additional awareness-raising measures.



REGULATORY BURDEN

According to the Global Competitiveness Report, Armenia performs better than the EU average in terms of burden of government regulations²³. In addition, an in-depth assessment of the current administrative burden and the development of a package of solutions are expected as part of the SME Development Strategy²⁴.



DIGITALISATION OF SMES

According to a World Bank survey, the adoption of digital technologies and digital business models by Armenian SMEs is lower than the EU average. Only 4% of Armenian SME managers say they were familiar with the use of sophisticated IT tools²⁵. However, a digitalisation strategy for 2020-2025 was being prepared during 2020 and is expected to be published soon²⁶.

¹ GDP data for 2020 are based on data from the Statistical Committee of the Republic of Armenia. GDP data only reflect the first three quarters of 2020. Data available at: <https://www.armstat.am/file/doc/99520803.xls>

² World Bank (2020), *Doing Business Index*, available at: <https://www.doingbusiness.org/>

³ Ibid.

⁴ Global Entrepreneurship Monitor (2020), *GEM 2019/2020 Global report*, available at: <https://www.gemconsortium.org/report/gem-2019-2020-global-report>

⁵ Ameria (2020), *GEM Armenia National Report 2019/2020*, available at: <https://ameriaadvisory.am/wp-content/uploads/2020/08/GEM-EnglishFinal.pdf>

⁶ See Note **Error! Reference source not found.**

⁷ See Note 2.

⁸ Ibid.

⁹ Republic of Armenia National Assembly (2016), *Tax Code of the Republic of Armenia*, available at: <https://www.arlis.am/documentview.aspx?docID=109017>

¹⁰ SME Financial Forum Center (2020), *MSME Finance Gap*, available at: <https://www.smefinanceforum.org/data-sites/msme-finance-gap>

¹¹ EBRD, ETF, EU, OECD (2020), *SME Policy Index: Eastern Partner Countries 2020*, available at: <http://www.oecd.org/publications/sme-policy-index-eastern-partner-countries-2020-8b45614b-en.htm>

¹² Ibid.

¹³ Global Entrepreneurship Monitor (2019), *National Expert Survey*, available at: <https://www.gemconsortium.org/data/sets>

¹⁴ See Note 13.

¹⁵ Government of the Republic of Armenia (2020), *SME Development Strategy 2020-2024*, available at: <https://www.arlis.am/DocumentView.aspx?DocID=145707>

¹⁶ Ibid.

¹⁷ Armstat (2019), *SMEs in Armenia*, available at: <https://www.armstat.am/am/?nid=82&id=2218>

¹⁸ See Note 15.

¹⁹ Ameria Research (2019), *SME sector in Armenia 2019*, available at: <https://ameriaadvisory.am/researches/small-medium-business-in-armenia-2019/>

²⁰ See Note 15.

²¹ Global Entrepreneurship Monitor (2020), *Diagnosing COVID-19 Impacts on Entrepreneurship*, available at: <https://www.gemconsortium.org/reports/covid-impact-report>

²² See Note 11.

²³ World Economic Forum (2019), *Global Competitiveness Report*, available at: http://www3.weforum.org/docs/GCR2018/GCI_4.0_2018_Dataset.xlsx

²⁴ See Note 15.

²⁵ World Bank (2019), *ICT usage survey in Armenia*, available at: <https://blogs.worldbank.org/europeandcentralasia/internet-use-armenia-how-do-individuals-and-businesses-use-internet-access>

²⁶ Government of the Republic of Armenia (2020), *SME Development Strategy 2020-2024*, available at: <https://www.arlis.am/DocumentView.aspx?DocID=145707>