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Enabling Environment for Sustainable Enterprises



International
Labour
Organization



Enabling Environment for Sustainable Enterprises in Armenia

March 2016

The enabling environment for sustainable enterprises in Armenia

International Labour Organization

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Foreword

The Republican Union of Employers of Armenia (RUEA), in line with its mandate to contribute to the development of a conducive environment for enterprises in Armenia, has called upon the ILO to assist the organisation to assess the current business environment in the country and to identify areas for improvement. The information gathered through the assessment enables ILO constituents to identify priorities for the promotion of sustainable enterprises and the transition to formality. For RUEA, the analysis of the enabling environment provides an entry points for the development of policy positions and structured and evidence-based advocacy efforts.

The assessment was conducted in line with the ILO methodology on the Enabling Environment for Sustainable Enterprises (EESE). This methodology assesses the business environment in terms of the economic, social, political and environmental aspects of doing business. The EESE methodology was developed in response to the June 2007 International Labour Conference (ILC), which discussed the promotion of sustainable enterprises and which called for the strengthening of the institutions and governance systems which nurture enterprises. The conclusions reached at the 2007 ILC discussion on the promotion of sustainable enterprises identified 17 pillars for an environment conducive to the promotion of sustainable enterprises, which form the basis of the EESE methodology. The process of improvement of the enabling environment according to the EESE methodology promotes social dialogue and enhances tripartism as a means of consensus building, economic and social development, and good governance and is embedded entirely in the promotion of Decent Work.

SMEs play a crucial role in poverty reduction and job creation in Armenia, employing nearly 25% of the country's work force and contributing 27% of GDP in 2012. A number of policies and regulations have been enacted in Armenia to promote sustainable growth through job creation, develop the business environment and improve environmental management. In 2014, the Armenian Development Strategy for 2014-2025 was adopted, which among other priorities, is focused on the improvement of business environment and investment climate and innovative SME development (and in 2015 SME Development Strategy was accepted for 2016-2018). The Strategy clearly stipulates that the state framework policy to increase the employment, among other things, will be aimed "at facilitating the establishment of businesses and investments. It also references to the problem of informal employment, which is over 50% of total employment in sectors as agriculture.

This report provides an overview of the research findings of the EESE assessment. It identifies the relative strengths and weaknesses of the enabling environment for sustainable enterprises. The purpose of the assessment is to stimulate debate and to provide an evidence base for policy reforms, leading to an environment that is more conducive to the promotion of sustainable enterprises. The report reflects information gathered through a review of secondary data and through a national opinion or perceptions survey comprised of 300 in-depth interviews, and several focus groups.

This report has been written by external consultant M. Muleskovic, under the coordination of ILO Moscow's Senior Enterprise Specialist J. Bliek and with the support of Senior Employers' Specialist V. Curovic.

A complementary action plan by a tripartite EESE committee based on the findings of this report will ensure the implementation of specific measures geared towards policy advocacy and reform.

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Executive summary

The 96th session of International Labour Conference held in Geneva in 2007, adopted conclusions for the promotion of sustainable enterprises and identified 17 conditions for an enabling environment. An environment conducive to the creation and growth of sustainable enterprises combines the legitimate quest for profit with the need for development that respects human dignity, environmental sustainability and decent work. In that context, Armenia is one of the countries chosen for the implementation of the EESE process that is developed as the ILO flagship programme following the conclusions of the Conference. During this process, Republican Union of Employers of Armenia (RUEA) expressed the interest to be the leading national partner for ILO in the implementation of the process in Armenia.

During this process, RUEA used the applied and tested EESE methodology - to collect and analyse all the necessary data and to present the report on the findings. Following the methodology, RUEA organized four focus groups to identify the most important pillars for the deeper analyses. With the support of external researchers and using the EESE questionnaire, RUEA conducted a survey among 300 companies throughout Armenia. Based on the methodology, there are 4 main segments which are analysed in this report: Political elements, Economic elements, Social and Environmental elements.

Political elements

In the context of the political elements, there seem to be alleged discontent with the lack of the Government's ability to meet expectations with regard to unemployment, corruption and inequalities. Political instability also caused some problems in the country's economy but the most important is uneven regional development. For 43.7% of the companies in Armenia regional stability is very important for current operational planning by the private sector. Armenia chose not to pursue signing of an EU association agreement any further, but seeking the partnership in the Eurasian Economic Union (EAEU) instead. Nevertheless, the country continues to pursue deeper cooperation with EU.

One of the problems in political elements and in the context of good governance is the existence of corruption in the country. Based on the EESE survey, 51.4% of the companies name bribery and other forms of corrupt payments, as an issue that has consistent impact on firms. The majority of firms are not informed about the existence of effective and independent anti-corruption institutions responsible for handling complaints made by the private sector. The second problem identified by companies is public procurement processes and procedures. The main complaint about procurement refers to the lack of transparency. Also, a crucial problem in political elements is the low level of effectiveness of government. In a range of values from -2.5 to 2.5 with higher values indicating better performance, Armenia recorded a score of 0.07 in 2013. Furthermore, Armenian companies are not satisfied with the regulatory framework and 41.7% of the companies are of the opinion that the Government doesn't provide a regulatory framework that sufficiently encourages firms to expand their operations.

Economic elements

Economic indicators in Armenia show slow improvements while the situation in regards to macroeconomic indicators points to slight growth. Based on the current situation, and according to projections, the Armenian economy will also record a slow growth of GDP in 2016 after (3.1% growth in 2015). It is clear that the period prior to 2009 was a period of strong growth of the Armenian economy with a GDP growth rate in excess of 10%. However, with the influence of the global economic crisis, the Armenian economy reached the biggest drop of GDP in 2009. After that period, GDP constantly grew, but at a decreased rate. Despite the fact that the Armenian market has become more flexible for foreign investors in the past few years, FDI net inflow/GDP data show some negative trends. The biggest share of FDI net inflow was during the period 2006-2009 when this indicator reached a maximum value of 8.79% of GDP. In 2014, this indicator at 3.52% of GDP was at the lowest level since 2003.

One of the most important problems for Armenian companies is the level of inflation, but also the instability of the currency exchange rate. According to the EESE survey 40.3% of Armenian companies think

that the inflation rate has a very significant impact on the competitiveness of firms. Armenian employers identified labour costs, skills shortages and negative attitudes of employees as the main obstacles for improving the companies' productivity.

Trade data reveal that Armenia is improving its situation in this sector from year to year. Despite the fact that regulation had been changed, employers still identified it as one of the most important factors influencing low export levels along with procedures for export. Surveys among companies showed that firms that rely exclusively on the domestic market do so because they lack the capacity to export, i.e. dealing with licenses, regulations, etc.

The regulatory framework is recognized as crucial for the improvement of the business environment in Armenia. Nearly half of the enterprises in the survey (41%) agree with the statement: "The amount of overall management time firms spend dealing with the requirements of government regulation is a major issue for firms." Also, the overlapping competences of regulatory bodies (agencies, inspections) represent one of the big problems undermining the business environment in Armenia. The size of the tax burden along with tax administration is recognized as a main obstacle for doing business in Armenia.

Concerning fair competition, informal economic activities represent a big issue for the registered companies in Armenia. For 38% of the companies this is a major source of competition. Access to funding presents one of the main barriers for doing and starting a business in Armenia. The majority of companies agreed that interest rates are excessively high (15-25%) and that there are no specialized credit lines for some sectors (all credit lines offer the same terms). Furthermore, the collateral to secure loans is demanding and represents significant problems to employers. Additionally, 37.7% of the companies think that financial products are not adapted to the needs of SMEs.

Energy and energy supply present another important challenge for Armenian companies. More than 80% of the companies in Armenia said that power outages are a significant issue for the private sector, with 37.7% of companies confirming that power outages often cause damage to electronic equipment, such as computers which again results in significant expenses for them.

Social elements

In regards to social elements, there are two main fields identified that require improvement in the coming period: entrepreneurial culture and education, training and lifelong learning. Even if the process of establishing a company in Armenia is very simple, some of the main indicators showed a decrease in the number of newly registered business in the country during the past period. The general conclusion is that the entrepreneurial culture should not be looked at only in the sense of simplifying the procedures for companies' registration. Once they start a business, entrepreneurs face a whole range of other problems including high interest rates, a great number of fiscal burdens and fees imposed by the state and local authorities, and unfair competition.

On the other hand, education, training and lifelong learning represents a big obstacle for employers. Public expenditure on education consists of current and capital public expenditure on education plus subsidies to private education at primary, secondary and tertiary levels. Based on this indicator Armenia spends about 2% of GDP on education per year. This is a small share and needs to be improved in the future. In general employers are not satisfied with the skills of school leavers. Almost 30% of participants in the survey think that school leavers are not generally equipped with the literacy and numeracy skills required by firms in the private sector. Skill shortages negatively affect businesses in the private sector according to more than 70% of the surveyed companies. From the total number of companies, 56.7% don't have a department or a person responsible for training and 64.3% of companies don't have a training budget.

Environmental elements

Armenia's Government launched a Sustainable Development Programme, but at the same time made substantial investments in mining and other extractive industries. The Teghut copper-molybdenum mining project in particular poses a threat both to the environment and to sustainable development. The issues of pollution, deforestation, soil degradation, and other environmental issues are still in need of adequate address. In the coming period, State authorities are expected to focus more on the following:

environmental risks associated with the expansion of the mining industry as a result of higher prices of metals in international markets; illegal forest logging resulting from higher gas prices; overexploitation of water resources due to rapid development of subsectors using underground water resources and as a result of climate change; increased desertification risk.

Assessment results and ways forward

The Armenian business climate has been changing over the past several years and the majority of international reports recognized significant improvement to the business environment in the country. According to data collected in this report, it becomes clear that doing business in Armenia is relatively easy.

Nevertheless, there are still issues related to transparency and the implementation of the Armenian regulatory system. The application of tax, customs (especially valuation) and regulatory rules (especially in the area of trade) is often inconsistent, creating uncertainty for medium-size businesses and market entrants. Although, the Armenian legal system has improved significantly in recent years, there remains a significant gap between the quality of the laws enacted in Armenia and their implementation by government agencies and courts. Poor enforcement of court decisions is also a problem. According to the latest Enterprise Survey (2013), the top 3 obstacles to running a business in Armenia include tax rates, tax administration and political instability.

Armenia moved up 4 ranks in the Doing Business ranking between 2015 and 2016, from 38 to 35. However, conditions worsened in terms of getting credit, protecting minority investors and resolving insolvency. Armenia, in 2015, made starting a business easier by reducing the time to obtain an electronic signature for online tax registration. Armenia made paying taxes easier by merging the employee and employer social contributions and individual income tax into one unified income tax; and made starting a business easier by eliminating company registration fees.

Nevertheless, there is need and room for the improvement of the business environment in the coming period. Based on employers' responses, the most important pillars that need to be improved in the coming period are:

- good governance and some issues pertaining to political stability
- sound and stable macroeconomic policy and good management of the economy including energy supply
- trade and sustainable economic integration
- enabling legal and regulatory environment
- fair competition
- access to financial services
- education, training and lifelong learning.

According to both the primary and the secondary data the main barriers Armenian employers face are: *regulatory framework, access to finance, informal economy and corruption, a mismatch between the education system and labour market needs and energy supply.*

1. Introduction

The 2007 International Labour Conference adopted conclusions for the promotion of sustainable enterprises and identified 17 conditions for an enabling environment. An environment conducive to the creation and growth of sustainable enterprises combines the legitimate quest for profit with the need for development that respects human dignity, environmental sustainability and decent work.

The ILO in its aim to support employment has identified factors in the business environment that influence the success of new or existing enterprises. For this purpose ILO created the Enabling Environment for Sustainable Enterprises methodology. This tool and methodology has been created in close coordination between ACT/EMP and the Enterprises department of the ILO. The tool has been implemented in over 30 countries and currently ILO Moscow coordinates and (with support of ILO Europe and Enterprises department) implements EESE in several countries of Central Asia and the Caucasus.

The first step in the implementation of the EESE methodology in Armenia was the organization of focus groups in order to identify the priority pillars to be deeper analyzed in the enterprise survey. On August 13th and 14th 2015 4 thematic focus groups meetings were organized in close collaboration with the Republican Union of Employers of Armenia. Enterprises from the following sectors were involved:

1. Food industry, alcoholic drinks, trade;
2. IT and engineering;
3. Tourism and hospitality; and
4. Closed companies

Based on the outcomes of the focus groups the following pillars of EESE were identified as the most relevant ones:

Pillar 2. Good governance (including political stability from pillar 1);

Pillar 6. Sound and stable macroeconomic policy and good management of the economy (including Energy from pillar 12 subcategory Infrastructure);

Pillar 7. Trade and sustainable economic integration;

Pillar 8. Enabling legal and regulatory environment;

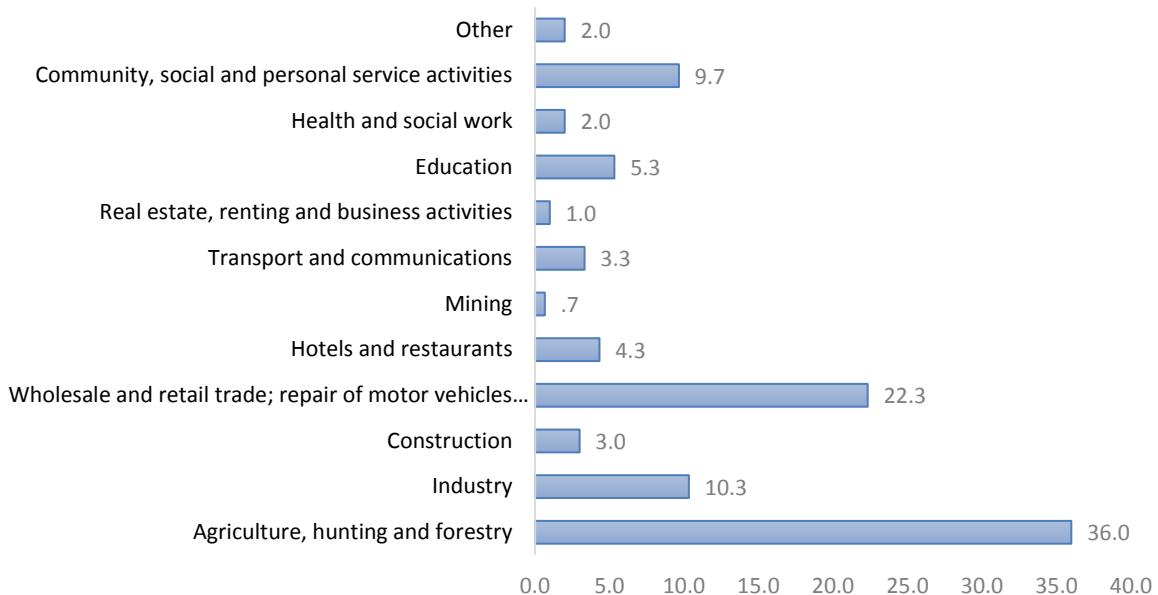
Pillar 10. Fair competition;

Pillar 11. Access to financial services;

Pillar 14. Education, training and lifelong learning;

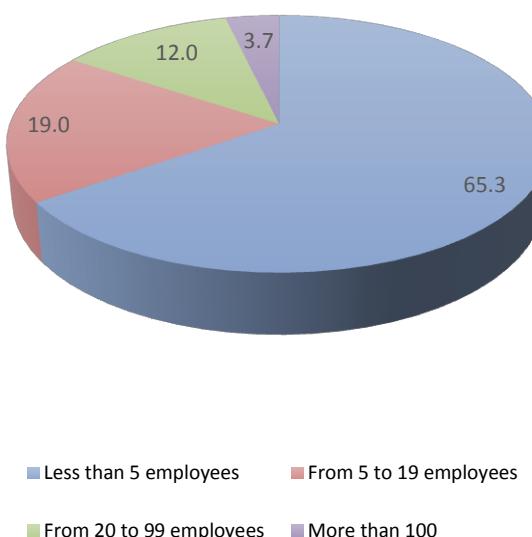
Following the focus groups meetings, the next step in the process was conducting an enterprise survey among 300 companies in Armenia. The questionnaire was prepared according to EESE methodology and interviews were conducted by an independent research company. The representative sample of companies was created based on official statistical data provided by the Statistical Office and RUEA. The sector related outline of the sample is shown in graph 1.

Graph 1: Sector of interviewed companies¹

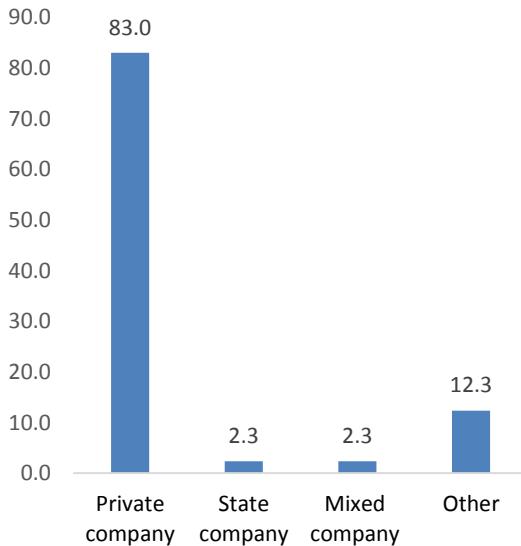


Out of 300 interviewed companies, 65.3% are small companies with less than 5 employees, 19% of companies have 5-19 employees and 12% of companies have 20-99 employees.

Graph 2: Number of employees²



Graph 3: Type of company³



¹ Source: EESE survey 2015.

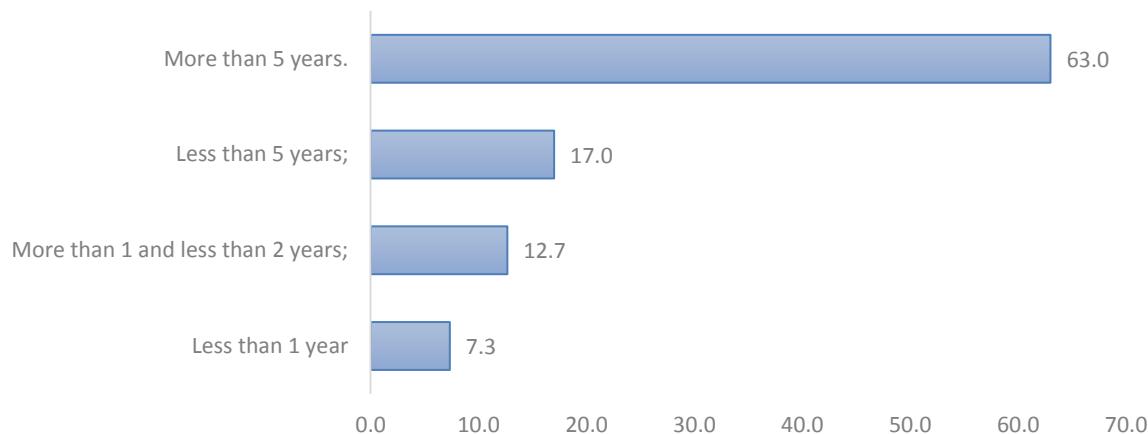
² Ibid.

³ Ibid.

In total 83% of the companies in the sample are private companies, 12.3% belong to some other type of company while 2.3% are state owned or mixed ownership companies.

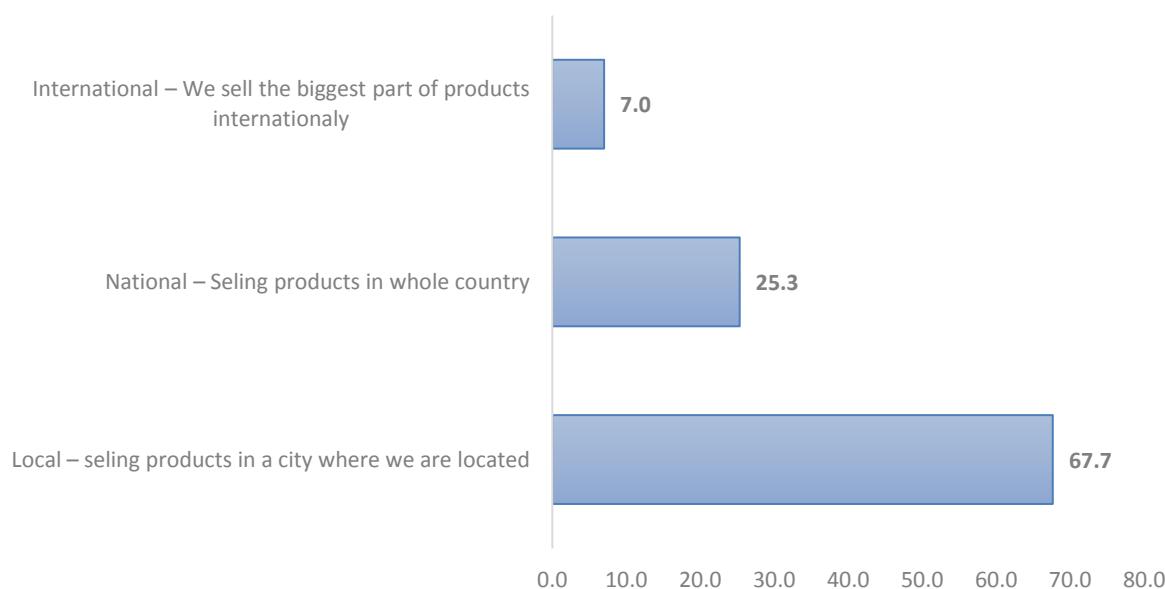
Graph 4 shows the structure of the sample related to the ‘age’ of the companies surveyed. The majority of companies (63%) exist for more than 5 years, 12.7% exist between 2 and 7 years and 7.3% exist for less than 1 year.

Graph 4: How long a company exists?⁴



Finally, as shown in Graph 5, most companies operate on the local market – in the city where they are located (67.7%) while 25.3% operate on national markets – throughout the country.

Graph 5: Main market of the company?⁵



⁴ Source: EESE survey 2015.

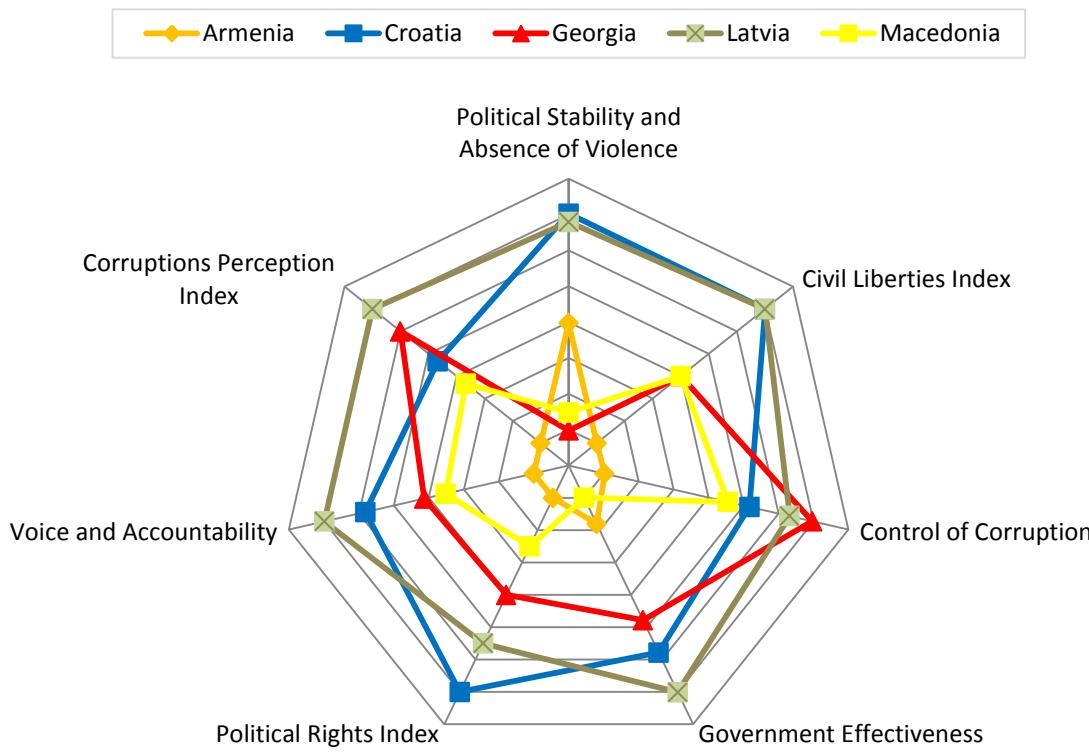
⁵ Ibid.

An enabling business environment is key for the development of existing and future companies but also for the attraction of foreign direct investments (FDI). Based on that, the creation of an enabling sustainable business environment is crucial for the development of the economy as a whole. The enabling environment includes all segments that are related to business (political, social, economic and environment). Although Armenia has big potential to be more competitive on the global market, there are a lot of reforms and actions to be taken to creating an enabling environment for business.

During the few past years, Armenia has done a lot on improving the business climate in the country. According to World Bank Group, Armenia has undergone extensive business environment reforms over the past years and has achieved a remarkable turnaround in its investment climate. In 2015-16, Armenia improved its ranking from 38th to 35th position out of 189 economies in the Doing Business ranking, and the World Economic Forum's Global Competitiveness ranking improved from 98th place in 2010-11 (out of 139) to 85th in 2014-15 (out of 144). However, this has not yet translated into substantial increases in FDI or business activity. Fostering entrepreneurship and stimulating the growth of MSMEs continue to be among the major development challenges.

2. Political elements

Indicators assessing political elements of an enabling environment for sustainable enterprises*



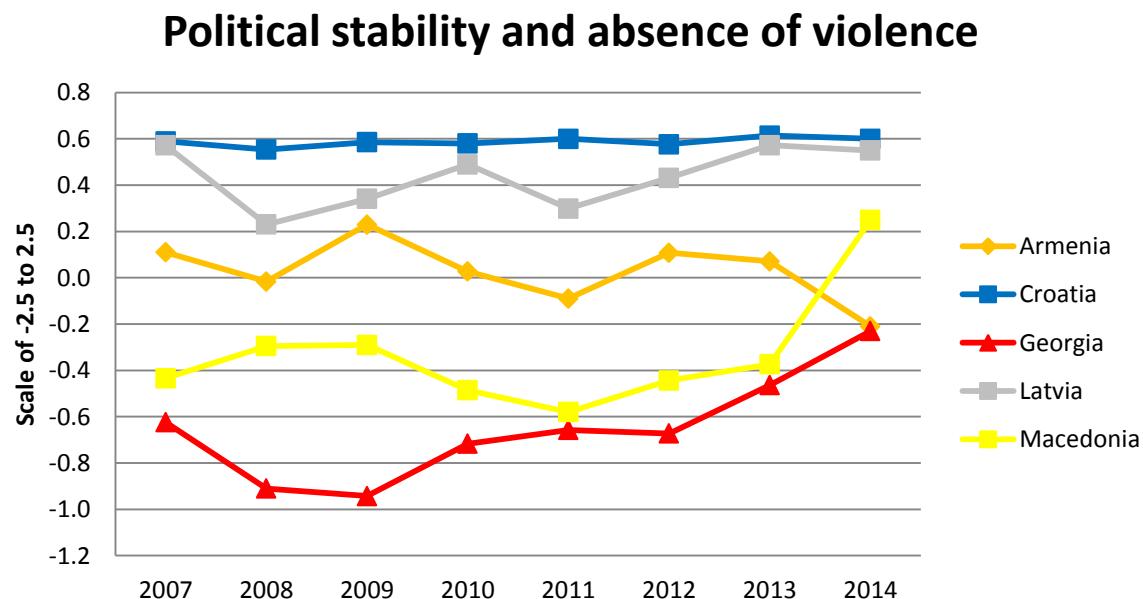
* the values for the individual indicators have been harmonized for better presentation and formatted so that the further from the centre a data point is, the better the country's performance in that regard. The original indicator values are included in the chapters.

- Regionally, Armenia's borders with two of its four neighbours, Azerbaijan and Turkey, remain closed. The relations with both neighbours are an element that have to be taken into account and influence the business environment in Armenia.
- Based on the above graph, it is obvious that compared to other countries, Armenia still lags behind in almost all political elements.

2.1. Peace and political stability

Armenia chose not to pursue signing of an EU association agreement any further, but instead, on 2 January 2015, the country became a full member of the Russian-led Eurasian Economic Union (EAEU). Nevertheless, Armenia continues to seek deeper cooperation with EU, and is planning to sign an agreement in lieu of the Association Agreement, which will be less far reaching.⁶

Graph 6: Political stability and absence of violence⁷



This indicator presents the likelihood that the government will be destabilized by unconstitutional or violent means, including domestic violence and terrorism and estimates governance measured on a scale from -2.5 to 2.5. Higher values correspond to better governance. Based on this World Bank data it is clear that the political situation in Armenia still lags behind Croatia and Latvia, but in 2013 still better than in Georgia and Macedonia. In 2014, however there were negative trends related to this indicator and the value of this indicator was negative (-0.21) and as a result Armenia was almost on the same level as Georgia and still far behind other compared countries.

⁶ Source: <http://www.europeanforum.net/country/armenia>, European forum for Democracy and Solidarity.

⁷ Source: World Bank, Worldwide Governance Indicators, <http://info.worldbank.org/governance/wgi/index.aspx#home>

Key Indicators

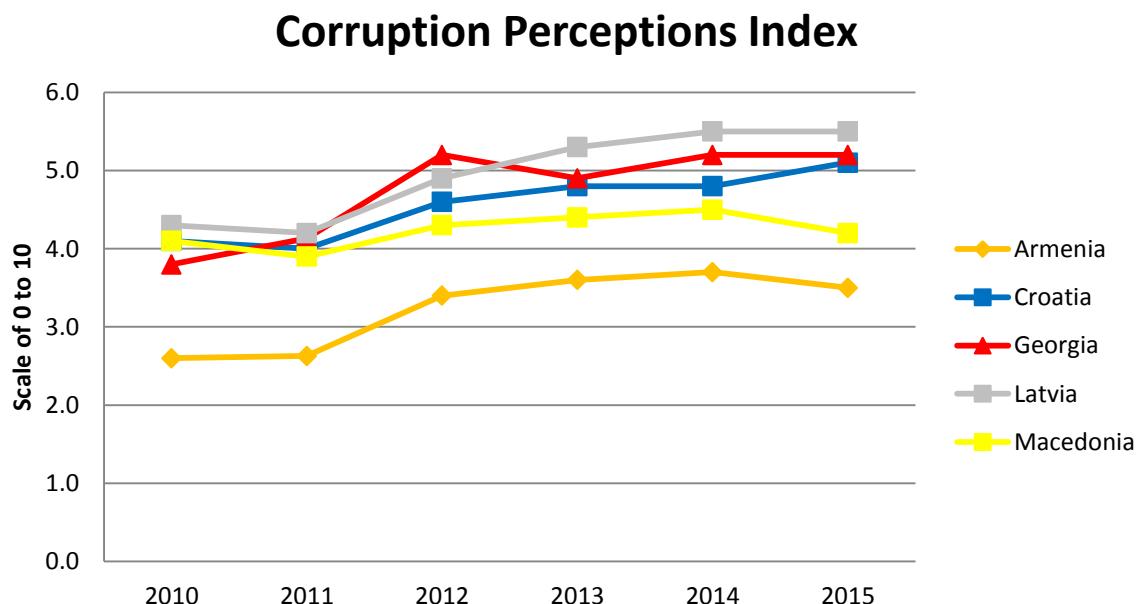
Political Stability and Absence of Violence		2008	2009	2010	2011	2012	2013
	Armenia	-0.02	0.23	0.03	-0.09	0.11	0.07
Croatia	0.55	0.59	0.58	0.60	0.58	0.61	
Georgia	-0.91	-0.94	-0.72	-0.66	-0.67	-0.46	
Latvia	0.23	0.34	0.49	0.30	0.43	0.57	
Macedonia	-0.30	-0.29	-0.49	-0.58	-0.44	-0.37	

Estimate of governance measured on a scale from approximately -2.5 to 2.5.
Higher values correspond to better governance.

2.2. Good governance

Good governance, the absence of corruption and efficient institutions foster entrepreneurship and promote private sector growth and development. As shown in some previous reports, corruption is identified as an important problem in Armenia.

Graph 7: Corruption Perception Index⁸

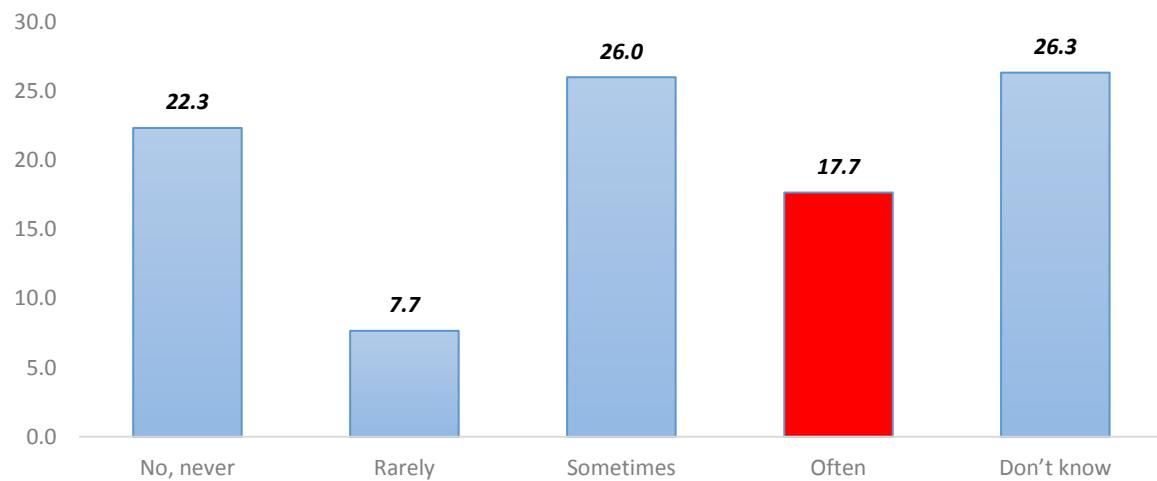


CPI measures the perceived levels of public-sector corruption as seen by business people and country analysts in a given country and is a composite index, drawing on different expert and business surveys. The scores are on a scale from zero (highly corrupt) to ten (highly transparent). From the graph 8 it is obvious that according to this indicator the situation in Armenia in the area of corruption is very problematic. All countries taken in comparison perform better than Armenia. But looking at this index for Armenia, it is obvious that the country made improvement from 2010, when the value of this indicator was 2.6. During the time period from 2010-2014 Armenia made a

⁸ Source: Transparency International, <http://www.transparency.org/research/cpi/>

progress from 2.6 to 3.7 and again recorded a slight drop to 3.5 in 2015. Despite the fact that the country made some improvements, it is clear that those are just small steps in the process of overall improvement of the Corruption Perception Index. This problem was also recognized during the focus group meetings with Armenian employers and it is deeper analysed through the survey.

Graph 8: Is bribery, and other forms of corrupt payments, an issue that consistently impacts on firms?

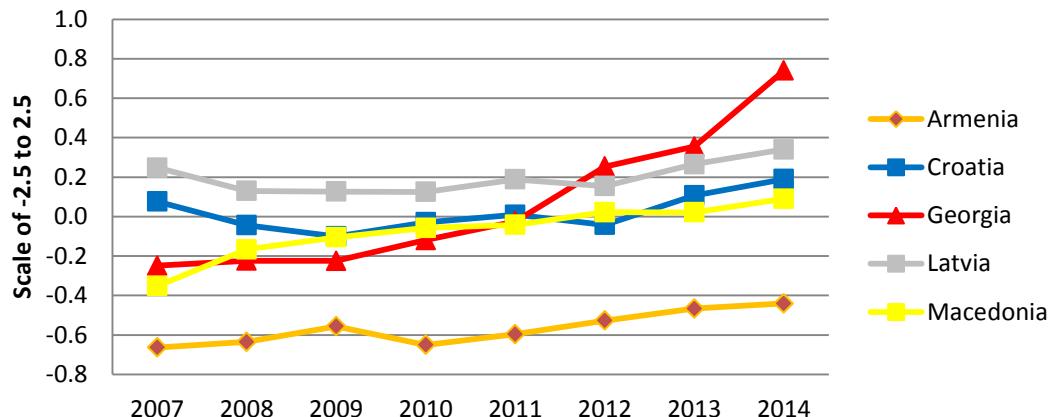


According to the EESE survey, 17.7% of all respondents stated that bribery and other forms of corrupt payments are issues that often consistently impact firms in the country, which is highly worrying. On the other side, 22.3% of the companies state that it never influenced their business operations. Overall, 51.4% of the companies recognize bribery and other forms of corrupt payments, as an issue that consistently impacts on firms. The survey once again confirmed the situation in this field. When asked “Do firms have to make extra ‘speed’ payments or illicit backhanders to receive a reasonable level of service?” approximately 33% of the companies claimed that they had to make speed payment to receive reasonable levels of service. On the other side 31% of companies stated that this was not necessary.

Graph 9: Control of corruption⁹

⁹ Source: World Bank, Worldwide Governance Indicators.

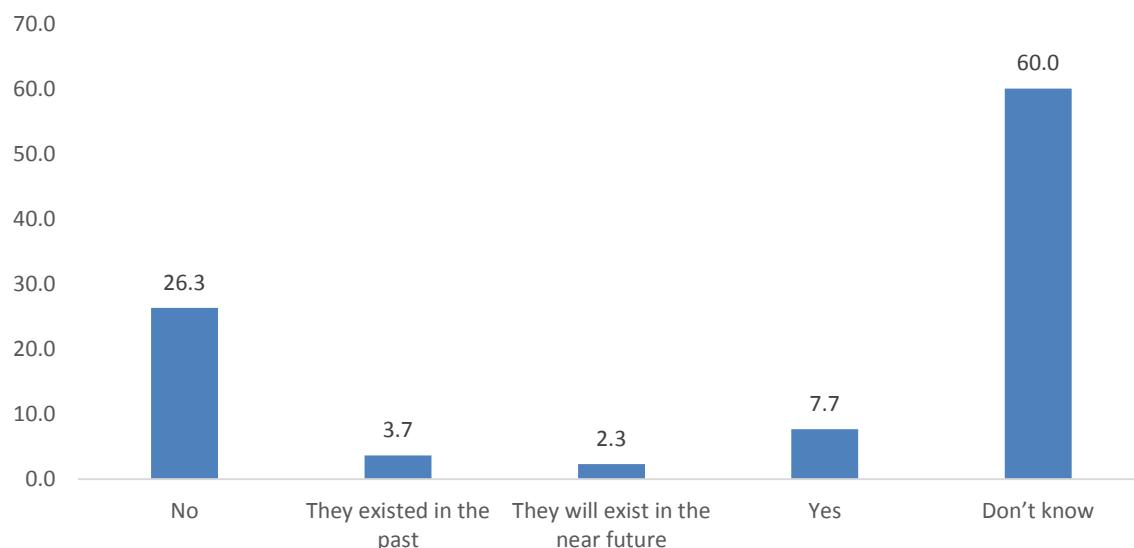
Control of corruption



This indicator shows the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as “capture” of the state by elites and private interests. Estimates of governance are measured on a scale from approximately -2.5 to 2.5 where higher values correspond to better governance. Based on that, the Control of Corruption indicator for Armenia is very low. In 2014 among the countries compared only Armenia recorded negative values. Some small improvements of this indicator are recorded in the period 2007-2014 but these steps are small and authorities in the country need to put more efforts in this area.

The majority of firms are not informed about the existence of effective and independent anti-corruption institutions responsible for handling complaints made by the private sector. Only 7.7% of enterprises are aware that such institutions exist compared to 60% of enterprises who are unaware of the existence of such institutions. On the other side, 26.3% of companies state that independent anti-corruption institutions do not exist. These data point to the need for greater promotion and active involvement of such institutions throughout the private sector in the country.

Graph 10: Do effective, independent anti-corruption institutions exist to handle complaints made by the private sector?



In addition, the survey has pointed to a problem of transparency of the public procurement process. About 16.7% of companies think that tendering for public bids do not follow transparent procurement procedures. On the other side 14.7% state that these procedures are often transparent.

The main institution involved in control of the corruption in Armenia is the Anticorruption Council. The main roles of the Council are¹⁰: (1) consider and endorse the anti-corruption strategy; (2) submit recommendations for amending and supplementing the anti-corruption strategy; (3) consider and endorse sector-specific programmes developed on the basis of the anti-corruption strategy; (4) submit recommendations on amending and supplementing the sector-specific programmes developed on the basis of the anti-corruption strategy; (5) co-ordinate the implementation of actions arising from the anti-corruption strategy and the international obligations and commitments assumed by the Republic of Armenia, the process of developing and implementing sector-specific anti-corruption programmes by requesting and receiving from state bodies the necessary materials and information, organising and holding meetings, discussions, hearings, considering issues existing in the field of fight against corruption and recommending possible solutions to them; (6) exercise control over the implementation of actions arising from the anti-corruption strategy and the international obligations and commitments assumed by the Republic of Armenia, the process of developing and implementing sector specific anti-corruption programmes by submitting recommendations to the responsible bodies, requesting reports and analyses, organising and holding discussions, meetings, hearings; (7) consider the results of evaluation (monitoring) of anti-corruption programmes, and submit recommendations to the responsible bodies on the basis of reports summarised by the Task Force; (8) co-operate, in the process of fight against corruption, with international and regional organisations, civil society representatives, organisations representing the business sector, bodies taking part in the implementation of the anti-corruption policy, as well as institutions contributing to the prevention of corruption, including through co-ordinated meetings. Here, discussions are held during co-ordinated meetings on actions carried out, existing issues, possible solutions, ensuring, at the same time, proper communication and efficient co-operation between state and local self-government bodies. Opinions expressed during discussions may be included by the Council in its recommendations. (9) Approve the working procedure of the Council; (10) approve the working procedure of the Task Force; (11) prescribe the procedure for the selection of experts, as well as the standards set for them.

As highlighted during the Conference in Yerevan in February 2016, Government and all other stakeholders should do more to promote the existence of the Council and also make its work more transparent and visible. On one hand, Government's work within this council needs more support from all other stakeholder, as the fight against corruption is not the obligation of Government exclusively. On the other hand, employers are not satisfied with the composition of the Council and want to be more involved in it. Chaired by the Prime Minister of the Republic of Armenia, the Council is composed of the following: Minister-Chief of Government Staff, Minister of Justice, Minister of Finance, Prosecutor General, Chairman of Ethics Committee, representatives from parliamentary opposition parties, President of Public Council, a representative from the Union of Communities. The Government Staff's Anticorruption Program Monitoring Division provides for the activities of the Secretariat of the Anticorruption Council.¹¹ The majority of stakeholders are not satisfied with the composition of the Council and all want to be members of the Council.

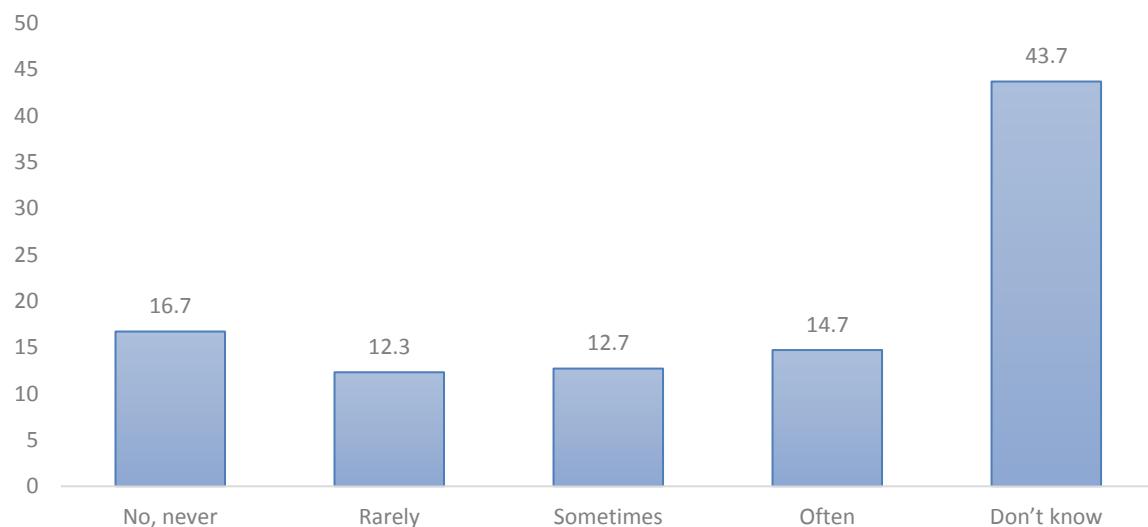
Armenia adopted an anti-corruption strategy for 2015-2018 with four targets, namely: combating corruption in healthcare, education, revenue collection and police services. Additionally, E-Democracy is an important step which is in the process of development in Armenia.

¹⁰ Source: Rules Of Procedure For The Anti-Corruption Council, Expert Task Force And Anticorruption Programmes Monitoring Division Of The Staff Of The Government Of The Republic Of Armenia.

¹¹ Source: <http://www.gov.am/en/anti-corruption-strategy/>

All stakeholders are of the same opinion that society should talk more about corruption in the country. It is clear that on one side citizens are not willing to comment on the problem of corruption but on the other side that businesses themselves don't sufficiently talk openly about the existence of corruption in all areas of society.

Graph 11: When tendering for public bids, are procurement procedures transparent?

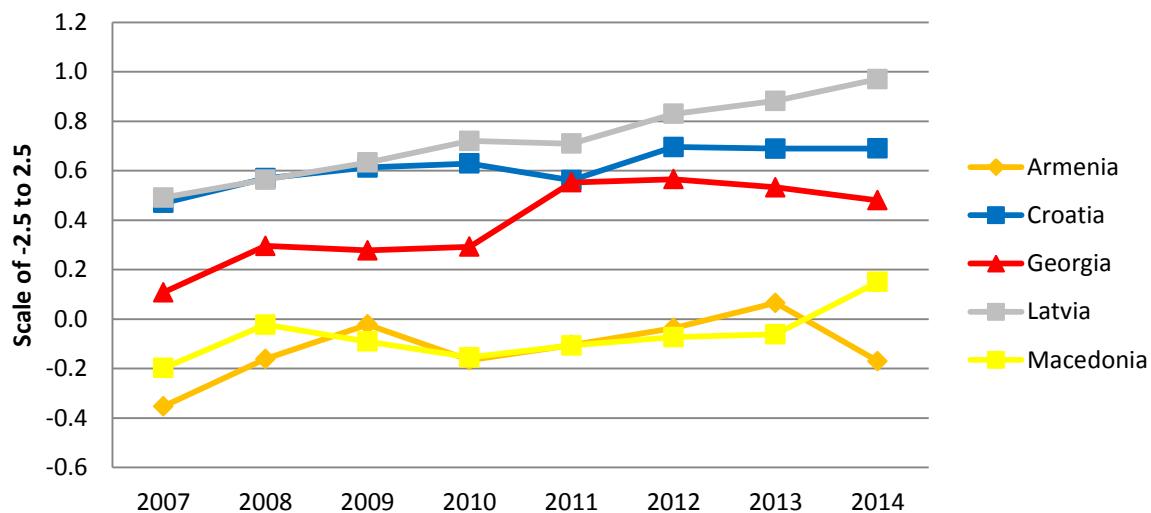


Secondary data reflect improvements in regards to government efficiency in Armenia in recent years. The indicator "Government Effectiveness" measures the quality of public services, the capacity of the civil service and its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the Government's commitment to such policies. In a range of values from -2.5 to 2.5 with higher values indicating better performance, Armenia recorded values below 0 over the period 2007-12, but has since successfully moved to a score of 0.07 in 2013. In 2014, Armenia fell back again to a negative value for this indicator, thus being the only country with negative values of this indicator.

Graph 12: Government effectiveness¹²

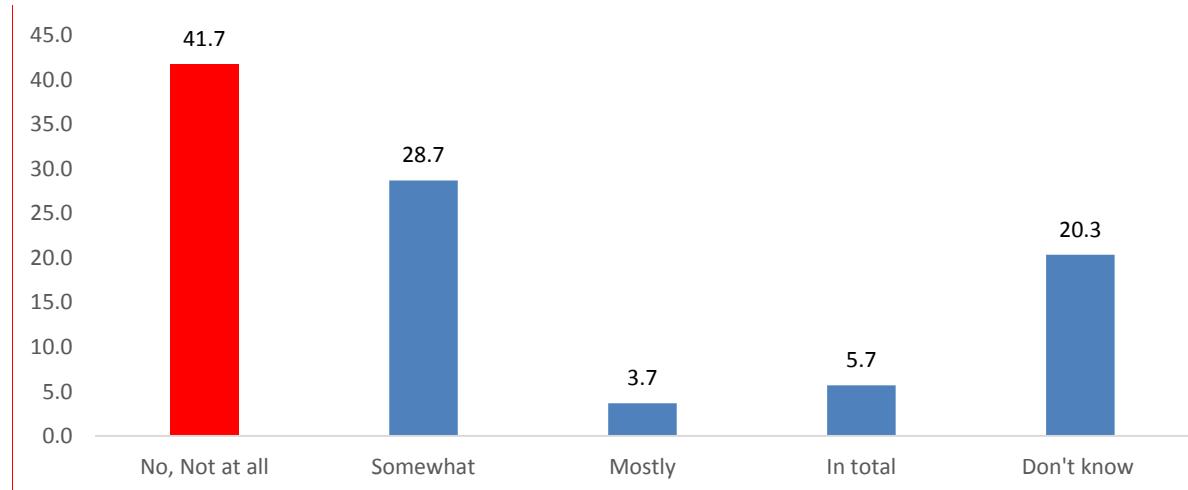
¹² Source: World Bank, Worldwide Governance Indicators.

Government effectiveness

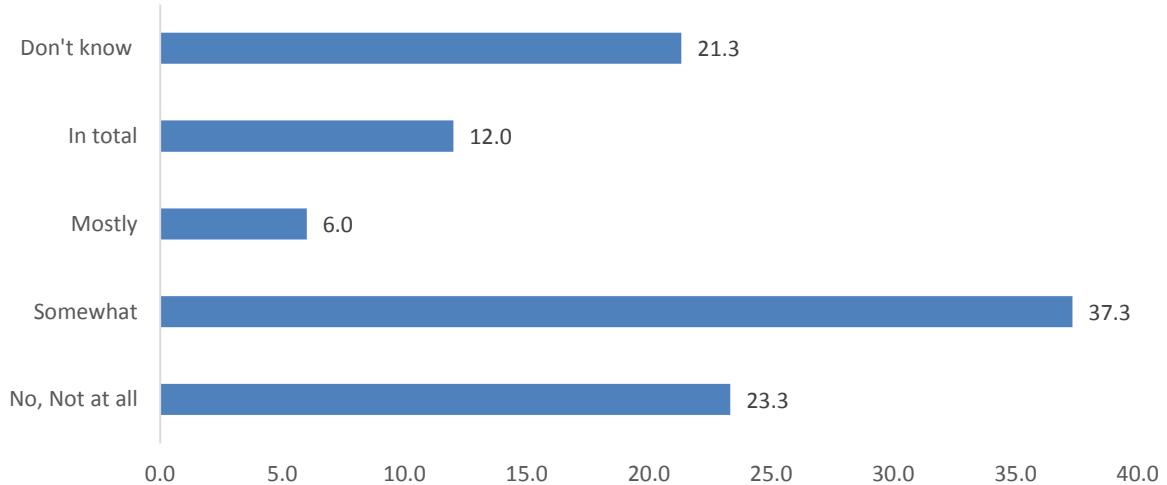


Still, despite the fact that this indicator has recorded some improvement in recent years, obviously the situation in Armenia is not on a proper level. Based on the data and when compared to other countries, Armenia performs only slightly better than Macedonia and ranks worse than other analyzed countries.

Graph 13: Does the Government provide a regulatory framework that encourages firms to expand their operations, if the business case permits?



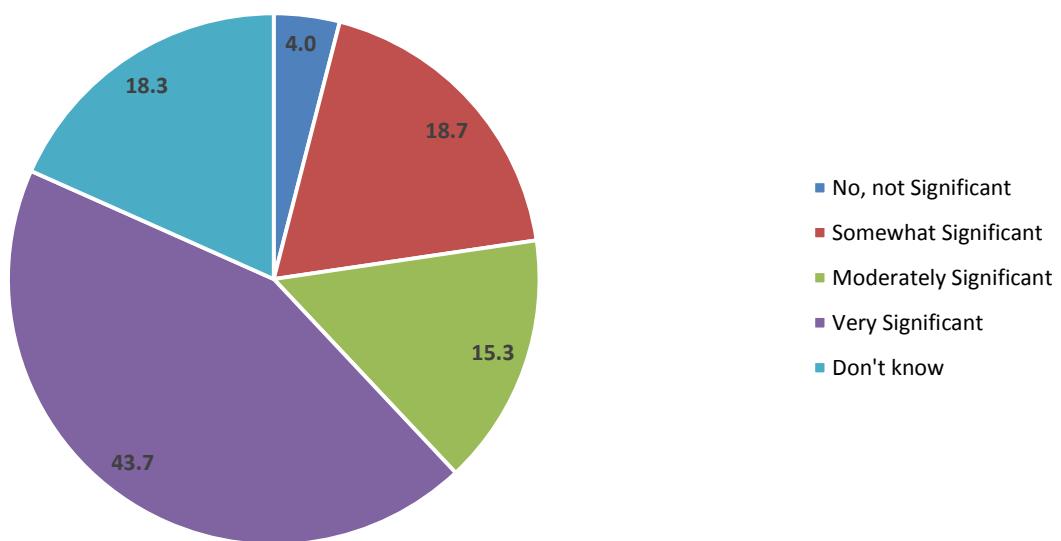
Graph 14: Are interpretations of the laws and regulations affecting firms both consistent and predictable?



Also, based on the employer's opinion, Government doesn't include all relevant stakeholders in the process of drafting Laws. This should be changed and all interested parties, especially trade unions and employers' federations should be involved in all processes of drafting and adopting of legislation, especially legislation that targets labour relations and similar issues.

Companies in the survey recognized a further problem related to government effectiveness. From their point of view rising regional instability caused a significant decrease in regional trade. For 43.7% of companies, regional instability caused very significant decreases in regional trade. Only 4% of the companies thought that this problem was not a factor for the decrease in regional trade.

Graph 15: Has rising regional instability caused a significant decrease in regional trade?



According to companies and their representatives, regional stability is a very important factor for current operational planning by the private sector. This is one of the key factors for most companies in Armenia and it should be improved in the near future. Based on the survey, regional

stability is very important for current operational planning by the private sector as stated by 43.7% of respondents. A clear majority of 77.7% of respondents think it is significant at varying levels.

Key Indicators							
Control of corruption The extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.		2008	2009	2010	2011	2012	2013
	Armenia	-0.63	-0.56	-0.65	-0.60	-0.53	-0.47
	Croatia	-0.04	-0.10	-0.03	0.01	-0.04	0.11
	Georgia	-0.22	-0.22	-0.12	-0.02	0.25	0.36
	Latvia	0.13	0.13	0.13	0.19	0.15	0.27
	Macedonia	-0.17	-0.10	-0.06	-0.04	0.02	0.02
Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.							
Corruption Perceptions Index (CPI) The Transparency International CPI measures the perceived levels of public-sector corruption as seen by business people and country analysts in a given country and is a composite index, drawing on different expert and business surveys.		2009	2010	2011	2012	2013	2014
	Armenia	2.7	2.6	2.6	3.4	3.6	3.7
	Croatia	4.1	4.1	4.0	4.6	4.8	4.8
	Georgia	4.1	3.8	4.1	5.2	4.9	5.2
	Latvia	4.5	4.3	4.2	4.9	5.3	5.5
	Macedonia	3.8	4.1	3.9	4.3	4.4	4.5
The scores are on a scale from zero (highly corrupt) to ten (highly clean).							

Government effectiveness The quality of public services, the capacity of the civil service and its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the Government's commitment to such policies.	2009	2010	2011	2012	2013
	Armenia	-0.02	-0.17	-0.10	-0.04
	Croatia	0.61	0.63	0.56	0.70
	Georgia	0.28	0.29	0.55	0.57
	Latvia	0.63	0.72	0.71	0.83
	Macedonia	-0.09	-0.15	-0.11	-0.07
Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.					
Voice & Accountability The extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.	2010	2011	2012	2013	2014
	Armenia	-0.86	-0.88	-0.85	-0.68
	Croatia	0.43	0.44	0.43	0.46
	Georgia	-0.29	-0.22	-0.18	-0.21
	Latvia	0.75	0.84	0.77	0.71
	Macedonia	0.18	0.15	0.09	-0.01
Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.					

2.3. Social Dialogue

Social dialogue with freedom of association and the right to collective bargaining is fundamental for the achievement of effective, equitable and mutually beneficial outcomes for ILO constituents and society at large.

The terms and principles as well as the parties, the system and the forms of Social partnership are defined by the Labour Code of Armenia. Based on the Labour Code, the National Agreement was signed in April 2009 among the Government, the Confederation of TUs and the Republican Union of Employers of Armenia. Starting from 2007 the ILO has supported a range of workshops and seminars for all three parties of social partnership. The Tripartite Commission, which includes the Ministries of Labour (chair), Finance, Economy, Justice and Health on the Government's side, and the Confederation of Trade Unions of Armenia and the Republican Union of Employers of Armenia on the side of social partners, meets frequently.

A relevant indicator in this domain is the cooperation in Labour-Employers Relations¹³ which determines whether labour employer relations are confrontational or cooperative on a scale from 1-7 with higher values indicating more cooperation. Armenia performs comparatively well (4.67) in this area, outperforming Georgia (4.22) and Croatia (3.69) and just lagging behind Latvia (4.82). The performance has been comparatively well despite a slight decrease compared to the previous year (4.79).

¹³ Source: World Economic Forum.

Key Indicator						
Cooperation in labour-employer relations <p>The World Economic Forum (WEF) Survey asked business leaders to provide their expert opinions on the following: "Labour-employer relations in your country are".</p> <p>Source: World Economic Forum Executive Opinion Survey.¹⁴</p>	2010/11	2011/12	2012/13	2013/14	2014/15	
	Armenia	4.5	4.62	4.78	4.79	4.67
	Croatia	3.34	3.40	3.37	3.49	3.69
	Georgia	4.23	4.24	4.35	4.18	4.22
	Latvia	4.29	4.34	4.37	4.52	4.82
	Macedonia	-	-	-	-	-
1 = generally confrontational, 7 = generally cooperative.						

2.4. Respect for universal human rights and international labour standards

Respect for human rights and international labour standards is a distinctive feature of societies that have successfully integrated sustainability and decent work. Armenia, as the only country of all compared country, as adopted all 9 main human rights conventions, Croatia, Georgia, Latvia and Macedonia have all adopted 8 of the 9 main human rights conventions.¹⁵

Of the five countries used for comparison, all countries have ratified the eight ILO core conventions on freedom of association and collective bargaining, and the abolition of child labour, forced labour and all forms of discrimination. Furthermore Armenia has ratified 29 technical conventions. The human rights situation in Armenia can also be assessed considering the following indicators:

The 'Political Rights Index'¹⁶, measures the level of freedom in the electoral process, political pluralism and participation, and functioning of the government. In a range from 1 to 7, with 1 representing the most free and 7 representing the least free, Armenia has maintained a stable level of 5 between 2012 and 2014 outscoring all countries of comparison. There has been a slight decrease compared to 2008-2011 when the score was 6.

The 'Civil Liberties Index'¹⁷ measures freedom of expression, assembly, association and religion. On a scale from 1 to 7, with 1 representing the most free and 7 representing the least free, Armenia performs relatively well with a stable score of 4 between 2006 and 2014. Armenia outperforms the countries of comparison which score 2 and 3 on this indicator.

The indicators give a positive view, in relation to other countries, on respect for universal human rights. On a technical level, the amount of ratification is still rather limited (18 out of 177

¹⁴ [World Economic Forum Global Competitiveness report](http://www.weforum.org/reports/global-competitiveness-report).

¹⁵These are the International Convention on the Elimination of All Forms of Racial Discrimination, the International Covenant on Civil and Political Rights, the International Covenant on Economic, Social and Cultural Rights, the Convention on the Elimination of All Forms of Discrimination against Women, the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment, the Convention on the Rights of the Child, the International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families, the International Convention for the Protection of All Persons from Enforced Disappearance, and the Convention on the Rights of Persons with Disabilities.

¹⁶ Source: <http://www.freedomhouse.org/report-types/freedom-world>

¹⁷ Source: <http://www.freedomhouse.org/>

technical conventions). No conventions have been denounced and none have been ratified in the past 12 months.

Key Indicators

Ratification of Human Rights Conventions	As of March 2016
<p>It shows the status of human rights referring to ratification of following 9 conventions: Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment; Convention on the Rights of the Child; Convention on the Elimination of All Forms of Discrimination against Women; International Convention on the Elimination of All Forms of Racial Discrimination; Convention on the Prevention and Punishment of the Crime of Genocide; International Covenant on Civil and Political Rights; International Covenant on Economic, Social and Cultural Rights; International Convention for the Protection of All Persons from Enforced Disappearance; Convention on the Rights of Persons with Disabilities.</p> <p><u>Source:</u> United Nations Treaty Collection Multilateral Treaties Deposited with the Secretary General (UNTC).¹⁸</p>	<p>Armenia 9 Croatia 8 Georgia 8 Latvia 8 Macedonia 8</p> <p>Number of Conventions ratified out of 9.</p>
Ratification of fundamental ILO Conventions	As of March 2016
<p>It shows the status of labour rights conventions. It refers to ratification of following 8 conventions: Freedom of association and collective bargaining (C.87, C.98), Elimination of forced and compulsory labour (C.29, C.105), Elimination of discrimination in respect of employment and occupation (C.100, C.111), Abolition of child labour (C.138, C.182).</p> <p><u>Source:</u> ILO¹⁹</p>	<p>Armenia 8 Croatia 8 Georgia 8 Latvia 8 Macedonia 8</p> <p>Number of Conventions ratified out of 8.</p>

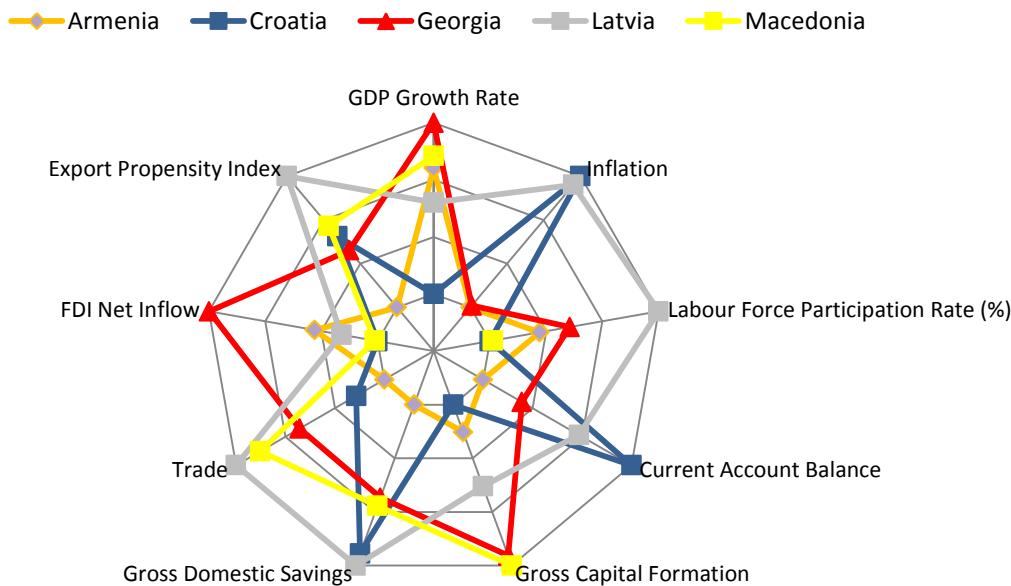
¹⁸ [United Nations Treaties](#).

¹⁹ [ILO](#).

3. Economic elements

Indicators assessing economic elements of an enabling environment for sustainable enterprises*

Macroeconomic Indicators



* the values for the individual indicators have been harmonized for better presentation and formatted so that the further from the centre a data point is, the better the country's performance in that regard. The original indicator values are included in the chapters.

- In recent years the Armenian economy was characterized by decreasing growth of the national economy followed by an increase of the current account deficit.
- *Decreasing growth:* Armenia's economic growth in 2015 is likely to be slow for the year, after the 2013 hit to the economy, followed by weak growth in 2014. This is mainly due to the deteriorating economic situation in Russia, as many Armenians rely on remittances from expatriates in Russia and the main market for Armenian exports is Russia. Among the greatest sources of economic vulnerability are: infrastructure; lack of domestic market competition; fragile institutional environment; high unemployment rate; and the business environment. Investment in the North-South motorway (Iranian to Georgian frontier) is expected to contribute to growth, as is the expansion of credit, which will boost household consumption.
- *Increase of the current account deficit:* The budget deficit is likely to increase in 2015,

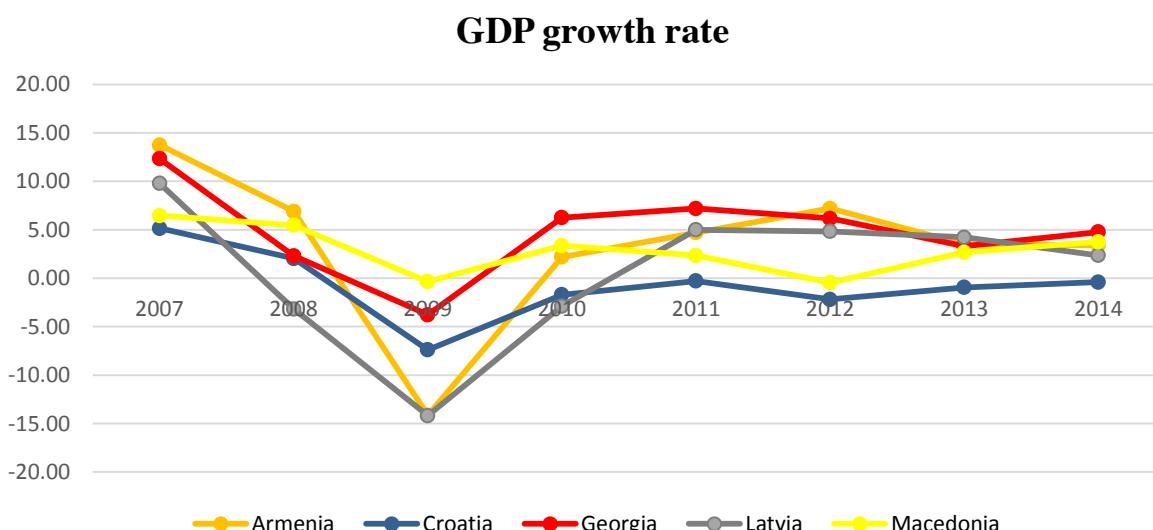
despite reforms made by the tax administration to improve tax collection. The current account balance should remain negative in 2015. The decrease in exports to Russia and Germany, together with a fall in transfers from Russia, is likely to impact the balance significantly. Subsequently, public debt can be expected to grow in 2015-2016. Also, the energy bill deficit is still high.

- Foreign direct investments might increase owing to closer relations with the EU.
- The banking sector appears to be well capitalized thanks to stronger prudential rules.
- Despite the fact that Armenia had a positive GDP growth value in 2014 it is obvious that this growth was small and the effects of economic crises are still felt in the Armenian economy. Baring this in mind, and according to available data, GDP growth and Armenian economic development lags behind the countries considered in this report (with the exception of Latvia and Croatia).

3.1. Sound and stable macroeconomic policy and good management of the economy

Macroeconomic policies should guarantee stable and predictable economic conditions. Sound economic management should combine the objectives of creating more and better jobs, combating inflation, and implementing policies and regulations that stimulate long-term productive investment. Based on the official data, the Armenian economy has recorded positive trends concerning GDP growth. As mentioned before, the Armenian economy was projected to have a slight increase in GDP in 2015. Before 2009 the Armenian economy recorded a strong GDP growth (13.87% in 2005, 13.75 in 2007 and 6.9% in 2008). It was followed by the biggest drop of GDP in 2009 when it was 14.15%. From that time onward the Armenian economy has been recording a slight increase in GDP but not yet sufficient to recover from the current economic state.

Graph 16: GDP growth rate²⁰

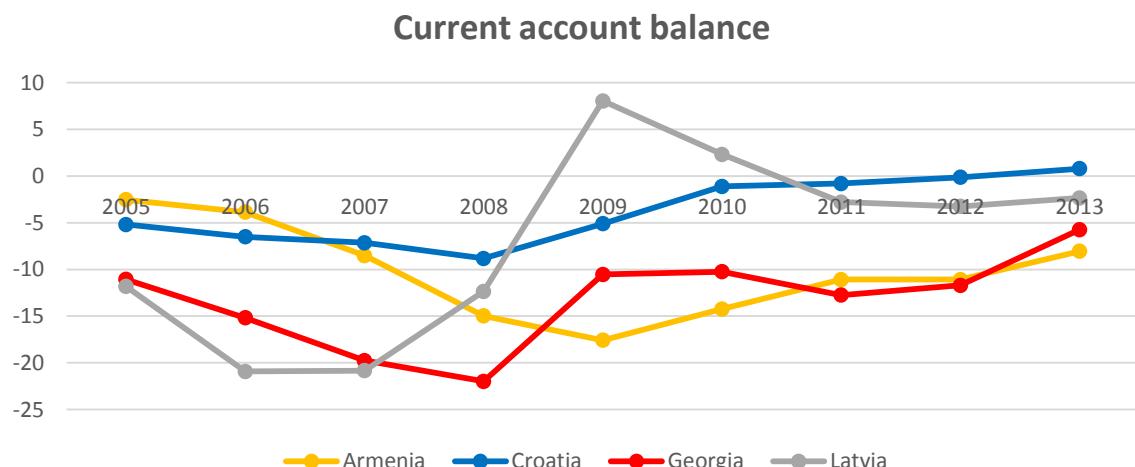


As a country largely dependent on foreign trade, Armenia is making significant efforts to attract foreign direct investments. The Government has adopted an “open door” policy, with Most Favoured Nation (MFN)²¹ and National Treatment regimes in place, and thorough-going legal protection to promote foreign investment. The law on “Foreign Investments” ensures a highly favourable business environment for foreign investors. It also allows unlimited participation of foreign capital in Armenian enterprises and ensures its protection. Even if the market has become more flexible for foreign investors, the data about FDI net inflow/GDP show some negative trends in the last few years. The biggest share of the FDI net inflow was in the period 2006-2009 where this indicator reached a maximum value of 8.79% of GDP. Following 2011 each year the share of FDI net inflow was lower than in the previous one. In 2014, at 3.52% of GDP, this indicator was at the lowest level since 2003.

²⁰ Source: World Bank national accounts data (World Development Indicators Online).

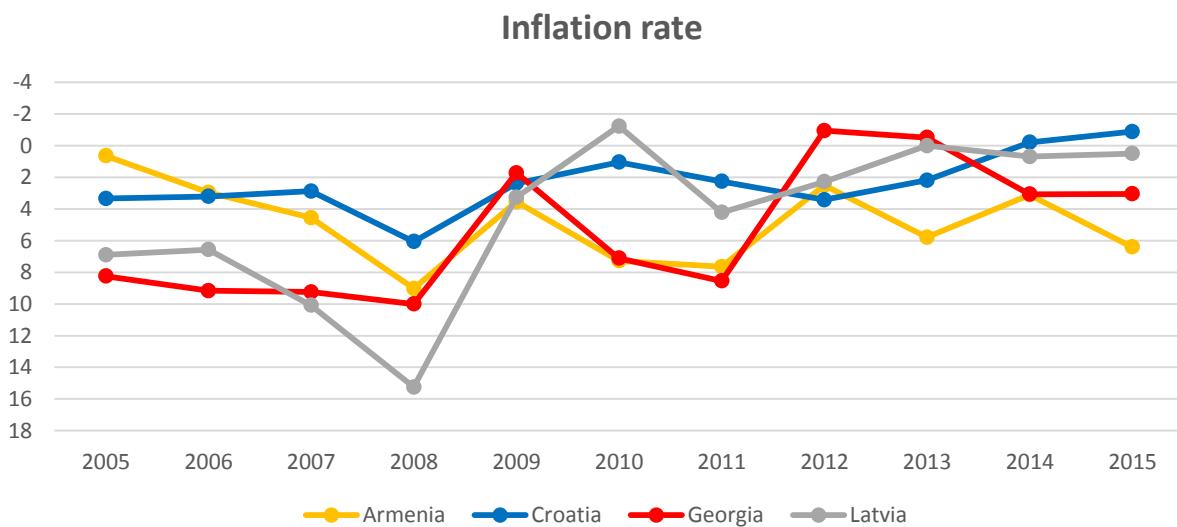
²¹ Source: <http://investinarmenia.am/en/foreign-direct-investment-and-free-economic-zones>

Graph 17: Current account balance²²



There is wide agreement that a current account deficit of 8-10 percent of GDP is high, and the higher the current account deficit, the higher the risk for the overall economy. This indicates that Armenia needs to do more to strengthen domestic production to improve the current account balance. This confirms that the Armenian economy is overly dependent on foreign investments. If in the coming period this level of investment decreases even further, it could lead to an economic crisis in the country.

Graph 18: Inflation rate²³



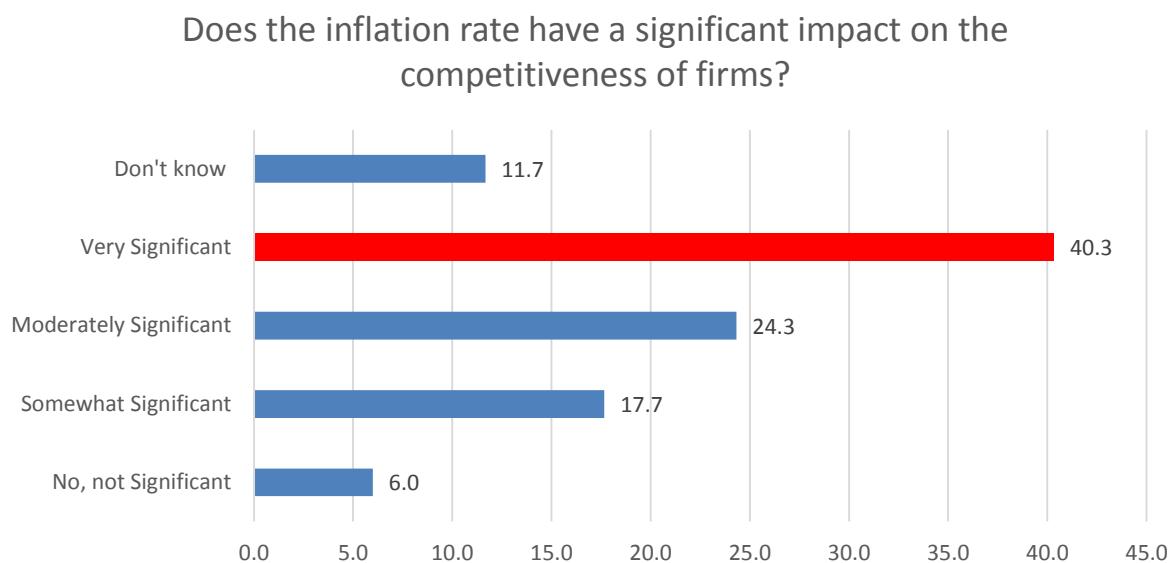
The inflation rate in Armenia has undergone many fluctuations for the past 10 years. Regardless of all the changes, Armenia has not recorded deflation for the past 10 years which indicates a constant increase of prices on the market. When looking into the figures for countries used for comparison, projected inflation in 2015 was the greatest in Armenia followed by Georgia. The issue of the level of inflation is both recognized during focus group meetings held and was also

²² Source: International Monetary Fund, World Economic Outlook Database, April 2014.

²³ Ibid.

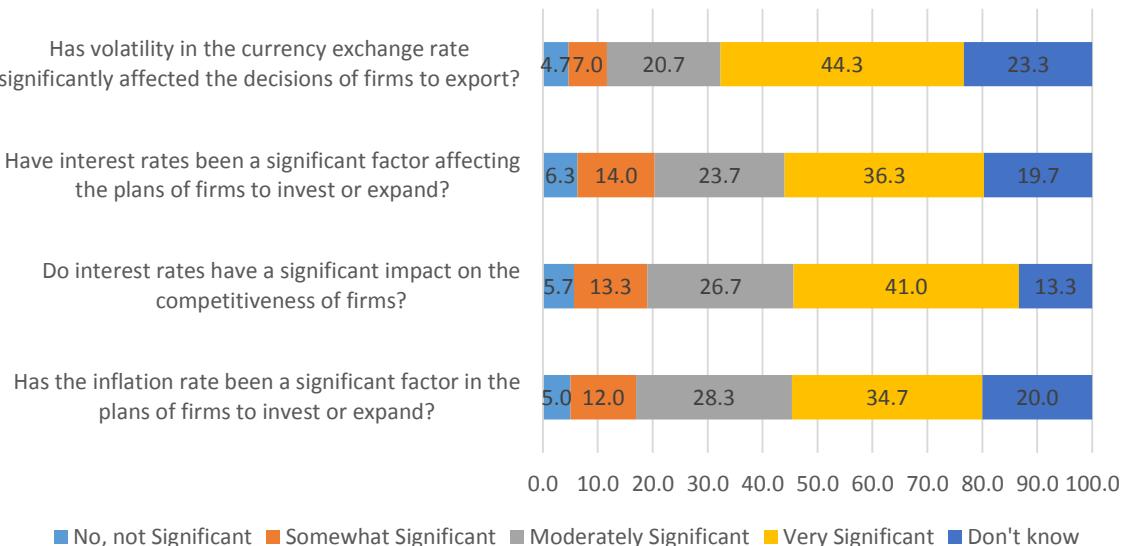
mentioned in direct interviews with companies. According to the EESE survey 40.3% of Armenian companies think that the inflation rate has very significant impact on the competitiveness of firms. Merely 6% of Armenian companies were of a totally opposite opinion.

Graph 19: Does the inflation rate have a significant impact on the competitiveness of firms?²⁴



As shown in the previous graph, the inflation rate represents one of the biggest issues for the competitiveness of companies in Armenia. For 34.7% of companies the inflation rate is a very significant factor that affects companies' plans to invest and expand, as seen in the graph below.

Graph 20: Influence of inflation, interest and currency exchange rate²⁵



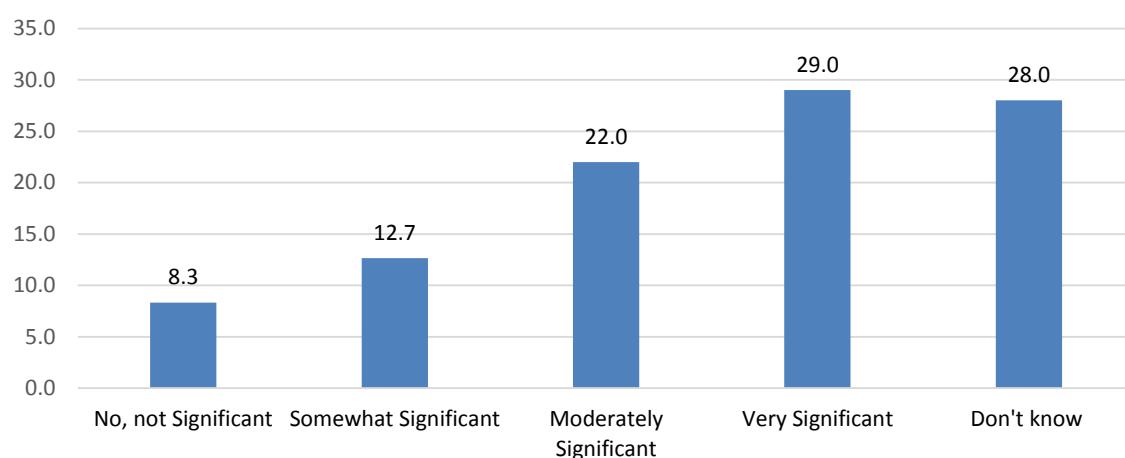
²⁴ Source: EESE survey 2015.

²⁵ Ibid.

Along with influences of the inflation rate, companies identified high interest rates as a problem for conducting business in Armenia. The interest rate is perceived to be an obstacle and a very significant factor affecting the competitiveness of companies in Armenia by 81% of companies. The situation is almost identical if we analyse the influence of the interest rate on companies' plans to invest or expand.

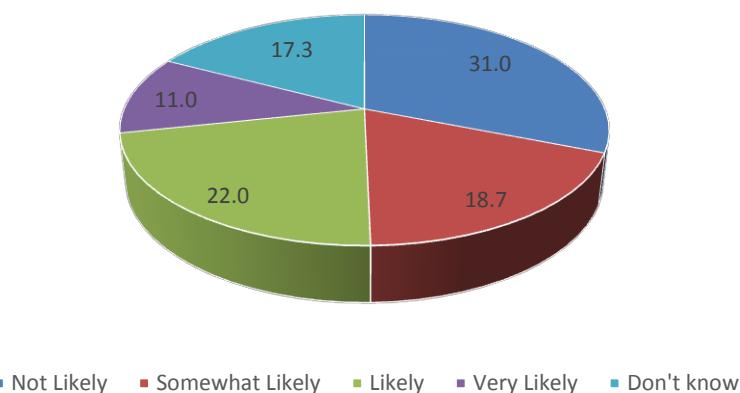
Finally, the most important challenge for the majority of companies is the volatility of the currency exchange rate and it is affecting decision of firms to export. Exchange rate volatility is a very bad signal for foreign investors in Armenia. Almost half of the interviewed companies (44.3%) recognized this factor as very important and very significantly affecting the decision of firms to export.

Graph 21: In your opinion, have changes in commodity prices significantly impacted firms in your sector?²⁶



Lower economic activities in Armenia in recent years are also recognized in companies' expectations about planning and profitability in the coming year as shown in the below graph.

Graph 22: Does your company expect profitability to improve over the next 12 months?²⁷

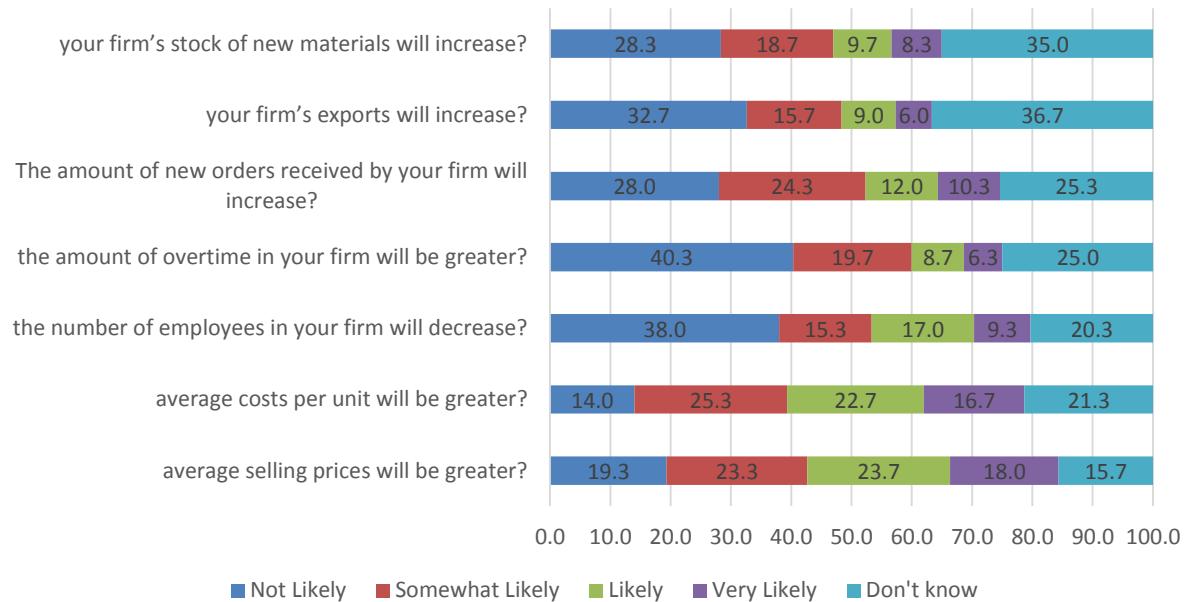


²⁶ Source: EESE survey 2015.

²⁷ Ibid.

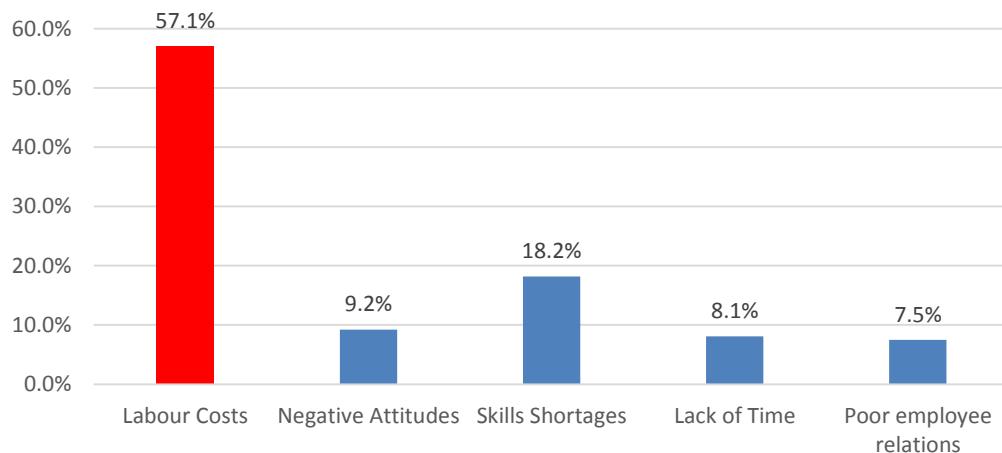
Companies have divided opinions about the improvement of profitability over the next 12 months. From the total number of respondents 31% of companies do not expect to improve profitability over the next 12 months, while 33% strongly believe that they will be able to improve profitability.

Graph 23: Opinion of companies about doing business in following year²⁸



As seen in the graph above, Armenian companies expect to have to increase the average selling prices over the next 12 months since they expect an increase in the average costs per unit. On the other hand, there is a very positive economic trend indicated in the companies' responses whereby the majority of interviewed companies said they would not decrease the number of their employees.

Graph 24: What is the single largest obstacle prohibiting productivity improvement for firms in your country? ²⁹



²⁸ Source: EESE survey 2015.

²⁹ Ibid.

The most prominent obstacle for improvement of productivity of the companies is labour costs. This is reported by 57.1% of companies. The next big impediment for doing business is skills shortage (for 18.2% of companies) followed by negative attitude of employees (for 9.2% of companies).

Key Indicators

GDP Growth Rate (%)	2009	2010	2011	2012	2013	2014
Measures the annual percentage growth rates of all value added goods and services produced in the country. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. ³⁰	Armenia	-14.15	2.20	4.70	7.20	3.50
	Croatia	-7.38	-1.70	-0.28	-2.19	-0.94
	Georgia	-3.78	6.25	7.20	6.18	3.32
	Latvia	-14.19	-2.87	5.00	4.83	4.23
	Macedonia	-0.36	3.36	2.34	-0.46	2.67
	Annual percentage growth rate of GDP.					
	2015 and 2016: *Forecast IMF World economic outlook 2015 database. ³¹					
Source: World Bank national accounts data (World Development Indicators Online).						
Inflation, consumer prices (annual %)	2011	2012	2013	2014	2015	2016
Measures the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specific intervals, such as yearly. ³²	Armenia	7.27	7.65	2.513	5.788	3.11
	Croatia	1.04	2.26	3.427	2.192	-0.2
	Georgia	7.11	8.54	-0.94	-0.51	3.06
	Latvia	-1.22	4.22	2.285	0.011	0.69
	2015 and 2016: *Forecast IMF World economic outlook 2015 database. ³³					
Source: World Bank national accounts data (World Development Indicators Online).						
Labour Force Participation Rate, in percent	2009	2010	2011	2012	2013	
The labour force participation rate is the proportion of the population ages 15-64 that is economically active: all people who supply labour for the production of goods and services during a specified period. The labour force participation rate is calculated by expressing the number of persons in the labour force as a percentage of the working-age population. The labour force is the sum of the number of persons employed and the number of unemployed. The working-age population is the population above a certain age, prescribed for the measurement of economic characteristics.	Armenia	62.7	65.8	67.0	66.7	67.3
	Croatia	64.8	64.4	63.9	63.8	64.0
	Georgia	67.5	67.7	68.2	68.7	69.3
	Latvia	73.8	73.0	73.1	74.6	75.2
	Macedonia	63.9	64.2	64.2	63.9	64.2
	The labour force participation rate is calculated by expressing the number of persons in the labour force as a percentage of the working-age population.					

³⁰ World Bank. (2015). World Development Indicators. GDP growth (annual %), World Bank national accounts data, and OECD National Accounts data files.

³¹ IMF. (2015). World Economic and Financial Surveys. World Economic Outlook Database.

³² World Bank. (2015). World Development Indicators. Inflation, consumer prices (annual %), International Monetary Fund, International Financial Statistics and data files.

³³ IMF. (2015). World Economic and Financial Surveys. World Economic Outlook Database.

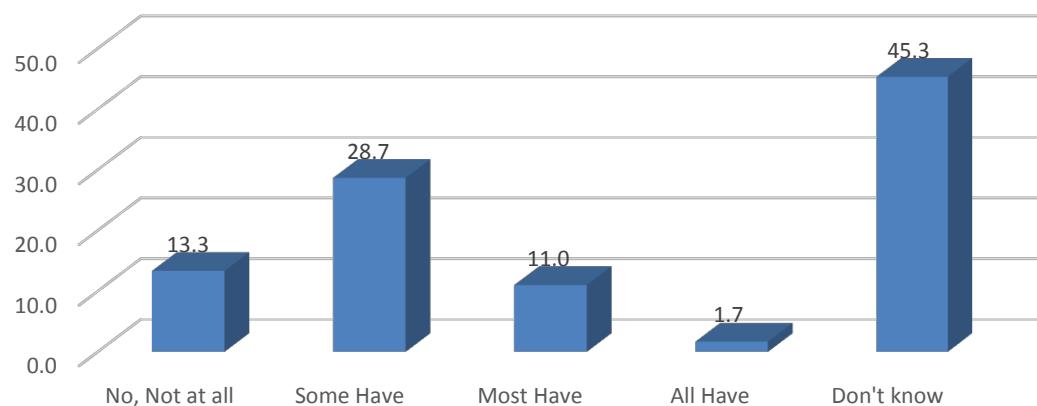
Current Account Balance/GDP, in percent	2011	2012	2013	2014	2015	2016
Armenia -14.235	-11.078	-11.085	-8.046	-9.233	-8.645	
Croatia -1.116	-0.806	-0.139	0.783	0.665	2.21	
Georgia -10.249	-12.751	-11.702	-5.737	-9.635	-11.474	
Latvia 2.316	-2.795	-3.261	-2.337	-3.115	-2.207	

in percent of GDP.

3.2. Trade and sustainable economic integration

Trade integration can lead to positive economic effect which can have positive employment effects through efficiency gains. However, as trade integration can also lead to job dislocation, increased informality and growing income inequality, the employment and decent work impact of trade policies must be carefully considered. According to trade data, Armenia is improving its situation in this sector year by year.

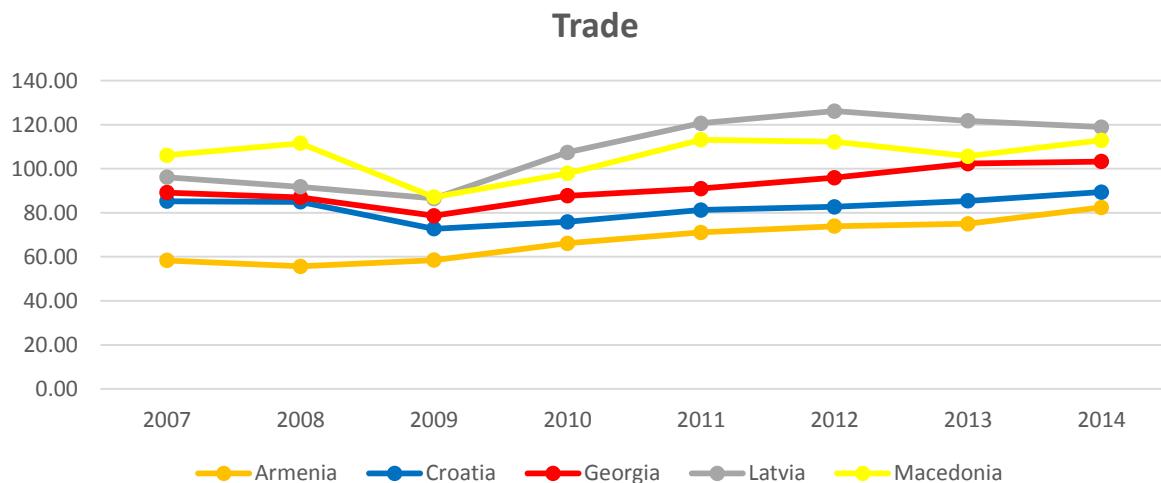
Graph 25: Have firms in your country seen an increase in the amount of product they export?³⁴



This is also reflected in the responses in the EESE survey, where more than 40% of companies think there is an increase in the amount of product they export. The following indicator –Trade/GDP – indicates that even though trade is not yet very developed, the trade sector in Armenia shows positive signs of development year after year.

³⁴ Source: EESE survey 2015.

Graph 26: Trade/GDP³⁵



Trade is the sum of exports and imports of goods and services measured as a share of gross domestic product. It takes values between 0 and $+\infty$. The trade-to-GDP ratio refers to the sum of the imports and exports and could therefore exceed 100%. If we analyse the countries used for comparison, Armenia will be placed at the bottom of the list, just behind Croatia. These two countries are the only countries analysed in this report with the share of trade in GDP lower than 100%.

Analysing the absolute value of export in Armenia from 2010, according to National Statistical Service of Armenia, exports have improved year by year. In 2015, the total amount of exports of goods and services in Armenia was 1486.9 million USD (3.9% lower than in 2014). But on the other side, the total volume of export in Armenia reached 7.1% of export growth in 2013, 4.6% in 2014, etc.³⁶ The situation is similar with imports of products and services. In 2015, there was a 26.5% drop of imports with an absolute value of the volume of import was 3254 million USD. Nevertheless, similarly to exports, imports have grown in some recent years – by 2.8% and 2.9% in 2012 and 2013 respectively and by 0.9% in 2014.³⁷

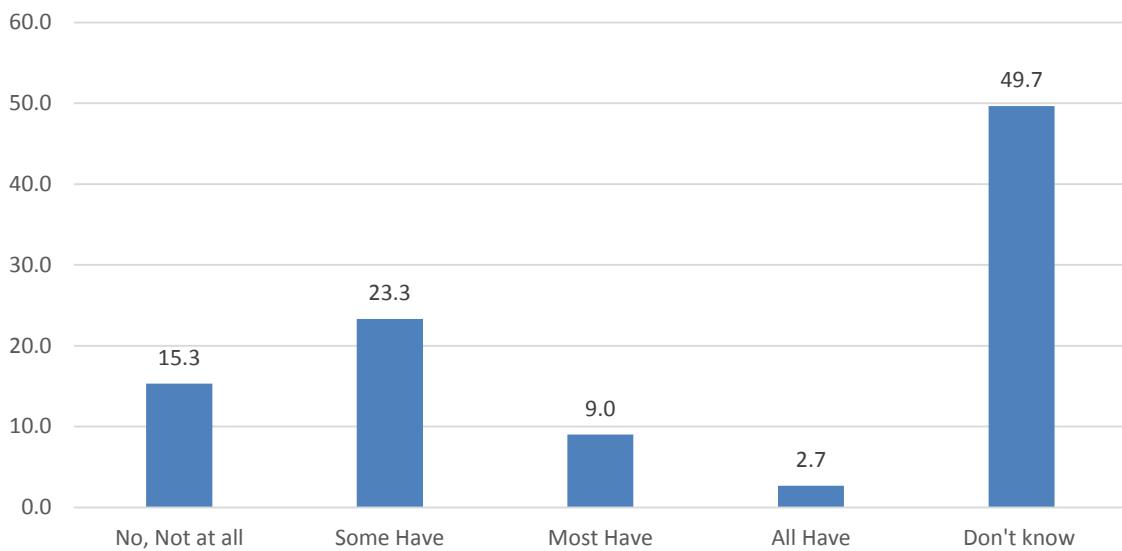
Graph 27: Do exporting firms benefit from government incentives such as tax breaks, etc.?³⁸

³⁵ Source: World Bank national accounts data (World Development Indicators Online)

³⁶ Source: [National Statistical Service of RA](http://www.armstat.am/en/?nid=126&id=10003), <http://www.armstat.am/en/?nid=126&id=10003>

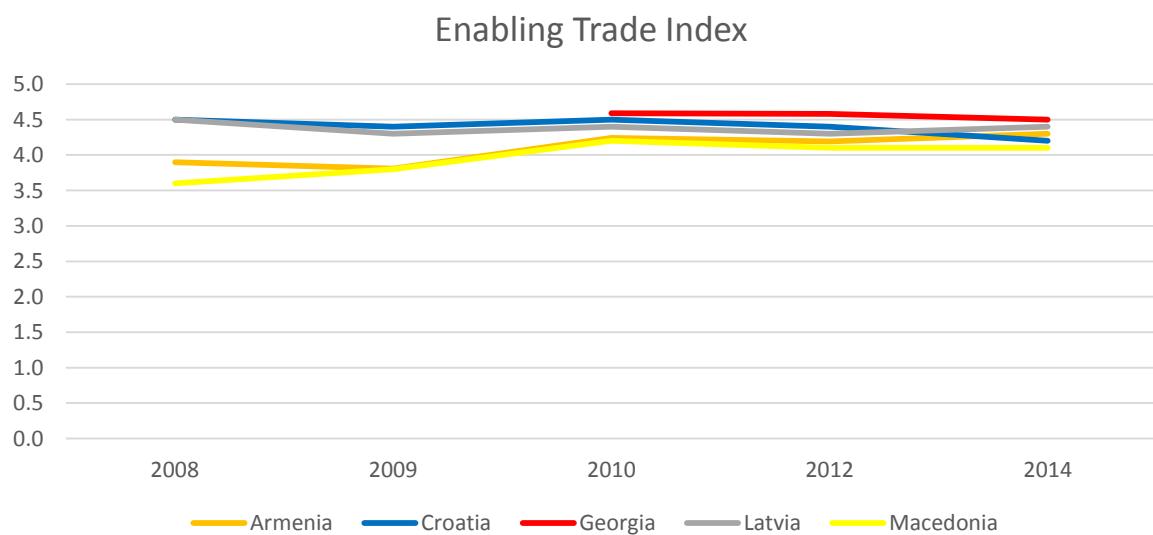
³⁷ Source: [National Statistical Service of RA](http://www.armstat.am/en/?nid=126&id=10004), <http://www.armstat.am/en/?nid=126&id=10004>

³⁸ Source: EESE survey 2015.



Many of the interviewed companies are not aware of the benefits arising from government incentives such as tax breaks for exporting companies (49.7%). From the companies that know about these incentives, 15.3% think that exporting companies do not benefit from government incentives such as tax breaks while only 2.7% says that all exporting companies have benefits due to the incentives. The situation is the same regarding the access to trade finance and credit guarantees. The majority of companies in the sample do not know about the existence of these but almost 45% of the companies think that firms have access to credit guarantees.

Graph 28: Enabling Trade index³⁹



³⁹ Source: World Economic Forum.

The Enabling Trade Index measures the factors, policies and services facilitating the free flow of goods over borders and to destination. The index breaks the enablers into four overall issue areas: (1) market access, (2) border administration, (3) transport and communications infrastructure and (4) the business environment. Values are on a scale from 1 to 7, a high score in the overall ETI indicates that a country is relatively successful at enabling the free flow of trade. When we look into the figures for Armenia from 2009, we see that the value for this indicator has improved from 3.9 to 4.3 representing a positive development for the development of the trade sector in Armenia. On the other side, the comparison shows that in 2014 the situation in Armenia was better than in Macedonia and Croatia but worse than in Latvia and Georgia.

Table 1: Trading across borders⁴⁰

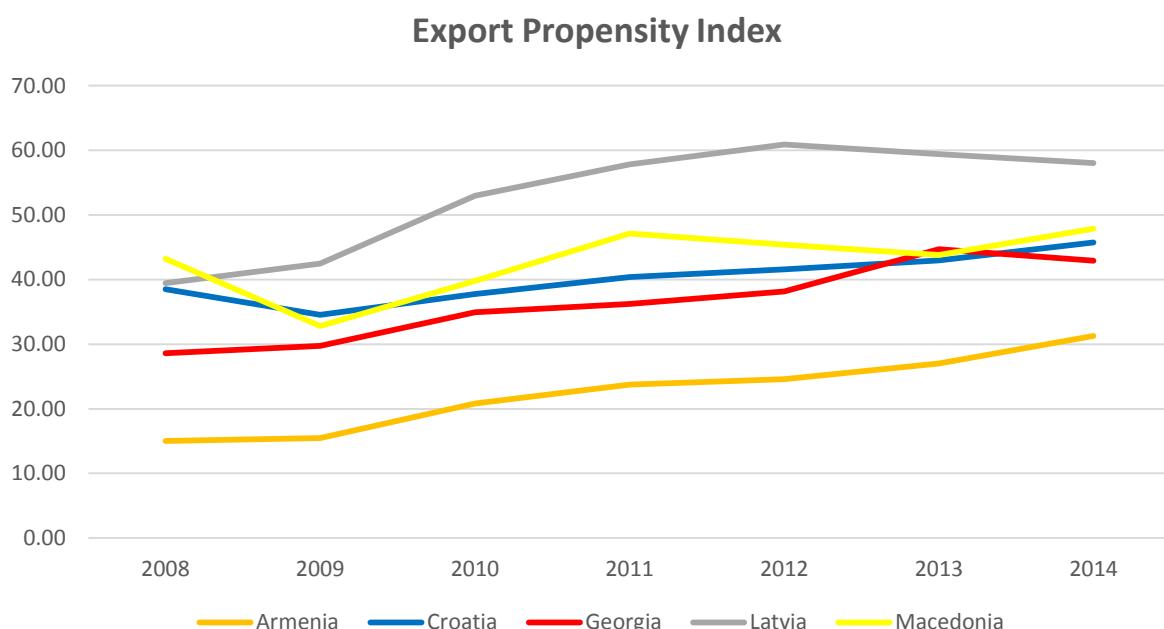
Doing Business Report	DB 2008	DB 2009	DB 2010	DB 2011	DB 2012	DB 2013	DB 2014	DB 2015
Armenia	2007	2008	2009	2010	2011	2012	2013	2014
Rank	-	-	-	-	-	-	124	110
Cost to export (US\$ per container)	1235	1816	1801	1735	1885	1885	1885	1885
Documents to export (number)	6	6	7	5	5	5	5	5
Documents to import (number)	8	8	9	8	8	8	8	8
Time to export (days)	33	33	20	16	16	16	16	16
Time to import (days)	24	24	20	18	18	18	18	18

The Ease of Doing Business Index ranks economies from 1 to 189 (2015), with first place being the best. Based on the latest WB report Armenia is ranked 110th indicating that the situation is not so good concerning trading across borders. According to the WB and compared to other countries taken into account in this report, the biggest costs to export are recorded in Armenia itself. Moreover, with 16 days to export, Armenia is at the bottom of the list when it comes to export time compared to the other comparator countries.

The enterprise survey has shown also that firms that rely exclusively on the domestic market do so because they lack the capacity to export, i.e. dealing with licences, regulations, etc. Almost 50% of the companies share this opinion with just 10% of companies thinking the opposite.

⁴⁰ Source: International Finance Corporation.

Graph 29: Export Propensity Index⁴¹

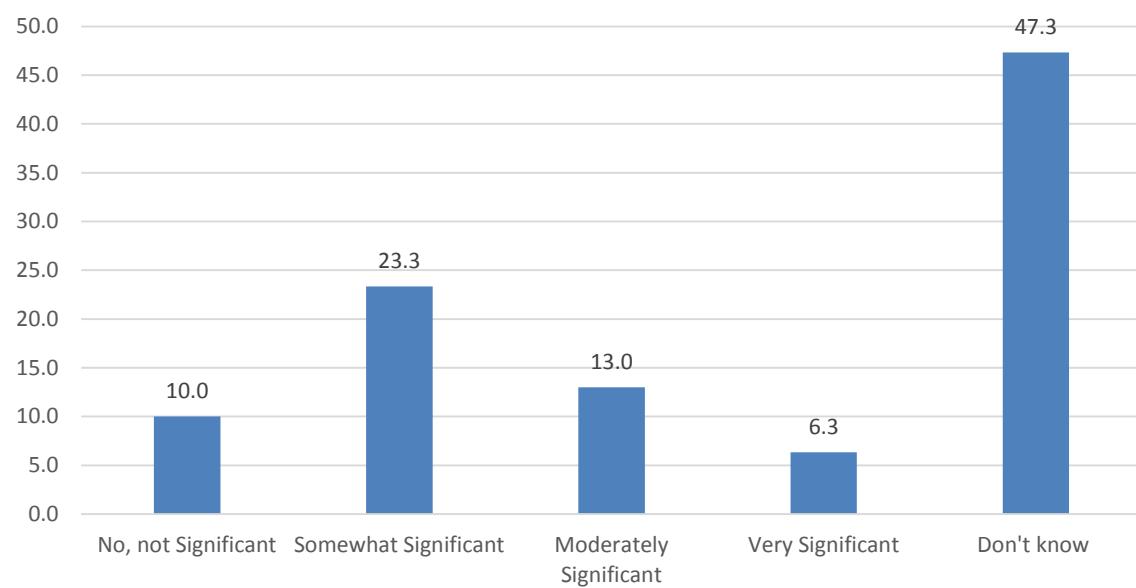


The Export Propensity Index looks at the share of exports of goods and services in GDP. Exports of goods and services represent the value of all goods and other market services provided to the rest of the world. They include the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial, information, business, personal, and government services. They exclude labour and property income (formerly called factor services) as well as transfer payments. The value of this indicator ranges from 0 to 100. Armenia is at a very low level of development related to this indicator. In 2014 the value of this indicator was 31.26% which revealed that the share of exports in GDP was still low. Compared to other considered countries Armenia lags behind.

It is of crucial importance that the situation regarding the information on trading procedures, tariffs, duties, and taxes available to firms is improved. A total of 30% of the surveyed companies think that there is no sufficient information on trading procedures as opposed to 6.3% who think that there is sufficient available information on trading procedures available to firms. And 15.3% of the companies disagree with the statement “there are efficient and transparent customs procedures that facilitate importing and exporting”.

Graph 30: In your view, do firms consider customs and trade regulations to be a significant constraint to trading across borders?⁴²

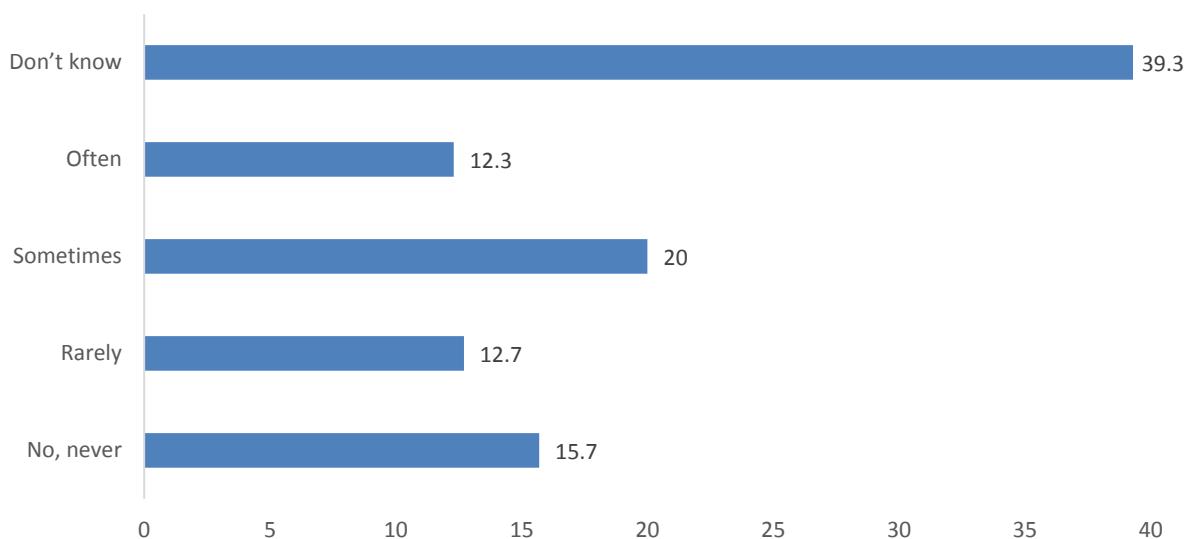
⁴¹ Source: World Bank national accounts data, and OECD national accounts data files (World Development Indicators Online).



One of the biggest obstacles perceived by firms is customs and trade regulations for trading across borders. Only 10% of the companies think that customs and trade regulations are not a significant constraint for trading across borders. On the other hand, 45.6% of companies think that those are a somewhat or very significant constraint for trade across borders. The amount of time to clear direct import/export customs is a major problem for the majority of companies in Armenia. Moreover, 46.3% of the companies think that government officials unnecessarily or arbitrarily hold up shipments, while only 13% of companies believe that government officials do not unnecessarily or arbitrarily hold up shipments.

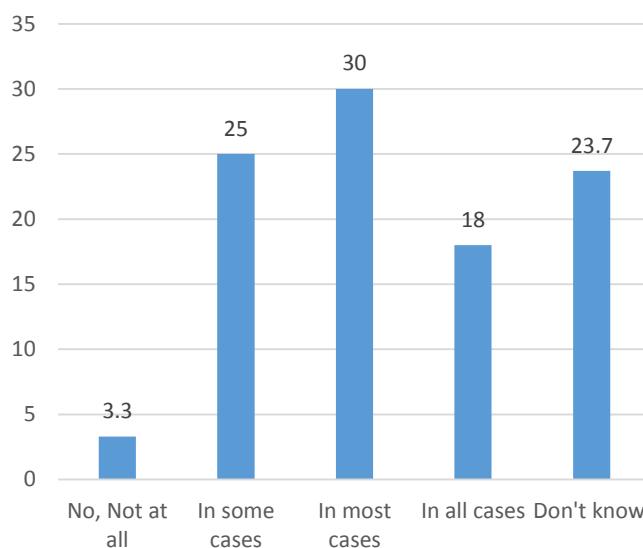
⁴² Source: EESE survey 2015.

Graph 31: In your view, are illicit payments to government officials necessary to speed up procedures?⁴³



When asked whether illicit payments to government officials were necessary to speed up procedures, 45% of the companies said they had to provide illicit payment to government officials to speed up procedures to varying degrees, of which 12.3% stated that they had to do so often. A total of 39.3% of interviewees responded they did not know, while 15.7% of the companies stated that they never had to provide illicit payments to government officials in order to speed up procedures.

Graph 32: Are firms able to submit documents electronically?⁴⁴



One of the most positive developments in trade across borders is the implementation of the electronical system for submission of documents. This was recognized at focus group meetings as a big step forward in relaxing procedures for export/import.

``This system is important for speeding up procedures for export/import. The State should invest more in promoting this system`` - focus group participant

⁴³ Source: EESE survey 2015.

⁴⁴ Ibid.

Overall trade in Armenia is still in the process of development. It is clear that the State and other relevant stakeholders make big efforts to improve the situation but there is still space for further improvement. Priorities in this domain should include: further simplifying procedures for export/import, reducing the costs for export/import and also reducing the number of days necessary to finish all procedures for export/import.

Key Indicators					
Trade (% of GDP) Trade is the sum of exports and imports of goods and services measured as a share of gross domestic product (GDP). ⁴⁵ Please note that the trade-to-GDP ratio refers to the sum of the imports and exports and could therefore exceed 100%. Source: World Bank (World Development Indicators Online).		2011	2012	2013	2014
	Armenia	71.11	73.92	75.04	82.44
	Croatia	81.27	82.68	85.42	89.36
	Georgia	91.02	95.95	102.33	103.28
	Latvia	120.6	126.16	121.71	118.91
	Macedonia	113.1	112.22	105.70	112.96
Trade share (%) in GDP.					
Enabling Trade Index (ETI) The Enabling Trade Index measures the factors, policies and services facilitating the free flow of goods over borders and to destinations. The index breaks the enablers into four overall drivers. Market access, Border administration, Infrastructure and Operating environment ⁴⁶ Source: World Economic Forum . WEF Global Trade Reports 2010/2012/2014.		2010	2012	2014	
	Armenia	4.2	4.2	4.3	
	Croatia	4.5	4.4	4.2	
	Georgia	4.6	4.6	4.5	
	Latvia	4.4	4.3	4.4	
	Macedonia	4.2	4.1	4.1	
Rating between 1-7 higher rating indicates better performance					
FDI net inflow/GDP, in percent Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 per cent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This series shows net inflows in the reporting economy and is divided by GDP. Source: World Bank (World Development Indicators Online).		2011	2012	2013	2014
	Armenia	6.44	4.91	3.55	3.52
	Croatia	2.00	2.37	1.02	-
	Georgia	7.51	5.25	5.93	7.71
	Latvia	5.30	3.77	3.20	2.45
	Macedonia	4.84	3.41	3.84	1.12
FDI net inflow (in current US\$ as % of GDP)					
Export Propensity Index= Exports of goods and services/GDP, in percent Exports of goods and services represent the value of all goods and other market services provided to the rest of the world. They include the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial, information, business, personal, and government services. They exclude labour and property income (formerly called factor services) as well as transfer payments. Source: World Bank (World Development Indicators Online).		2011	2012	2013	2014
	Armenia	23.76	24.57	26.99	31.26
	Croatia	40.41	41.57	42.94	45.73
	Georgia	36.24	38.15	44.69	42.89
	Latvia	57.83	60.87	59.40	58.02
	Macedonia	47.12	45.37	43.79	47.86
It ranges from 0 (with no exports) to 100 (with all domestic production exported).					

⁴⁵ World Bank. (2015). World Development Indicators. Trade (% of GDP), World Bank national accounts data, and OECD National Accounts data files.

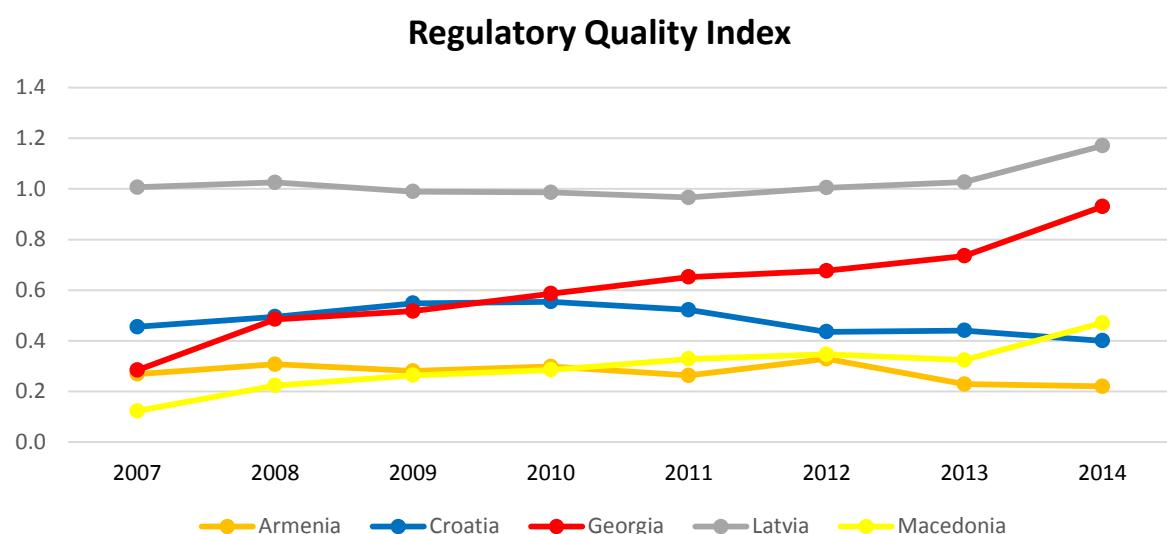
⁴⁶ World Economic Forum. (2010), (2012), (2014). The Global Enabling Trade Report. Geneva.

Trading across border data		2011	2012	2013	2014
Armenia					
Rank	-	-	-	124	
Cost to export (US\$ per container)	1735	1885	1885	1885	
Documents to export (number)	5	5	5	5	
Documents to import (number)	8	8	8	8	
Time to export (days)	16	16	16	16	
Time to import (days)	18	18	18	18	
Croatia					
Rank	-	-	88	86	
Cost to export (US\$ per container)	1300	1300	1335	1335	
Documents to export (number)	6	6	6	6	
Documents to import (number)	7	7	7	7	
Time to export (days)	20	20	18	16	
Time to import (days)	16	16	15	14	
Georgia					
Rank	-	-	31	33	
Cost to export (US\$ per container)	1355	1355	1355	1355	
Documents to export (number)	4	4	4	4	
Documents to import (number)	4	4	4	4	
Time to export (days)	10	9	9	9	
Time to import (days)	11	10	10	15	
Latvia					
Rank	-	-	88	86	
Cost to export (US\$ per container)	1300	1300	1335	1335	
Documents to export (number)	6	6	6	6	
Documents to import (number)	7	7	7	7	
Time to export (days)	20	20	18	16	
Time to import (days)	16	16	15	14	
Macedonia					
Rank	-	-	83	85	
Cost to export (US\$ per container)	1376	1376	1376	1376	
Documents to export (number)	6	6	6	6	
Documents to import (number)	8	8	8	8	
Time to export (days)	12	12	12	12	
Time to import (days)	11	11	11	11	
It ranges from 0 (with no exports) to 100 (with all domestic production exported).					

3.3. Enabling legal and regulatory environment

Well-designed and clear regulations, including those that uphold labour and environmental standards, are good for the promotion of start-ups and enterprise development. Concerning the regulatory framework, focus groups participants were of the opinion that it is not primarily legislation itself that is problematic but rather its implementation. Frequently changing regulations result in distrust by companies and is perceived as lack of stability. Furthermore, the time to adapt to new regulation is said to be insufficient. All stakeholder share the same concern that they are not included in the process of creation and drafting of legislation.

Graph 33: Regulatory Quality Index⁴⁷



The Regulatory Quality Index measures the ability of the Government to provide sound policies and regulations that enable and promote private sector development. Estimate of governance is measured on a scale from approximately -2.5 to 2.5 with higher values corresponding to better governance. Armenia's performance in this regard has been poor and little above 0. Based on this indicator the situation in the country is almost unchanged since 2005. Moreover, the graph above shows that Armenia has the lowest result compared to the countries taken in consideration for this report. It is very important to mention that the value of this indicator changed only slightly during the period from 2007-2014 which is a key problem for the development of the country. The indicator represents the state of regulatory stability in the country with lower values representing lower trust in the Government.

The Ease of Doing Business Index ranks economies from 1 to 189 (in 2015), with first place being the best. A high ranking corresponds to the regulatory environment being assessed as conducive to business operation. This index averages the country's percentile rankings on 10 topics giving equal weight to each topic.

⁴⁷ Source: World Bank, Worldwide Governance Indicators.

Table 2: Ease of Doing Business Rank⁴⁸

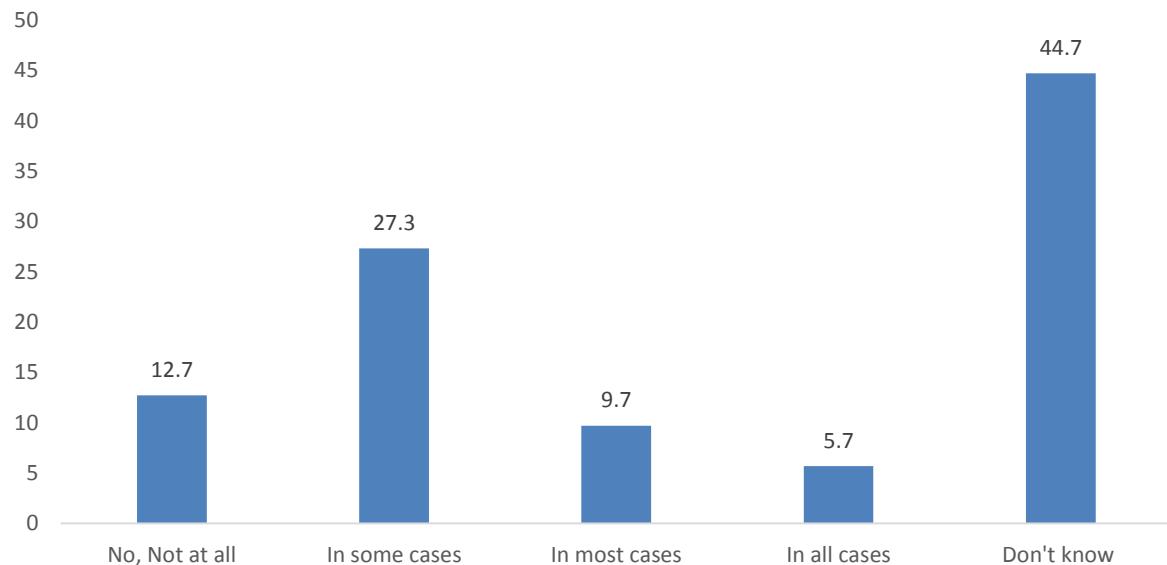
	DB 2015 Report	DB 2016 Report
Armenia	38	35
Croatia	39	40
Georgia	24	24
Latvia	22	22
Macedonia	14	12

The data show that Armenia has improved in this regard over time, moving from 38 in 2015 to 35 in 2016 and of the other compared countries in 2016 Armenia is outperformed by Georgia at 24, Latvia at 22 and Macedonia at 12.

The situation revealed by the secondary data is to a great extent confirmed by the EESE survey responses from the firms. Nearly half of interviewed enterprises (41%) agree with the statement: “The amount of overall management time firms spend dealing with the requirements of government regulation is a major issue for firms.” Only a small number of respondents (20%) disagree with the statement.

Respondents were also asked whether the regulatory environment makes it difficult for small business to compete with larger businesses. The majority (66%) generally agreed, with SME business owners being more inclined to agree (73%) against informal business owners and employees (56% and 60% respectively).

Graph 34: Do firms have to deal with overlapping regulatory bodies? ⁴⁹



The overlapping of regulatory bodies (agencies, inspections) is another major problem undermining the business environment in Armenia. The above chart reflects the extent of this problem, where 27.3% of respondents report the overlap to be a phenomenon in some cases, and

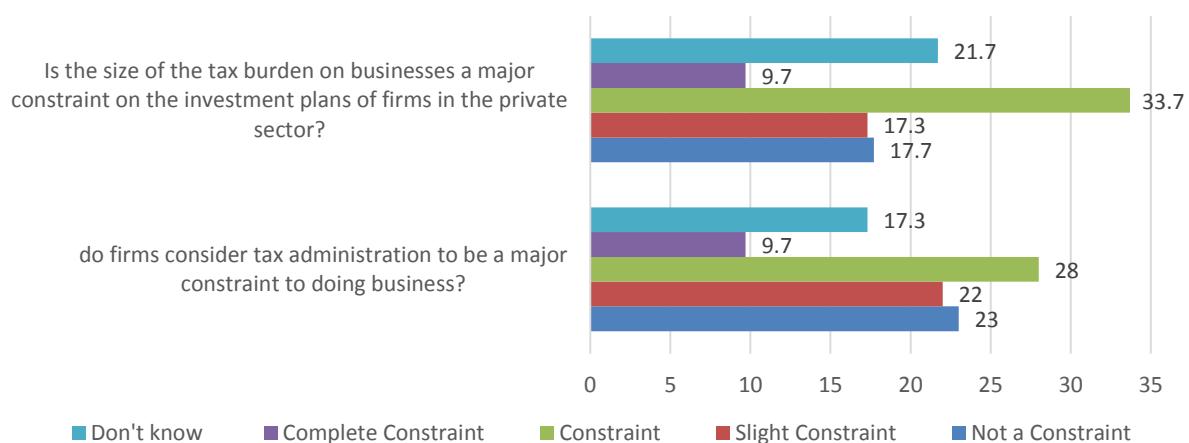
⁴⁸ Source: World Bank, Doing Business project.

⁴⁹ Source: EESE survey 2015.

15.4% stated that it is the case in most or even in all cases. Only 12.7% of the companies responded that there were no regulatory bodies with overlapping jurisdictions.

According to below graph, the tax burden is regarded as a major constraint by 33.7% of respondents, while 9.7% reported it to be a complete constraint. On the other hand, 17.7% of interviewees stated it was not a constraint at all. The functioning of the tax administration was perceived by respondents as somewhat more positive, and while 28% of interviewees perceived the administration to pose a constraint on business, for 23%, it did not pose any constraint. 9.7% of those interviewed reported the tax administration to be a very significant barrier for their operations. According to the International Monetary Fund (IMF), the main problems of the Tax system in Armenia are huge tax compliance cost triggered by the lack of proper regulation. Other issues relate to the informal economy, weak corporate and income tax and low reliance on direct taxes and property taxes.

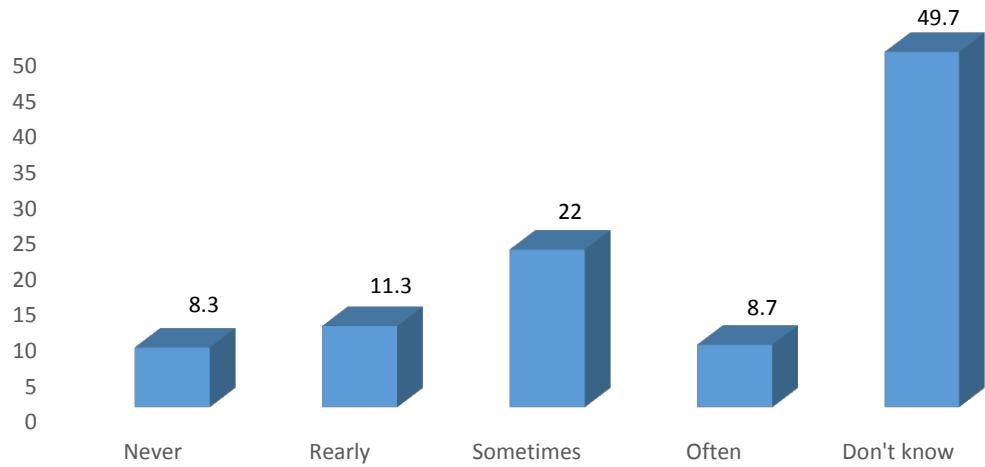
Graph 35: Opinion of firms about tax administration and tax burden⁵⁰



Along with the size of the tax burden and tax administration, companies in Armenia identified the big potential for simplifying that tax collection process. This is the opinion of 59.7% of the companies with only 8% of the companies in Armenia believing that there was no need to simplify the tax collection process.

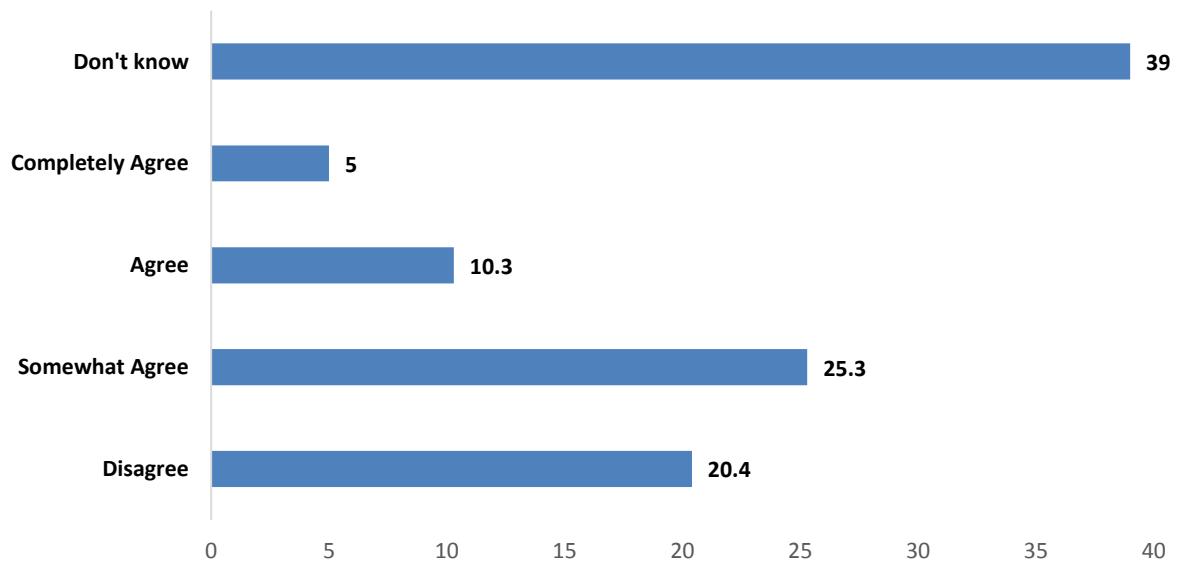
⁵⁰ Source: EESE survey 2015.

Graph 36: Do firms ever have unhelpful experiences whereby interference by inspectorates has impacted unfairly on operations?⁵¹



One of the key concerns of focus group participants were inspections. This was confirmed by the survey results. Almost half of companies (42%) strongly believed that companies had unhelpful experiences whereby interference by inspectorates had impacted unfairly on their operations. Moreover, 37.7% of the interviewees thought that labour administration services were politically motivated. Only 13.3% thought the opposite.

Graph 37: To what extent do you agree with the statement “overall the amount of time involved in complying with statutory worker entitlements is a major issue for firms”?⁵²



⁵¹ Source: ESEE survey 2015.

⁵² Ibid.

In general, the functionality and development of institutions in Armenia is still unsatisfactory, implying the need to implement a series of structural and institutional reforms to improve the enabling legal and regulatory environment for businesses and thus, to provoke increased competitiveness and economic productivity. Among other changes, regulation should be made more flexible to ensure that bureaucratic obstacles for business and investments are removed, comprehensive reform of public management and labour legislation is carried out, the tax burden is removed from the economy, public expenditure and all other forms of indebtedness are decreased, and the negative impact of the economic crisis is neutralized.

Key Indicators		2010	2011	2012	2013	2014
Regulatory Quality						
The ability of the government to provide sound policies and regulations that enable and promote private sector development. Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.	Armenia	0.3	0.3	0.3	0.2	0.2
Scale -2.5 to +2.5 -2.5 = low control; +2.5 = high control	Croatia	0.6	0.5	0.4	0.4	0.4
<u>Source:</u> World Bank Governance indicators 2015.	Georgia	0.6	0.7	0.7	0.7	0.9
	Latvia	1.0	1.0	1.0	1.0	1.2
	Macedonia	0.3	0.3	0.3	0.3	0.5
Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.						

3.4. Rule of law and secure property rights

A formal and effective legal system, which guarantees that contracts are honoured and upheld, the rule of law is respected, and property rights are secure, is a key condition for attracting investment, as well as for nurturing trust and fairness in society. In many of the **lower-middle income CIS countries** (Armenia, Georgia, the Kyrgyz Republic, Moldova, Tajikistan, Ukraine and Uzbekistan), the dominant problem is underdeveloped institutions of a market economy which includes security of property rights.

According to secondary data, the rule of law still underperforms compared to the countries of comparison. The Rule of Law Index measures the extent to which agents have confidence in and abide by the rules of society. This includes quality of contract enforcement and property rights, the police, and the courts, as well as the likelihood of crime and violence. It is measured on a scale from -2.5 to 2.5. Higher values correspond to better governance. From 2009-2013 Armenia has slightly improved on this index (-0.5 in 2009 and -0.3 in 2013), but still underperforms with respect to the countries of comparison as for instance Latvia with 0.7 or Croatia with 0.2.

Another important indicator in this area is the Property Rights Indicator by the World Economic Forum. The World Economic Forum (WEF) Survey asks business leaders to provide their expert opinions on the following: "Property rights in your country, including over financial assets, are 1= poorly defined and not protected by law, 7=clearly defined and well protected by law". Armenia scores average in this area, higher with 4.2 than Croatia (3.8) and Georgia (3.9) but lower than Latvia (4.6) and Macedonia (4.6). Also does this indicator show a negative tendency in 2014 (4.2) compared to 2013 (4.6). The related indicator on Intellectual Property Protection is based on the World Economic Forum (WEF) Survey where business leaders are asked to provide their expert opinions on the following: "Intellectual property protection and anti-counterfeiting

measures in your country are 1= weak and not enforced, 7=strong and enforced". Also on this indicator there is a slightly negative tendency when comparing 2014 with 2013, with a decrease from 3.6 to 3.5. Armenia has showed better performance than neighbouring Georgia with 3.0 but still underperforms with comparison to Croatia (3.6), Latvia (4.0) and Macedonia (4.0). Progress can still be made in these areas to return to a positive tendency and to reach the level of the countries of comparison again as Macedonia.

Key Indicators						
Rule of Law Index The extent to which agents have confidence in and abide by the rules of society, including the quality of contract enforcement and property rights, the police and the courts, as well as the likelihood of crime and violence. Source: World Bank, Governance Matters database. ⁵³	2009	2010	2011	2012	2013	
	Armenia	-0.5	-0.5	-0.4	-0.4	-0.3
	Croatia	0.1	0.2	0.2	0.2	0.3
	Georgia	-0.2	-0.2	-0.1	0.0	0.0
	Latvia	0.8	0.8	0.8	0.8	0.7
	Macedonia	-0.3	-0.3	-0.3	-0.2	-0.2
Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.						
Other Useful Indicators						
Property Rights The World Economic Forum (WEF) Survey asked the business leaders to provide their expert opinions on the following: "Property rights in your country, including over financial assets, are 1=poorly defined and not protected by law, 7=clearly defined and well protected by law". Source: World Economic Forum, The Global Competitiveness Report. ⁵⁴	2010	2011	2012	2013	2014	
	Armenia	3.7	3.8	4.3	4.6	4.2
	Croatia	4.0	3.9	3.8	3.8	3.8
	Georgia	3.2	3.2	3.1	3.4	3.9
	Latvia	4.3	4.1	4.2	4.3	4.6
	Macedonia	3.6	3.7	4.0	4.5	4.6
1=poorly defined and not protected by law, 7=clearly defined and well protected by law.						
Intellectual Property Protection The World Economic Forum (WEF) Survey asked the business leaders to provide their expert opinions on the following: "Intellectual property protection and anti-counterfeiting measures in your country are 1=weak and not enforced, 7=strong and enforced". Source: World Economic Forum, The Global Competitiveness Report. ⁵⁵	2011	2012	2013	2014		
	Armenia	3.0	3.4	3.6	3.5	
	Croatia	3.5	3.5	3.5	3.6	
	Georgia	2.8	2.6	2.7	3.0	
	Latvia	3.6	3.8	4.0	4.0	
	Macedonia	3.1	3.5	3.9	4.0	
1=weak and not enforced, 7=strong and enforced.						

⁵³ [World Bank World Governance Indicators](#).

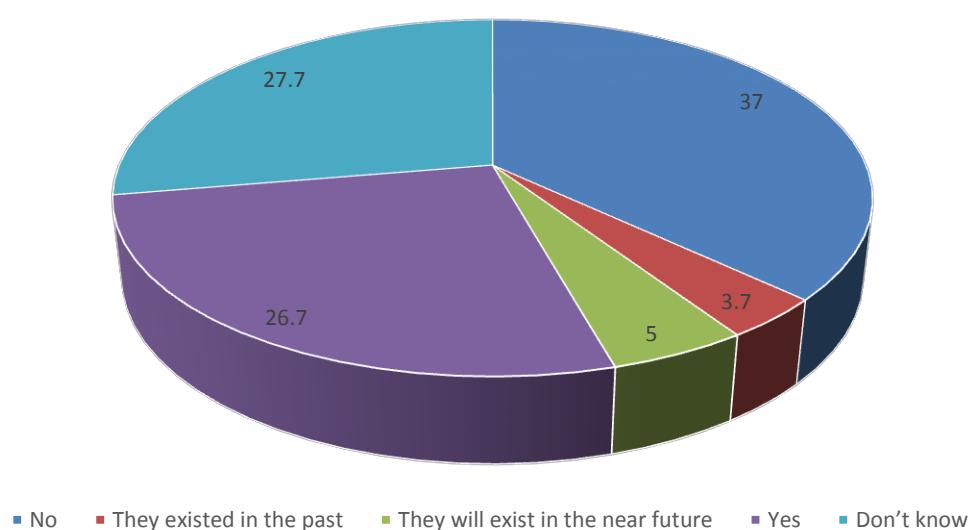
⁵⁴ [World Economic Forum Global Competitiveness report](#).

⁵⁵ Ibid.

3.5. Fair competition

As a precondition of development and growth of the private sector and sustainable enterprises, it is important to have competition rules, including those ensuring respect for labour and social standards. In addition, anti-competitive practices at the national level must be eliminated. Focus groups participants do not see SMEs recognized as a priority of the Government but rather standing in the shadow of big companies. In addition, they do not see that the Government supports any kind of activities related to export of goods and services. Because of that and the fact that SMEs are not promoted they feel like they operate in the environment of monopoly, with unfair competitors, who make it hard to compete overall. The creation of an enabling environment for sustainable enterprises is not possible with the existence of monopolistic practices.

Graph 38: Do monopolies or monopolistic practices exist in your sector?⁵⁶

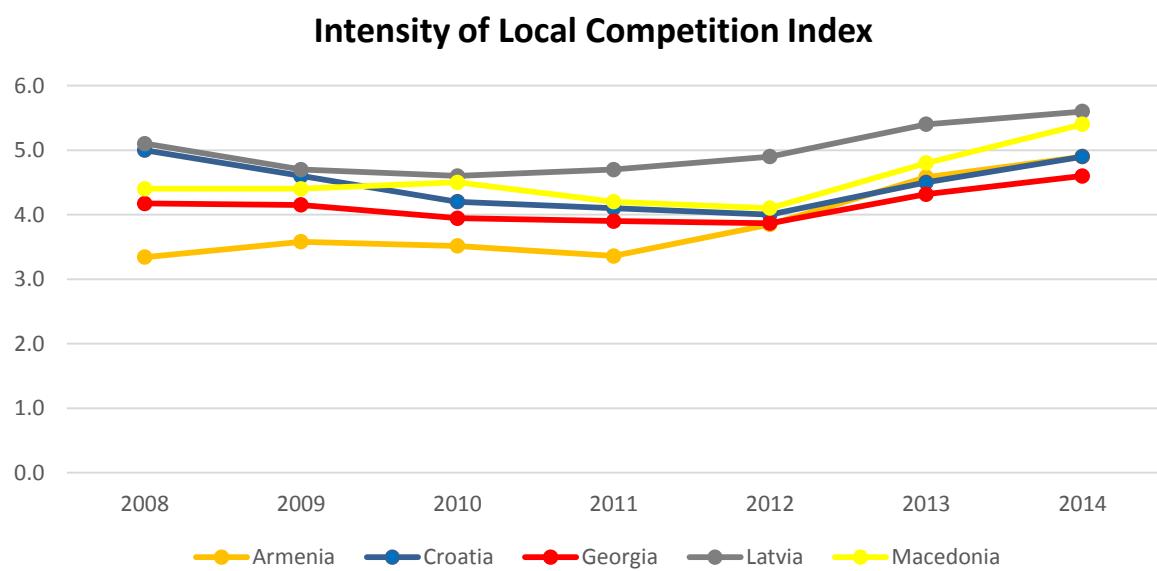


Based on the survey results, 37% of the surveyed companies think that monopolies or monopolistic practices do not exist in their sector while 26.7% of the companies said the opposite.

One of the indicators that measures competition is the Intensity of Local Competition Index. The Intensity of Local Competition Index is based on the survey data drawn from the following questions: “Competition in the local markets is (1=limited in most industries and price-cutting is rare, 7=intense in most industries as market leadership)”. Analysing available data, Armenia recorded 4.9 in 2014. Compared with other countries covered in this assessment, the situation is the same as in Croatia, but better than in Georgia. However, Armenia still lags behind Latvia and Macedonia.

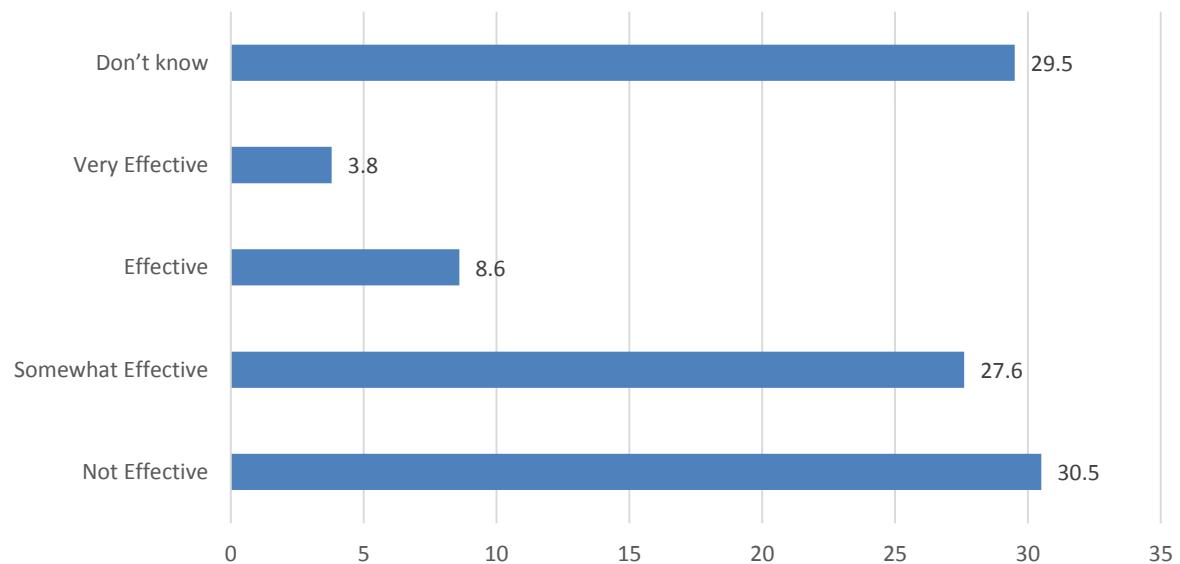
⁵⁶ Source: EESE survey 2015.

Graph 39: Intensity of Local Competition Index⁵⁷



Baring in mind that Armenian companies stated that there were monopolies or monopolistic practices in the country, it was necessary to analyse the existence of anti-trust legislation. 30.5% of companies think that anti-trust legislation is not effective compared to 40% of companies thinking that anti-trust legislation is effective, of which 27.6% think that anti-trust legislation is just somewhat effective.

Graph 40: If so, how effective has anti-trust legislation been in breaking them up?⁵⁸



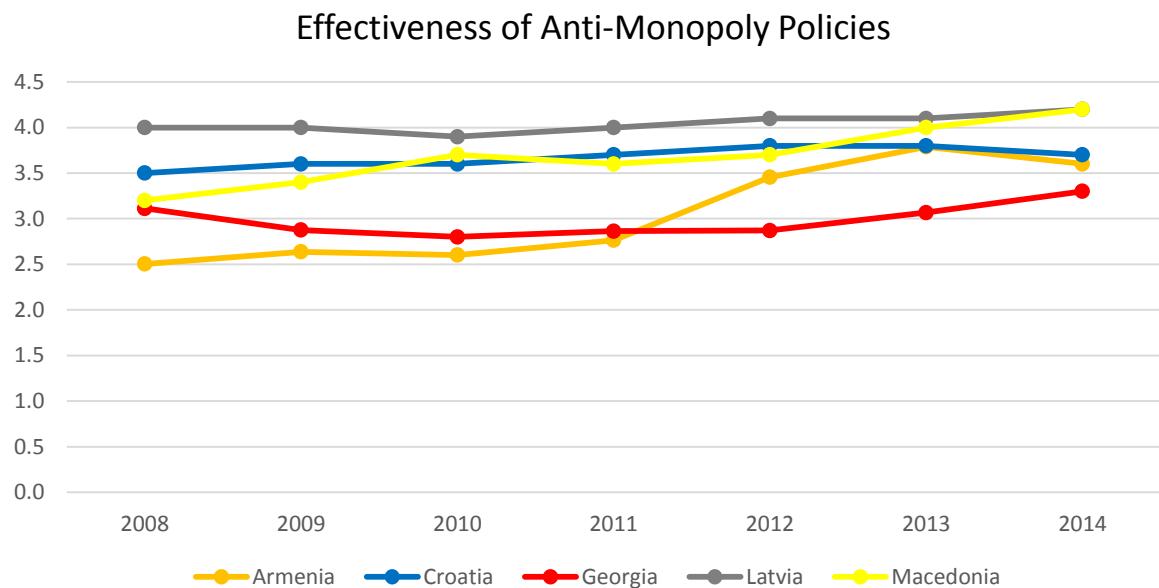
The survey results coincide with the secondary data. The Effectiveness of Anti-Monopoly Policies Index is based on annual survey data. The respondents are asked to rate

⁵⁷ Source: World Economic Forum Executive Opinion Survey, the Global Competitiveness Report.

⁵⁸ Source: EESE survey 2015.

the effectiveness of anti-monopoly policy in their country: “Antimonopoly policy in your country is (1 = lax and not effective at promoting competition, 7= effective and promotes competition)”. According to this indicator, Armenia, in 2014, with 3.6 scored right at the middle. Armenia still lags behind Croatia, Latvia and Macedonia. On the other hand, bearing in mind all the reforms and improvements in the economy in other domains, in this domain little progress has been made when comparing with the 2008 score, necessitating putting more efforts on Anti-Monopoly Policies measures.

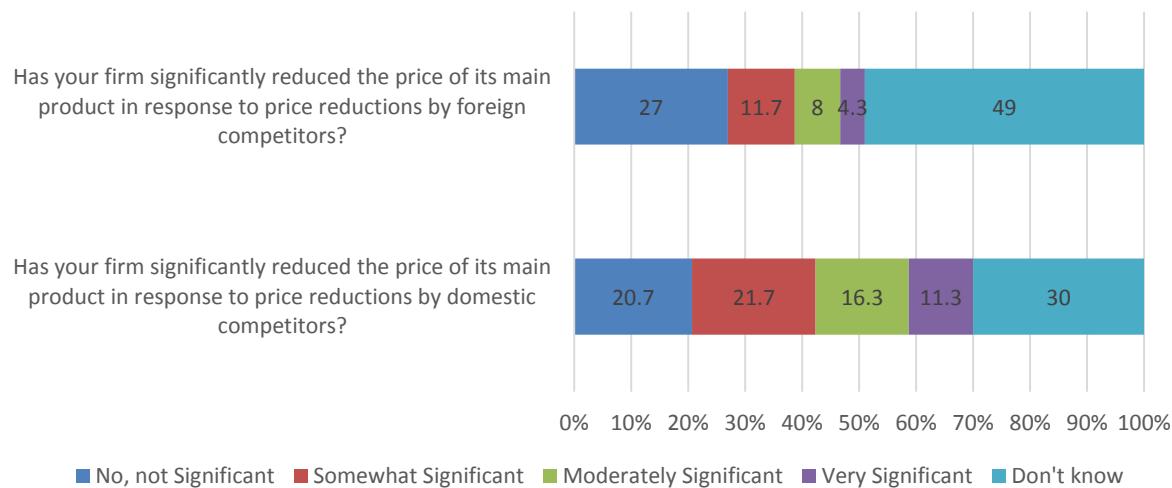
Graph 41: Effectiveness of Anti-Monopoly Policies Index⁵⁹



During the face to face interviews, Armenian companies emphasized that large and foreign owned companies were favoured in comparison to small companies, which according to respondents represents a big problem for the development and the advancement of small companies in Armenia. One thing is certain – Armenian companies feel greater pressure from competitors which force them to continuously innovate in order to stay on the market. This is the opinion of more than 60% of companies involved in the EESE survey in Armenia.

⁵⁹ Source: World Economic Forum Executive Opinion Survey, The Global Competitiveness Report.

Graph 42: Has your firm significantly reduced the price of its main product in response to price reductions by foreign/domestic competitors?⁶⁰



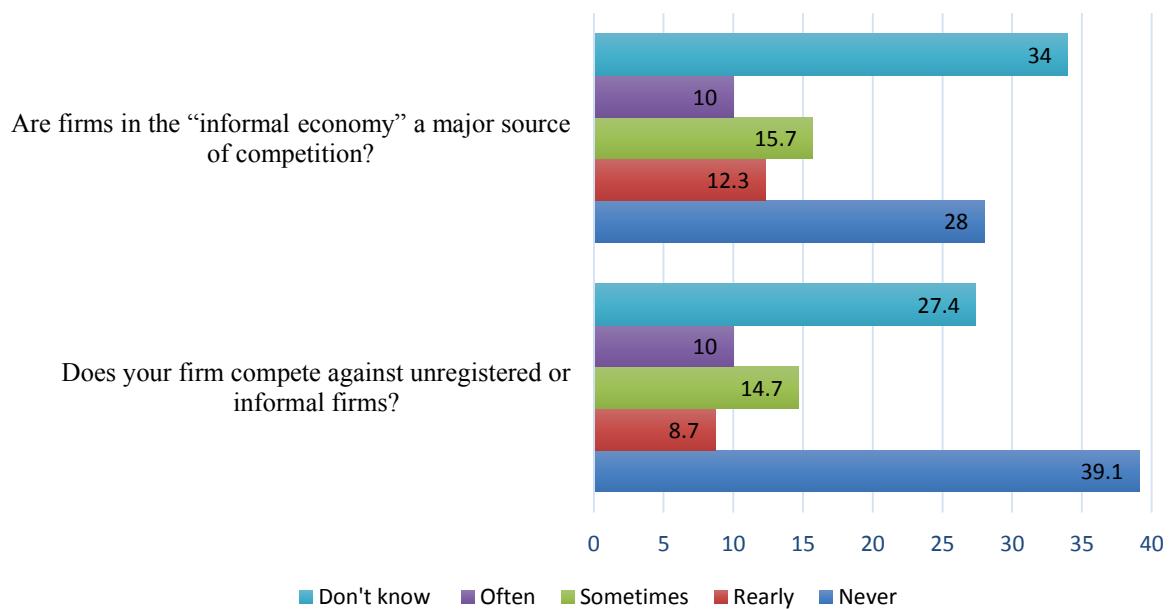
Increased competitive pressures are a concern in Armenia, firstly due to informal economic activities, and secondly because of the high level of globalization and openness of the economy. Thus, efforts should be made by the government to foster the transition from the informal to the formal economy and, at the same time, determine strategies to prepare domestic business operators for international competition. Furthermore, Armenian companies express concern over some political factors that have a negative influence on commercial activity. The majority of surveyed companies (56%) agreed with the statement that “there are political factors at play that negatively influence commercial activity” with just 8.3% of companies having a different opinion.

According to EESE survey findings, a big number of enterprises did not reduce the prices of their main products in response to price reductions by both domestic and foreign competitors. Only 11.3% of enterprises significantly reduced the price of their main product on the domestic market, while only 4.3% did so on foreign markets.

As mentioned earlier, informal economic activities are present in Armenia and are considered one of the biggest concerns for registered companies. Based on some estimations, the informal economy represents from 30 to 50% of the GDP of Armenia. This situation creates an unfair playing field for formal tax-paying companies. This is confirmed by the survey, where 38% of companies consider the informal economy a major source of competition, compared to 28% of companies who don't. When asked whether their own firm competes against unregistered or informal firm, 39.1% of respondents say they don't, while 33.4% of respondents say they actually do compete with unregistered or informal firms.

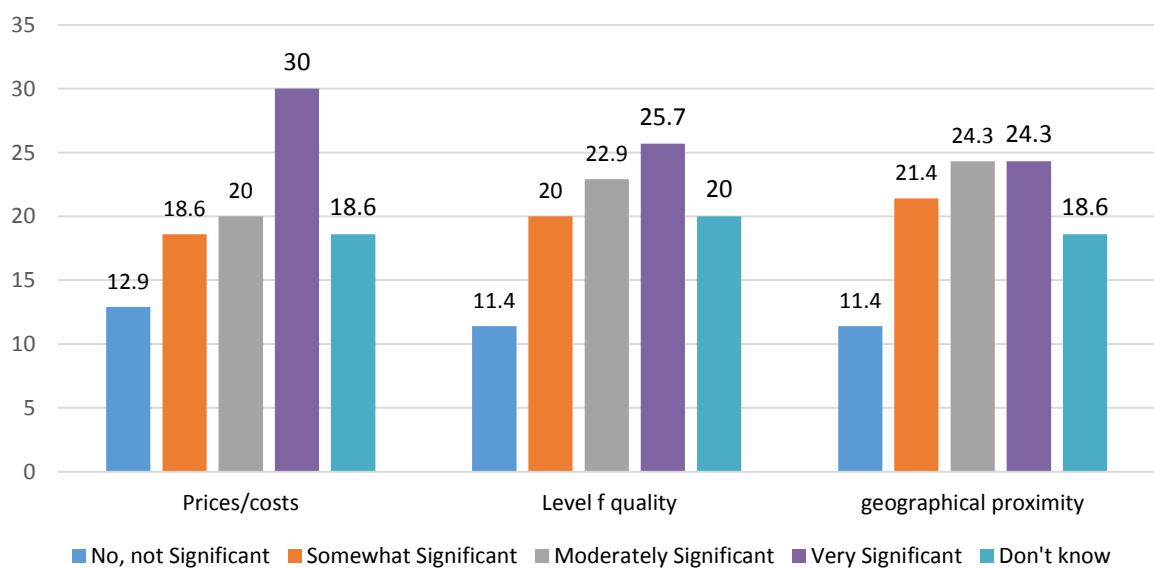
⁶⁰ Source: EESE survey 2015.

Graph 43: Competition against unregistered or informal firms⁶¹



Interestingly, 23.3% of surveyed companies use informal suppliers or subcontractors, whereas almost half of the companies do not use any informal suppliers or subcontractors. Decisive factors for cooperation with informal suppliers or subcontractors identified by respondents are price and quality level.

Graph 44: Which of the following play a significant role in the decision to cooperate with informal firms?⁶²



Available data reveal that Armenia still needs to make strong efforts to achieve fair competition, especially in terms of reducing the size of the informal economy, fighting against

⁶¹ Source: EESE survey 2015.

⁶² Ibid.

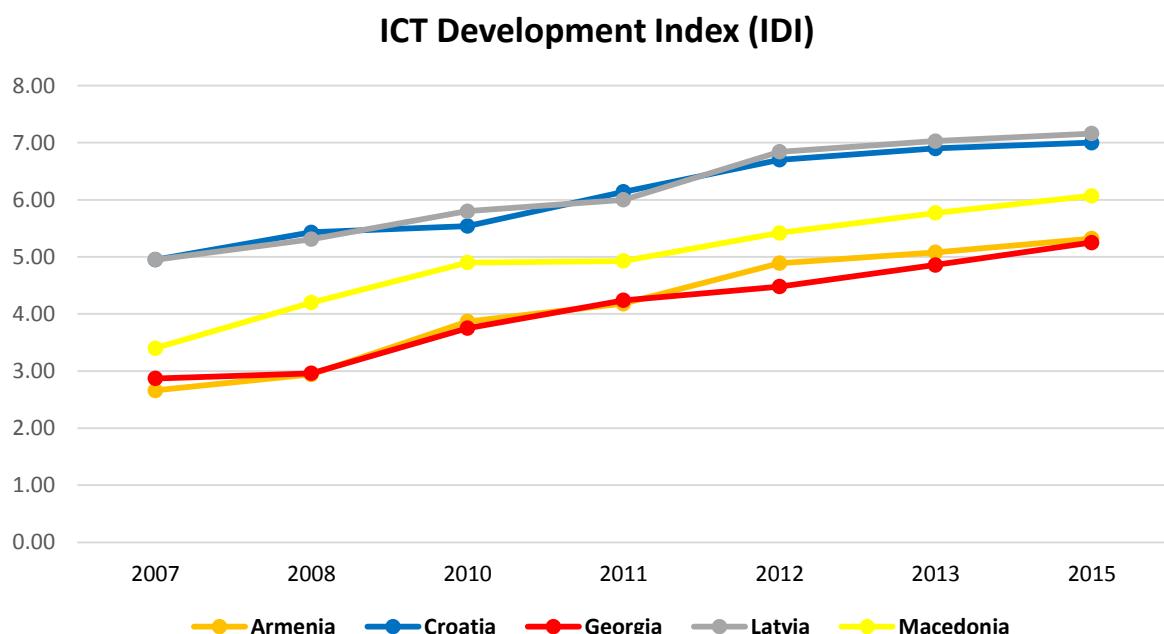
monopoly and improving the regulatory framework. Even though the data show progress, the business environment in Armenia still needs stronger endeavors in the coming period.

Key Indicators						
Intensity of Local Competition Index		2010	2011	2012	2013	2014
Intensity of local competition index is based on survey data drawn from the following question: "Competition in the local markets is (1=limited in most industries and price-cutting is rare, 7=intense in most industries as market leadership)".	Armenia	3.5	3.4	3.8	4.6	4.9
	Croatia	4.2	4.1	4.0	4.5	4.9
	Georgia	3.9	3.9	3.9	4.3	4.6
	Latvia	4.6	4.7	4.9	5.4	5.6
	Macedonia	4.5	4.2	4.1	4.8	5.4
	1=limited in most industries and price-cutting is rare, 7=intense in most industries as market leadership.					
Effectiveness of anti-monopoly policies		2010	2011	2012	2013	2014
Effectiveness of anti-monopoly policy index is based on annual survey data. The respondents were asked to rate the effectiveness of anti-monopoly policy in their country: "Antimonopoly policy in your country is (1=lax and not effective at promoting competition, 7=effective and promotes competition)".	Armenia	2.6	2.8	3.5	3.8	3.6
	Croatia	3.6	3.7	3.8	3.8	3.7
	Georgia	2.8	2.9	2.9	3.1	3.3
	Latvia	3.9	4.0	4.1	4.1	4.2
	Macedonia	3.7	3.6	3.7	4.0	4.2
	1=lax and not effective at promoting competition, 7=effective and promotes competition.					
Extent of Market Dominance index		GC 2010/11	GC 2011/12	GC 2012/13	GC 2013/14	GC 2014/15
Extent of market dominance index is based on annual survey data. The respondents were asked to rate the corporate activity in their country: "Corporate activity in your country is (1=dominated by a few business groups, 7=spread among many firms)".	Armenia	2.8	2.7	3.4	3.7	3.5
	Croatia	3.0	3.1	3.2	3.3	3.3
	Georgia	3.2	3.2	3.2	3.2	3.3
	Latvia	3.7	3.7	4.0	3.9	3.8
	Macedonia	3.4	3.4	3.4	3.5	3.7
	1=dominated by a few business groups, 7=spread among many firms.					

3.6. Information and communication technologies

With the continuing shift towards knowledge based economies, the use of information and communication technologies is fundamental to the development of sustainable enterprises. Affordable access to information technology (ICT) enhances competitiveness and innovation. All countries that want to increase their competitiveness on the market need to invest in ICT and foster an ICT culture both at company and household levels to increase the usage of ICT in all segments of the community.

Graph 45: ICT Development Index⁶³



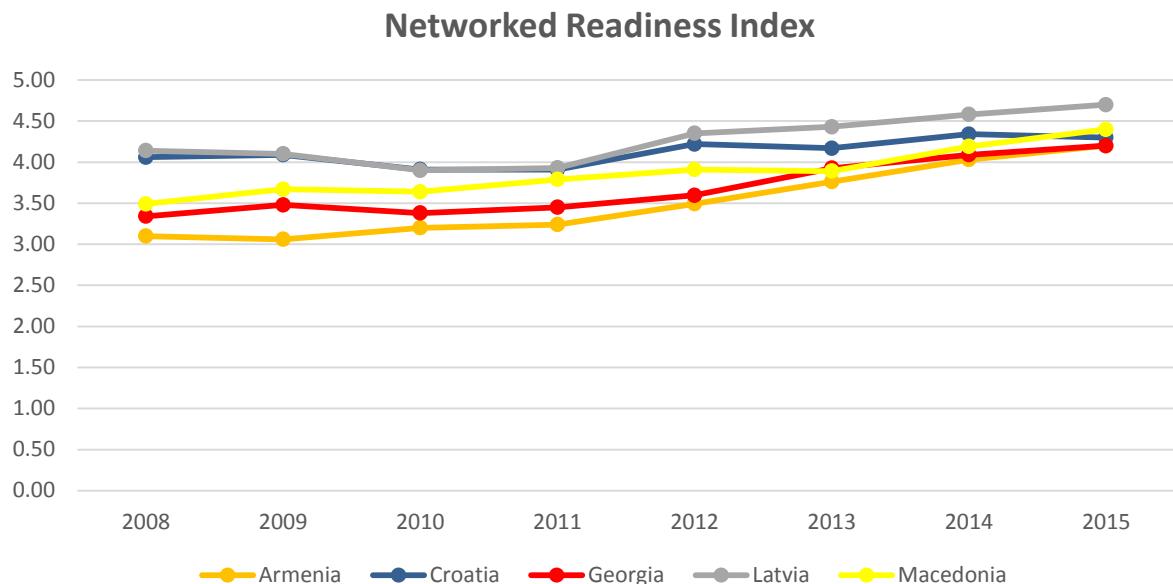
The ICT Development Index compares developments in information and communication technologies (ICT) in 154 countries over a six-year period from 2007 to 2015. The Index combines 11 indicators into a single measure that can be used as a benchmarking tool globally, regionally and at the country level. These are related to ICT access, use and skills, such as households with a computer, the number of Internet users and literacy levels. Measures of this indicator are on a scale from 1 to 10, with lower scores reflecting lower development levels. In 2013 Armenia reached a score of 5.08 which indicates that the country was at the middle range in this context. But if we compare this with data from previous periods, Armenia improved more than 100%. In 2002 the value of this indicator was just 2.03 and in 2007 it was 2.66. Relative to the other countries considered in this report, Armenia and Georgia are far behind Latvia, Croatia and Macedonia.

This data was confirmed at the focus group meetings. Despite the fact that some of the participants were satisfied with the ICT coverage in the country, they were not equally satisfied with the quality of the services provided by operators. This is especially mentioned in the context of the quality of internet services. The majority of participants said that the quality of internet services was not in correlation with the price of internet in the country. Also, some of the participants said that there were some geographical locations without regular and stable access to internet.

The Networked Readiness Index (NRI) measures the degree to which developed and developing countries across the world leverage information and communication technologies (ICT) for enhanced competitiveness. The Index comprises three sub-indices that measure the environment for ICT, together with the main stakeholders' readiness and usage, with a total of nine pillars and 71 variables.

Graph 46: Networked Readiness Index⁶⁴

⁶³ Source: International Telecommunication Union.



Related to NRI, there are no substantial differences between the countries compared in the report. But according to last official data Armenia and Georgia still lag behind the rest of the countries analysed in the report. The current value of this indicator in Armenia is 4.2, the same in Georgia, while the value of this indicator in Latvia was 4.7 last year.

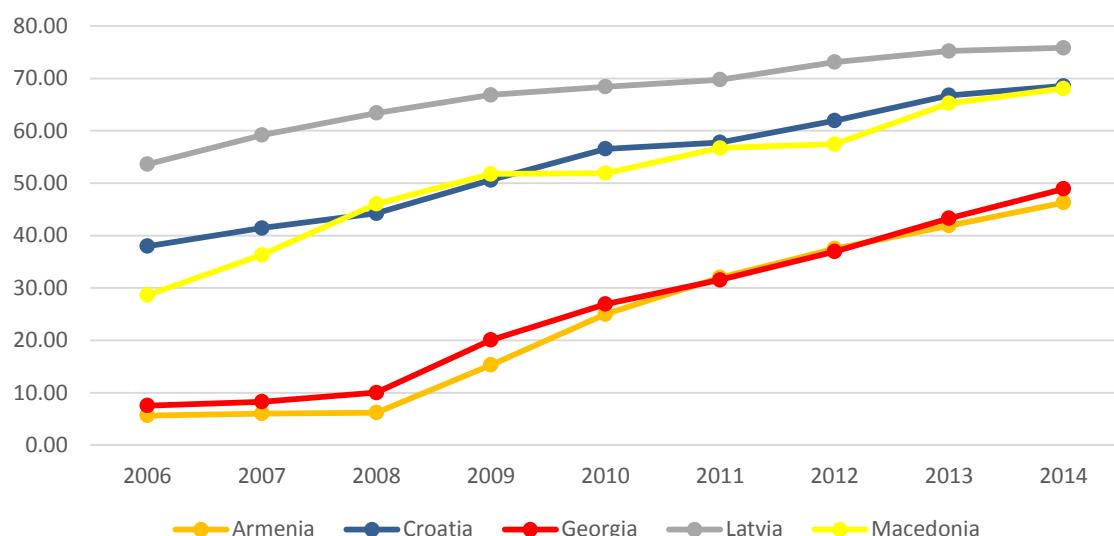
The most important indicator of ICT usage in some countries is the number of Internet users, the number of mobile and fixed-telephone subscriptions, etc. Regarding this indicator the number of fixed-telephone subscriptions in Armenia is lower than in all other countries compared in the report with the exception of Macedonia. Mobile telephone subscriptions are better developed compared to fixed telephones. Based on available data, in 2014, there were 1.16 mobile phones per citizen in Armenia. Finally, the most important indicator for the Armenian economy is the number of internet users. When it comes to this, Armenia lags behind almost all countries compared in the report. According to World Economic Forum's Global Information Technology Report, approximately 46.3% of Armenian citizens use the internet.

Graph 47: Internet users (per 100 habitants)⁶⁵

⁶⁴ Source: World Economic Forum, The Global Information Technology Report.

⁶⁵ Source: International Telecommunication Union.

Internet users (per 100 people)



Various reports show that Armenia invests a lot in the development of ICT and the promotion of ICT usage in the country. Particularly for this sector, there is a need for companies to invest more in research and development. Based on EESE survey data, 30.3% of Armenian companies are engaged in research and development. It is worth mentioning however, that almost half the respondents indicated they did not know whether companies were conducting research and development or not. The lack of specific government assistance to firms to invest in research and development was clearly identified as one of the crucial problems by survey respondents. ICT and fast growing and changing sectors should be the development engine of every economy. If a country wants to improve and develop these services it is necessary to involve all segments of society in this process. On one hand, Government should put in place a proper regulatory framework for ICT development, while on the other hand, companies should invest more in R&D and universities should improve communication with companies in order to identify real market needs.

Key Indicators

ICT Development Index (IDI)		2007	2008	2010	2011	2012	2013
		Armenia	Croatia	Georgia	Latvia	Macedonia	
IDI compares developments in information and communication technologies (ICT) in 154 countries over a five-year period from 2002 to 2007. The Index combines 11 indicators into a single measure that can be used as a benchmarking tool globally, regionally and at the country level. These are related to ICT access, use and skills, such as households with a computer and the number of Internet users; and literacy levels.	Armenia	2.66	2.94	3.87	4.18	4.89	5.08
	Croatia	4.95	5.43	5.54	6.14	6.70	6.90
	Georgia	2.87	2.96	3.75	4.24	4.48	4.86
	Latvia	4.95	5.31	5.80	6.00	6.84	7.03
	Macedonia	3.40	4.20	4.90	4.93	5.42	5.77
Scale from 1 to 10, with lower scores reflecting lower development levels.							
Networked Readiness Index		2010	2011	2012	2013	2014	2015
		Armenia	Croatia	Georgia			
The NRI measures the degree to which developed and developing countries across the world leverage information	Armenia	3.20	3.24	3.49	3.76	4.03	4.2
	Croatia	3.91	3.91	4.22	4.17	4.34	4.3
	Georgia	3.38	3.45	3.60	3.93	4.09	4.2

<p>and communication technologies (ICT) for enhanced competitiveness. The Index comprises three sub indexes that measure the environment for ICT, together with the main stakeholders' readiness and usage, with a total of nine pillars and 71 variables.</p>	<table border="1"> <thead> <tr> <th></th><th>Latvia</th><th>3.90</th><th>3.93</th><th>4.35</th><th>4.43</th><th>4.58</th><th>4.7</th></tr> </thead> <tbody> <tr> <td>Macedonia</td><td>3.64</td><td>3.79</td><td>3.91</td><td>3.89</td><td>4.19</td><td>4.4</td></tr> </tbody> </table> <p>Scale of 1 to 7, with higher scores reflecting a better readiness to utilize the opportunities created by ICT.</p>		Latvia	3.90	3.93	4.35	4.43	4.58	4.7	Macedonia	3.64	3.79	3.91	3.89	4.19	4.4																											
	Latvia	3.90	3.93	4.35	4.43	4.58	4.7																																				
Macedonia	3.64	3.79	3.91	3.89	4.19	4.4																																					
<p>Internet Users (per 100 people)</p> <p>The Internet is a linked global network of computers in which users at one computer get information from other computers in the network. Internet users are people with access to the worldwide network. The total number of Internet users is divided by the population and multiplied by 100.</p>	<table border="1"> <thead> <tr> <th></th><th>2009</th><th>2010</th><th>2011</th><th>2012</th><th>2013</th><th>2014</th></tr> </thead> <tbody> <tr> <td>Armenia</td><td>15.30</td><td>25.00</td><td>32.00</td><td>37.50</td><td>41.90</td><td>46.30</td></tr> <tr> <td>Croatia</td><td>50.58</td><td>56.55</td><td>57.79</td><td>61.94</td><td>66.75</td><td>68.57</td></tr> <tr> <td>Georgia</td><td>20.07</td><td>26.90</td><td>31.52</td><td>36.94</td><td>43.30</td><td>48.90</td></tr> <tr> <td>Latvia</td><td>66.84</td><td>68.42</td><td>69.75</td><td>73.12</td><td>75.23</td><td>75.83</td></tr> <tr> <td>Macedonia</td><td>51.77</td><td>51.90</td><td>56.70</td><td>57.45</td><td>65.24</td><td>68.06</td></tr> </tbody> </table> <p>Percentage of individuals using the internet.</p>		2009	2010	2011	2012	2013	2014	Armenia	15.30	25.00	32.00	37.50	41.90	46.30	Croatia	50.58	56.55	57.79	61.94	66.75	68.57	Georgia	20.07	26.90	31.52	36.94	43.30	48.90	Latvia	66.84	68.42	69.75	73.12	75.23	75.83	Macedonia	51.77	51.90	56.70	57.45	65.24	68.06
	2009	2010	2011	2012	2013	2014																																					
Armenia	15.30	25.00	32.00	37.50	41.90	46.30																																					
Croatia	50.58	56.55	57.79	61.94	66.75	68.57																																					
Georgia	20.07	26.90	31.52	36.94	43.30	48.90																																					
Latvia	66.84	68.42	69.75	73.12	75.23	75.83																																					
Macedonia	51.77	51.90	56.70	57.45	65.24	68.06																																					
<p>Fixed-Telephone Subscriptions (per 100 inhabitants)</p> <p>Fixed lines are telephone mainlines connecting a customer's equipment to the public switched telephone network.</p>	<table border="1"> <thead> <tr> <th></th><th>2009</th><th>2010</th><th>2011</th><th>2012</th><th>2013</th><th>2014</th></tr> </thead> <tbody> <tr> <td>Armenia</td><td>20.21</td><td>19.99</td><td>19.80</td><td>19.66</td><td>19.43</td><td>18.92</td></tr> <tr> <td>Croatia</td><td>42.74</td><td>43.01</td><td>42.74</td><td>40.48</td><td>38.89</td><td>36.72</td></tr> <tr> <td>Georgia</td><td>14.09</td><td>25.34</td><td>30.65</td><td>29.27</td><td>27.65</td><td>25.39</td></tr> <tr> <td>Latvia</td><td>26.59</td><td>25.45</td><td>24.90</td><td>23.11</td><td>20.63</td><td>18.96</td></tr> <tr> <td>Macedonia</td><td>20.82</td><td>19.65</td><td>20.06</td><td>19.39</td><td>18.82</td><td>18.62</td></tr> </tbody> </table> <p>Number of subscribers per 100 people.</p>		2009	2010	2011	2012	2013	2014	Armenia	20.21	19.99	19.80	19.66	19.43	18.92	Croatia	42.74	43.01	42.74	40.48	38.89	36.72	Georgia	14.09	25.34	30.65	29.27	27.65	25.39	Latvia	26.59	25.45	24.90	23.11	20.63	18.96	Macedonia	20.82	19.65	20.06	19.39	18.82	18.62
	2009	2010	2011	2012	2013	2014																																					
Armenia	20.21	19.99	19.80	19.66	19.43	18.92																																					
Croatia	42.74	43.01	42.74	40.48	38.89	36.72																																					
Georgia	14.09	25.34	30.65	29.27	27.65	25.39																																					
Latvia	26.59	25.45	24.90	23.11	20.63	18.96																																					
Macedonia	20.82	19.65	20.06	19.39	18.82	18.62																																					
<p>Mobile-Cellular Telephone Subscriptions (per 100 inhabitants)</p> <p>Mobile phone subscribers refer to users of portable telephones subscribing to an automatic public mobile telephone service using cellular technology that provides access to the public switched telephone network.</p>	<table border="1"> <thead> <tr> <th></th><th>2009</th><th>2010</th><th>2011</th><th>2012</th><th>2013</th><th>2014</th></tr> </thead> <tbody> <tr> <td>Armenia</td><td>73.83</td><td>130.43</td><td>108.34</td><td>111.91</td><td>112.42</td><td>115.92</td></tr> <tr> <td>Croatia</td><td>107.47</td><td>113.61</td><td>118.30</td><td>115.41</td><td>110.05</td><td>104.43</td></tr> <tr> <td>Georgia</td><td>64.46</td><td>90.65</td><td>101.28</td><td>107.81</td><td>115.03</td><td>124.94</td></tr> <tr> <td>Latvia</td><td>109.05</td><td>110.31</td><td>111.36</td><td>127.69</td><td>124.76</td><td>124.20</td></tr> <tr> <td>Macedonia</td><td>92.51</td><td>102.44</td><td>105.20</td><td>106.17</td><td>106.17</td><td>109.10</td></tr> </tbody> </table> <p>Number of subscribers per 100 people.</p>		2009	2010	2011	2012	2013	2014	Armenia	73.83	130.43	108.34	111.91	112.42	115.92	Croatia	107.47	113.61	118.30	115.41	110.05	104.43	Georgia	64.46	90.65	101.28	107.81	115.03	124.94	Latvia	109.05	110.31	111.36	127.69	124.76	124.20	Macedonia	92.51	102.44	105.20	106.17	106.17	109.10
	2009	2010	2011	2012	2013	2014																																					
Armenia	73.83	130.43	108.34	111.91	112.42	115.92																																					
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Latvia	109.05	110.31	111.36	127.69	124.76	124.20																																					
Macedonia	92.51	102.44	105.20	106.17	106.17	109.10																																					
<p>Fixed (Wired)-Broadband Subscriptions (per 100 inhabitants)</p> <p>Broadband subscribers are the total number of broadband subscribers with a digital subscriber line, cable modem, or other high-speed technologies.</p>	<table border="1"> <thead> <tr> <th></th><th>2009</th><th>2010</th><th>2011</th><th>2012</th><th>2013</th><th>2014</th></tr> </thead> <tbody> <tr> <td>Armenia</td><td>-</td><td>3.16</td><td>5.42</td><td>7.14</td><td>8.17</td><td>9.13</td></tr> <tr> <td>Croatia</td><td>16.49</td><td>19.31</td><td>20.65</td><td>21.34</td><td>22.26</td><td>23.04</td></tr> <tr> <td>Georgia</td><td>3.41</td><td>4.16</td><td>5.68</td><td>10.62</td><td>11.91</td><td>12.15</td></tr> <tr> <td>Latvia</td><td>21.53</td><td>20.80</td><td>22.06</td><td>-</td><td>24.19</td><td>24.74</td></tr> <tr> <td>Macedonia</td><td>11.08</td><td>12.31</td><td>13.38</td><td>14.83</td><td>16.06</td><td>16.19</td></tr> </tbody> </table> <p>Number of subscribers per 100 people</p>		2009	2010	2011	2012	2013	2014	Armenia	-	3.16	5.42	7.14	8.17	9.13	Croatia	16.49	19.31	20.65	21.34	22.26	23.04	Georgia	3.41	4.16	5.68	10.62	11.91	12.15	Latvia	21.53	20.80	22.06	-	24.19	24.74	Macedonia	11.08	12.31	13.38	14.83	16.06	16.19
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Latvia	21.53	20.80	22.06	-	24.19	24.74																																					
Macedonia	11.08	12.31	13.38	14.83	16.06	16.19																																					

ICT Development Index (IDI)	2014 Ranking
IDI compares developments in information and communication technologies (ICT) in 154 countries. The index combines 11 indicators into a single measure that benchmarks countries at a regional and country level. These are related to ICT access, use and skills, prevalence of connectivity and ICT literacy levels. ⁶⁶	
Source: International Telecommunication Union, Measuring the Information Society .	
Network Readiness Index	2014 Ranking
Measures the propensity for countries to exploit the opportunities offered by information and communication technology. It forms a comprehensive assessment of how ICT impacts the competitiveness and well-being of countries ⁶⁷	
Source: World Economic Forum, Country Rankings 2015, The Global Information Technology Report .	

3.7. Access to financial services

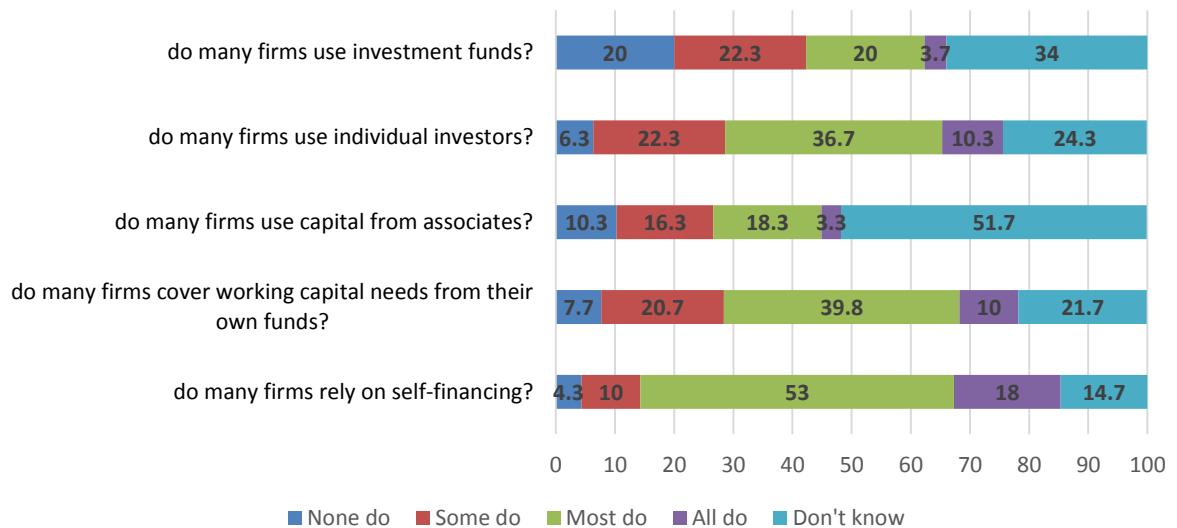
One of the key factors for the development of an economy and its companies is the existence of good and affordable financial services. This is of special importance for all kinds of companies, regardless of their size or the sector they operate in. The financial sector is important for the promotion and encouragement of new companies but also to support existing companies to increase production and exports of their products and services. Sources of financing are often one of the main barriers for existing and potential entrepreneurs in most countries. A good financial system does not only include affordable interest rates but other factors as well, such as collateral and grace periods just to name a few.

Participants of all focus group meeting unanimously identified adequate sources of finance to be the main problem for doing business in Armenia. All agreed that interest rates were very high (over 15-25%) and that there were no specialized credit lines for specific sectors. Collateral requirements cause great problems to employers. This is very much in line with the findings of the survey.

⁶⁶ International Telecommunication Union. (2014). Measuring the Information Society Report. Geneva.

⁶⁷ World Economic Forum. (2015). The Global Competitiveness Report 2015–2016. Geneva.

Graph 48: Sources of financing⁶⁸



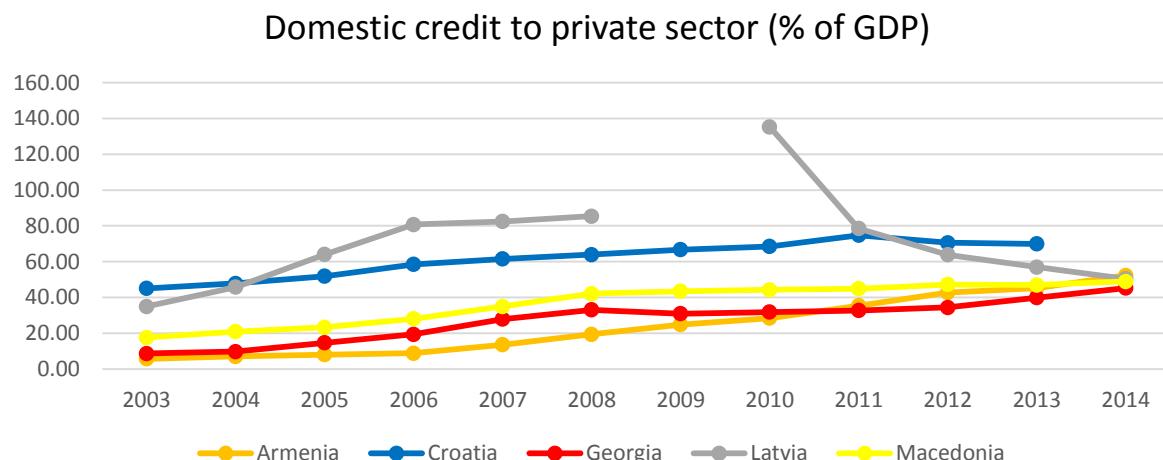
According to survey findings, the majority of companies in Armenia rely on self-financing in their daily operations. A total of 18% of surveyed companies think that all companies rely on self-financing and 53% think that most companies do that. Overall, 82% of companies believe that self-financing is the main source of funding. In addition, many of the companies mentioned their own funds and individual investors as the main source of financing.

``There are two main problems of the financial sector: expensive interest rate and the level of collateral`` - participant quotation

As external source of funding, almost half of the companies mentioned banks, followed by credit unions and customer advances. This is also confirmed by the indicator of Domestic Credit to Private Sector (% of GDP). It refers to financial resources provided to the private sector, such as loans, purchases of non-equity securities, and trade credits and other accounts receivable that establish a claim for repayment.

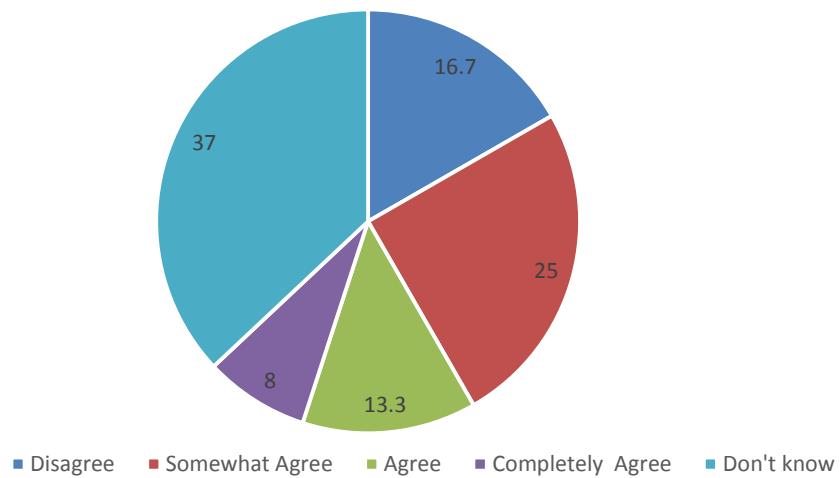
⁶⁸ Source: EESE survey 2015.

Graph 49: Domestic credits to private sector⁶⁹



According to latest available data, the share of domestic credit to the private sector as a percentage of GDP is the highest in Armenia and the lowest in Georgia, Latvia and Macedonia. No data for Croatia is available for 2014, but in 2013 the level of domestic credit to the private sector in Croatia was the highest compared to other countries – about 70%.

Graph 50: To what extent do you agree with the statement “information about financial services is well disseminated among the business sector”?⁷⁰



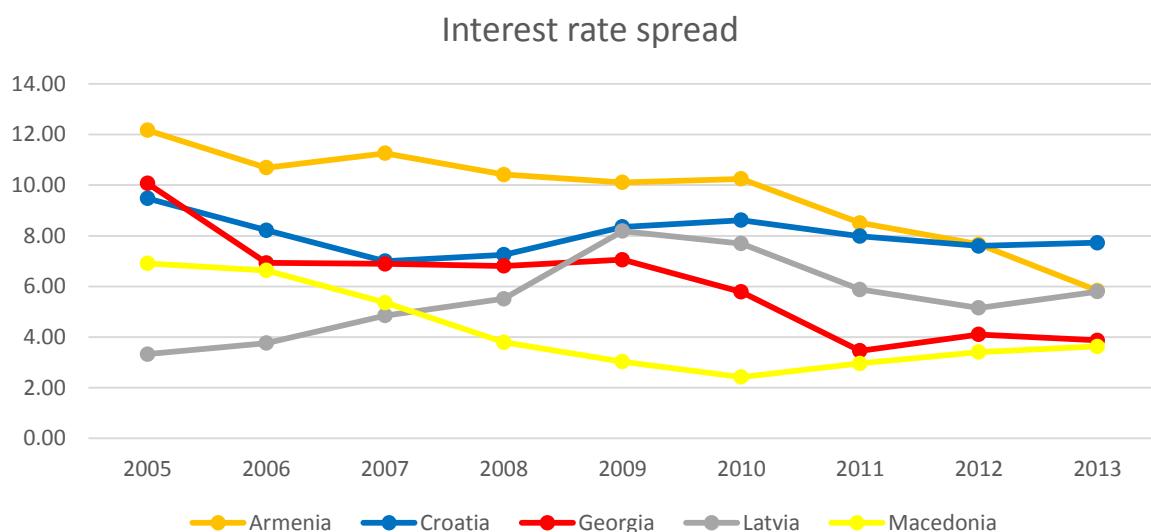
The majority of the participants of both the focus group and the conference agree that information about financial resources is not so well disseminated, stating that there is a lack of information about financial products among companies.

⁶⁹ Source: International Monetary Fund, International Financial Statistics and data files, and World Bank and OECD GDP estimates (World Development Indicators Online).

⁷⁰ Source: EESE survey 2015.

The Credit Information Index measures rules affecting the scope, accessibility, and quality of credit information available through public or private credit registries. The index ranges from 0 to 8, with higher values indicating the availability of more credit information, from either a public registry or a private bureau, to facilitate lending decisions. Armenia scored 8 in 2014, meaning that information about financial products was well disseminated. This is also confirmed by the survey findings whereby only 16.7% of surveyed companies stated that information about financial products is not well disseminated among the business sector.

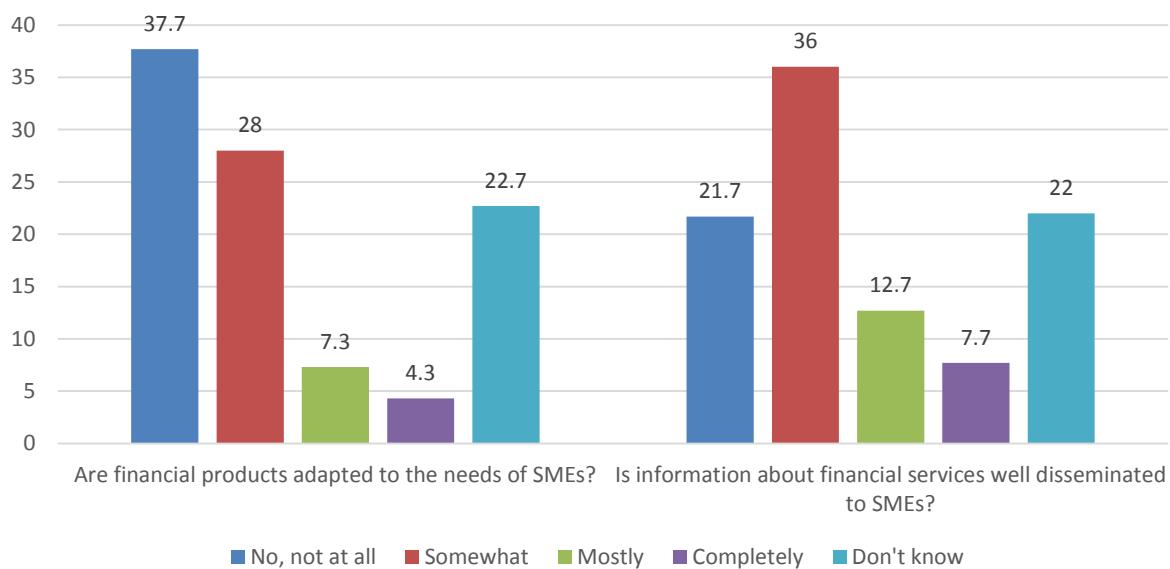
Graph 51: Interest rate spread⁷¹



The interest rate spread (lending rate minus deposit rate) is the interest rate charged by banks on loans to prime customers minus the interest rate paid by commercial or similar banks for demand, time, or savings deposits. The value of this indicator for Armenia is 5.98% and thus is higher than in Latvia, Macedonia and Georgia, but below Croatia.

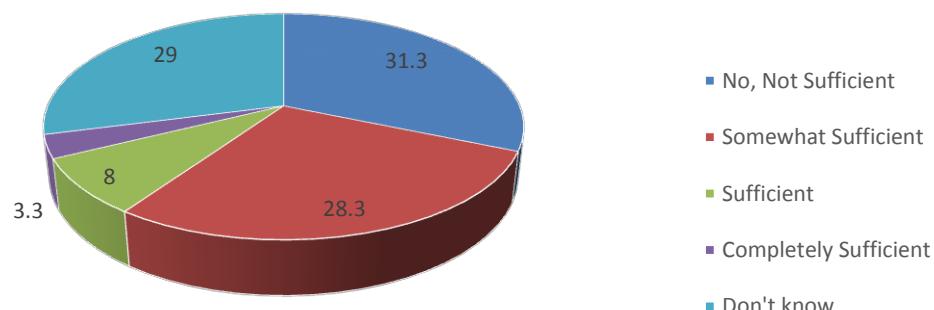
⁷¹ International Monetary Fund, International Financial Statistics and data files. (World Development Indicators Online).

Graph 52: Have financial products been adapted to the needs of enterprises of differing sizes?⁷²



Along with the level of interest rates, one of the problems identified during interviews with companies is the lack of adaptation of financial products to companies of different size. 37.7% of companies think that financial products are not adapted to the needs of SMEs. Only 4.3% of companies think that financial products are completely adjusted to SME's needs. One of the problems identified by interviewed companies, and related to financial products, are insufficient policy and regulatory incentives to encourage financial institutions to lend to SMEs.

Graph 53: Are there sufficient policy and regulatory incentives to encourage financial institutions to lend to SMEs?⁷³

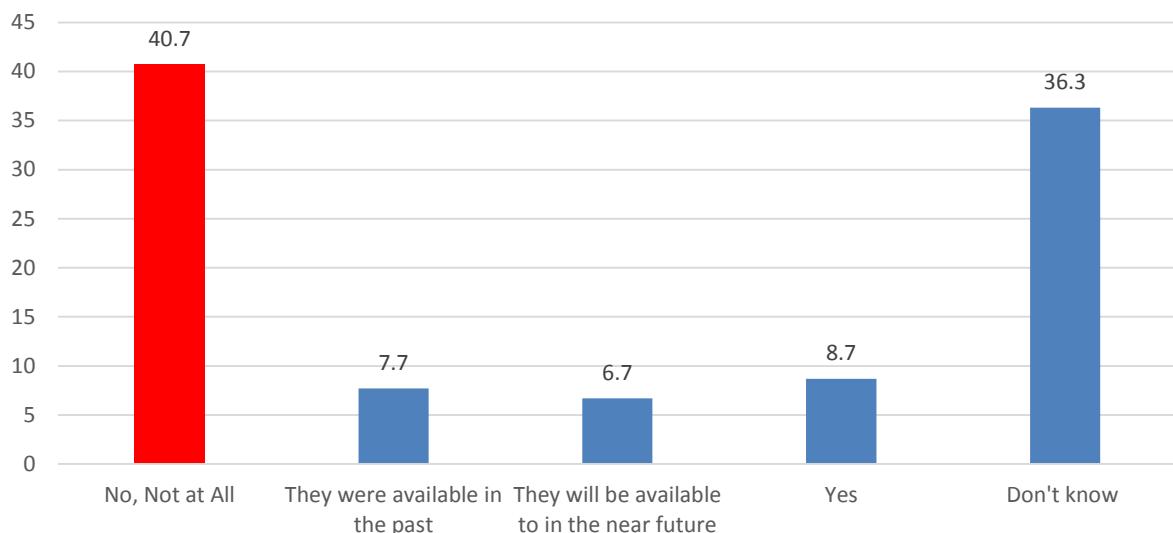


The greatest number of companies covered by the survey said there was no sufficient policy and regulatory incentives to encourage financial institutions to lend to SMEs compared to only 3.3% that think policy and regulatory incentives to encourage financial institutions to lend to SMEs are sufficient.

Graph 54: Are collateral share risk schemes available to firms?⁷⁴

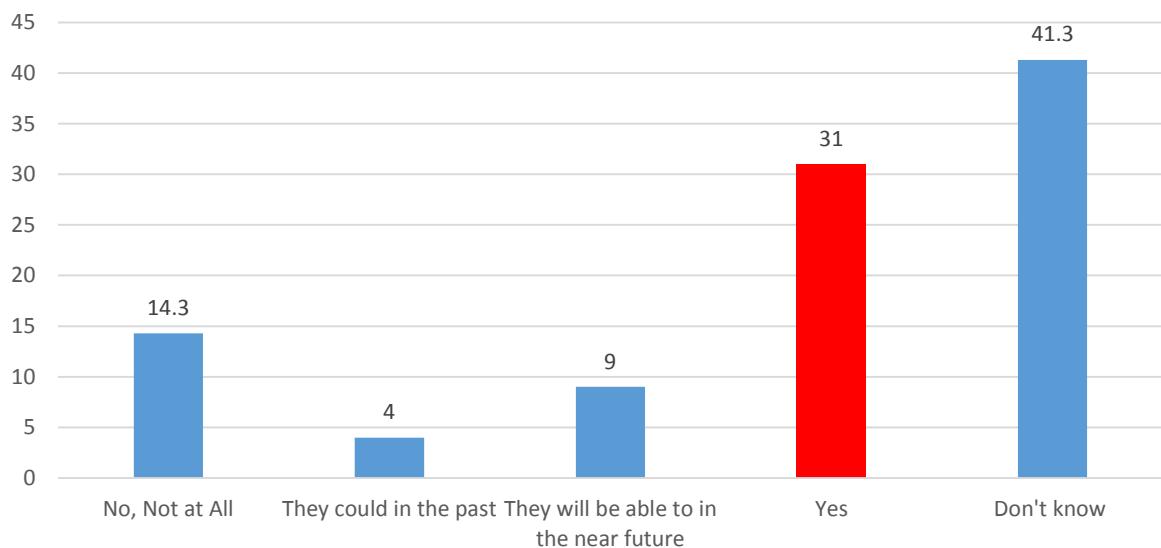
⁷² Source: EESE survey 2015.

⁷³ Ibid.



According to almost half of the companies involved in the survey (40.7%), collateral share risk schemes are not available to firms. Only few companies think that this schemes were available in the past (7.7%) followed by 6.7% of them believing it will be available in the near future. Only 8.7% of companies think that collateral share risk schemes are available to firms. On the other side, most of the companies (56%) are confident that enterprises can use their positive credit history as ‘collateral’ to access loans at better rates and seek more competitive terms from different lending institutions, while 6% think that companies cannot do so.

Graph 55: Are affordable financial products and services available that enterprises need at each stage of their evolution?⁷⁵



A similar situation exists in the case of affordable financial products and services available to enterprises while they go through different evolution stages, where most of the companies think they exist.

⁷⁴ Source: EESE survey 2015.

⁷⁵ Ibid.

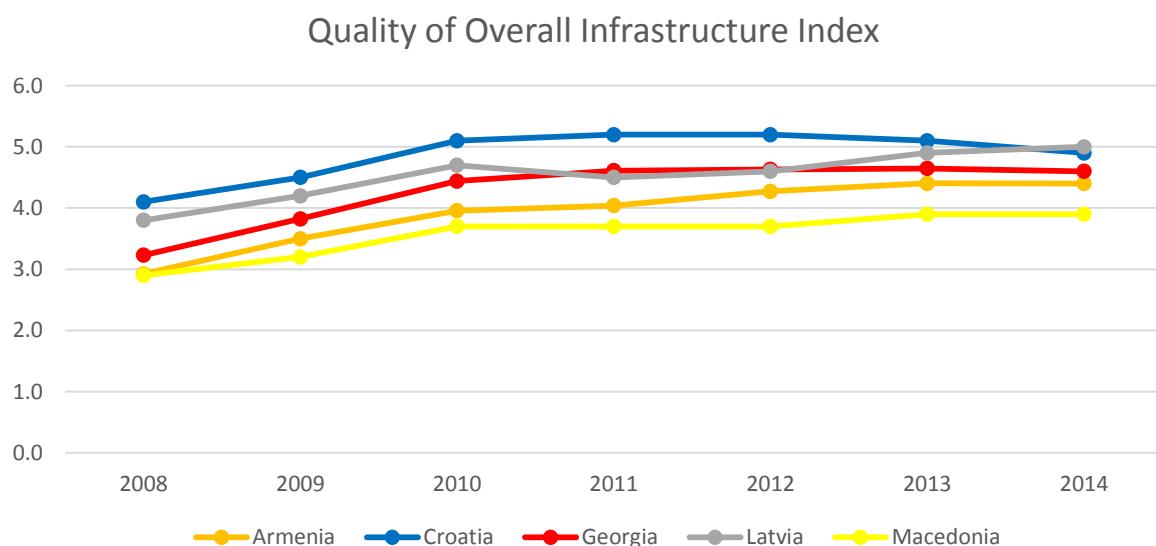
Key Indicators						
Domestic credit to private sector (% of GDP) Domestic credit to private sector refers to financial resources provided to the private sector, such as through loans, purchases of non equity securities, and trade credits and other accounts receivable, that establish a claim for repayment. For some countries these claims include credit to public enterprises.	2009	2010	2011	2012	2013	2014
Armenia	24.85	28.45	35.37	42.72	45.18	52.28
Croatia	66.71	68.44	74.72	70.56	69.87	
Georgia	30.93	31.81	32.68	34.44	39.85	45.19
Latvia		135.26	78.46	63.84	56.94	50.41
Macedonia	43.46	44.22	44.85	47.17	46.88	48.89
Credit to private sector (% of GDP).						
Credit Depth of Information Index Credit information index measures rules affecting the scope, accessibility, and quality of credit information available through public or private credit registries. The index ranges from 0 to 8, with higher values indicating the availability of more credit information, from either a public registry or a private bureau, to facilitate lending decisions.	2009	2010	2011	2012	2013	2014
Armenia	5	5	6	6	8	8
Croatia	4	4	5	5	6	6
Georgia	6	6	6	6	8	8
Latvia	4	4	4	4	5	5
Macedonia	4	4	6	6	7	7
0=less information to 8=more information.						
Interest rate spread Interest rate spread (lending rate minus deposit rate) is the interest rate charged by banks on loans to prime customers minus the interest rate paid by commercial or similar banks for demand, time, or savings deposits.	2009	2010	2011	2012	2013	2014
Armenia	10.11	10.25	8.51	7.66	5.83	5.98
Croatia	8.35	8.62	7.99	7.60	7.73	-
Georgia	7.06	5.78	3.46	4.10	3.87	3.48
Latvia	8.19	7.69	5.88	5.15	5.80	-
Macedonia	3.03	2.42	2.96	3.41	3.62	3.76
Interest rate spread (lending rate minus deposit rate, %).						

3.8. Physical infrastructure

The development of sustainable enterprises critically depends on the quality and quantity of the physical infrastructure available, such as physical facilities and transportation systems but also access to water and energy play a pivotal role. All of these factors directly influence business in every country.

The Quality of Overall Infrastructure Index reveals whether a country's infrastructure is underdeveloped or extensive and efficient based on a range from 1 to 7 with higher values indicating better performance. Since 2008, Armenia has improved year by year. In 2008 the value of this indicator was 2.9 and in 2014 it was 4.4.

Graph 56: Quality of Overall Infrastructure Index⁷⁶



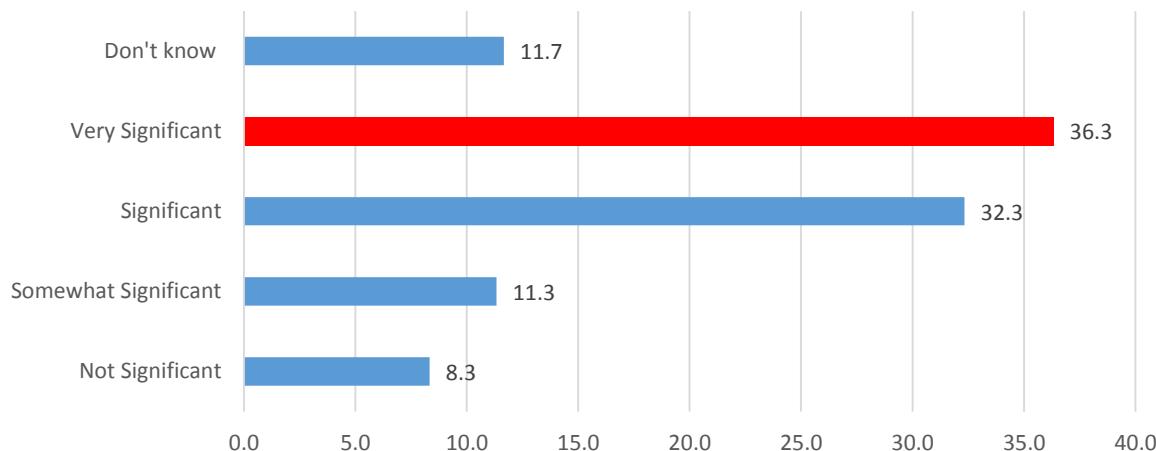
The Quality of Port Infrastructure Index reflects the level of development of port facilities and inland waterways on a range from 1 to 7 with higher values indicating better development. According to last available data from 2014, the level of this indicator for Armenia was 2.5 and it placed Armenia on the last place compared to other countries considered in this report.

Road infrastructure presents one of the most important factors for the development of business in the country. Judging by survey participants' answers, physical infrastructure is good but could still be improved.

Developments in the energy sector are seen as one of the main obstacles for doing business in Armenia, as stable energy supply to the business sector often lacks in the country. This was highlighted by both focus group participants but also by interviewed companies. 34.7% of surveyed companies are of the opinion that there are no competitive options available in the energy provision market, while merely 3.4% thinking these options are available.

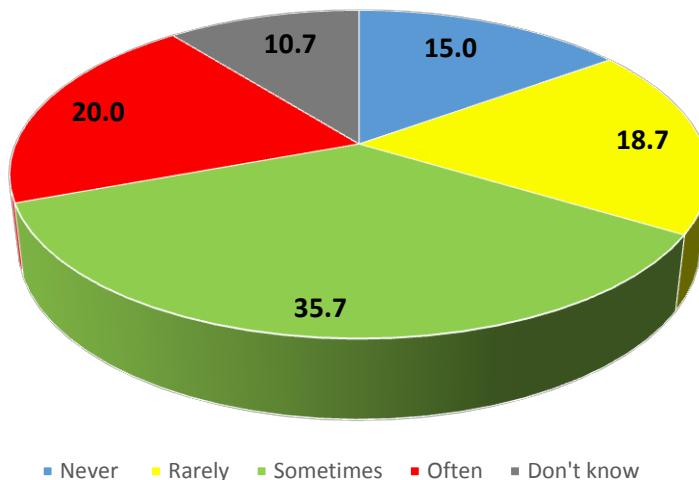
⁷⁶ Source: World Economic Forum, The Global Competitiveness Report.

Graph 57: Are power outages a significant issue for the private sector?⁷⁷



Almost 80% of surveyed companies said that power outages represented a significant issue for the private sector (36.3% consider it a very significant issue, 32.3% a significant issue and 11.3% a somewhat significant issue). Only 8.3% thought it was not significant. Overall 74.3% of surveyed companies think that power outages happen and are disruptive on the firm's operations, of which 20% of the companies said that power outages are often disruptive on the firm's operations in contrast to 15% who said that this never happened.

Graph 58: How often are power outages disruptive on the firm's operations?⁷⁸

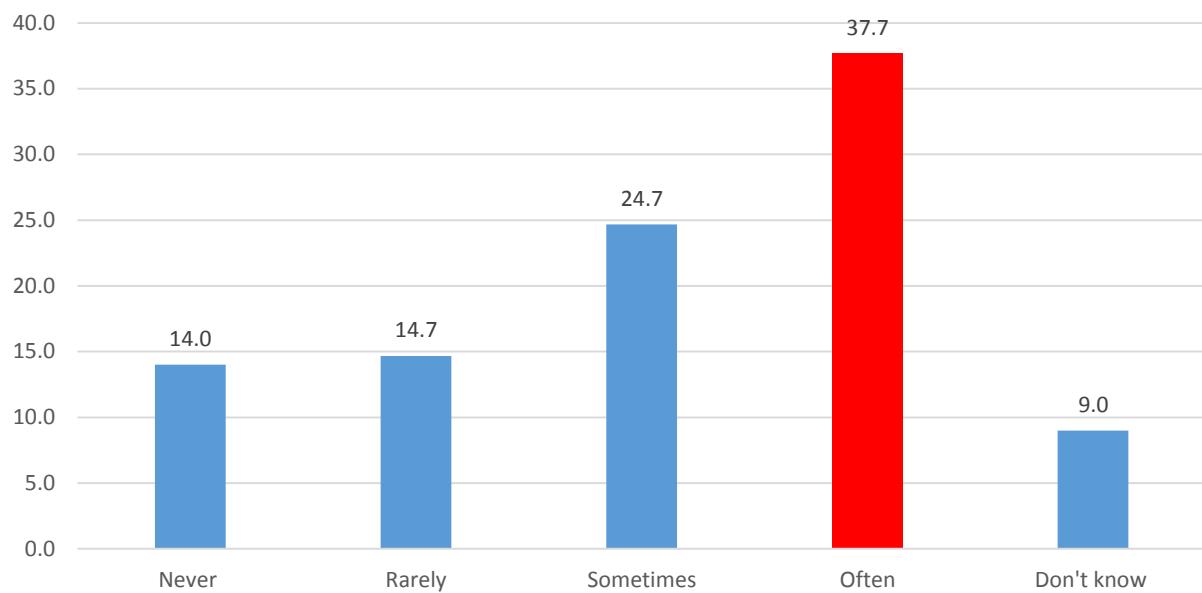


Based on focus group discussions energy is one of the substantial barriers for doing business in terms of both price and quality. Companies incur big losses due to energy failures with no one taking responsibility for the damage. Participants also mentioned that there were no clear policies or strategic document describing future developments in the energy sector in Armenia.

⁷⁷ Source: EESE survey 2015.

⁷⁸ Ibid.

Graph 59: Do power outages often cause damage to electronic equipment, such as computers, resulting in significant expenses to firms?⁷⁹



This is also confirmed by survey findings where 37.7% of companies confirmed that power outages often caused damage to electronic equipment, such as computers, resulting in significant expenses to firms. Only 14% of companies said that power outages never caused such damage.

Key Indicators

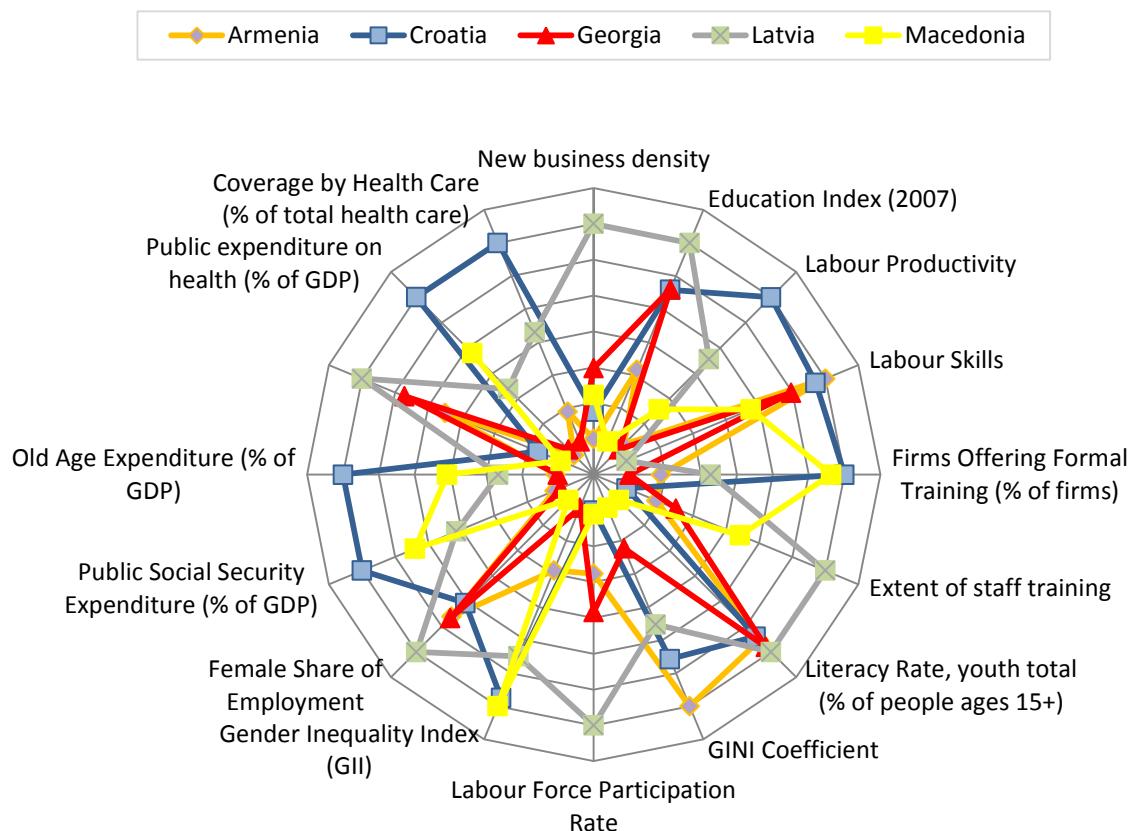
Electric Power Consumption (kWh per capita)		2007	2008	2009	2010	2011	2012
		Armenia	Croatia	Georgia	Latvia	Macedonia	
Electric power consumption measures the production of power plants and combined heat and power plants less transmission, distribution, and transformation losses and own use by heat and power plants.	kWh per capita	1739.20	1630.23	1616.49	1676.06	1754.65	1837.94
		3737.60	3878.00	3711.61	3813.68	3900.60	3819.28
		1609.70	1651.76	1585.16	1742.95	1917.99	1934.66
		3169.08	3213.12	3026.61	3229.95	3264.54	3588.42
		3567.65	3621.17	3370.06	3520.57	3824.82	3626.09

⁷⁹ Source: EESE survey 2015.

Improved Water Source (% of population with access)							
		2007	2008	2009	2010	2011	2012
Access to an improved water source refers to the percentage of the population with reasonable access to an adequate amount of water from an improved source, such as a household connection, public standpipe, borehole, protected well or spring, and rainwater collection. Unimproved sources include vendors, tanker trucks, and unprotected wells and springs. Reasonable access is defined as the availability of at least 20 liters a person a day from a source within one kilometer of the dwelling.	Armenia	96.7	97.3	98.0	98.6	99.2	99.8
	Croatia	98.5	98.5	98.5	98.5	98.5	98.6
	Georgia	94.9	95.7	96.5	97.3	98.1	98.7
	Latvia	98.4	98.4	98.4	98.4	98.4	98.4
	Macedonia	99.3	99.4	99.4	99.4	99.4	99.4
	% of population with access						
Quality of Overall Infrastructure Index		2009/10	10/11	11/12	12/13	13/14	14/15
		Armenia	3.5	4.0	4.0	4.3	4.4
The Quality of Overall Infrastructure Index reveals whether a country's infrastructure is underdeveloped or extensive and efficient based on a range from 1 to 7 with higher values indicating better performance.	Croatia	4.5	5.1	5.2	5.2	5.1	4.9
	Georgia	3.8	4.4	4.6	4.6	4.6	4.6
	Latvia	4.2	4.7	4.5	4.6	4.9	5.0
	Macedonia	3.2	3.7	3.7	3.7	3.9	3.9
	1 = underdeveloped, 7= as extensive and efficient as the world's best.						
Quality of Port Infrastructure Index		09/10	10/11	11/12	12/13	13/14	14/15
		Armenia	2.7	2.9	2.9	2.7	3.0
Survey data: "Port facilities and inland waterways in your country are: 1=underdeveloped, 7= as developed as the world's best. For landlocked countries this measures the ease of access to port facilities and inland waterways".	Croatia	3.4	3.8	4.0	4.0	4.0	4.3
	Georgia	3.9	4.0	4.0	4.2	4.3	4.2
	Latvia	4.4	4.4	4.7	4.7	4.8	5.1
	Macedonia	3.5	3.4	3.7	4.1	4.2	3.8
	1 = underdeveloped, 7= as extensive and efficient as the world's best.						

4. Social Elements

Indicators assessing social elements of an enabling environment for sustainable enterprises*



* the values for the individual indicators have been harmonized for better presentation and formatted so that the further from the centre a data point is, the better the country's performance in that regard. The original indicator values are included in the chapters.

- Union membership is not widespread in Armenia⁸⁰ and most employment relationships are based on individual agreements.
- Overall, although domestic legislation in Armenia⁸¹ provides a framework for equal rights for men and women, women remain disadvantaged, facing various forms of tacit discrimination, and are underrepresented in decision-making bodies.
- After the transition to a market-based economy, most vocational education and

training (VET)⁸² institutions in Armenia became dysfunctional, equipment obsolete and teaching in colleges mainly theoretical. The importance of cooperation between business and education⁸³ has been increasing, although examples of best practice are very often based on personal individual initiatives,

⁸⁰PWC, 2011, *Guide to doing business and investing in Armenia*, http://www.pwc.com/am/en/assets/pdf/am_doing_business_guide_2011-2012.pdf

⁸¹ OSCE, OSCE Office in Yerevan, <http://www.osce.org/yerevan>

⁸² UNDP, 2006, *Vocational Education and Training System in Armenia Project*, http://www.am.undp.org/content/armenia/en/home/operations/projects/poverty_reduction/vocational-education-and-training/

⁸³ European Training Foundation, 2010, *Education and business study: Armenia*, [http://www.etf.europa.eu/webatt.nsf/0/C12578310056925BC125781F003902D2/\\$file/NOTE8DBE77.pdf](http://www.etf.europa.eu/webatt.nsf/0/C12578310056925BC125781F003902D2/$file/NOTE8DBE77.pdf)

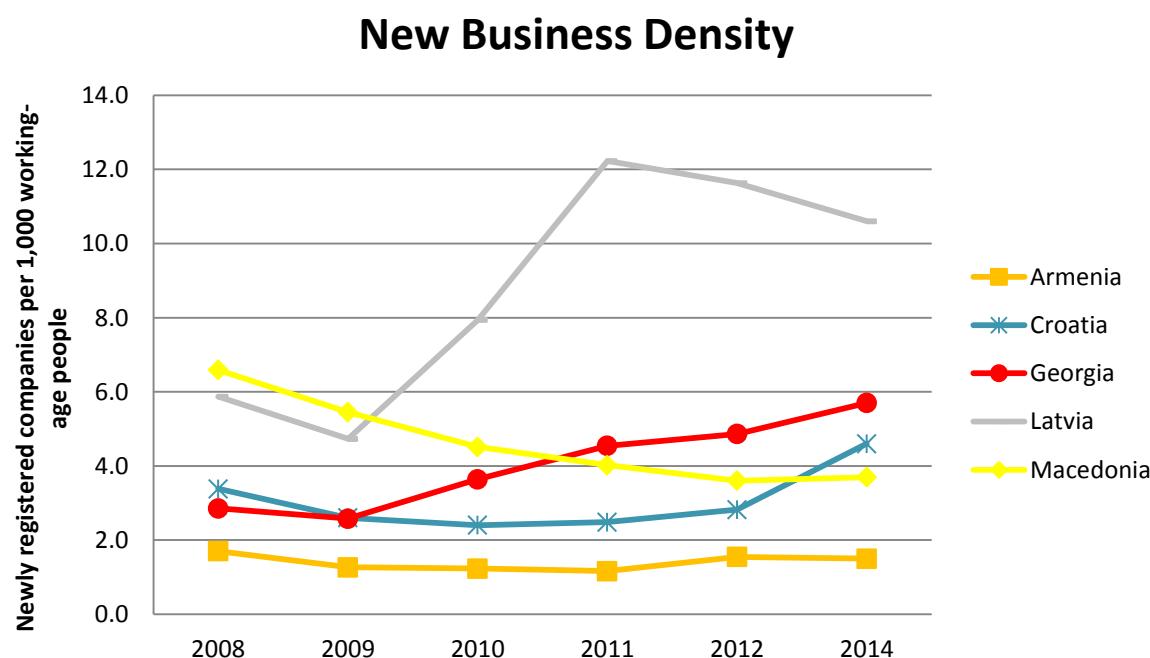
while authorities do not seem to pay enough attention to the matter. Thus existing experiences remain isolated cases, whose methodology and results do not contribute to the improvement of the overall system.

4.1. Entrepreneurial culture

One of the most important pillars for the development of society is entrepreneurial culture. Entrepreneurs make big contributions to GDP and in many countries represents the main engine for global economic development.

Based on focus group discussions, the procedure to open a new company in Armenia is very simple as Armenia has done a lot to simplify processes of establishing companies. It can be done within a few minutes and at a low cost. But the closing of a company is perceived as a major problem by the majority of participants. Closing a company takes a long time and is very costly, with the result that a lot of companies do not actually close but rather suspend their activity. The pragmatic solution these companies pursue is to pay some amount of money on a monthly basis while declaring that they do not realise their business activity.

Graph 61: New Business Density⁸⁴



This indicator shows the number of newly registered limited liability companies per 1,000 working-age people (those aged between 15 and 64) in a particular year. Armenia still lags behind the other countries used for comparison in this report. This indicator shows that since 2008 Armenia recorded a slight negative trend in the field of newly registered companies. Armenia's score was almost 2 in 2008 but this indicator made a slight drop over the years to 1.5 in 2015. However, with new procedures in place this indicator will surely show better performance of the country in the following reports.

Although the Armenia EESE survey shows some progress when it comes to the ease of establishing a business and promotion of entrepreneurial culture, participants of focus group meetings concluded that entrepreneurial culture should not only be looked at with a simplified business regulations lens. After starting a business, entrepreneurs face a whole range of other

⁸⁴ Source: World Bank's Entrepreneurship Survey (World Development Indicators Online).

problems including high interest rates, a great number of duties imposed by the state and local authorities, and unfair competition. These issues must also be addressed to effectively promote a strong entrepreneurial culture in the country. It is important to take into account these conclusions in order to improve the current state of business in Armenia.

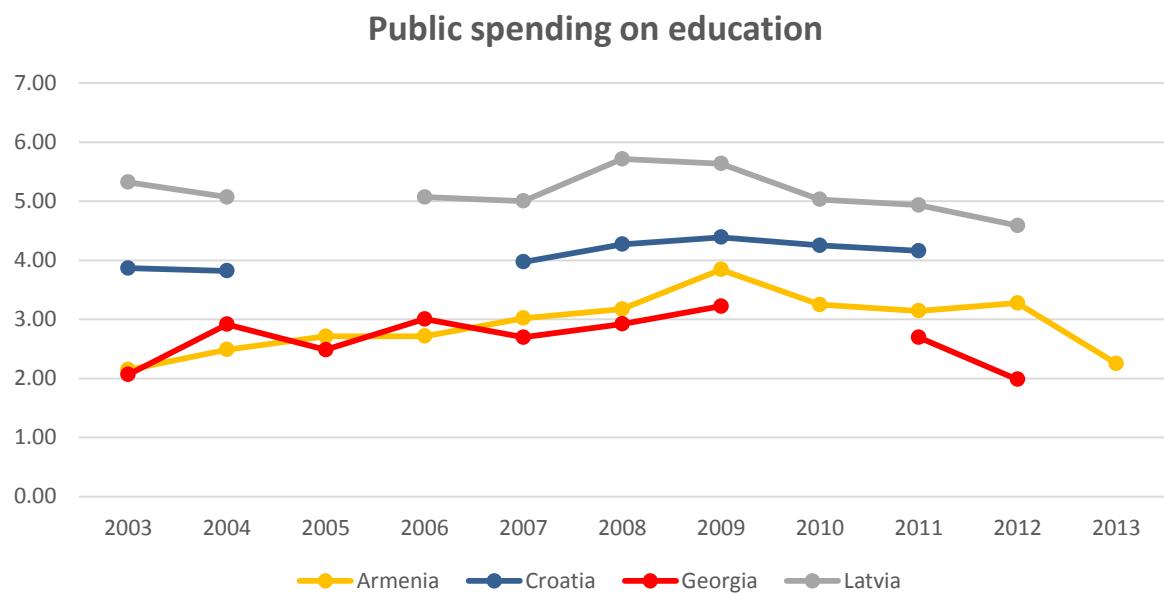
Key Indicators

New Business Density		2007	2008	2009	2010	2011	2012
The number of newly registered limited liability companies per 1,000 working-age people (those ages 15-64) in that year.	Armenia	1.76	1.70	1.27	1.23	1.17	1.55
	Croatia	3.61	3.38	2.60	2.40	2.49	2.82
	Georgia	2.32	2.86	2.58	3.64	4.55	4.86
	Latvia	7.76	5.87	4.73	7.94	2	3
	Macedonia	6.37	6.59	5.45	4.51	4.02	3.60
The number of newly registered limited liability companies per 1,000 working-age people.							

4.2. Education, training and lifelong learning

The development of a skilled workforce and the expansion of human capabilities through high-quality systems of education, training and lifelong learning are important for helping workers to find good jobs and enterprises to find the skilled workers they require. A well-educated and well skilled workforce is the main strength of every country. On the other hand, in reality, the lack of a well-educated and skilled workforce is often one of the biggest challenges facing countries.

Graph 62: Public spending on education⁸⁵

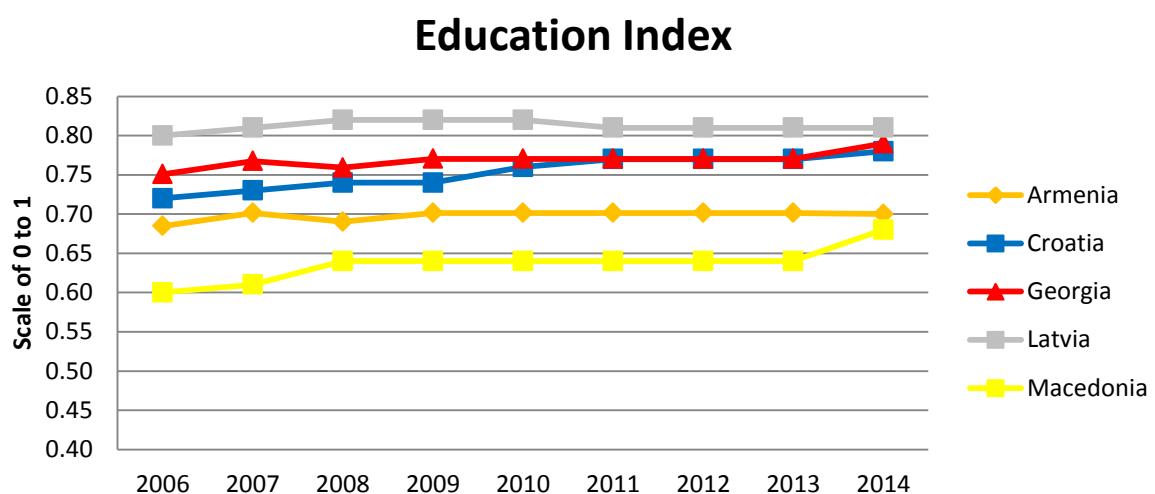


⁸⁵ Source: United Nations Educational, Scientific, and Cultural Organization (UNESCO) Institute for Statistics (World Development Indicators Online).

Public expenditure on education consists of current and capital public expenditure on education plus subsidies to private education at the primary, secondary, and tertiary levels. According to this indicator Armenia's annual public expenditure on education is about 2% of GDP. Baring in mind that the education system is crucial for the development of the country, this value should be improved. Moreover, compared to other countries Armenia lags behind Croatia and Latvia but is ahead of Georgia. There are however concerns since in 2013 this indicator recorded a drop after a few years of stability.

The second important indicator is the Education Index. It measures educational attainment. The Education Index is measured by the adult literacy rate and the combined primary, secondary, and tertiary gross enrolment ratio. The adult literacy rate gives an indication of the ability to read and write, while the gross enrolment ratio gives an indication of the level of education from kindergarten to postgraduate education. It is a weighted average of the Adult Literacy Index (with two-thirds weighting) and the combined primary, secondary, and tertiary gross enrolment ratio (Gross Enrolment Index [0, 100]) (with one-third weighting). Measure of this indicator is on a scale from 0 to 1 where higher values correspond to better performance.

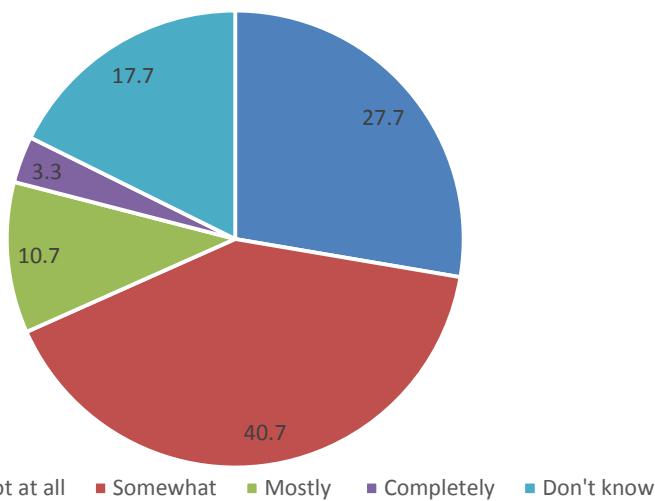
Graph 63: Education index⁸⁶



Of the compared countries, Armenia reached better result than Macedonia but it still lags behind Georgia, Croatia and Latvia. In focus group discussions the educational system along with a mismatch between the outputs of the education system and labour market needs were very important topics. Some of the participants criticized the lack of special education and training programs for some sectors and occupations (especially for tourism). Practical training is scarce in the education process and according to participants only 20% of the labour force possess the necessary skills and knowledge to satisfy labour market needs after leaving schools. Learning materials are sometimes extremely outdated (1950s) and due to a lack of funding and knowledge can hardly be put to date.

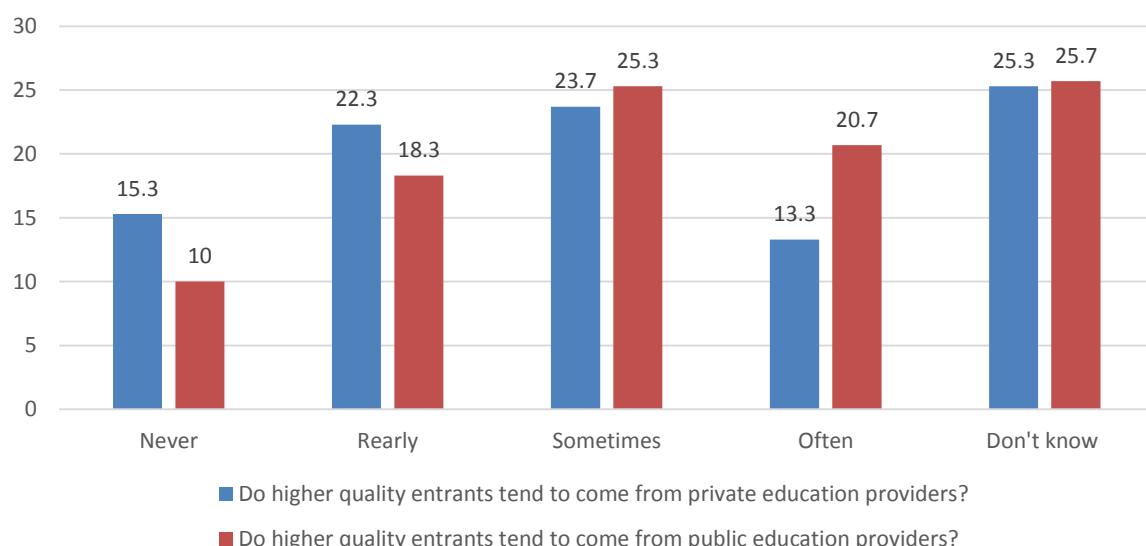
⁸⁶ UNDP, Human Development Report.

Graph 64: Are school leavers generally equipped with the literacy and numeracy skills required by firms in the private sector?⁸⁷



Focus group discussions and findings of various reports are confirmed by survey findings. Almost 30% of survey participants think that school leavers are not generally equipped with the literacy and numeracy skills required by firms in the private sector. Only 3.3% of the companies said that school leavers were completely equipped or just equipped (15%) with the literacy and numeracy skills required by firms in the private sector. The majority of companies think that the average school leaver applying for work just somewhat meets the needs of firms in the private sector (47%), and only 4.3% think that the average school leaver applying for work completely meets the needs of firms in the private sector.

Graph 65: Comparison between private and public education providers⁸⁸



⁸⁷ Source: EESE survey 2015.

⁸⁸ Ibid.

Overall, there are no substantial differences in companies' opinions regarding the quality of labour market entrants from private or public education providers. By examining companies' responses, a slight preference to public education providers can be noted, as they are perceived to provide better quality. Companies in Armenia have a divided opinion about formal or informal relationships of companies with local education providers (at any level). Despite the fact that the majority of companies do not have a definite opinion about this, 22.7% of the companies believe that there are no formal or informal relations between companies and local education providers (at any level). On the other side, 1.3% of the companies think that this relationship exists with all companies while 20.7% of the respondents say that some companies have formal or informal relationship with local education providers.

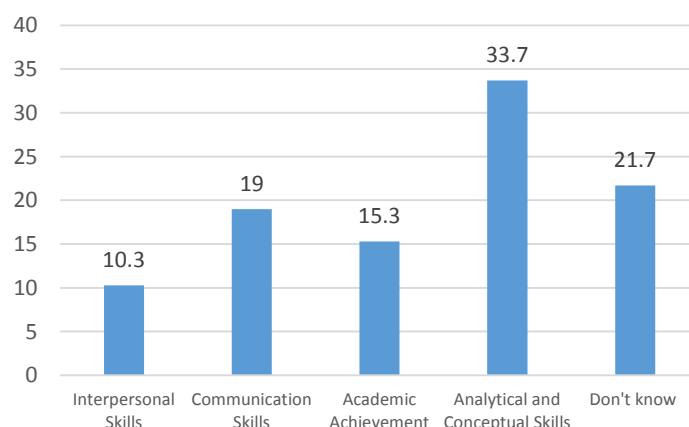
Regarding the companies' needs the following skills are perceived to be the most important for firms in the current climate:

1. Strong communication skills for 26.3% of companies;
2. Strong analytical skills for 23.7% of companies;
3. Strong interpersonal skills for 17.7% of companies, etc.

In relation to attributes of employees, the following are perceived to be the most important for firms in the current climate:

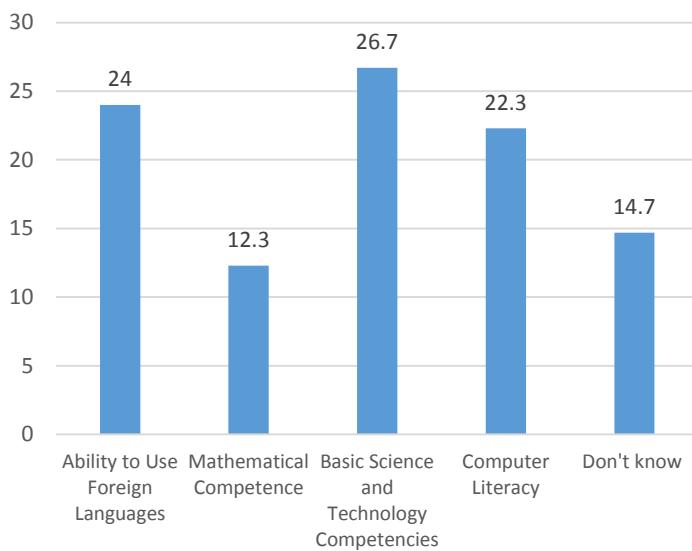
1. Flexible 'Can do' attitude for 28.7% of companies;
2. Self-motivated self-starter for 18.3% of companies;
3. Team player for 17.3% of companies; and
4. Energy and enthusiasm for 15.7% of companies.

Graph 66: Which of the following skills is the main missing competency among school leavers today?



Based on survey findings, the main missing competences among school leavers today are analytical and conceptual skills (33.7%) followed by communication skills (19%) and interpersonal skills for 10.3%.

Graph 67: Which of the following competencies is the main missing to firms in the current climate?

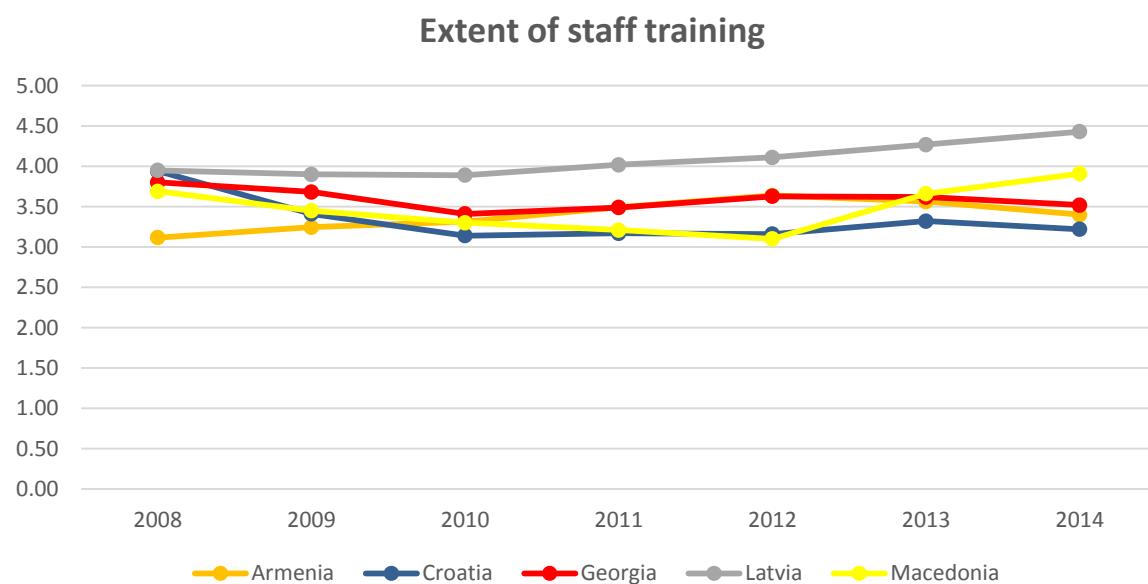


According to survey findings, 26.7% of companies identified the following main missing competences: basic science and technology competences (26.7%), ability to use foreign languages (24%) and computer literacy (22.3%).

In total 23.3% of the interviewed companies states they regularly conduct ‘skills audits’, 20% of the companies said they rarely conduct ‘skills audits’ while 18% performed ‘skills audits’ often.

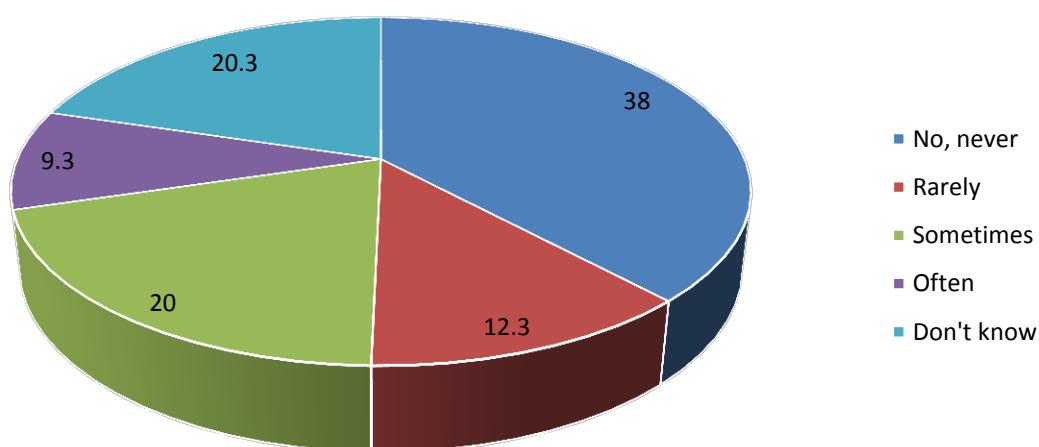
With the indicator Extent of Staff Training the World Economic Forum (WEF) Survey asks business leaders to provide their expert opinions on the following: “The general approach of companies in your country to human resources is: (1 = to invest little in training and employee development, 7 = to invest heavily to attract, train, and retain employees)”.

Graph 68: Extent of staff training⁸⁹



As shown by this indicator, Armenia does not perform as well as other countries compared in the report. The situation in Armenia in 2015 is only better than in Croatia. This is also confirmed by the survey findings. When asked if their company experienced difficulties recruiting individuals with certain skills in the last three years 41.7% of the respondents said they did. On the contrary, 38% of the companies did not have problems in recruiting individuals with certain skills.

Graph 69: Has your firm experienced difficulties recruiting individuals with certain skills in the last three years?⁹⁰



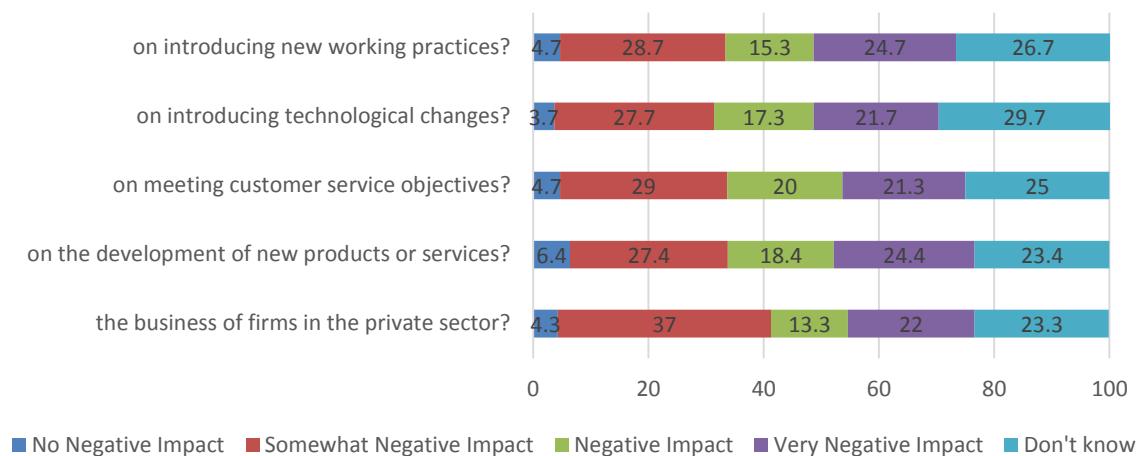
⁸⁹ Source: World Economic Forum, The Global Competitiveness Report.

⁹⁰ Source: EESE survey 2015.

As a response to difficulties in recruiting individuals with certain skills in the last three years, most of the companies changed their working practice or processes (28.21%), some provided further training (22.22%) and other increased recruitment efforts (13.68%).

Most companies (32%) think that there is no government employment and training schemes available to assist with skills shortages and only 5.3% of companies are aware of the existence of these schemes. On the other side, 12.7% of the companies said that there were private employment and training schemes available to assist with skills shortage while 21% of the companies were not aware of the existence of these schemes.

Graph 70: To what extent do the current skills shortages negatively affect⁹¹



Skills shortages negatively affect private sector business according to more than 70% of companies. Only 4.3% think it does not have negative effects on businesses in the private sector. According to survey findings skills shortages have negative effects on new working practices, the introduction of new technologies and the development of new products or services.

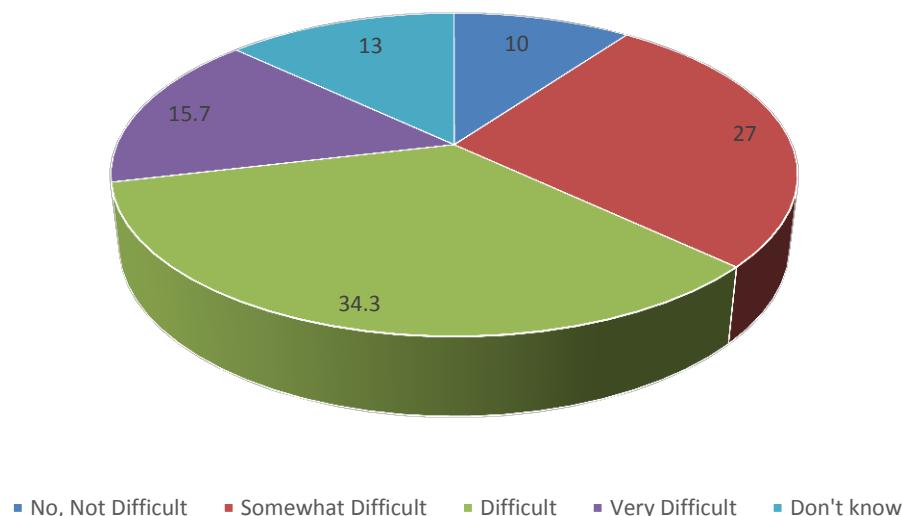
The above is also confirmed by some previous ILO work in Armenia. Based on a Women Entrepreneurship Development Assessment in Armenia, human resource development is named as one of the biggest challenges in the country. According to this report, Armenia enjoys a relatively well-educated population, but the system fails to supply the skills necessary in a modern, market-driven economy. SMEs also rely on friends and family for their staffing needs, which can further constrain growth. Different organizations, such as KfW, BFC, etc. are also working on providing various business skills, but usually lack coordination in their programs.⁹²

Apart from this, companies find it very difficult to keep highly skilled employees in the current market. Only 10% of the companies think this is not difficult while for 15.7% it is very difficult.

⁹¹ Source: EESE survey 2015.

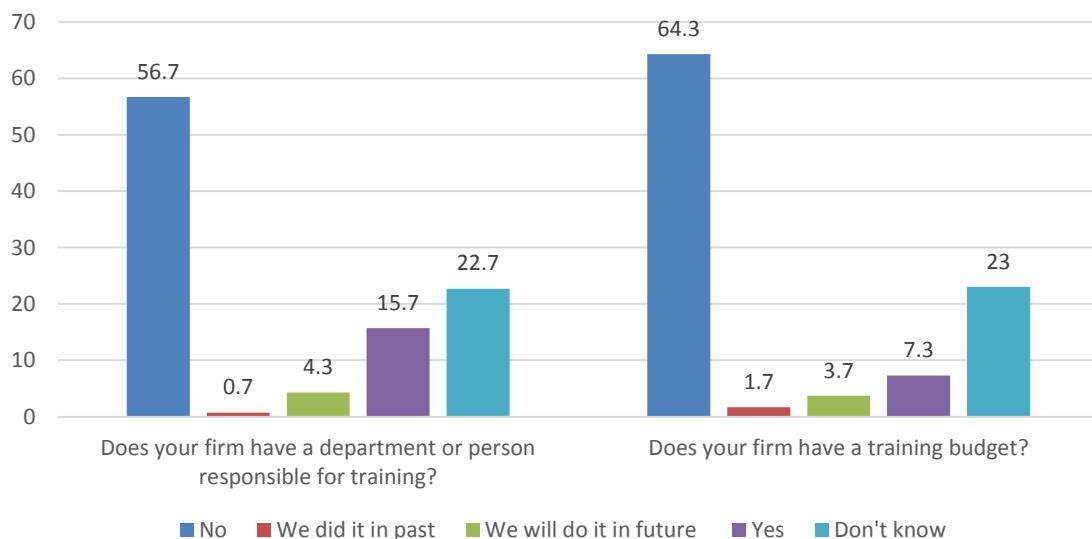
⁹² Source: International Labour Organization “Women Entrepreneurship Development – Assessment in Armenia”.

Graph 71: It is difficult, in the current market, for firms to keep highly skilled employees?⁹³



About 56.7% of companies don't have a department or a person responsible for training compared to only 15.7% that do. Regarding the financing of trainings, 64.3% of companies do not have a training budget compared to only 7.3% that do. Most of the companies do not undertake regular need analysis (57%), 13% undertake it and 5% plan to do it in the future. Ultimately, half of the companies said that there were no government-funded trainings available to firms, in contrast to 8% that said such trainings were available. 4% believe such trainings will be available in the future.

Graph 72: Financing of the training⁹⁴



⁹³ Source: EESE survey 2015.

⁹⁴ Ibid.

Key Indicators

Public expenditure on education Public expenditure on education consists of current and capital public expenditure on education plus subsidies to private education at the primary, secondary, and tertiary levels.	2008	2009	2010	2011	2012	2013
	Armenia	3.02	3.17	3.84	3.25	3.14
	Croatia	3.97	4.27	4.39	4.25	4.16
	Georgia	2.70	2.92	3.22	2.70	1.98
	Latvia	5.00	5.71	5.64	5.03	4.93
	Macedonia	3.02	3.17	3.84	3.25	3.14
Public spending on education as share (%) of GDP						
Education Index It measures the educational attainment. The Education Index is measured by the adult literacy rate and the combined primary, secondary, and tertiary gross enrolment ratio. The adult literacy rate gives an indication of the ability to read and write, while the gross enrolment ratio gives an indication of the level of education from kindergarten to postgraduate education. It is a weighted average of Adult literacy index (with two-thirds weighting) and the combined primary, secondary, and tertiary gross enrolment ratio (Gross enrolment index [0, 100]) (with one-third weighting).	2008	2009	2010	2011	2012	2013
	Armenia	0.70	0.69	0.70	0.70	0.70
	Croatia	0.73	0.74	0.74	0.76	0.77
	Georgia	0.77	0.76	0.77	0.77	0.77
	Latvia	0.81	0.82	0.82	0.82	0.81
	Macedonia	0.61	0.64	0.64	0.64	0.64
On a scale from 0 to 1. Higher values correspond to better performance.						
Extent of Staff Training The World Economic Forum (WEF) Survey asked the business leaders to provide their expert opinions on the following: "The general approach of companies in your country to human resources is: (1=to invest little in training and employee development, 7=to invest heavily to attract, train, and retain employees)".	2009	2010	2011	2012	2013	2014
	Armenia	3.24	3.32	3.49	3.64	3.56
	Croatia	3.41	3.14	3.17	3.16	3.32
	Georgia	3.68	3.41	3.49	3.63	3.62
	Latvia	3.90	3.89	4.02	4.11	4.27
	Macedonia	3.45	3.30	3.21	3.10	3.66
1= to invest little in training and employee development, 7= to invest heavily to attract, train, and retain employees.						
Labour Force Participation Rate, in percent The labour force participation rate is the proportion of the population ages 15-64 that is economically active: all people who supply labour for the production of goods and services during a specified period. The labour force participation rate is calculated by expressing the number of persons in the labour force as a percentage of the working-age population. The labour force is the sum of the number of persons employed and the number of unemployed. The working-age population is the population above a certain age, prescribed for the measurement of economic characteristics.	2008	2009	2010	2011	2012	2013
	Armenia	63.9	62.7	65.8	67.0	66.7
	Croatia	65.2	64.8	64.4	63.9	63.8
	Georgia	67.2	67.5	67.7	68.2	68.7
	Latvia	74.4	73.8	73.0	73.1	74.6
	Macedonia	63.5	63.9	64.2	64.2	63.9
The labour force participation rate is calculated by expressing the number of persons in the labour force as a percentage of the working-age population.						

4.3. Social justice and social inclusion

Inequality and discrimination hinder the creation and growth of sustainable enterprises. Explicit policies for social justice, social inclusion and equality of opportunities for employment are needed.

The ‘GINI coefficient⁹⁵’ measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A value of 0 represents absolute equality, a value of 100 absolute inequality. Armenia has a score of 30.30 which is rather low compared to for instance Georgia (with a score of 41.35)

The extreme poverty rate in 2014 was still 0.7 percentage points higher, and the total poverty rate 2.4 percentage points (8.7%) higher than the respective indicators in 2008. Meanwhile, for the first time after the crisis the incidence of very poor dropped by 1.7 percentage points against 2008. The estimated poverty gap in 2014 was 4.5% as compared to 5.1% in 2008 (a decrease of 0.6 percentage points), and the estimated poverty severity was 1.3% as compared to 1.4% in 2008 (a decrease of 0.1 percentage point).

The average shortfall of additional consumption needed for the poor relative to the poverty line, in percentage expression, constituted 15.2%. In 2014, the poverty rate did not significantly differ between urban (30.0%) and rural (29.9%) locations. Over 2008-2014, the poverty growth rate in urban and rural communities were the same (2.4 percentage points). The capital city Yerevan had the lowest poverty rate in the country (25.2%), which was 1.4 times lower if compared with other urban communities. In 2014, poverty in Yerevan as compared to 2008, grew by 5.1 percentage points, whereas poverty incidence in other urban communities, while still being the highest, dropped by 0.7 percentage points over 2008. In terms of urban/rural distinction of welfare, the majority of the poor (63.6%) were urban residents: In 2014, the lowest rate of very poor was observed in Yerevan and the highest in other urban communities (9.0% and 13.6%, respectively). In terms of urban/rural locations, the majority of the extremely poor (67.9%) were urban residents.

With regards to gender equality and the status of women in Armenia the following indicators are relevant. The Gender equality rating⁹⁶ assesses the extent to which the country has installed institutions and programmes to enforce laws and policies that promote equal access for men and women in education, health, the economy, and protection under law (1=low to 6=high). Armenia has a stable and positive score of 4.5, which is the same as Georgia. The female share of employment⁹⁷, which with 47.8% in 2013 is in the same range as Latvia and Croatia and considerably better than Macedonia with 40%. On the indicator assessing the female share of employment in senior and middle management no data could be found, so no conclusion can be drawn. Finally, the Gender Inequality Index⁹⁸ is a composite index measuring loss in achievements in three dimensions of human development—reproductive health, empowerment and labour market, due to inequality between genders. On this indicator Armenia scores relatively poor compared to other countries with a score of 0.3 (values range from 0 (perfect equality) to 1 (total inequality)). Croatia scored 0.17 and Latvia and Macedonia 0.2. Nevertheless, given the value of 0.6 for Armenia in 2008, considerable improvements have been made.

⁹⁵ <http://databank.worldbank.org/data/home.aspx>

⁹⁶ Ibid.

⁹⁷ www.ilo.org/ilostat

⁹⁸ <http://hdr.undp.org/en/data>

Key Indicators

GINI coefficient	2006	2008	2010	2012
The GINI index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A value of 0 represents absolute equality, a value of 100 absolute inequality.	Armenia	32.49	30.71	31.07
<u>Source:</u> World Bank, Development Research Group. Data are based on primary household survey data obtained from government statistical agencies and World Bank country departments. ⁹⁹	Croatia	-	33.61	-
	Georgia	40.09	50.57	42.13
	Latvia	35.60	35.82	35.27
	Macedonia	42.78	44.20	-
0=perfect equality, 100=perfect inequality.				
Gender Inequality Index (GII)	2008	2011	2012	2013
The Gender Inequality Index is a composite index measuring loss in achievements in three dimensions of human development – reproductive health, empowerment and labour market, due to inequality between genders.	Armenia	0.6	0.3	0.3
<u>Source:</u> UNDP Human Development Report. ¹⁰⁰	Croatia	0.3	0.2	0.172
	Georgia	0.6	0.4	0.4
	Latvia	0.3	0.2	0.2
	Macedonia	-	0.2	0.2
Values range from 0 (perfect equality) to 1 (total inequality).				

4.4. Adequate social protection

Providing citizens with access to key services, such as quality health care, unemployment benefits, maternity protection, and a basic pension, is key to improving productivity. Protecting workers' health and safety at the workplace is also vital for sustainable enterprise development and productivity gains. In general Armenia's expenditure on health¹⁰¹ and health care is rather low compared to other countries as can be seen in the below graphs.

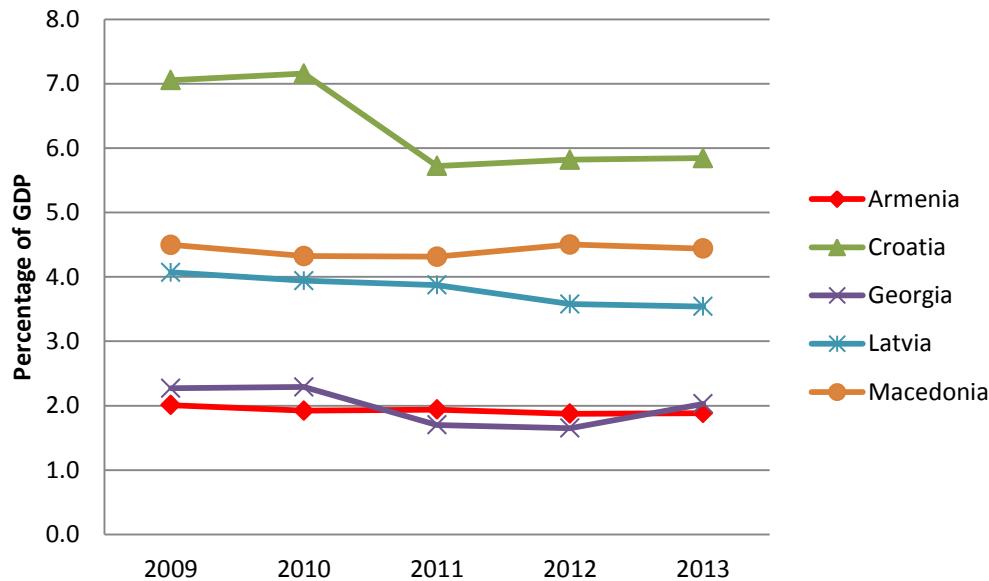
Graph 73: Public expenditure on health

⁹⁹ [World Bank World Development Indicators](#).

¹⁰⁰ [UNDP Human Development reports](#).

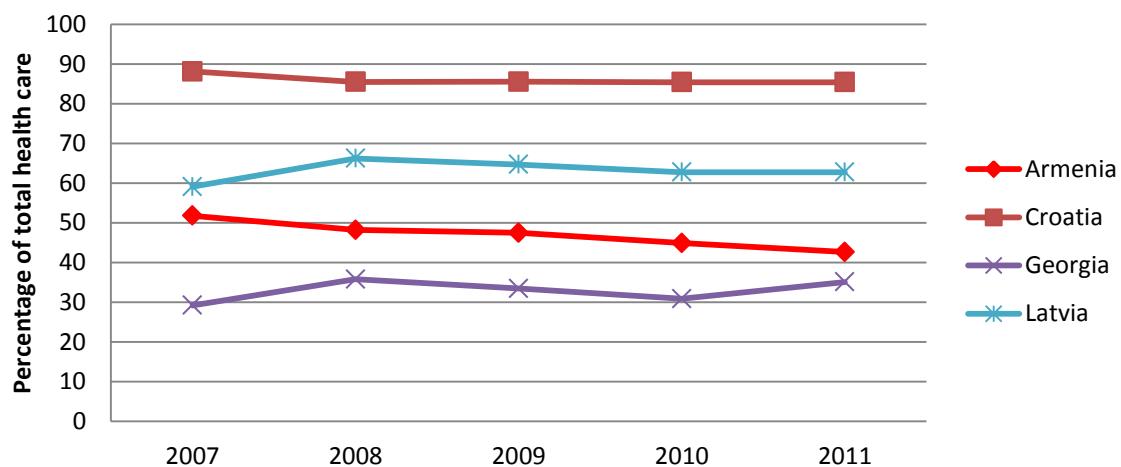
¹⁰¹ <http://databank.worldbank.org/data/home.aspx>

Public expenditure on health



Graph 74: Coverage by health care

Coverage by health care



The expenditure on old age pensions, 1.68% of GDP seems to be rather low comparing to other countries (Croatia 6.38%, Macedonia 4.08) and also the coverage (80% in 2011) could be improved. However, the latest available data on both indicators is from 2013 and 2011 respectively. Still further improvements can and should be made to ensure adequate social protection.

Key Indicators

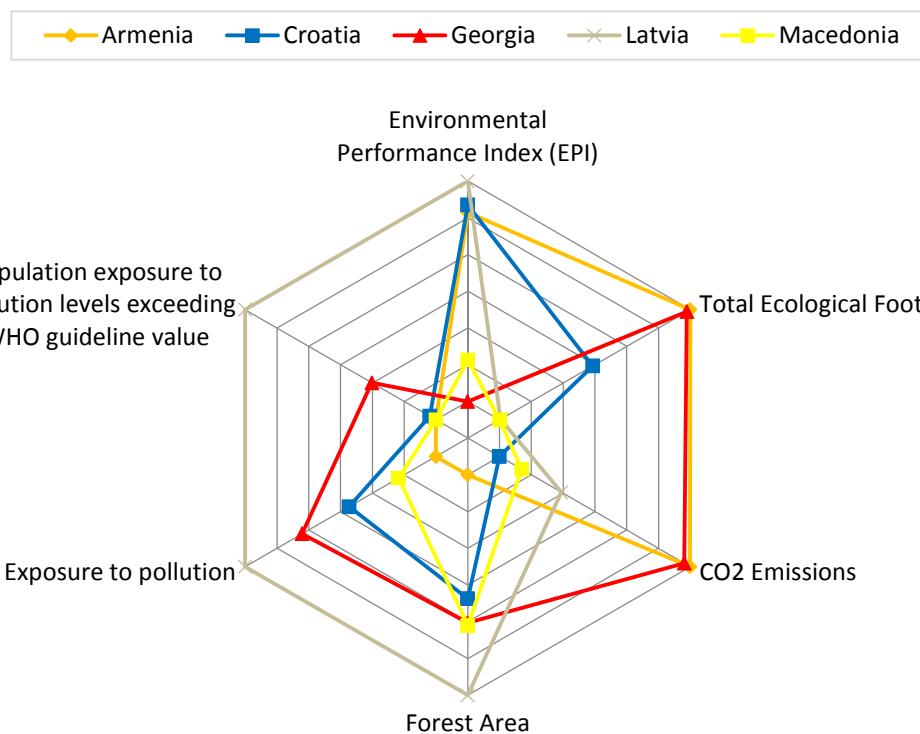
Public Expenditure on Health (% of GDP)	2002	2009	2010	2011	2012	2013
Public expenditure on health as a percentage of GDP – Public health expenditure consists of recurrent and capital spending from government (central and local) budgets, external borrowings and grants (including donations from international agencies and nongovernmental organizations), and social (or compulsory) health insurance funds.	Armenia	1.36	2.01	1.92	1.94	1.88
	Croatia	5.02	7.06	7.16	5.72	5.82
	Georgia	1.40	2.27	2.29	1.70	1.65
	Latvia	3.28	4.07	3.94	3.87	3.58
	Macedonia	5.50	4.50	4.32	4.31	4.50
Source: World Health Organization (WHO) WHOSIS133 and World Development Indicators CD-ROM and UNDP Human Development Report. ¹⁰²	% of GDP.					
Coverage by Health care (% of total health care)	2002	2007	2008	2009	2010	2011
Percentage of total (public and private) health care expenditure not financed by private household's out of pocket payments (as a proxy indicator).	Armenia	36.5	51.8	48.2	47.5	44.9
Source: World Health Organization (WHO) WHOSIS133 ¹⁰³	Croatia	82.8	88.1	85.5	85.5	85.4
	Georgia	30.1	29.2	35.8	33.5	30.9
	Latvia	52.4	59.1	66.2	64.7	62.8
	Macedonia	-	-	-	-	-
	Government expenditure, excluding military, as a % of GDP.					

¹⁰² [World Health Organization WHOSIS133](#).

¹⁰³ Ibid.

5. Environmental elements

Indicators assessing environmental elements of an enabling environment for sustainable enterprises*



* the values for the individual indicators have been harmonized for better presentation and formatted so that the further from the centre a data point is, the better the country's performance in that regard. The original indicator values are included in the chapters.

- The Armenian Government¹⁰⁴ launched a Sustainable Development Programme, but at the same time made substantial investments in mining and other extractive industries. pollution, deforestation, soil degradation, and other environmental issues.
- The Teghut copper-molybdenum mining project in particular poses a threat both to the environment and to sustainable development. The Government has also failed to address

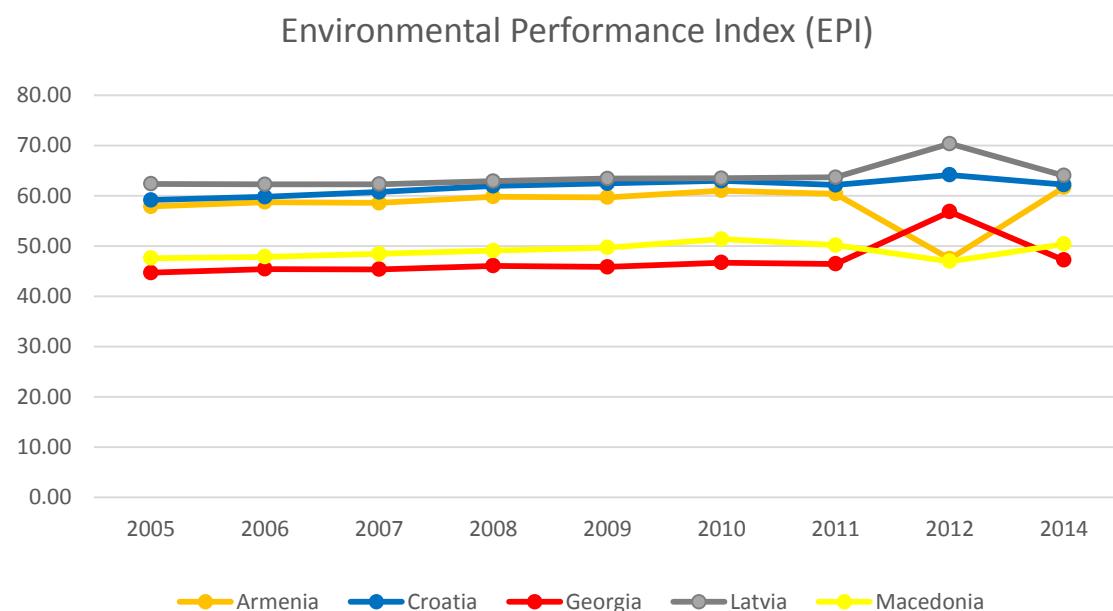
¹⁰⁴ Social Watch, 2012, *Armenia: Undermining the environment*, <http://www.socialwatch.org/node/13968>

5.1. Responsible stewardship of the environment

Sustainable enterprise development is intertwined with responsible stewardship of the environment and requires appropriate regulations, incentives and public procurement policies that promote consumption and production patterns compatible with a country's environmental sustainability.

The Environmental Performance Index (EPI) is constructed through the calculation and aggregation of several indicators reflecting national-level environmental data. These indicators are combined into nine issue categories, each of which fit under one of two overarching objectives. The 2008 Environmental Performance Index (EPI) ranks 149 countries on 25 indicators tracked across six established policy categories: Environmental Health, Air Pollution, Water Resources, Biodiversity and Habitat, Productive Natural Resources, and Climate Change. The EPI identifies broadly-accepted targets for environmental performance and measures how close each country comes to these goals. Performance score from 0 to 100 where the higher a country's ESI score, the better positioned it is to maintain favourable environmental conditions into the future.

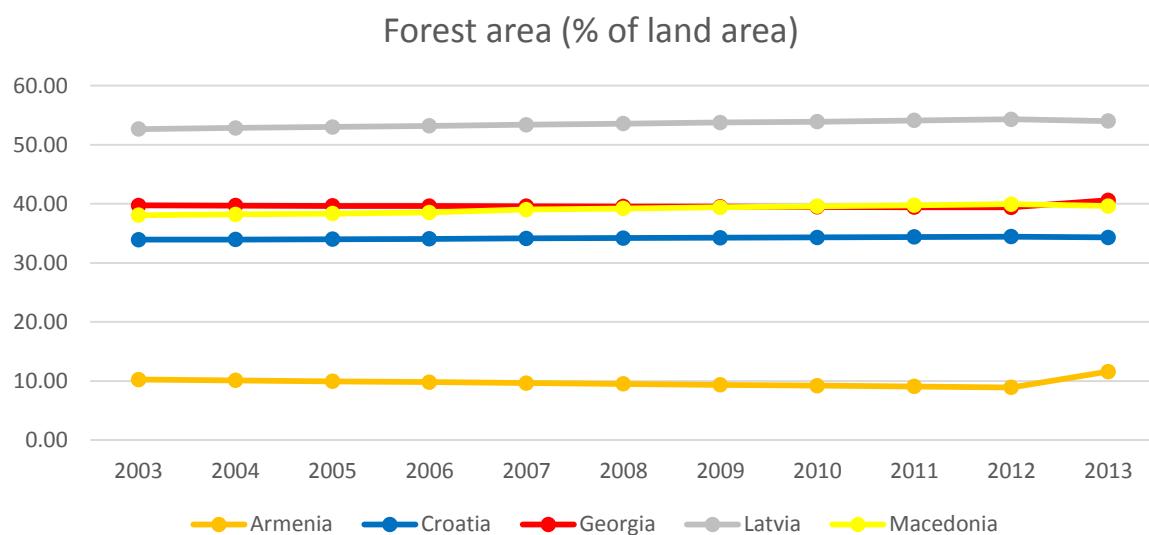
Graph 75: Environmental Performance Index (EPI)¹⁰⁵



According to this indicator, Armenia preforms better than Macedonia and Georgia but still lags behind Croatia and Latvia.

¹⁰⁵ Source: Yale University's Yale Center for Environmental Law and Policy (YCELP) and Columbia University's Center for International Earth Science Information Network (CIESIN).

Graph 76: Forest area ¹⁰⁶



The Forest Area indicator has been recording a constant drop year by year. The forest area is the land under natural or planted stands of trees of at least 5 meters in situ, whether productive or not, excluding tree stands in agricultural production systems (for example, in fruit plantations and agroforestry systems) and trees in urban parks and gardens. According to this indicator, Armenia is far behind Croatia and other countries.

Based on the Armenia Development Strategy for 2014-2025, in the target period, it is especially important that parallel to the Government's efforts for improving the rates of economic growth, measures should be taken to reduce as much as possible the associated environmental risks. In particular:

- 1) Environmental risks associated with the expansion of the mining industry as a result of higher prices for metals in international markets;
- 2) Illegal forest logging resulting from higher gas prices;
- 3) Overexploitation of water resources due to rapid development of subsectors using underground water resources and as a result of climate change; and
- 4) Increased desertification risk.¹⁰⁷

In addition to the serious environmental problems inherited from the past, the recent increased economic activity has put Armenian natural resources under pressure. Agriculture is the principal user of land, and the current practice has resulted in reduced productivity, salination and alkalization of the soil. Overexploitation and use of pastures have also led to erosion and threatened biodiversity. The increasing industrial use of lands and the intensification of new settlements without proper zoning are amplifying the pressure on the scarce and fragile Armenian lands. Pollution poses an increasing problem: Alaverdi (with the copper extraction and processing facility), Ararat and Hrazdan (with cement factories) are the most polluted cities in the country. The situation of air quality in Yerevan is also poor and affected by transport emissions and dust

¹⁰⁶ Source: Food and Agriculture Organization, electronic files and web site.

¹⁰⁷ Source: Government of Armenia "Armenia Development Strategy for 2014-2025".

due to construction works and aggravated by the reduction of green areas in the city. It is also doubtful that the country will achieve its MDG7 on use of less polluting solid fuels.¹⁰⁸

Key Indicators

Environmental Performance Index (EPI)		2009	2010	2011	2012	2013	2014
		Armenia	Croatia	Georgia	Latvia	Macedonia	
The 2014 Environmental Performance Index (EPI) is constructed through the calculation and aggregation of 20 indicators reflecting national-level environmental data. These indicators are combined into nine issue categories, each of which fit under one of two overarching objectives. The 2008 Environmental Performance Index (EPI) ranks 149 countries on 25 indicators tracked across six established policy categories: Environmental Health, Air Pollution, Water Resources, Biodiversity and Habitat, Productive Natural Resources, and Climate Change.		59.69	61.05	60.42	47.48	61.67	59.69
The EPI identifies broadly-accepted targets for environmental performance and measures how close each country comes to these goals.		62.49	63.00	62.15	64.16	62.23	62.49
		45.84	46.72	46.46	56.84	47.23	45.84
		63.43	63.49	63.68	70.37	64.05	63.43
		49.70	51.40	50.17	46.96	50.41	49.70
Performance score from 0 to 100. The higher a country's ESI score, the better positioned it is to maintain favourable environmental conditions into the future.							
CO2 emissions (metric tons per capita)		2006	2007	2008	2009	2010	2011
		Armenia	Croatia	Georgia	Latvia	Macedonia	
Carbon dioxide emissions are those stemming from the burning of fossil fuels and the manufacture of cement. They include carbon dioxide produced during consumption of solid, liquid, and gas fuels and gas flaring.		1.46	1.69	1.87	1.47	1.42	1.67
		5.22	5.50	5.27	4.87	4.73	4.80
		1.40	1.46	1.46	1.42	1.47	1.77
		3.42	3.78	3.63	3.44	3.96	3.79
		5.22	4.53	4.48	4.14	4.09	4.44
Metric tons of CO2 emitted per capita.							
Forest area (% of land area)		2007	2008	2009	2010	2011	2012
		Armenia	Croatia	Georgia	Latvia	Macedonia	
Forest area is land under natural or planted stands of trees of at least 5 meters in situ, whether productive or not, and excludes tree stands in agricultural production systems (for example, in fruit plantations and agroforestry systems) and trees in urban parks and gardens.		9.65	9.50	9.35	9.20	9.06	8.91
		34.13	34.19	34.25	34.31	34.37	34.43
		39.57	39.54	39.50	39.46	39.43	39.39
		53.38	53.56	53.76	53.89	54.11	54.31
		39.01	39.19	39.39	39.57	39.75	39.94
In percentage of land area							

¹⁰⁸ Source: United Nations Development Assistance Framework 2010-2015. Armenia.

6. Assessment results and ways forward

In its aim to support employment through entrepreneurship the ILO has identified factors in the business environment that influence the success and sustainability of new or existing enterprises. For this purpose, the ILO created Enabling Environment for Sustainable Enterprises (EESE), its own assessment tool, which represents “methodology developed to assess, advocate and reform the environment in which enterprises start up and grow”. This tool has been created in close coordination between ACT/EMP and the Enterprise department of the ILO. The tool has been implemented in over 30 countries and currently ILO Moscow coordinates and conducts work (with the support of ILO Europe and Enterprise department) of EESE implementation in several countries of Central Asia and Caucasus.

In 2015 and 2016, in the context of deep analysis of the business environment in Armenia, with the support of external experts and a professional Research Company, RUEA implemented the survey using the EESE methodology. This methodology is implemented in a way that firstly RUEA organized 4 focus group meetings in order to choose the most important pillars for the deeper analyses through the survey (direct interviews with 300 companies).

By realizing four focus groups and the survey, various data about the business environment in the country were collected. Based on that and according to the EESE methodology, the main pillars to be improved in Armenia are:

- good governance and some issues pertaining to political stability;
- sound and stable macroeconomic policy and good management of the economy including energy supply;
- trade and sustainable economic integration;
- enabling legal and regulatory environment;
- fair competition;
- access to financial services; and
- education, training and lifelong learning.

The collected data have shown the improvements of the business environment in Armenia over the past years. Still, according to reports and based on responses received by companies there is ample room for further improvement in various fields contributing to a better business climate.

The following table provides the list of main problems under each pillar and concrete improvement measures in the coming period.

CONDITION FOR ACTION	DESIRED RESULTS	CONCRETE MEASURES
Good governance	Better and effective public administration, lower level of corruption	<ul style="list-style-type: none"> - Strengthen institutional capacities for tackling bribery and corruption; - Strengthen the Council for Fight against Corruption, including representatives of civil society, RUEA a.o. - Institute a business ombudsman - Intensify the promotion of the anti-corruption measures; - Improve the efficiency of public administration through good management, better organization and higher level of responsibility; - Improve control and monitoring over the public resources spent by the state - Improve the transparency of the public procurement process - Intensify the promotion of electronical services.
Education, training and lifelong learning	Education system matches the needs of businesses; Increased importance of HRD	<ul style="list-style-type: none"> - Improve communication between universities and private sector; - Advocate for more active participation of employers in education planning and curricula design; - Improve financing of education trainings by companies and also by Government - Work on the promotion of university-business links in the fields of research and innovation; - Link current education with future forecasted skills needs - Incorporate a business skills component in schools curriculum to enable students to start businesses - Find a better balance between theoretical and practical content and modernize installations of schools.
Enabling legal and regulatory environment	Reduced costs of doing business; Acceleration and simplification of procedures; Higher level of legal security and predictability both for citizens and companies; Improve tax administration and tax burden	<ul style="list-style-type: none"> - Improve labour legislation; - Improve the work of regulatory bodies and decrease number of overlapping bodies - Improve the work of inspection and make the environment same for all participants; - Reduce the costs of tax burden and improve work of the tax administration.
Access to financial services	Favourable loans for SMEs with reduced collateral	<ul style="list-style-type: none"> - Improve financial products so that it is available to all companies in each stage of their evolution - Increase access to long-term capital so that SMEs can compete - Create credit lines with better interest rate and less demanding collateral.

Fair competition	Reduced informal economic activities and monopolistic practice	<ul style="list-style-type: none"> - Improve policies on formalization of the informal economy; - Analyse taxation policies to stimulate formalization - Create policies and targeted actions against monopolistic practices in certain sectors, especially in trade - Improve knowledge and awareness of all segments of society about informal economy; - Improve the work of anti-monopoly bodies.
Trade and sustainable economic integration	Improved process of standardisation and certification; Accelerated process of getting the necessary documents for export and import	<ul style="list-style-type: none"> - Reduce the time to export/import in Armenia also reducing the number of documents necessary for export/import - Improve the promotion of electronic system for submission of documents; - Improve the quality of work of customs administration.
Infrastructure, focusing on energy	Improve quality of energy supply	<ul style="list-style-type: none"> - Make energy market more competitive; - Reduce the price of energy; - Improve the quality of energy.

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