



# ESSENTIAL CONDITIONS FOR SUSTAINABLE DEVELOPMENT OF ENTERPRISES IN ARMENIA

RUEA POSITION PAPER



SEPTEMBER 2017

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# FOREWORD

With this document, we present the vision of our organization which represents the problems the of businesses operating in Armenia in regard to the business environment a and the recommendations for their regulations. Sustainable enterprises are needed for the economic development of our country, and for this purpose favourable business environment and equal competitive conditions are needed. Only in such environment can enterprises develop and prosper in creating sustainable and decent jobs. Besides it is possible to establish new enterprises and to ensure long-term operation only in a favourable business environment

The Government of the Republic of Armenia has been focusing on improving the business environment for the last few years and, most notably, there are still a number of hindrances that seriously hinder or complicate the sustainable development of enterprises. Therefore, we have a lot of unsettled problems and we have to go through a considerable way to solve them.

Being an organisation that represents employers' Interests The Republican Union of Employers of Armenia (RUEA) has identified over the past five years a number of analysis of their needs by revealing the most urgent issues that employers face every day and which hinder sustainable development and job creation. This document briefly presents the results of the latest extensive analysis and for the settlement of the identified barriers.

In other words, the purpose of the document is to present to the general public, employers and governmental bodies a package of constructive proposals to improve the situation. The package expresses a number of key issues related to many employers, currently existing in the business environment and facing employers in the Republic of Armenia. Of course, the list is not exhaustive and the whole package of existing problems would be much larger. However we have selected the issues of highest importance.

The five year program of the Government of Armenia (2017-2022) includes solutions of some of the problems identified by us and improvement of the business environment. Consequently, a number of recommendations presented in this document will further harmonize our common efforts regarding each identified issue in favor of the private public-private dialogue and legislative reforms and, finally, the business environment reforms. We are confident that the representatives of the state structures in our country and the employers will pay a special attention to the proposed questions, will evaluate and utilise the information provided in this document in their future works towards improvement of business environment and sustainable development. The suggestions and solutions contained in this document are directly related to our countrymen and we hope they will also be constructive in addressing the identified issues, which are a serious obstacle to the development of the economy and business in our country, they will realize that we are all together responsible for their regulation and improvement of the business environment.

At the end of the day, it is impossible to ensure progress without the support of workers. Only through consolidation of the forces of the three stakeholders it will be possible to overcome the existing obstacles, ensuring that we always have a consensus on social, economic and political decision-making processes.

Gagik Makaryan  
RUEA President

# EXECUTIVE SUMMARY

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.

Given that 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 also 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. Moreover, the Government's 2017-2022 Action plan based on the vision to have safe, fair, independent and smart Armenia emphasizes that the business environment in Armenia should ensure competitive and comfortable ecosystem and equal rights of game; it should be attractive both for local entrepreneurs and for foreign investors. The action plan includes RA development priorities and reforms concerning business environment and regulatory framework, particularly aimed at fight against corruption, reducing informal economy and export promotion.

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.

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 identified the following 7 obstacles that the Armenian enterprises find need to be improved in the coming period:

1. good governance and effective anti-corruption actions
2. sound and stable macroeconomic policy and good management of the economy including energy supply
3. trade and sustainable economic integration
4. enabling legal and regulatory environment
5. fair competition
6. access to financial services
7. education, training and lifelong learning.

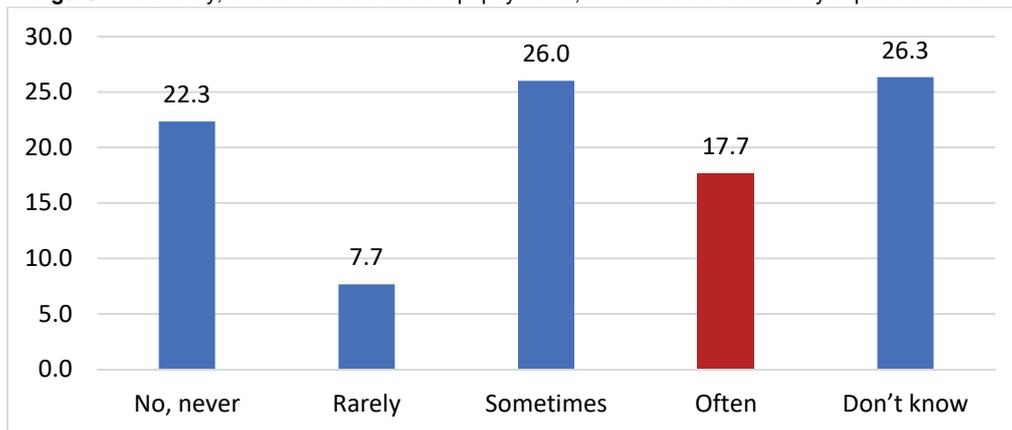
We believe that these obstacles constrain the business climate in Armenia and hinder the country to reach its strategic priority aimed at facilitating the establishment of businesses and investments in the country.

We also believe that the recommendations proposed in this document will serve for evidence-based policy reforms by policy and decision makers at various levels of government, as a practical guideline for private and civil society organizations and finally as a means for consensus building among social partners to promote social dialogue and enhance tripartism.

# 1. GOOD GOVERNANCE AND EFFECTIVE ANTI-CORRUPTION ACTIONS

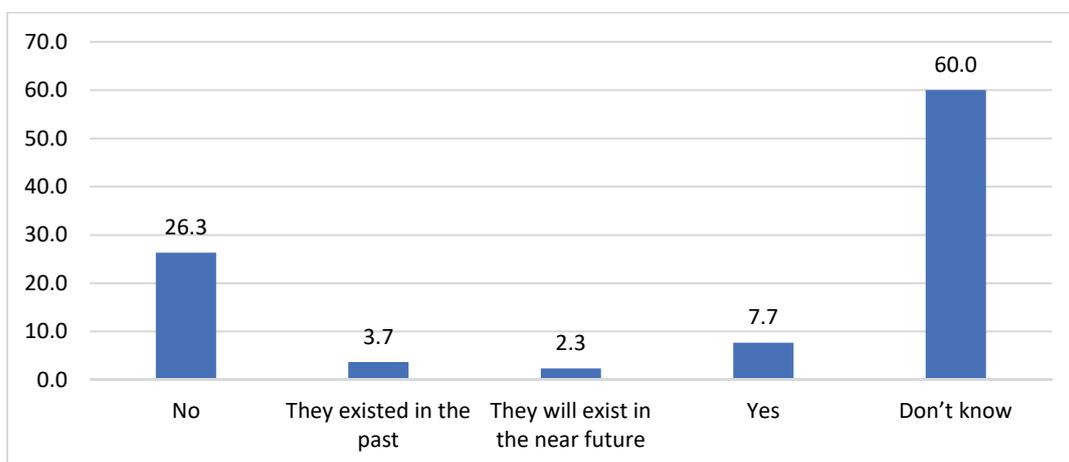
One of the identified important problems is the quality of governance and the presence of corruption. Absence of corruption and efficient institutions foster entrepreneurship and promote private sector growth and development. As shown in some previous reports, corruption is identified as an important problem in Armenia. The government of Armenia has initiated number of anti-corruption activities in the end of 2016 which can generate a positive impact in terms of reducing informal economy and informal employment thus creating positive business environment and equal conditions for competition. Moreover, the government of Armenia has announced to take measures to ensure the development and full application of the institutional framework for combating corruption in order to ensure government and public relations as well as public control<sup>1</sup>. **Such complex of activities can result in a significant increase in GDP, despite the fact that the findings reflect some improvement in regard to government effectiveness in recent years, obviously the situation in Armenia is not on a proper level. 17.7% of employers state that bribery and other forms of corrupt payments are issues that often consistently impact firms in the country, which is highly worrying. From the other side 33% of the companies claimed that they had to make speed payment to receive reasonable levels of service.**

**Figure 1:** Is bribery, and other forms of corrupt payments, an issue that consistently impacts on firms?



**Employers believe that the government does not include all the stakeholders in the process of drafting Laws.** This situation should be changed. The most prominent obstacle for improvement of productivity of the companies is labour costs. This was reported by 57% of companies.

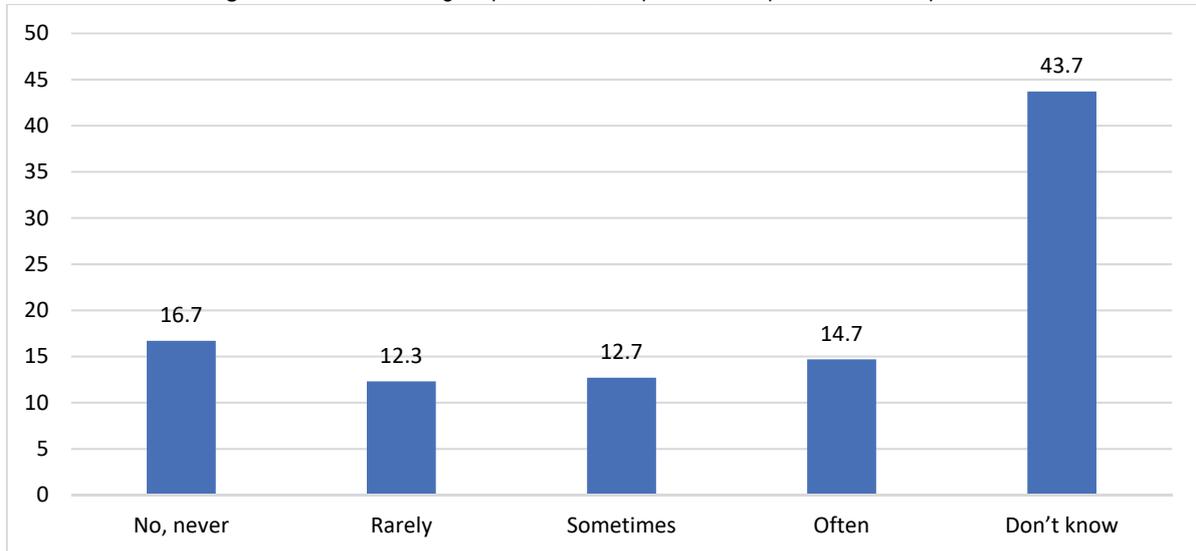
**Figure 2:** Do effective, independent anti-corruption institutions exist to handle complaints made by the private sector?



<sup>1</sup> Source: 2017-2022 Action plan of the Government of Armenia

**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.

**Figure 3:** When tendering for public bids, are procurement procedures transparent?



In addition, the companies also mark the 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.

## RECOMMENDATIONS

We need good governance and tough fight against corruption: More specifically we need:

- ✓ Strong institutions capable to effectively fight against corruption and bribery Anti-corruption council with involvement of business sector
- ✓ Inspection reforms, including capacity building and training for inspectors with involvement of business
- ✓ Establishment of independent multi-stakeholder body to which corruption cases can be reported and which is authorized to process them further

### 1. Awareness, information, education

- ✓ More education for business community and promotion of transparent business culture
- ✓ Intensive promotion of anti-corruption measures
- ✓ Transparent access to information for businesses

### 2. Effective control and monitoring over public resources spending

a) Improvement of the public procurement system

- ✓ Increasing transparency and the access to information regarding publication of tender results
- ✓ Stimulation of competition
- ✓ Simplification of tender documentations and conditions
- ✓ Creation of post-procurement monitoring system

b) Rationalize public expenditure based on needs assessments

- ✓ More effective control of pre-procurement technical assessment procedures
- ✓ Rationalization of public service resources (workforce, carparks, technical equipment, etc.)

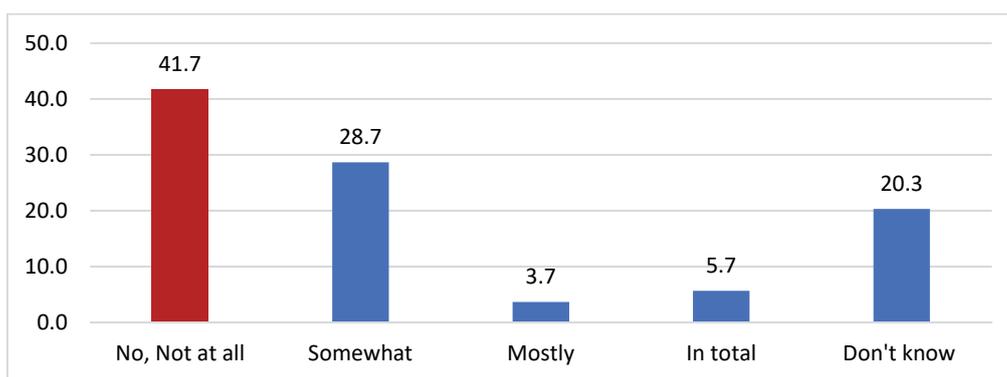
### 3. Effective public administration capable of providing businesses with quality services

- ✓ Development of one stop-shops to provide quality services to the citizens and investors
- ✓ Development of electronic services
- ✓ Improve the management of the public administration through better organization and higher levels of responsibility
- ✓ Rationalization of the size of the public administration based on the real needs of business
- ✓ Introduce comprehensive management system for public servants and make sure that bad performers are replaced by better specialists
- ✓ Creation of permanent system of training for public servants for practical work in the companies from the same field of activity

## 2. ENABLING LEGAL AND REGULATORY ENVIRONMENT

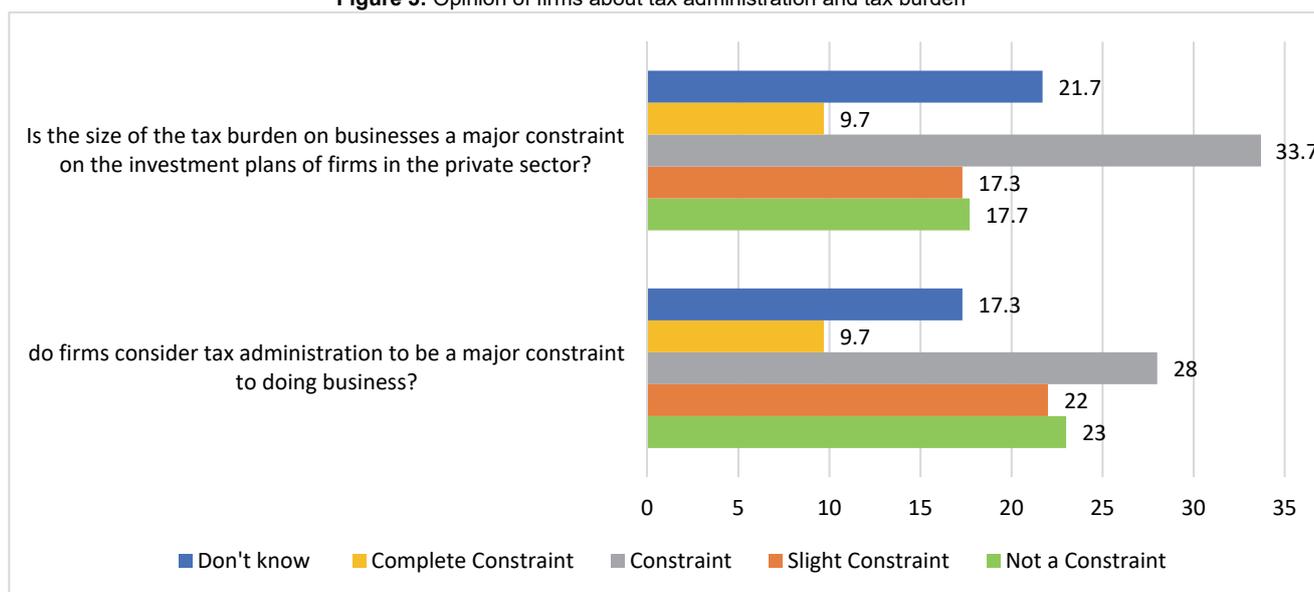
Armenia has moved up by 5 ranks in the World Bank Group's Doing Business 2017: Equal Opportunity for All report, taking the 38th place on the list of 190 countries<sup>2</sup>. However, the Regulatory Quality Index, which measures the ability of the Government to provide sound policies and regulations that enable and promote private sector development is relatively poor and the quality of regulatory environment is comparatively low. **Based on this indicator the situation in the country is almost unchanged since 2005.**

**Figure 4:** Does the Government provide a regulatory framework that encourages firms to expand their operations, if the business case permits?



Moreover, tax burden is regarded as a major constraint by 33.7% of employers, while 9.7% report it to be a complete constraint. On the other hand, 17.7% of employers state it not being a constraint at all. 28% of businesses perceive the functioning tax administration to pose a constraint on business, for 23%, it does not pose any constraint. 9.7% of report 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.

**Figure 5:** Opinion of firms about tax administration and tax burden<sup>3</sup>



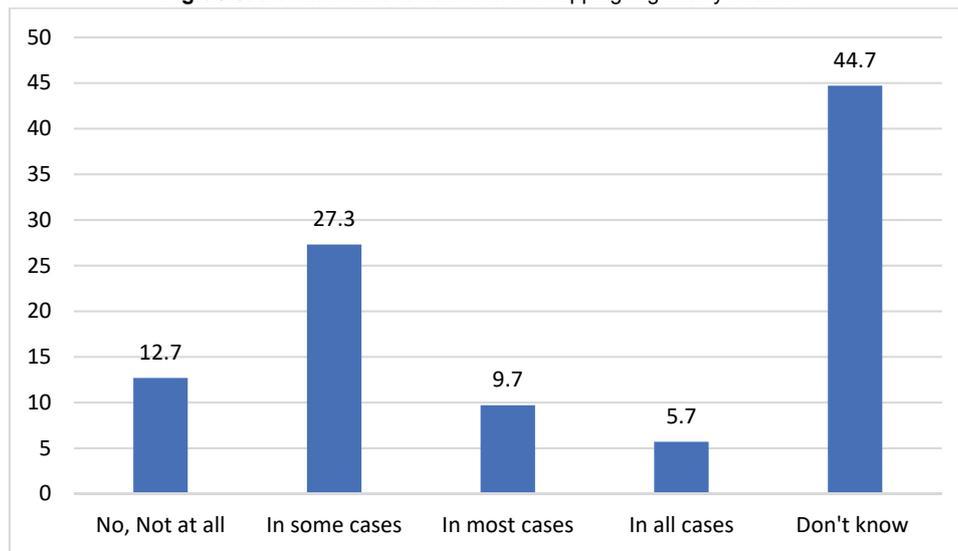
<sup>2</sup> Source: World Bank. 2017. Doing Business 2017: Equal Opportunity for All

<sup>3</sup> Source: Enabling Environment for Sustainable Enterprises in Armenia, Republican Union of Employers of Armenia, 2016

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

The Government of Armenia states that tax and customs systems should be efficient and have necessary capacities to reduce informal economy and to improve business environment. As a result of implementation of effective tax and customs administration the stability of tax revenues should be ensured envisaging increase in tax revenues and GDP ratio by 2.5 percentage points over the next 5 years taking into account the trends of economic development in the coming years <sup>4</sup>.

**Figure 6:** Do firms have to deal with overlapping regulatory bodies? <sup>5</sup>



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 companies report the overlap to be a phenomenon in some cases, and 15.4% state that it is the case in most or even in all cases. Only 12.7% of the companies believe that there are no regulatory bodies with overlapping jurisdictions.

<sup>4</sup> Source: 2017-2022 Action plan of the Government of Armenia

<sup>5</sup> Source: Enabling Environment for Sustainable Enterprises in Armenia, Republican Union of Employers of Armenia, 2016

## RECOMMENDATIONS

We need quality and business friendly legal and regulatory framework: More specifically we need:

### **1. Enabling legislation which is fair, stable, concise and equal for everybody, which is conducive for business operation and development**

a) Labour legislation needs to be flexible enough to provide

- ✓ Efficient and productive work at the work places, that emphasizes efficiency, quality and customer satisfaction.
- ✓ wage setting mechanism based on the performance and productivity
- ✓ firing and hiring system which enables the best workers to get the best jobs
- ✓ employment contracts that supports the flexible forms of labour that are adjusted to the dynamics of modern businesses
- ✓ effective social dialogue mechanisms that enable effective bargaining between workers and employers at all levels (national, regional, sectorial)

b) Tax legislation must be business friendly and must not represent the obstacle for the development of the businesses

- ✓ Tax rates should not be higher than necessary to provide quality service to business community and society
- ✓ The tax procedures must be transparent, simplified and easy to understand and implement by the businesses, especially taking into account the capacities of SMEs
- ✓ Information on tax rates and procedures needs to be readily available to businesses so as to induce the compliance with tax legislation

### **2. Effective work of the regulatory bodies**

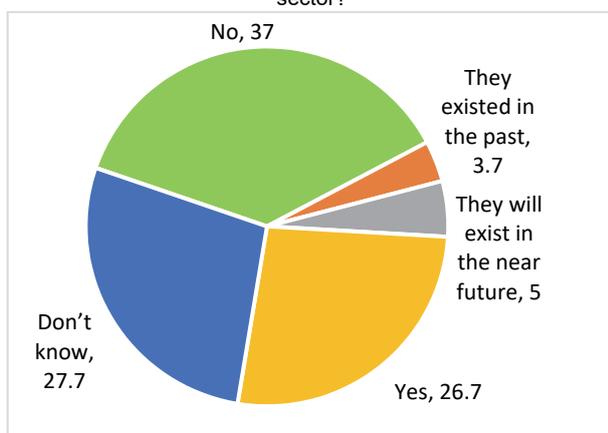
- ✓ Decrease number of regulatory bodies in order to decrease number of overlaps and internal conflicts of responsibility
- ✓ Improve work of the inspections based on preventive rather than repressive measures by introducing a system of preventive warnings that would ensure unbiased and equal treatment of all subjects of control

### 3. FAIR COMPETITION

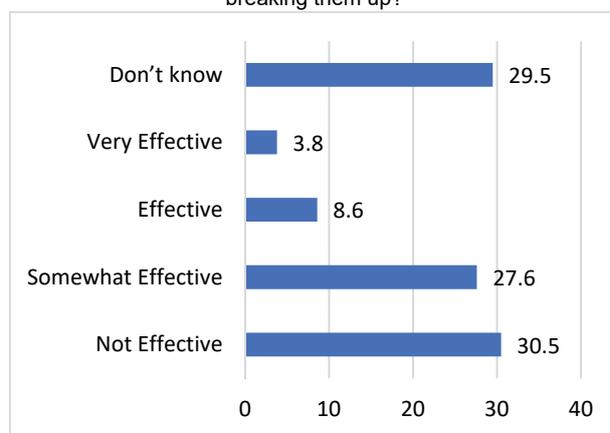
As a precondition of development and growth of the private sector and sustainable enterprises, it is important to have competition rules, including those ensuring respect for labour and social standards. In addition, anti-competitive practices at the national level must be eliminated. Employers do not 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.**

**26.7% of the companies report existence of monopolies or monopolistic practices in their sector.**

**Figure 7:** Do monopolies or monopolistic practices exist in your sector?<sup>6</sup>



**Figure 8:** How effective has anti-trust legislation been in breaking them up?<sup>7</sup>



**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.

### RECOMMENDATIONS

We need fair competition! Concrete actions we propose:

**The rule of law which ensures equal treatment as well the equal distribution of the tax burden between all the participants to economic activities.**

- ✓ Improved policies on formalization of the informal economy by reviewing tax policies in order to stimulate formalization
- ✓ Increased knowledge and raised awareness of all segments of society about informal economy and its adverse effects
- ✓ Make the informal economy more expensive by intensifying control and monitoring of their activities in order to stimulate them to transfer into the formal sector
- ✓ Effective competition free of monopolistic behaviors which enables equal chances and free market for all the participants in the economic activity
- ✓ Intensified work of antimonopoly bodies
- ✓ Introduce new policies and targeted actions against monopolistic practices in all sectors especially in trade.

<sup>6</sup> Source: Enabling Environment for Sustainable Enterprises in Armenia, Republican Union of Employers of Armenia, 2016

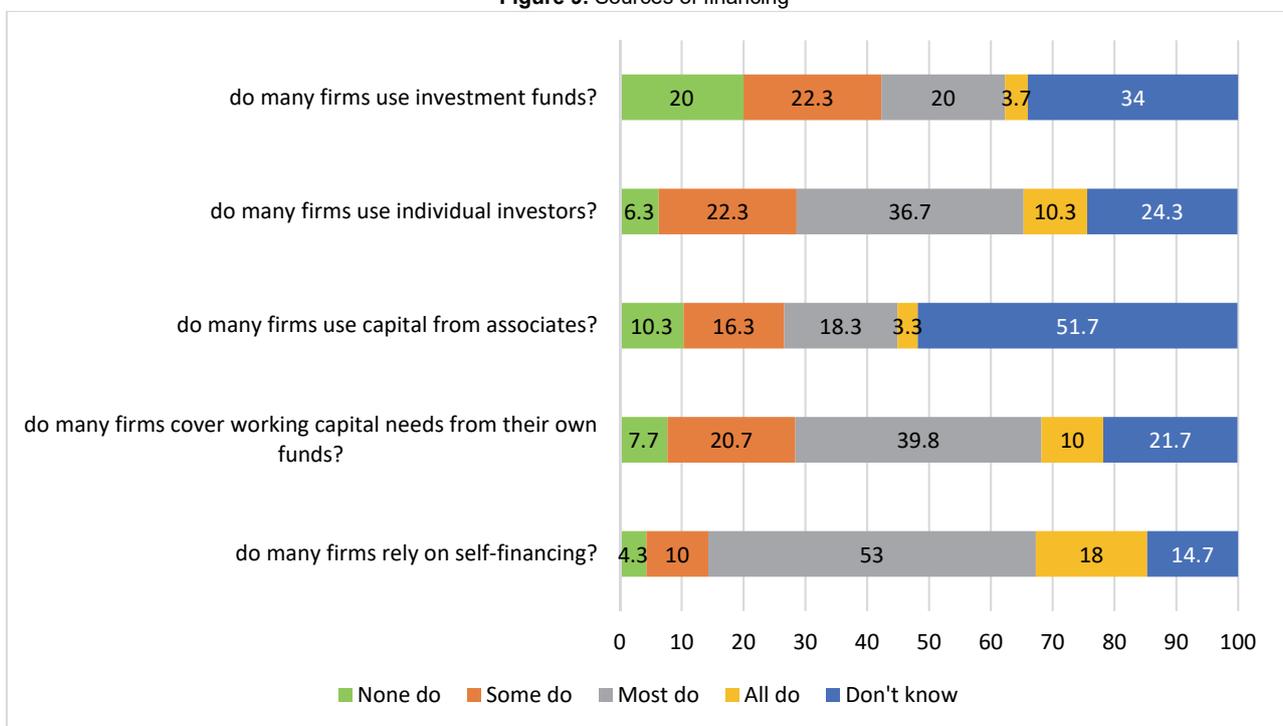
<sup>7</sup> Source: Enabling Environment for Sustainable Enterprises in Armenia, Republican Union of Employers of Armenia, 2016

## 4. 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. According to Doing Business 2017 report Armenia strengthened access to credit, adopting new law on transaction security, which established a modern and unified collateral registry, and improved its credit information system by adopting a new law on personal data protection<sup>8</sup>.

However, Armenian SMEs identify 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.

Figure 9. Sources of financing<sup>9</sup>



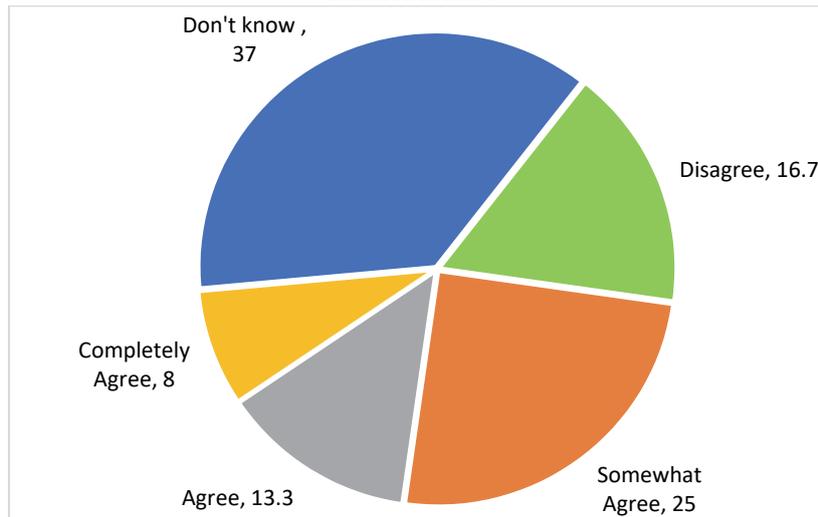
The majority of companies in Armenia rely on self-financing in their daily operations. A total of 18% of companies think that all companies rely on self-financing and 53% think that most companies do that. **Overall, 82% of companies believe that self-financing is the main source of funding.** In addition, 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.

<sup>8</sup> Source: World Bank. 2017. Doing Business 2017: Equal Opportunity for All

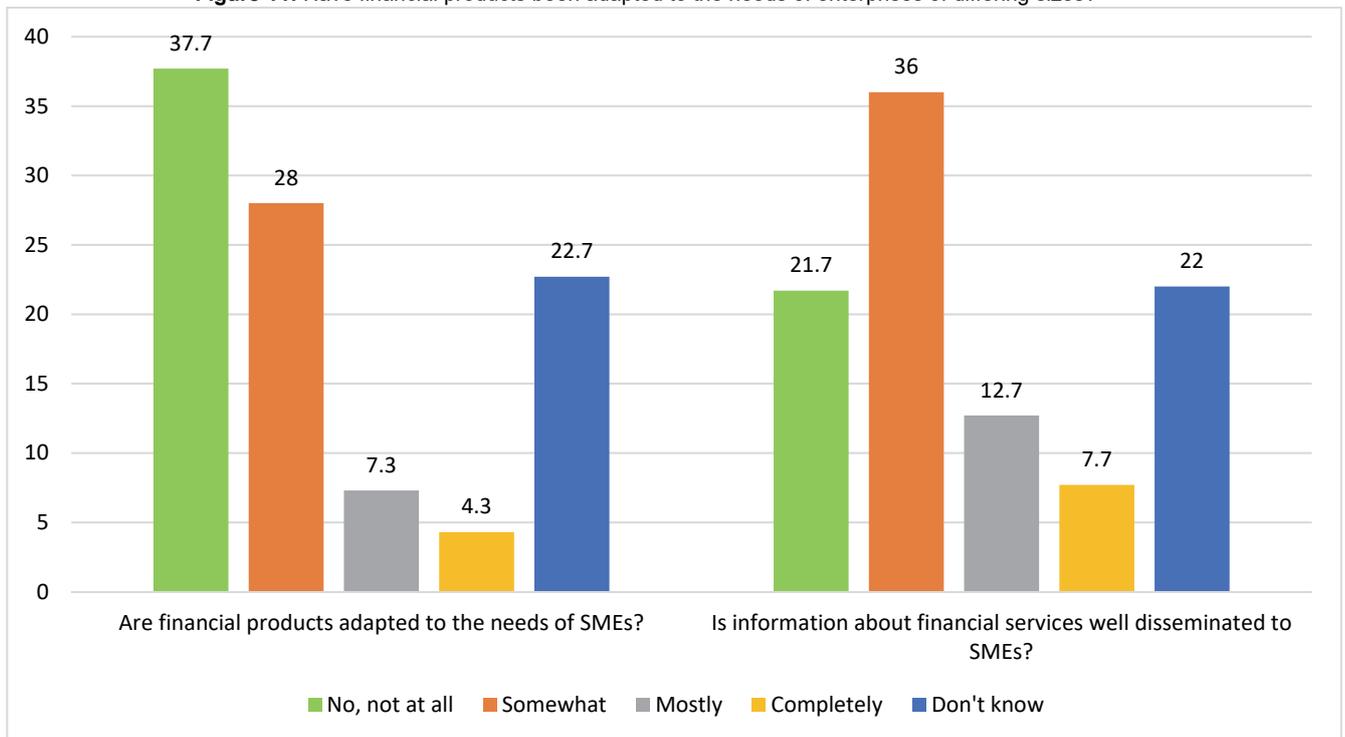
<sup>9</sup> Source: Enabling Environment for Sustainable Enterprises in Armenia, Republican Union of Employers of Armenia, 2016

**Figure 10:** To what extent do you agree with the statement “information about financial services is well disseminated among the business sector”?<sup>10</sup>



The majority of employers believe that information about financial resources is not so well disseminated, stating that there is a lack of information about financial products among companies.

**Figure 11:** Have financial products been adapted to the needs of enterprises of differing sizes?<sup>11</sup>

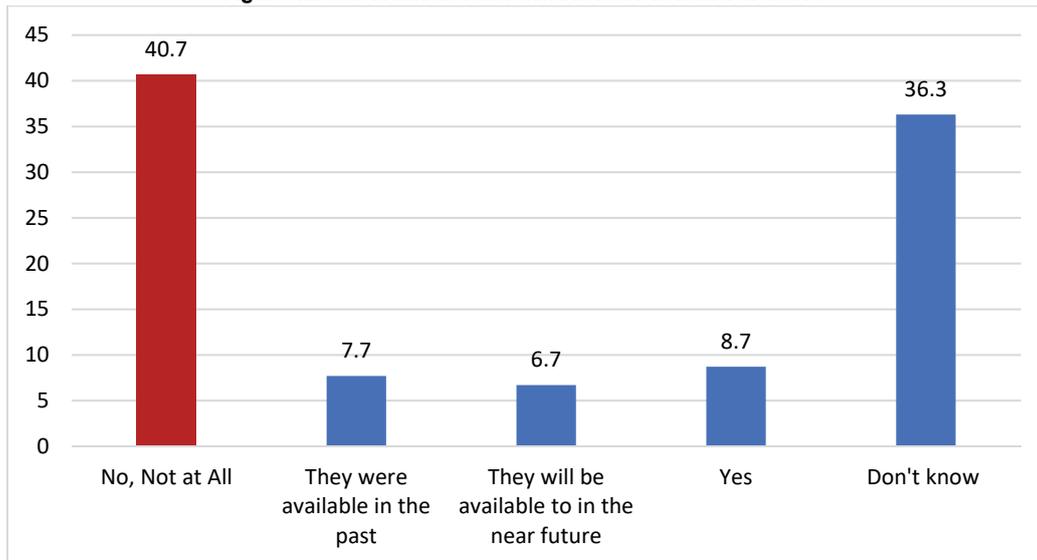


Along with the level of interest rates, one of the problems identified by companies is the lack of adaptation of financial products to companies of different size. **37.7% of companies think that financial products are not adapted to the needs of SMEs. Only 4.3% of companies think that financial products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

<sup>10</sup> Source: Enabling Environment for Sustainable Enterprises in Armenia, Republican Union of Employers of Armenia, 2016

<sup>11</sup> Source: Enabling Environment for Sustainable Enterprises in Armenia, Republican Union of Employers of Armenia, 2016

Figure 12. Are collateral share risk schemes available to firms?<sup>12</sup>



According to almost half of the companies (40.7%), collateral share risk schemes are not available to firms. 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.

## RECOMMENDATIONS

We need a business supportive financial system, that is customized and aimed at supporting the business needs as one of the key preconditions of investment and growth. More specifically we need:

### 1. Stable financial system and financial products tailored towards business needs which enables access to finance as a key precondition to investment, business development and the growth of the businesses:

- ✓ Central bank policy aimed at decrease of the interest rates
  - Risk management measures
  - Decrease of the mandatory reserves
- ✓ Establishment of the special platform under the SME support scheme which will provide updated and concrete information on availability of financial services for SMEs
- ✓ Expansion of services of SME DNC so as to be able to provide support to SMEs in all stages of lifecycle when applying for bank loans

### 2. More support to businesses especially to SMEs in providing collaterals for their loans:

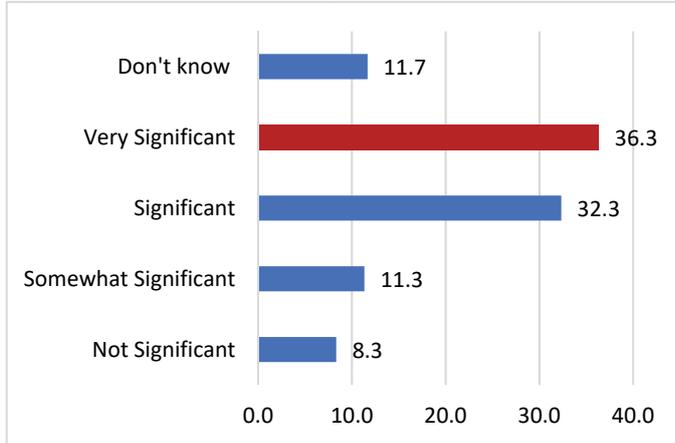
- ✓ Increased capital of the guarantee fund
- ✓ Establishment of additional credit support and guarantee schemes
- ✓ Promotion of raw materials, finished products or movable property pledge institution-development of existing registry

<sup>12</sup> Source: Enabling Environment for Sustainable Enterprises in Armenia, Republican Union of Employers of Armenia, 2016

# 5. INFRASTRUCTURE, ENERGY

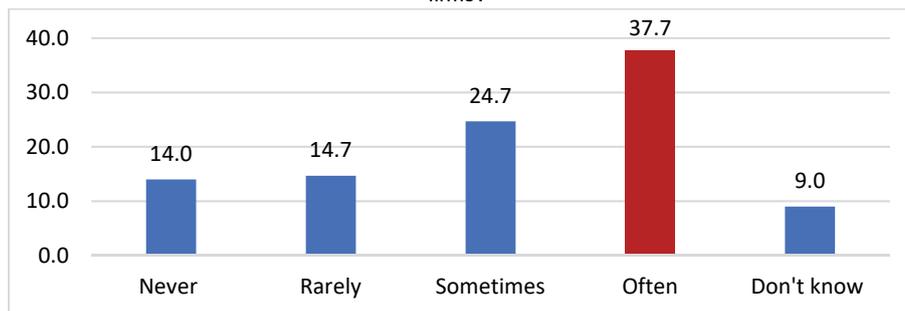
Energy and energy supply present another important challenge for Armenian companies. Developments in the energy sector are seen as one of the main obstacles for doing business in Armenia, as stable energy supply to the business sector often lacks in the country. 34.7% of surveyed companies are of the opinion that there are no competitive options available in the energy provision market.

**Figure 12:** Are power outages a significant issue for the private sector?<sup>13</sup>



**Almost 80% of surveyed companies think that power outages represent 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). Overall 74.3% of 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 state that this never happened.**

**Figure 13:** Do power outages often cause damage to electronic equipment, such as computers, resulting in significant expenses to firms?<sup>14</sup>



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.

## RECOMMENDATIONS

We need stable and affordable energy supply which enables businesses operate at optimal levels of work. We propose the concrete actions:

- ✓ Decrease of the energy debt and increase of the collection rates of the electricity debt
- ✓ Increase investment in new power sources in order to secure sufficient and stable power generation that is sustainable and self sufficient. In addition to self sufficiency and stability, the investment in energy sources is also a safe direct investment into a future GDP growth.
- ✓ Increase the investment in improvement of the electricity grid to decrease the technical and commercial losses and improve the quality of the energy transport, distribution and supply quality
- ✓ Introducing a system of power losses

<sup>13</sup> Source: Enabling Environment for Sustainable Enterprises in Armenia, Republican Union of Employers of Armenia, 2016

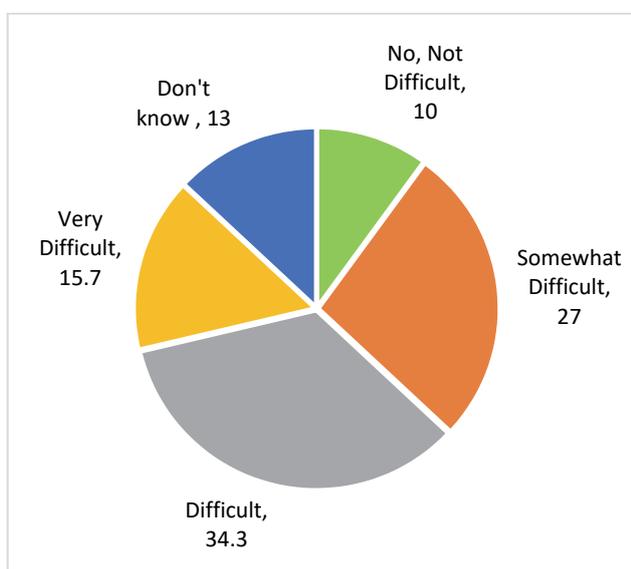
<sup>14</sup> Source: Enabling Environment for Sustainable Enterprises in Armenia, Republican Union of Employers of Armenia, 2016

## 6. EDUCATION, TRAINING AND LIFELONG LEARNING

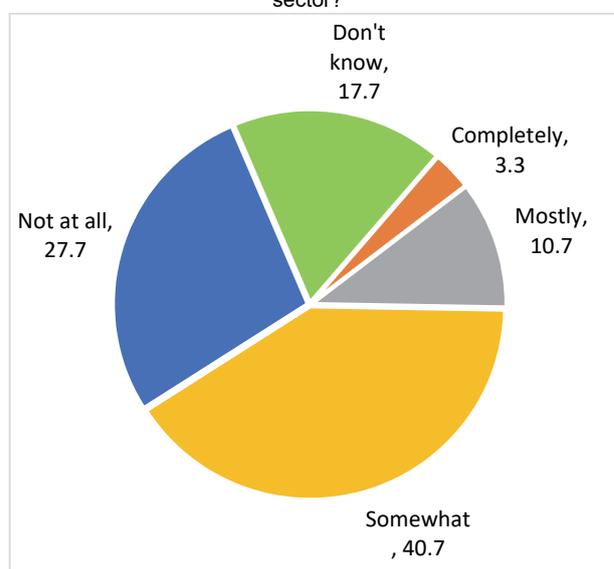
The development of a skilled workforce and the expansion of human capabilities through high-quality systems of education, training and lifelong learning are important for helping workers to find good jobs and enterprises to find the skilled workers they require. A well-educated and well skilled workforce 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 the Armenian companies.

Human resource development is named as one of the biggest challenges in the country. 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. 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.

**Figure 15:** It is difficult, in the current market, for firms to keep highly skilled employees?<sup>15</sup>



**Figure 16:** Are school leavers generally equipped with the literacy and numeracy skills required by firms in the private sector?<sup>16</sup>



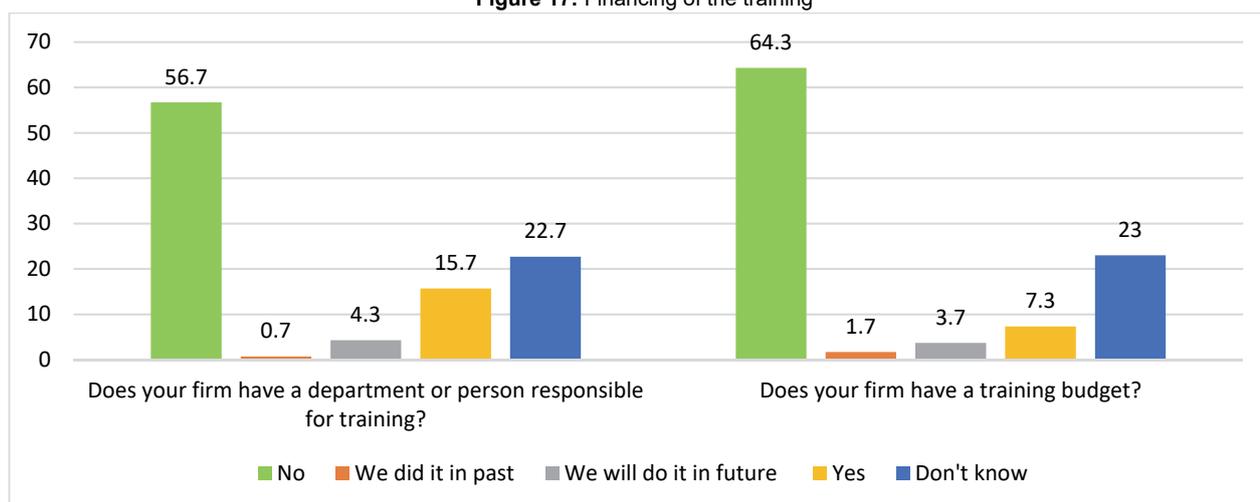
Besides, companies find that it is very difficult to prevent the outflow of qualified staff in current market conditions. Only 10% of companies think that it is not difficult, while 15.7% have an opposite opinion.

Almost 30% of firms 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 state that school leavers are 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.**

<sup>15</sup> Source: Enabling Environment for Sustainable Enterprises in Armenia, Republican Union of Employers of Armenia, 2016

<sup>16</sup> Source: Enabling Environment for Sustainable Enterprises in Armenia, Republican Union of Employers of Armenia, 2016

Figure 17: Financing of the training<sup>17</sup>



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 say that there are no government-funded trainings available to firms.

## RECOMMENDATIONS

We need competitive and skilled workforce based on strong education-business linkages:

**1. Competitive and skilled workforce capable of problem solving, productive and innovative work that creates added value to themselves, to the customers and the society as whole. For this, we propose a concrete actions:**

- ✓ Incorporation of business skills components in education institutions curriculum and promotion of entrepreneurial education which would enable students to start their own businesses as well as for better planning of their career development
- ✓ Better balance between theoretical and practical content of the curricula and the modernization of the technical equipment and instruments used in the educational processes for the promotion of entrepreneurial thinking as well
- ✓ Introduce a performance management system for the educational institutions
- ✓ Introduce measures that tackle skills deficit by promotion of post-education on work training skills
- ✓ Introduce measures for the promotion of training of employers on HR management improvement.

**2. More active involvement of the businesses in the issues related to education and training and more active communication between businesses and education institutions, including:**

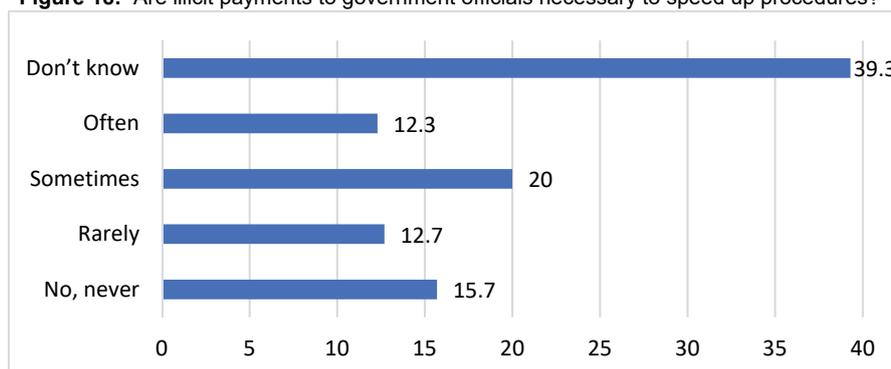
- ✓ More active participation of employers in education planning and curricula design
- ✓ More active participation of employers in the management boards of the educational institutions
- ✓ Promotion of university-business links in the fields of research and innovation;
- ✓ Strengthen the role of employers and their representatives in policy making, creation of education programmes, the work of schools and higher education institutions and promotion of deficit profiles.
- ✓ Building capacities of sector commissions so that they become efficient in reporting and monitoring labour market trends.

<sup>17</sup>Source: Enabling Environment for Sustainable Enterprises in Armenia, Republican Union of Employers of Armenia, 2016

## 7. TRADE AND SUSTAINABLE ECONOMIC INTEGRATION

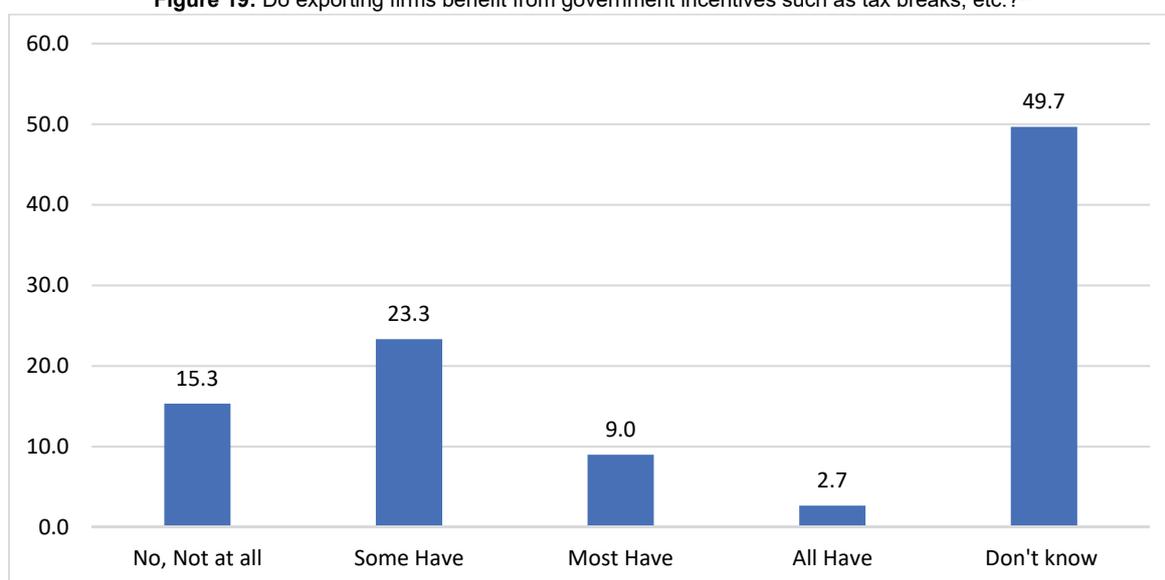
Trade integration can lead to positive economic effect which can have positive employment effects through efficiency gains. However, as trade integration can also lead to job dislocation, increased informality and growing income inequality, the employment and decent work impact of trade policies must be carefully considered. According to trade data, Armenia is improving its situation in this sector year by year. In the context of export-oriented growth, the government of the Republic of Armenia is targeting to reach the ratio of exports of goods and services to GDP by 40-45% in its 2017-2022 Action plan <sup>18</sup>.

**Figure 18:** Are illicit payments to government officials necessary to speed up procedures?<sup>19</sup>



45% of the companies say 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. Only 15.7% of the companies state that they never had to provide illicit payments to government officials in order to speed up procedures.

**Figure 19:** Do exporting firms benefit from government incentives such as tax breaks, etc.?<sup>20</sup>



**Many of the companies are not aware of the benefits arising from government incentives such as tax breaks for exporting companies or GSP+ (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

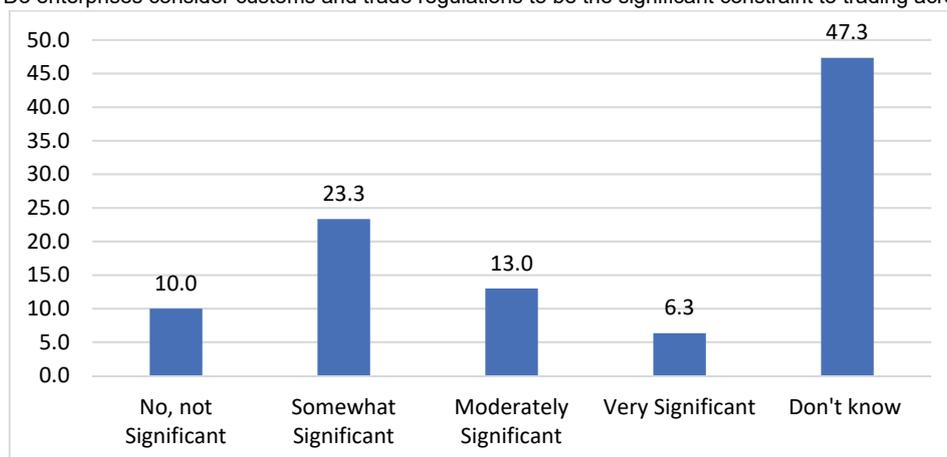
<sup>18</sup> Source: 2017-2022 Action plan of the Government of Armenia

<sup>19</sup> Source: Enabling Environment for Sustainable Enterprises in Armenia, Republican Union of Employers of Armenia, 2016

<sup>20</sup> Source: Enabling Environment for Sustainable Enterprises in Armenia, Republican Union of Employers of Armenia, 2016

situation is the same regarding the access to trade finance and credit guarantees. The majority of companies do not know about the existence of these.

**Figure 20:** Do enterprises consider customs and trade regulations to be the significant constraint to trading across borders?<sup>21</sup>



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.

## RECOMMENDATIONS

We need:

1. **Streamlined export-import procedure with decreased time and necessary documentation needed to export or import**
  - ✓ Introduction of effective and efficient electronic system for revision of the customs documents
  - ✓ Introduction of an integrated custom support system to exclude the violation of import and export procedures
2. **Custom administration capable of efficient, transparent and professional work with strict respect to the legal procedures**
3. **Improved road and border crossing infrastructure in order to enable efficient and uninterrupted transfer of passengers and goods**
4. **Access to information and availability of export-import supporting services for businesses**
  - ✓ Information on availability and access to the foreign markets
  - ✓ Support services in how to access and do businesses in foreign markets.

<sup>21</sup> Source: Enabling Environment for Sustainable Enterprises in Armenia, Republican Union of Employers of Armenia, 2016



REPUBLICAN UNION OF  
EMPLOYERS OF ARMENIA

Address: 26a Khorenatsi str.,  
0010 Yerevan, Armenia  
Tel.: (+37410) 527 421  
E-mail: [info@employers.am](mailto:info@employers.am)  
Website: [www.employers.am](http://www.employers.am)