



**FRIEDRICH
EBERT
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THE MAIN BUSINESS OBSTACLES IN ARMENIA

SME SITUATIONAL COMPREHENSIVE SURVEY
AT MACRO AND MICRO LEVELS

SEPTEMBER 2015



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ACKNOWLEDGEMENTS

The SME situational comprehensive survey has been implemented in Armenia for the first time with the objective to uncover the main business obstacles at macro and micro levels. RUEA expresses its gratitude to Friedrich-Ebert-Stiftung for supporting the implementation of this survey. Previously done needs assessments among RUEA members carried out by RUEA, have already highlighted many obstacles for SMEs.

The current survey offers an analysis of socio-economic reforms in different areas, SME development, and the overall development of the economy of Armenia.

RUEA also extends its acknowledgments to SMEs, state and not-state bodies, SME support organizations and all partners for contribution and support in the survey.

The survey report will be useful in the scope of reforms in socio-economic spheres, SME development and in overall economic development of Armenia. It will be mostly useful for state bodies, business support organizations, SMEs, international donors, as well as citizens who wish to start own businesses.

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1. INTRODUCTION

1.1. SME in Armenia

SME development policy is aimed at the economic, social and political development of SMEs use and increase of its role. One of the basic documents of this policy is the "The provisions of policy and strategy development of small and medium entrepreneurship", in which the economic, social and political aims of SME development state policy and the main directions of its implementation are introduced. The adoption of the above-mentioned document creates preconditions for the establishment of the law "State Support to Small and Medium Entrepreneurship", which defined the criteria for SMEs in the Republic of Armenia and the main directions of state support for SMEs for the first time.

Following the law of "State Support to Small and Medium Entrepreneurship", the SME subjects in the RA are classified into:

- 1) micro, profit organizations and individual entrepreneurs, the average number of employers is up to 10 people or the previous year's profit or balance sheet value of assets as of end of last year will not exceed 100 million AMD.
- 2) small, profit organizations and individual entrepreneurs ,the average number of employers is up to 50 people, or last year's profit or balance sheet value of assets as of end of last year doesn't not exceed 500 million AMD.
- 3) medium profit organizations and individual entrepreneurs ,average number of employers is up to 250 people, or last year's profit or balance sheet value of assets as of end of last year doesn't not exceed 1500 million AMD and 1000 million AMD.

Due to the statistics of 2009, the share of SMEs in business sector amounted to 97.7% of registered entrepreneurships, the share of amounted to 42.2%; SMEs share in amounted to 42.5%. According to the new methodology, by the above mentioned criteria, SMEs make about 30% of the GDP as of 2014.

Due to date provided by the SME DNC 73,925 SMEs have been operating as of 31 December 2012, which makes about 98% of total number of operating business entities. In 2012, the number of SMEs has increased by 25% compared to 2010. However, what are the real trends of SME growth or decline and what are the main obstacles for SME development are uncovered in this survey report, which has been implemented in the period of April-July 2015.

1.2. Survey Objective and Methodology

Republican Union of Employers of Armenia (RUEA) has implemented the SME situational comprehensive survey at macro and micro levels in the period of April-July 2015.

1.2.1. Survey Objective

The survey aimed at: discovering, assessing and state main obstacles for SME development in Armenia, main reasons for shadow economy origin, most influential factors for SME development; uncovering the challenges, that exist in the business environment and that need urgent improvement.

The survey also includes the changes (progress or regress) registered for the past 5 years. It also aimed determining:

- Whether the business community is happy with the legislative reforms of 2014-2015 of the Government of Armenia
- How the impact reforms of 2009-2014 on SME is evaluated
- What steps should be undertaken by the Government of Armenia for SME development.

1.2.2. Survey Methodology

Taking into account the studied subject (object) features, as well as the problems and purposes of survey, to fill the information gap and for comprehensive survey of the subject (object) the survey was implemented in 3 parallel stages:

- 1) Combine information collection, processing and analysis based on reports and assessments of various governmental and non-governmental organizations, international organizations as well as on the results of SME support programs,
- 2) Quantitative, standardized survey and qualitative, free and semi-standardized interviews among SMEs,
- 3) Standardized interview with questionnaire, formed with qualitative, open questions, among SME related governmental and non-governmental organizations and think-tank centers.

For the implementation of the Survey on “The main business obstacles in Armenia” two questionnaires have been developed:

- 1) For the representatives of business community (including characteristics of SME sphere),
- 2) For the ministries in Armenia (Economy, Education and Science, Labor and Social Affairs), Republican Union of Employers of Armenia, SME Development National Center (SME DNC), different think-tank centers, economists and researchers.

The questionnaires have been developed by RUEA, discussed with associates and partners, taking into consideration the views of SME organizations, RUEA member organizations, partners and the results of previously conducted needs assessment.

The questionnaires include:

1. 18 questions for the representatives of business community (with 171 possible responds), of which 158 directional questions (closed-ended questions).
2. 9 questions for the Ministry of Economy, Ministry of Education and Science, Ministry of Labor and Social Affairs, Republican Union of Employers of Armenia, SME DNC, different think-tank centers and economists (with 74 possible responds), including 63-directional.

1.2.3. Sampling Method

Representatives (middle and top level staff) of the Ministry of Economy, Ministry of Education and Science, Ministry of Labor and Social Affairs, Republican Union of Employers of Armenia, SME DNC, think-tank centers, economists and researchers have taken part in the survey.

The survey data has been collected, processed and analyzed in SPSS. The results have been developed and brought to visible format for the use and percentage ratio.

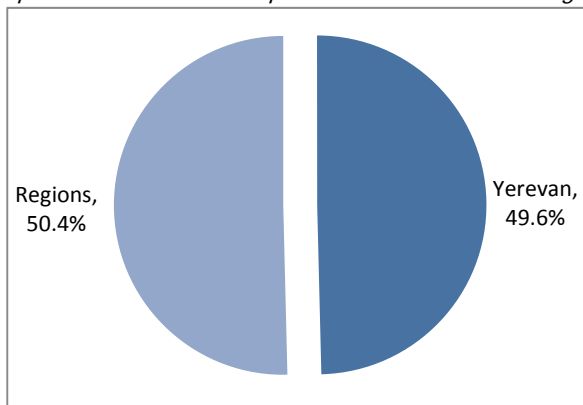
The survey has been implemented according to the following 2 questionnaires:

- A. For the business community: 107 SMEs took part in the interview from the expected 100, from Yerevan and regions (Section 2).
- B. For the Ministry of Economy, Ministry of Education and Science, Ministry of Labor and Social Affairs, RUEA, SME DNC, different think-tank centers, economists, researchers (Section 3).

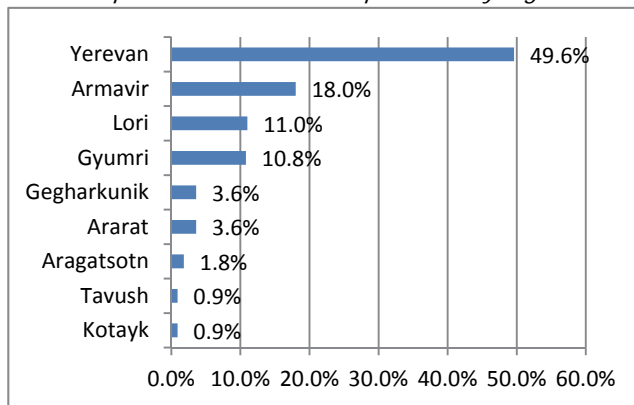
2. THE MAIN BUSINESS OBSTACLES IN ARMENIA AT MACRO AND MICRO LEVELS (SME PERSPECTIVE)

As it is mentioned above, 107 micro enterprises and SMEs took part in the survey. The distribution of respondents by regions of Armenia is introduced in the graphs below.

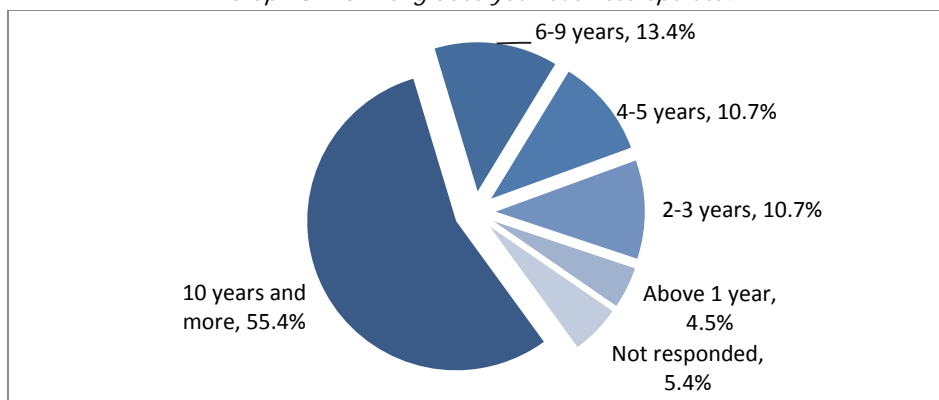
Graph 1. Distribution of respondents in Yerevan and regions



Graph 2. Distribution of respondents by regions

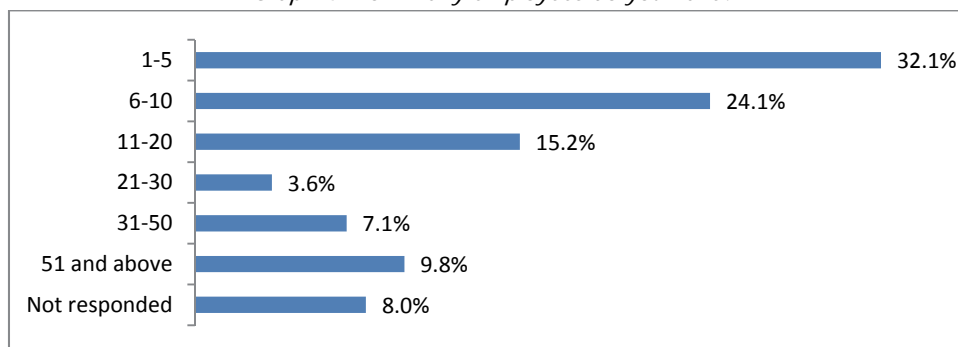


Graph 3. How long does your business operate?



Half of respondents are those who have businesses operating more than 10 years (55.4%), and their responds are vital, as they have the longest experience in business, their responds are accurate and balanced. Those who have businesses operating for 4-9 years make 24%.

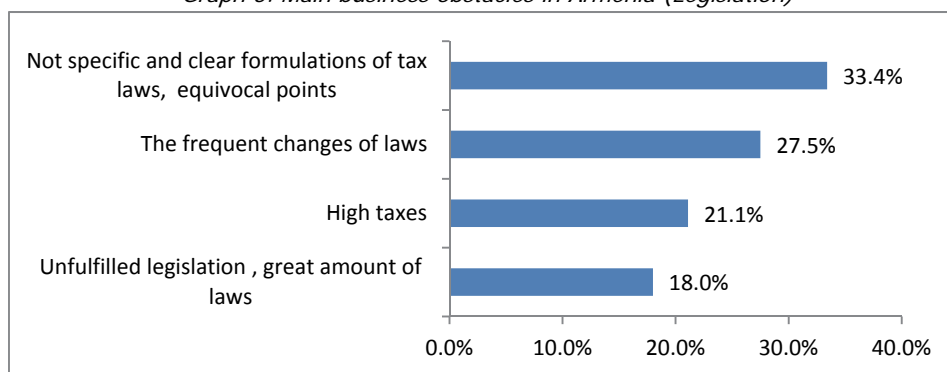
Graph 4. How many employees do you have?



In regards to the number of employees, the vast majority of respondents (56.2%) have 1-10 employees. The share of respondents having 31-50 and more employees is about 17%.

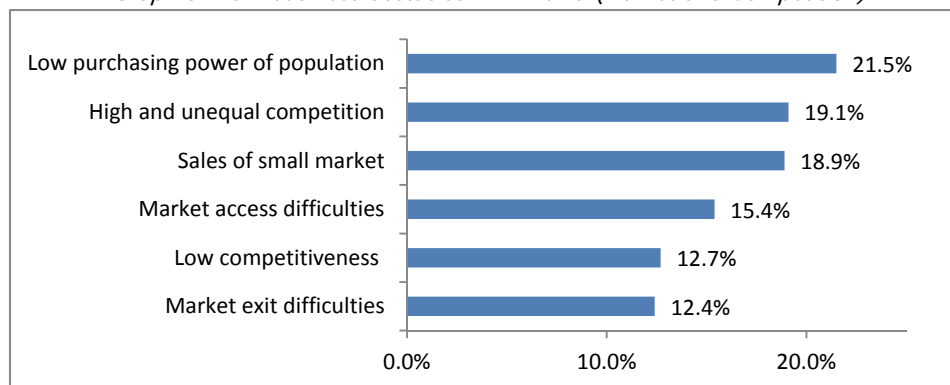
What are the main business obstacles in Armenia?

Graph 5. Main business obstacles in Armenia (Legislation)



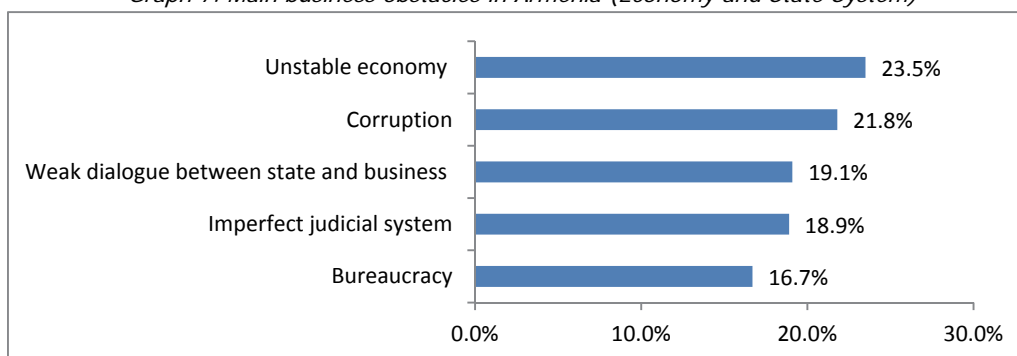
The 61% of respondents consider that not specific and clear formulations, equivocal points, and frequent changes of laws are the main legislative obstacles for dynamic business promotion. By the way, it maintained its force compared with another survey of 2007 by RUEA. The 21.1% have mentioned high taxes. Although the government of Armenia did positive reforms in 2014-2015, the taxes are still high for SMEs.

Graph 6. Main business obstacles in Armenia (Market and Competition)



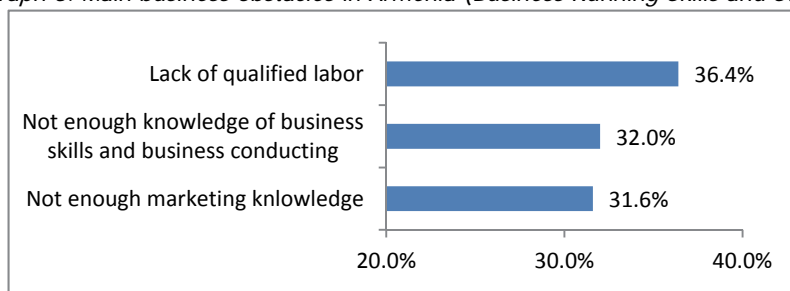
From the viewpoint of unequal competition and market access, the 34.5% of respondents state that they face difficulties. The low purchasing power of population, the sales of small market creates difficulties for 40% of them.

Graph 7. Main business obstacles in Armenia (Economy and State System)



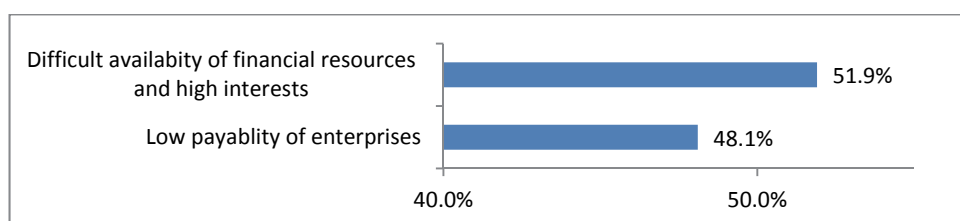
The 38.5% of respondents answered that the main obstacles of business are corruption in the country and bureaucracy. And if we add to the table the economic instability (23.5%), the weak dialogue between state and business (19.1%), the image will be clearer. The judicial system 19% share among responses, means that every 5th of SMEs faces problems with the judicial system.

Graph 8. Main business obstacles in Armenia (Business Running Skills and Staff)



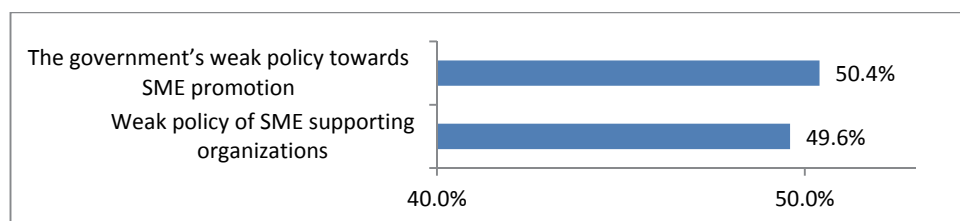
It is notable, that the 36.4% of respondents have lack of qualified staff, and the 64% highlighted insufficient knowledge for marketing and running business. On that regard, quality management systems are important.

Graph 9. Main business obstacles in Armenia (Financial resources)



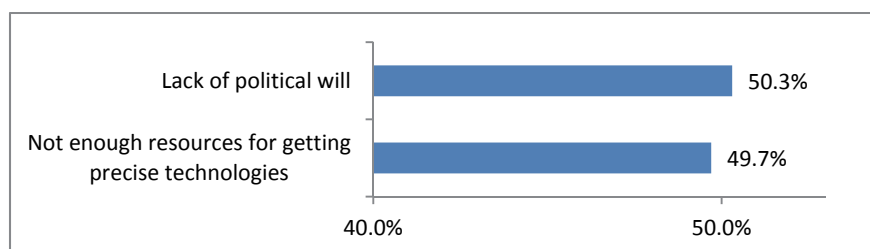
If the difficulty of availability of financial resources and interest rates established by Armenian banks were considered primary before the survey, then the low solvency of enterprises confirms the fact that 48.1% of SMEs or about half part hardly earn income and often just survive being under constant threat of bankruptcy.

Graph 10. Main business obstacles in Armenia (SME Support Policy)



The 50% of the respondents consider that one of the main problems of SMEs is the weak policy of the Government and SME supporting organizations.

Graph 11. Other Business Obstacles



In "other obstacles", the respondents have mentioned:

- Improper import policy, high customs rates
- Currency variations
- High tariffs of energy resources
- Weak economic structure

Among other obstacles, respondents have highlighted "lack of political will" and "not enough resources to get precise technologies" nearly equal (50.3% and 49.7%). Among 102 non-directional responses, the most

important are the following: low economic structure (28%) and high tariffs of energy resources (26.8%), where the prices of gas and electricity are essential.

Table 1. Which problems were the most influential during the last 5 years (2009-2014?)

1.	Difficult availability of financial resources and high interests	19.6%
2.	Unstable economy	17.9%
3.	High taxes	17.0%
4.	Low purchasing power of population	16.1%
5.	Corruption	15.2%
6.	Not clear and not concrete formation of tax laws, equivocal points	10.7%
7.	Often changes of laws	9.8%
8.	High and unequal competitiveness	9.8%
9.	Lack of qualified labor	9.8%
10.	Weak dialogue between state and business	8.0%
11.	Low solvency of enterprises	8.0%
12.	Imperfect justice system	7.1%
13.	Not enough resources to get precise technologies	7.1%
14.	Low competitiveness	6.3%
15.	Sales small markets	6.3%
16.	Bureaucracy	6.3%
17.	Lack of political will	6.3%
18.	Market access difficulties	5.4%
19.	Not enough knowledge to conduct business	5.4%
20.	Not enough marketing knowledge	3.6%
21.	Government's weak policy towards SME's promotion	2.7%
22.	Imperfect legislation, a great number of laws	1.8%
23.	Market exit difficulties	1.8%
24.	Weak policy of organizations supporting SME	0.9%

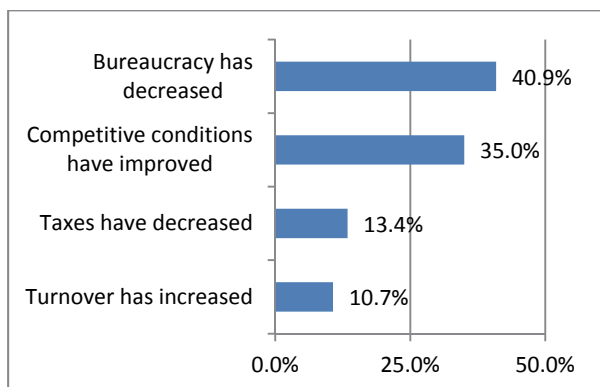
The 38% of respondents consider that during 2009-2014 the most influential problems were unstable economy of Armenia and difficult availability of financial resources.

Table 2. The effects of which points decreased during the reforms in last 5 years?

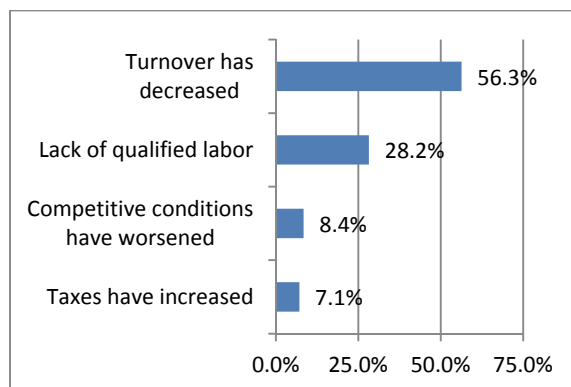
1.	Bureaucracy	18.8%
2.	Corruption	11.6%
3.	High taxes	8.9%
4.	Weak policy of SME's supporting organizations	7.1%
5.	Lack of qualified labor	5.4%
6.	Government's weak policy towards SME's promotion	4.5%
7.	Often changes of laws	4.5%
8.	Imperfect legislation, a great number of laws	3.6%
9.	Weak dialogue between state and business	3.6%
10.	Not enough knowledge of business conducting	3.6%
11.	Not clear and not concrete formation of tax laws, equivocal points	2.7%
12.	Unstable economy	2.7%
13.	Market access difficulties	2.7%
14.	Unstable economy	2.7%
15.	Difficult availability of financial resources and high interests	1.8%
16.	Sales small markets	1.8%
17.	Lack of political will	1.8%
18.	High and unequal competition	1.8%
19.	Low solvency of population	0.9%
20.	Imperfect legislation	0.9%
21.	Market exit difficulties	0.9%

It is remarkable that more than 30% of respondents believe that bureaucracy and corruption decreased during last 5 years, and such important factors, as the 15-21 points (Table 2) are have not decreased and still remain among the major obstacles.

What essential changes have you encountered in the result of reforms for the last 5 years
Graph 12. In the Context of Progress



Graph 13. In the Context of Regress



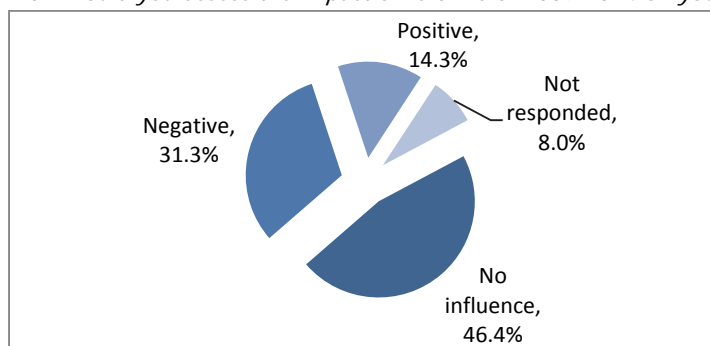
The 75.9% of respondents consider that decrease of bureaucracy and improvement of competitive conditions are a progress. So, despite the complaints of SMEs about SME policy, there have been positive changes, in that regard the mentioned answers have been received. Considering regress, there is decrease in turnover (56.3%) and qualified labor shortage (28.2%). Decrease in turnover is due to the decline in the purchasing power of citizens, business entities and because of migration. The problem of labor is getting worse in the result of labor migration and the formation of a more competitive economy.

Table 3. Are you pleased with the legislative reforms by RA government in 2014-2015?

	Yes	No	Not resp.
RA law about family business	58.0%	25.0%	17.0%
The RA law about turnover tax	33.1%	58.9%	8.0%
RA law about income tax benefits in border areas	66.0%	17.1%	16.9%
Decrease of income tax benefits in case of up to 50 billion AMD export by RA Law	21.4%	61.6%	17.0%

If the 66% and 58% of respondents are satisfied about the RA laws about income tax benefits of the border areas and family business, then 58.9% and 61% are displeased about the laws of the turnover tax and income tax decrease (in case of export for the amount of 50 billion AMD and more). It is interesting that the 17% of respondents didn't want to express their opinions about all 4 laws.

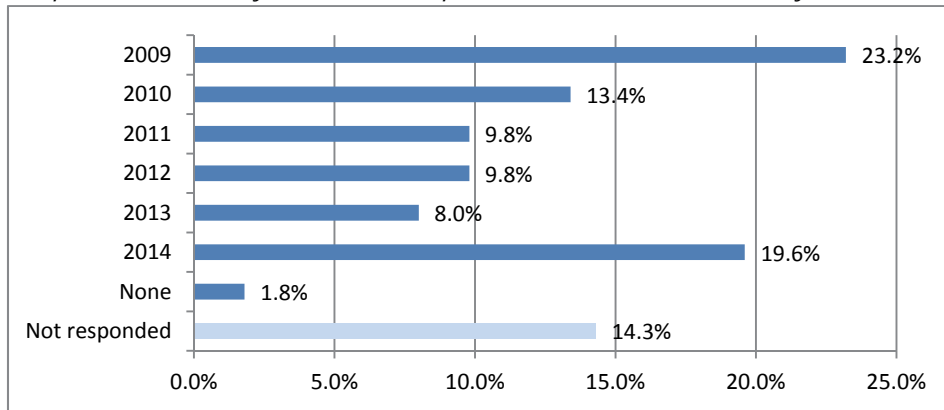
Graph 14. How would you assess the impact of reforms of 2009-2014 on your business?



Unfortunately, about half of respondents (46.4%) believe, that the reforms have had no influence on their business. Moreover, the 31.3% think that the reforms have had negative influence on their business. And

only 14.3% consider that the reforms in 2009-2014 have had positive influence. This is essential to make the SME policy better.

Graph 15. How would you assess the impact of reforms of 2009-2014 on your business?



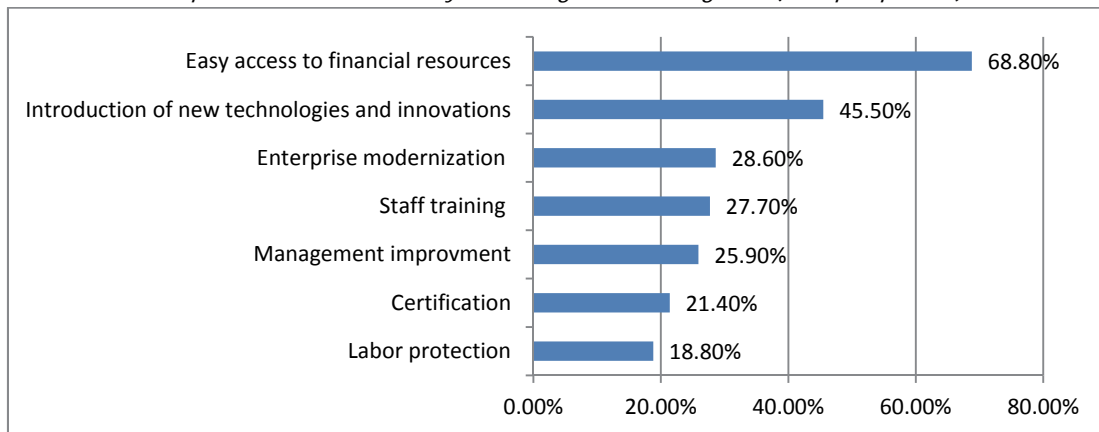
SMEs find the most successful economic years to be 2009 (23.2%) and 2014 (19.6%). The period of 2010-2013 is considered the most ineffective.

The question “What is necessary for your organization promotion?” presumes two answers: directional and non-directional. The directional questions consist of two parts: (a) SME perspective and (b) business environment perspective.

For further development of organizations the following is needed:

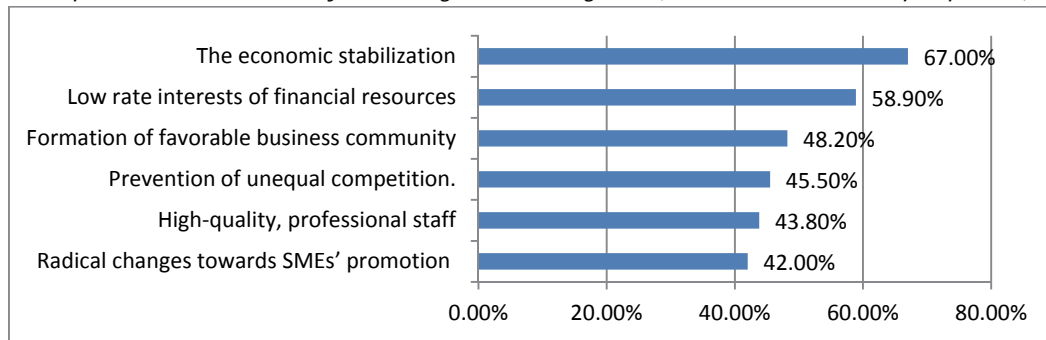
a) From the SME perspective, the respondents think that access to available financial resources is needed (68.8%), introduction of new technologies and innovations (45.5%). They also highlight enterprises modernization (28.6%), staff training (27.7%), management improvement (25.9%), certification (21.4%), and the working conditions of workers through labor protection (18.8%):

Graph 16. What is necessary for an organization to grow? (SME perspective)



b) From the business environment perspective, more than 67% believe that everything must be done to ensure economic stability; the 48.2% of respondents think that favorable business environment must be created. The 58.9% of respondents think that low rate interests of financial resources must be included, 45.5% answered to provide equal competitive conditions, 43.8% said to prepare high-quality, professional staff, and 42% answered the implementation of radical changes towards SME promotion.

Graph 17. What is necessary for an organization to grow? (Business environment perspective)

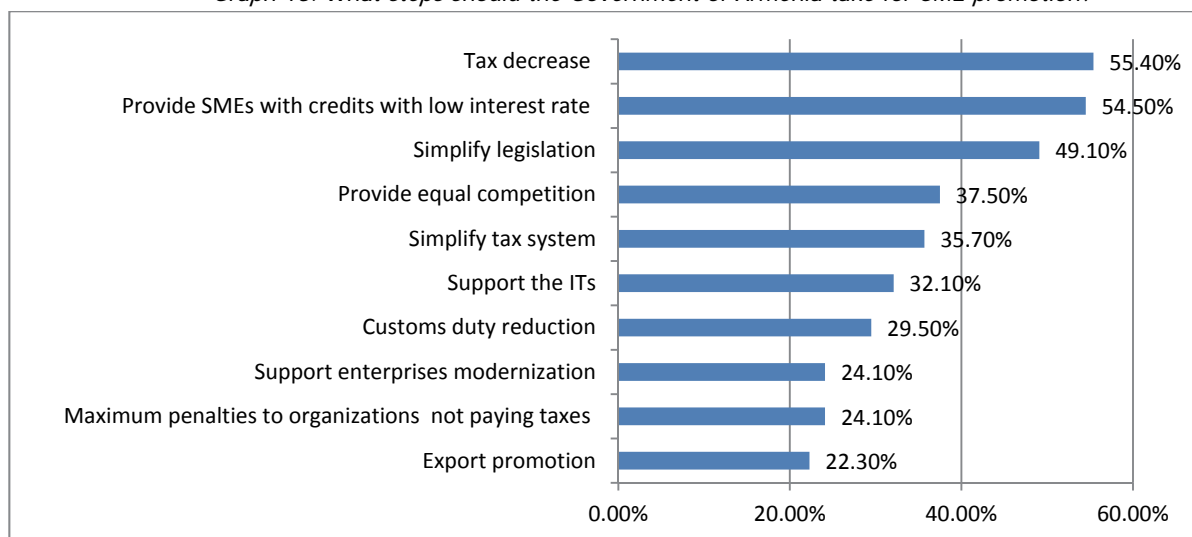


What is necessary for your organization promotion?

1. Financial resources
2. Credits by low interest rates
3. Bureaucracy decrease
4. Population growth in living standards
5. High-quality and professional staff
6. New technology and equipment
7. Simplification of tax policy
8. Exclusion of non-instructive actions by JACES
9. Unequal competition
10. Access to International ISO standards

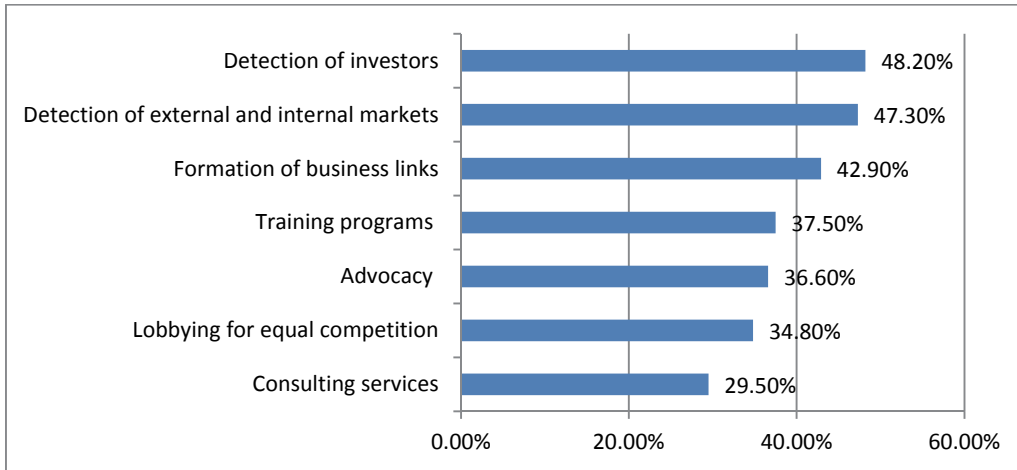
The 112 responses to this non-directional question are also very important to have clear picture not only about the business obstacles, but also about what is needed for the further promotion of organizations. From the 112 responses we can come to the conclusion, that the organizations have lack of financial resources, and the credits with low interest rates are still a dream in Armenia. It is also importance that the business community dreams of new technologies, equipment, high-quality labor, the importance of access to international ISO standards.

Graph 18. What steps should the Government of Armenia take for SME promotion?



The business community believes that the Government should find opportunities to provide SMEs with low interest rate credits, simplify the legislation (49.1%), decrease taxes (37.5%) and ensure equal competition.

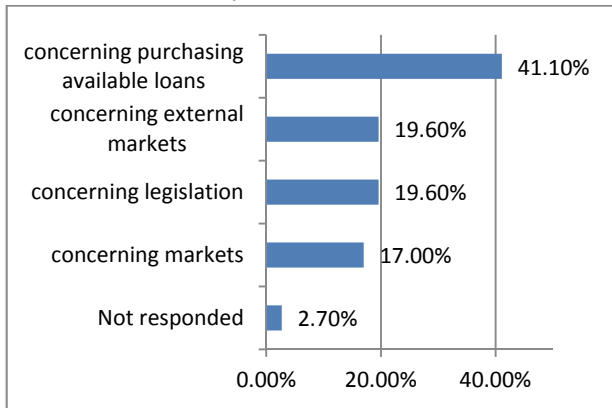
Graph 19. What steps should implement RA government for SME promotion?



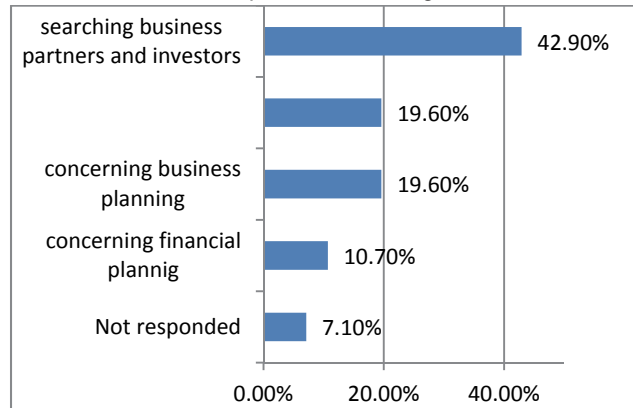
Discovery of investors and external markets, organization of training courses, formation of business contacts, available consulting services are envisaged from the business support organizations. The SME DNC, RUEA and other business support organizations should provide such services.

9. What services do SMEs need?

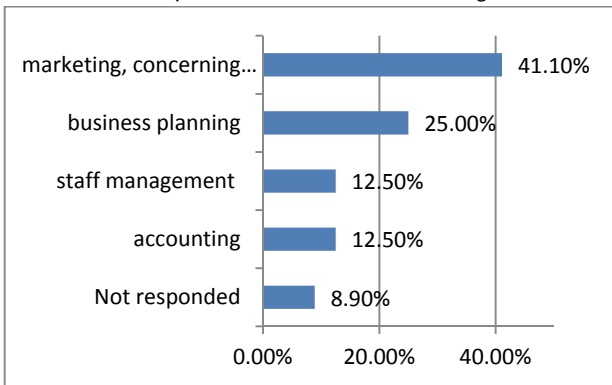
Graph 20. Information



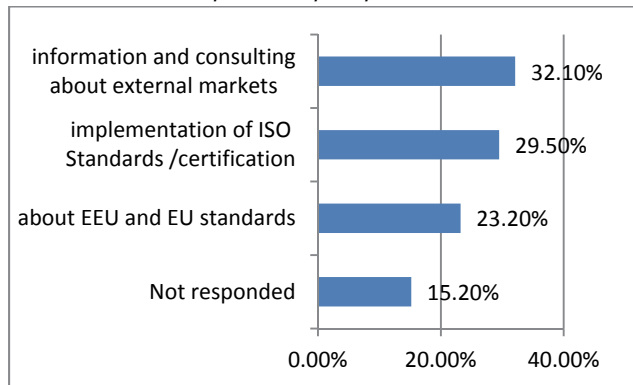
Graph 21. Consulting



Graph 22. Education and training



Graph 23. Export promotion

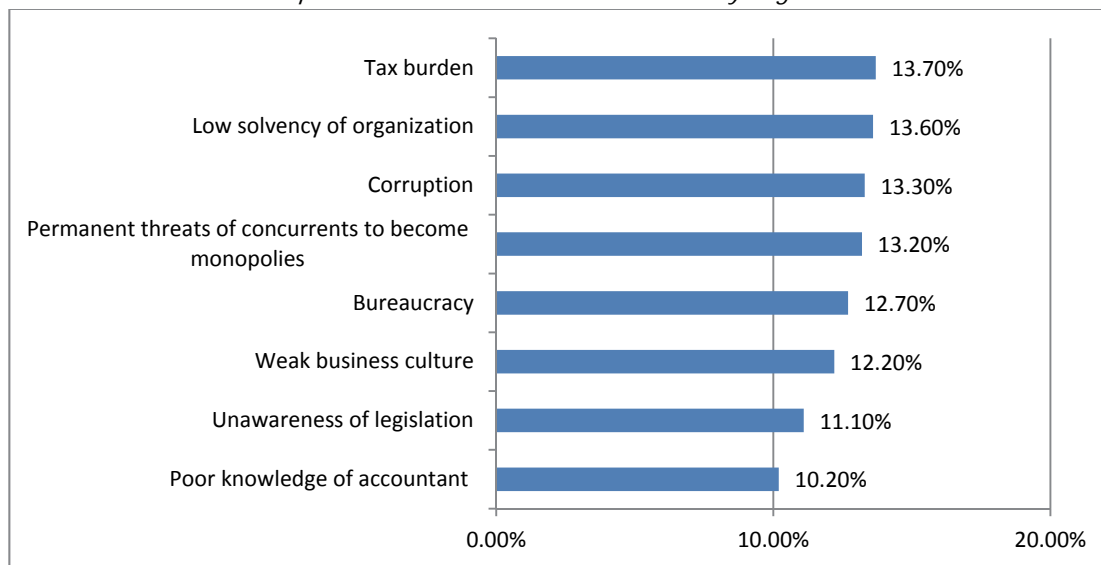


The SMEs highlighted the following questions according to areas:

- a) **Information:** about accessible loans, legislation, external markets.
- b) **Consulting:** how to find investors and business partners, how to plan business; support when applying for credit to prepare proper documentation.
- c) **Education and training:** The new way of thinking is welcomed; hence the business community finds important the business planning, marketing problems, and wants to continue education and trainings.

- d) **Export promotion:** Besides the information about external markets, SMEs emphasize the implementation of ISO International standards and having consistent standards for products; realizing that without it, it is impossible to export to International markets (EEU and EU).

Graph 24. Main reasons for shadow economy origin



Highlighting the existence of shadow economy among business obstacles, the question above was included in the questionnaire. And it is interesting that all 8 options have been emphasized in the responds. **Unfortunately bureaucracy and corruption are distinguished and make 26%.**

Table 4. How do you assess the role of social partners in solving SME problems?

	High	Good	Satisfactory	Low	Not resp.
Government of RA	7.1%	8.9%	29.5%	49.1%	5.4%
Confederation of Trade Unions of Armenia	3.6%	13.4%	18.8%	53.6%	10.7%
Republican Union of Employers of Armenia (RUEA)	29.5%	36.6%	14.3%	16.1%	3.6%

About 49.1% consider the role of RA Government very low in the regulation of SME problems in the area of social partnership. The respondents, expressing their opinions about the 3 social partners, underrated the activities of Confederation of Trade Unions of Armenia (53.6%) and RA government (49.1%). They evaluated Republican Union of Employers of Armenia good (36.6%), and even high (29.5%).

The new version of the Social partnership Tripartite National Collective Agreement for 2015-2018 will be signed in August 2015. A new section titled "Social-economic" has been added into the Agreement.

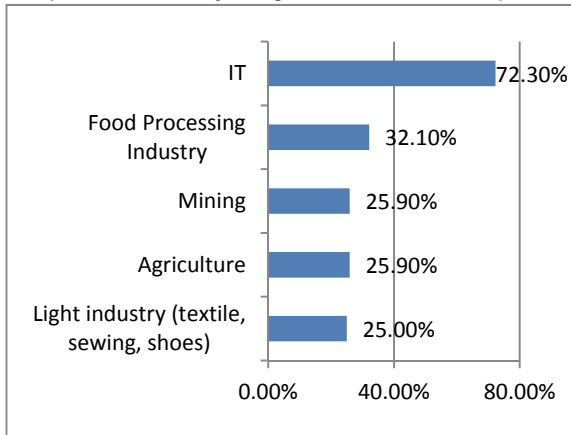
Table 5. Are the enterprises growing or falling, in your opinion? (Among you and your acquaintances)

	Growth	Fall	Not responded
Macro companies	3.6%	86.6%	9.8%
Small companies	4.5%	87.5%	8.0%
Middle companies	14.3%	75.0%	10.7%
Big companies	62.5%	23.2%	14.3%

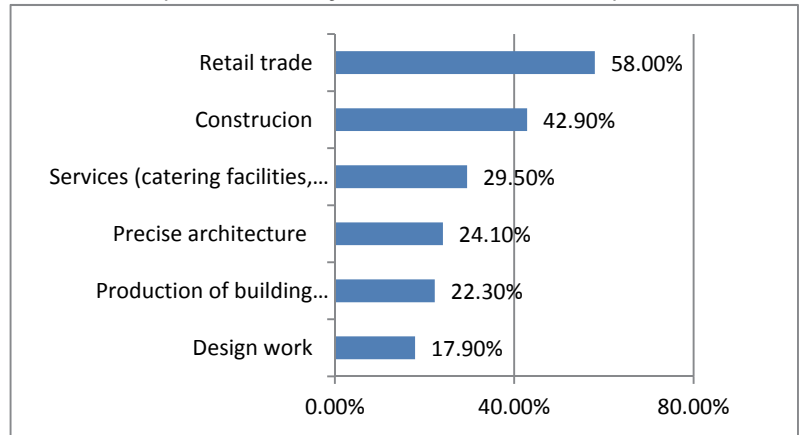
Evaluating the tendency (growth or decline) of enterprises activities in RA, the respondents think that macro and small companies are declining (86.6% and 87.5 % of respondents respectively). In medium-sized companies the percentage of decline is small - 75%. And only large companies are able to resist and prosper - 62.5% of respondents.

In what spheres of economy is there tendency for growth or decline

Graph 25. Tendency for growth in economic spheres



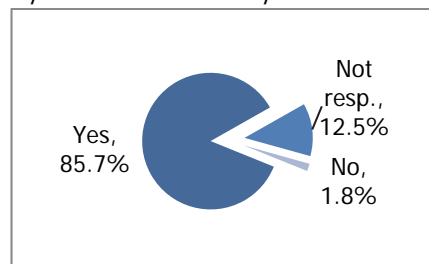
Graph 26. Tendency for decline in economic spheres



Based on spheres, the majority of respondents considers:

- The tendency of growth exists in IT (72.3%), Food Processing Industry (32.1%). Agriculture, mining and light industry (textile, sewing, shoes),
- Unfortunately tendency of decline are among the following spheres: retail trade (58%), construction (42.9%), services (catering facilities, beauty salons, stomatology centers) - 29.5%. Precision engineering (24.1%), design works (17.9%) and production of building materials also are among those to have decline tendency (22.3%).

Graph 27. Do you find the promotion of SMEs important for our country? If yes, why?



The 85.7% of respondents emphasize the role of SMEs in the dynamic economic promotion of our country in the following considerations. In total, 112 responses were given. Here are the responses mostly occurred.

- New workplaces will be created
- Living standards of the population will be increased
- Emigration will decrease
- The economy will increase
- Social tension will decrease
- Middle class will be formed
- Will get rid of oligarchy economy
- Will pass from monopolization to diversified economy
- The taxpayers will increase essentially

Summarizing the survey data on SMEs, we get interesting results, which is especially important for further state support programs on SME and reforms implemented by international donors.

The policy implemented towards SMEs needs major revision, as despite different legislative tax changes and reforms, SMEs have complains that impede their development. Besides, the given responses deserve special attention by RUEA and SME support other organizations. Among SME problems and needs, the requirements towards educational are the most important from the viewpoint of high-quality labor. As well as, the SME internationalization problems, which include the supporting programs, to find out new markets, marketing, the application of ISO standards, the existence of international certification.

3. THE MAIN BUSINESS OBSTACLES IN ARMENIA AT MACRO AND MICRO LEVELS (STATE AND NON-STATE BODIES' PERSPECTIVE)

30 respondents have taken part in the survey among the in Ministry of Economy of RA, Ministry of Education and Science of RA, Ministry of Labor and Social Affairs of RA, RUEA, SME DNC, different think-tank centers, economists and researchers.

Table 6. Have the following legislative reforms of 2014-2015 of RA Government in given expected results?

	Yes	No	Other
The RA law on family business	42.3%	50.0%	7.7%
RA law on turnover tax	38.5%	46.2%	15.3%
RA law on income tax benefits in border areas	46.2%	42.3%	11.5%
50 billion AMD and more in case of income tax benefits decrease during export by RA Law	38.5%	50.0%	11.5%

Graph 28. What steps should the Government take to promote SMEs?

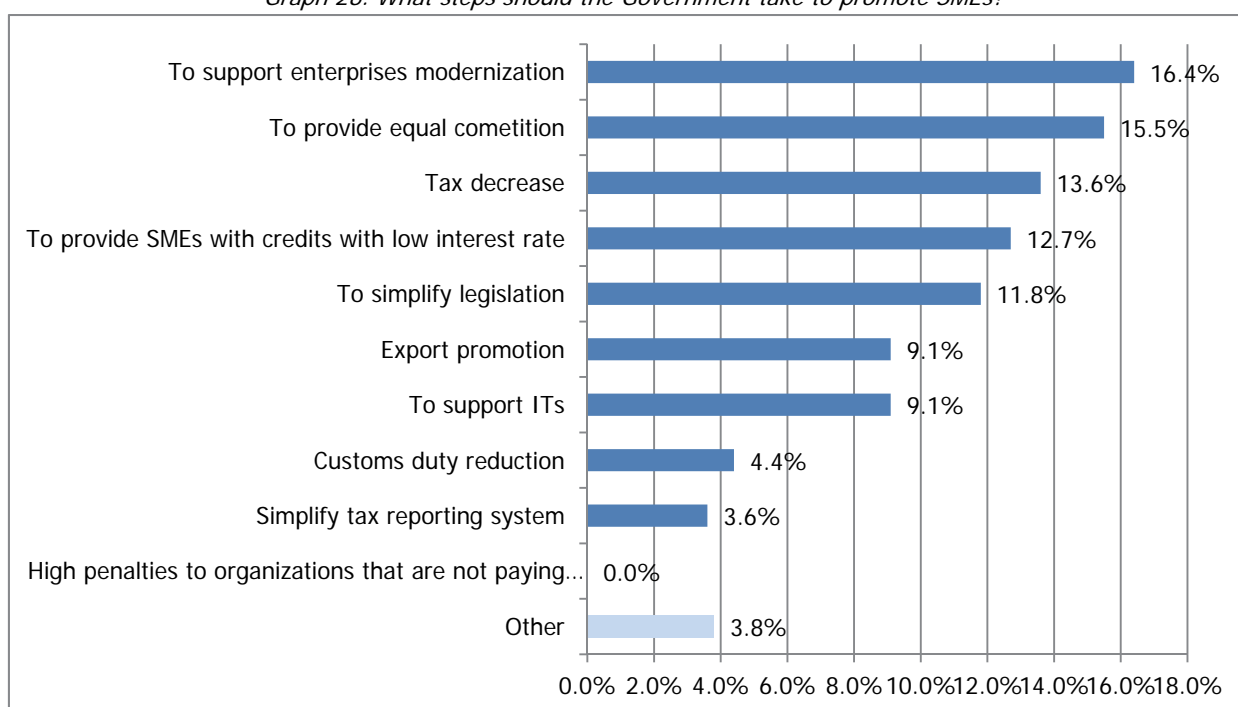


Table 7. How do you evaluate the role of social partners in solving SME problems?

	High	Good	Satisfactory	Low
Government of RA	13.3%	6.7%	26.6%	53.4%
Confederation of Trade Unions of Armenia	6.7%	13.4%	26.8%	53.1%
Republican Union of Employers of Armenia (RUEA)	26.7%	33.3%	30.0%	10.0%

In which areas of economy exist...

...tendency for growth

- Information technologies
- Food Processing Industry
- Jewelry
- Green economy
- Mining
- Light industry (textile, sewing, shoes)

...tendency for decline

- Retail trade
- Construction
- Services (catering facilities, beauty salons, stomatology)
- Precise architecture
- Production of building materials
- Design works

What do you think, in which economy areas are SMEs...?

...growing

- food Processing Industry
- agriculture
- green economy
- services
- light industry (textile, sewing, shoes)

...falling

- retail trade
- ranching
- construction
- services (catering facilities, beauty salons, stomatology)
- precise architecture
- production of building materials
- design works

Do you find the SME development important for Armenia and why?

1. Poverty reduction
2. Employment promotion
3. Middle-class formation
4. Ensuring a harmonious relationship between the generations
5. Balanced economic development

Table 8. What do you think, do the assumptions correspond to reality?

	Assumptions	Don't approve (%)	Approve with reservation (%)	Approve (%)
1	Educational system of RA is able to satisfy the demands of the labor market.	73.3	26.7	-
2	SMEs' involvement in improvement of the educational system is great.	66.7	33.3	-
3	The social system of RA built in line with RA SMEs activity, features, structure and add each other.	73.3	26.7	-
4	The RA educational system integration of the single European educational area has significantly increased the SMEs' needs satisfaction toward staff and the involvement of SMEs in the process of improving the educational system.	46.7	40.0	13.3
5	The volume of direct foreign investments in the SME sector has greatly increased over the past 3 years.	73.3	26.7	-
6	During the last 3 years the tax, credit, and other support tools and the volumes of other advantages significantly increased in Armenia	40.0	40.0	20.0
7	The labor protection in RA SMEs is implemented in a proper way.	80.0	20.0	-
8	Coverage salary of SME workers, without taxes, exceeds the value of the minimum consumer basket	20.0	46.7	33.3
9	The cooperation of Ministry of Labor and Social Affairs and Confederation of Trade Unions is very effective for SMEs development and support.	86.6	6.7	6.7
10	The promotion of business infrastructures of Armenia strongly contributed to the development of the SME number increase and improvement of activity.	73.3	26.7	-

11	The promotion of education, economy and innovation strongly contributed to the SMEs' innovation in last 3 years.	60.0	40.0	-
12	Currently the SMEs of RA greatly benefit from the conditions of competitive economy development.	93.3	6.7	-
13	The reduction of regional disparities in the area of Armenia significantly contributed to the SMEs number increase and activity improvement in regions during the last 1 year.	66.7	26.6	6.7
14	Armenia's joining the Eurasian Union will significantly improve the activity of SMEs in Armenia.	60.0	33.3	6.7

The respondents have not completely approved the 1-3 assumptions, which suggest that the representatives in the area either do not manage the situation or do not have confirming answers.

Among the 4-7 assumptions, it is clear that both representatives in OSH¹ sphere and other state bodies find that OSH is not properly implemented in SMEs.

Are new tools being developed in your Ministry for SME promotion?

The measures are being implemented by the Ministry of Education and Science related to organization of training courses on entrepreneurship and entrepreneurial activities in educational programs.

The only tool by the Ministry of Labor and Social Affairs is the new program developed and implemented in the framework of Annual Employment Program, which is called "Support to the unemployed to start a business". The program is new, it has been started in the middle of 2014 and speaking about its effectivity is early. A program monitoring and rating is going to be implemented during the end of this year, after which it will be clear whether to continue the same way, or it is necessary to modify the procedures for making it more effective.

Is your Ministry preparing a proposal for new reforms on SME promotion? if yes, on what directions

Unfortunately there are no specific proposals by the Ministry of Education and Science yet.

¹ Occupational safety and health

4. CONCLUSION

4.1. Conclusions According to SMEs

1. The 55% of the respondents have 10 years of experience, which increases the reliability of given answers. The share of respondents who have 6-9 years of experience is 13.4%. So, altogether 6-10 years and more is 68%.
2. Despite a lot of reforms implemented by RA government and SME supporting programs, the 50% of respondents believe, that the reforms have not given the expected results.
3. The 21.1% of SMEs consider that taxes are high, the unclear definitions of tax laws cause obstacles among 33%, and the frequent changes of the laws make problem among 27.5%. So RA government must effectively implement tax reforms and increase the awareness and perception activities.
4. The 68.8% of respondents are dissatisfied with the availability and access to financial resources (68.8%). Thus the difficulty of loans and high interest rates make 52% among responses. This should be taken into serious consideration. The RA government and Central Bank must implement concrete steps to simplify the lending/loaning mechanisms, classify existing risks and invest risk management effective system.
5. The interviewed SMEs mention that the weak dialogue between state and business is 19%, and high bureaucracy is 16.7%. In the result of dialogue the bureaucracy can decrease. The 23.5% of unstable economy remains one of the main obstacles.
6. Business management (32%) and marketing (31.6%) knowledge are not the strengths of SMEs. The high-quality labor is one of the principle problems for business (36.4%). Educational system must be brought closer to the requirements of the labor market.
7. The 50.3% of respondents think that political will is missing in SME sphere. This is an important factor for necessary reforms by the Government and for raising Government's reliability.
8. SMEs emphasize the importance of leading technologies to increase their productivity, but about 49.7% mentioned that they didn't have enough resources to get them.
9. For 2009-2014, main SME problems are difficulty of getting financial resources (19.6%), unstable economy (17.9%), high taxes (17%), low solvency of population (16.1%), corruption (15.2%), double-meaning of tax laws (10.7%), frequent changes of laws (9.8%), high and unequal competition (9.8%), lack of high-quality labor-force (9.8%), weak dialogue with the State (8%).
10. During the last 5 years SMEs encountered positive changes in bureaucracy reduction (40.9%), competitive conditions improvement (35%) and decreased taxes (4%).
11. The influence of reforms on business in 2009-2014 rated as follows:
 - no influence - 46.4%
 - negative influence - 31.3%
 - positive influence - 14.3%
12. For 2009-2014, SME have mentioned 2009 (23.2%) and 2014 (19.6%) as successful years for business.
13. SMEs emphasize the role of the Government in the SME promotion and expect the following support:
 - tax decrease - 55.4%
 - credits with low interest rates - 54.5%
 - simplified legislation - 49.1%
 - ensuring equal competition - 37.5%
 - simplified tax reporting system - 35.7%
 - support for innovative technologies - 32.1%
 - reduction of customs duties/tariffs - 29.5%
 - support modernization of organizations - 24.1%
 - export promotion - 22.3%

The 24.1% of respondents consider it necessary to increase penalties for companies that do not pay taxes.

14. From the viewpoint of SME support services, information (access and provision), consulting, staff training and the implementation of ISO standards for export promotion are the most anticipated.
15. In the scope of social partnership, RA government was rated low by 49.1%, Confederation of Trade Unions of Armenia was rated low by 53.6% and RUEA was rated low by 16.1%.
16. SMEs consider, that the dynamics of SME growth in the following spheres:
 - IT - 72.3%
 - Food industry - 32.1%
 - Agriculture - 25.9%
 - Mining - 25.9%
 - Textile industry - 25%
17. They mentioned dynamics of decline in the following spheres:
 - Retail trade - 58%
 - Construction - 42.9%
 - Services - 29.5%
18. The 85.7% of SMEs highlight the importance of SME development for the country economic development. The 51.8% of SMEs believe that business is in satisfactory condition, and 12.5% consider that is in good condition. Only 64.3% have given positive assessment, the 20.5% have rated "bad",
19. The 26.8% mentioned high rates of energy
20. The 25.3% mentioned the problem of currency variation.
21. SMEs mentioned the main causes of shadow economy (in nearly equal distribution): tax burden, low solvency of organizations, bureaucracy, weak business culture, corruption, unequal competition, unawareness of legislation and poor knowledge of accountancy.

4.2. Conclusions According to State bodies and SME support organizations

1. There is lack of information: the respondents are not informed whether the educational system of RA can properly satisfy the requirements of the labor market.
2. The SME state support tools are under the two structures of Ministry of Economy of RA: SME DNC and the National Competitiveness Foundation of Armenia. Unfortunately, "do not approve" and "approve with reservation" responses were given to concrete questions included in the survey, concerning small and middle businesses.
3. Unfortunately there are no specific proposals by the Ministry of Education and Science yet for SME support. Though it has been mentioned in the questionnaires that many steps are implemented to organize trainings concerning entrepreneurship and entrepreneurial activities within the framework of educational programs.
4. The only tool of the Ministry of Labor and Social Affairs, which has been developed and implemented in the framework of Annual Employment Program, is the new program called "Support the unemployed to start a business". The program has been launched in the middle of 2014 and it is hard to assess its effectiveness yet. Program monitoring and rating will be implemented during the end of 2015, after which it will be clear whether continue the same way, or modify the procedures to make it more effective.

5. RECOMMENDATIONS

To minimize the major obstacles of business in macro and micro levels, the following actions need to be taken.

A. Recommendations by State bodies

1. A substantial review of SME policy
2. Ease the access to supporting tools for SME
3. Not clear and not concrete formation of tax laws, equivocal points
4. Activation of dialogue between state and business
5. Stability of the economy
6. Shadow economy elimination
7. Decrease and elimination of bureaucracy and corruption
8. Support the SME modernization (available loans and support tools) getting equipment and technology
9. Export promotion
10. The energy reduction
11. Raise of educational quality
12. Raise of financial access
13. Providing sustained economic situation
14. The improvement of economy weak structure (28% of SMEs mentioned)
15. The stability of domestic currency (AMD of RA)
16. Reduction of tax burden
17. Promotion of tax payers and implementation of effective penalties towards not payers

B. Recommendations by business entities

1. Improvement of business management and management knowledge
2. Training of staff so far as education is failing
3. Resource promotion
4. Enterprise diversification
5. Export potential development, implementation of international quality systems
6. Implementation of trainings in certain areas (legislation, management, marketing, ISO standards)
7. Investment of leading technologies.

