

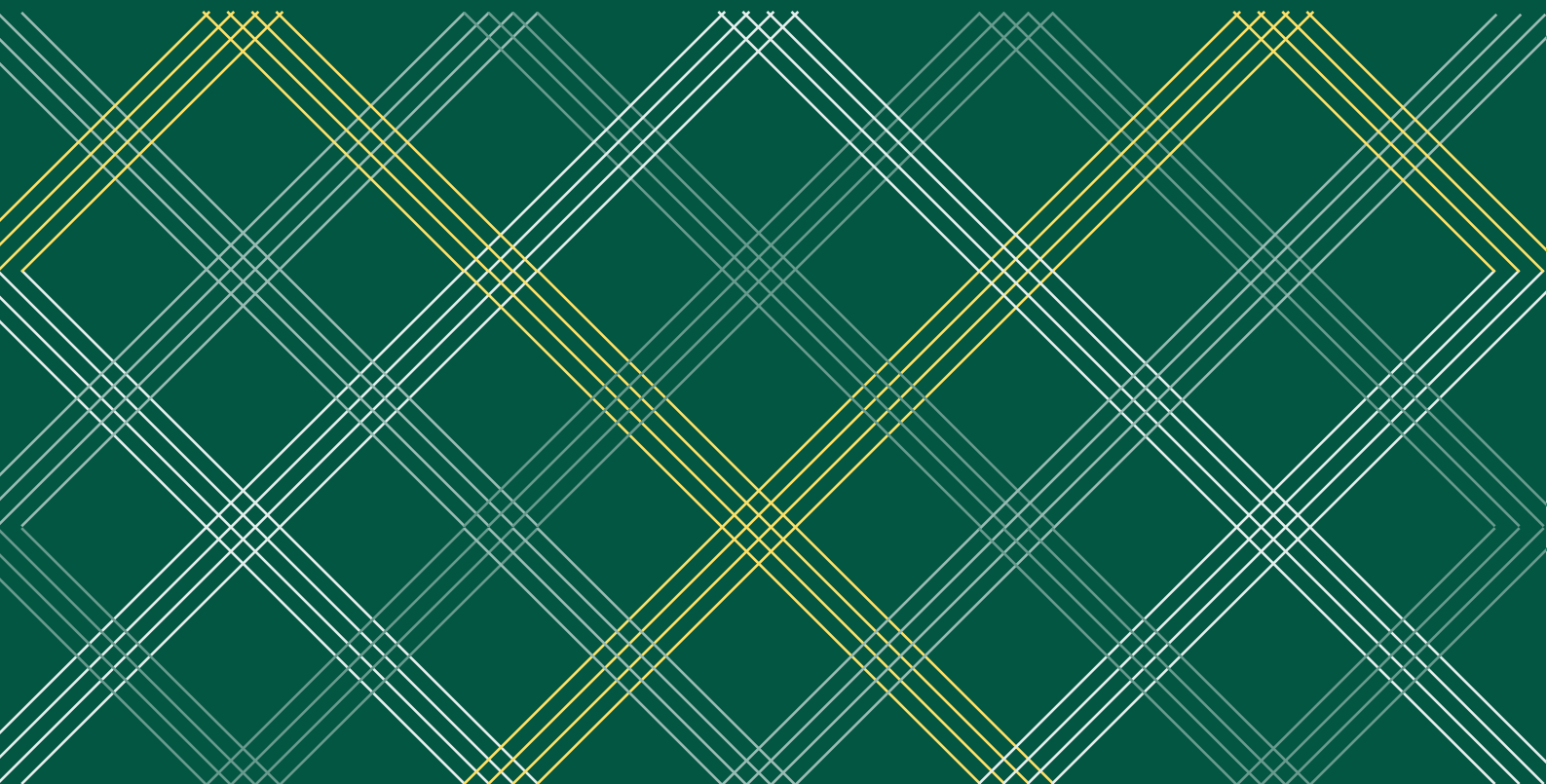


REPUBLICAN
UNION OF
EMPLOYERS
OF ARMENIA

Informality in Armenia

Review of policies, laws and regulations, support programs and initiatives with an impact on the development and formalization of MSMEs and their workers in Armenia

October 2021



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This report is an updated and extended version of a previous report prepared by Aram Orbelyan and Gustavo Rinaldi in 2019. The update has been done by Vahe Grigoryan and Gustavo Rinaldi.

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Acronyms

CDA	Central Depository of Armenia
CEO	Chief Executive Officer
CPI	Corruption Perception Index
ESCS	Education, Science, Culture and Sport
GDP	Gross Domestic Product
HLI	Health and Labour Inspection Body, Health and Labour Inspection
IDP	Internally Displaced People
ILO	International Labour Organization
JSC	Joint stock company
LLC	Limited liability company
LSA	Labour and Social affairs
MSME	Micro, small and medium enterprises
NA	National Assembly
NSC	National Statistical Commission, Armstat
RA	Republic of Armenia
RUEA	Republican Union of Employers of Armenia
SME	Small and medium enterprise
SP	Sole proprietor
SRC	State revenue committee
TIN	Taxpayer identification number
USSR	Soviet Union
CPC	Corruption Commission of Armenia

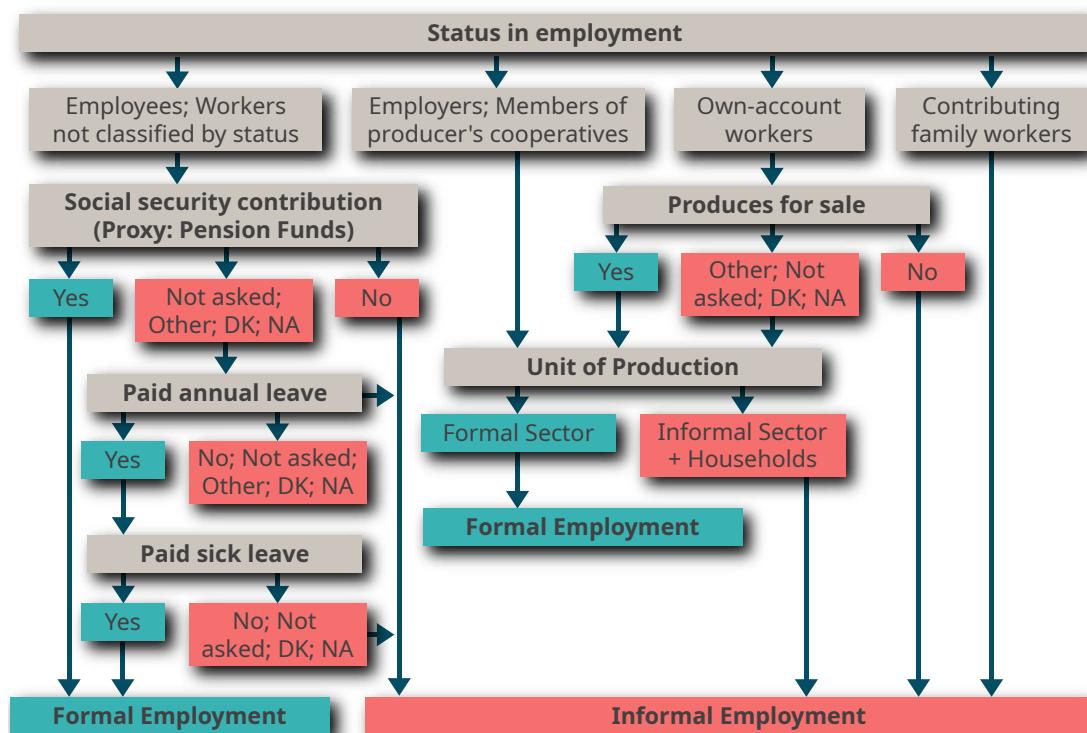
1. Introduction

The term “informal economy”, along with other synonyms such as underground economy, hidden economy, parallel economy, etc. refers to that portion of either employment or the gross national product that escapes statistical measurement and administrative control. The term, however, applies to a series of quite different phenomena that can be dealt with in unitary fashion only within certain limits.

- According to the ILO Recommendation, 2015 (No. 204), informal economy (a) refers to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements; and
- (b) does not cover illicit activities, in particular the provision of services or the production, sale, possession or use of goods forbidden by law, including the illicit production and trafficking of drugs, the illicit manufacturing of and trafficking in firearms, trafficking in persons, and money laundering, as defined in the relevant international treaties.

Formal employment refers to persons who are employed and are not in informal employment according to the ILO criterias.¹

Figure 0. Criteria of status in Employment



¹ <https://ilostat.ilo.org/resources/concepts-and-definitions/description-informality/>

The same applies to the business of informal economies. Any kind of informal activity usually has a relatively low level of productivity and development. Informal activities are also a problem for the state, because they do not pay taxes and social contributions on their activities.

At the same time the informal economy implies certain risks and dangers for consumers for a lack of control over compliance with the required quality and safety rules and other requirements.

In some cases, the informality of an activity's work is due not to the owner, director, manager or employee's unwillingness to act, but to a complexity of legislation, disproportionate or inaccessible administration, as well as a lack of public-private sector dialogue.

This report carried out in collaboration with the International Labour Office and RUEA (Republican Union of Employers of Armenia) aims to identify all the legal issues and motivations that, due to subjective and objective circumstances, leads enterprises and employees to remain in the informal economy.

In 2019, as a result of the cooperation between ILO and RUEA, the Review of the Legal, Regulatory and Institutional Environment affecting Enterprises Formalisation in Armenia was published. This report updates the report of 2019, and pays special attention to the impact of COVID-19 and the armed conflict on the formalization process.

At the same time, an attempt has been made to present such legal solutions and proposals, which can be a significant stimulus for the formalization of business and jobs.

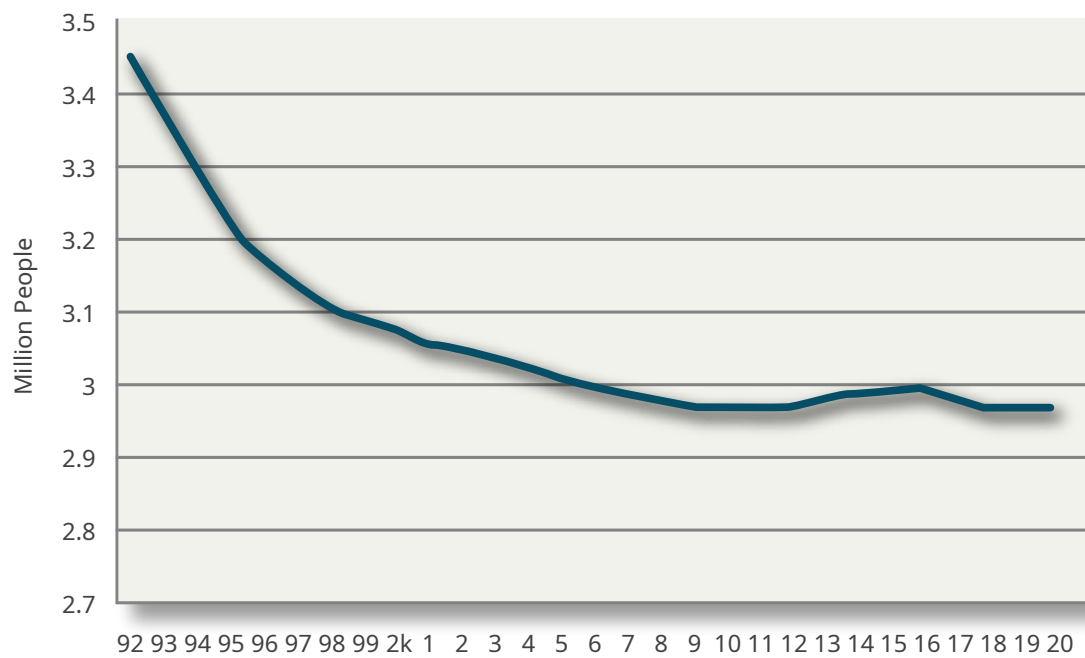
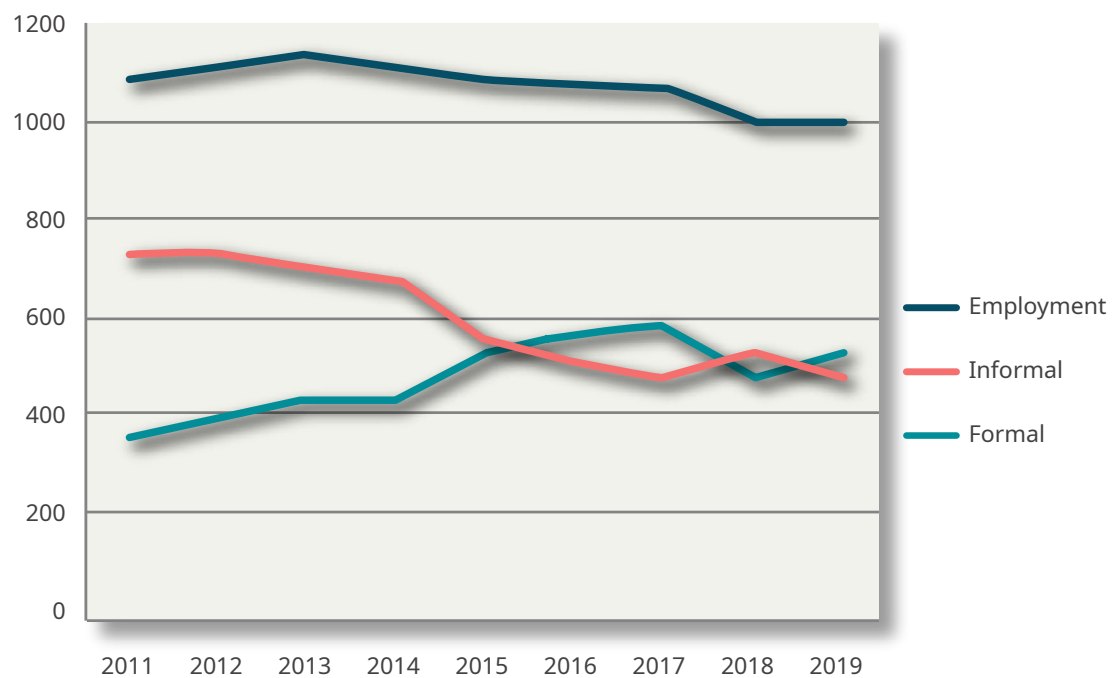
1.1. The Employment situation in Armenia

Armenia in 2020 had an estimated total population of 2,970,000 people. This was the result of a longterm process of population reduction (**Figure 1**) started at least in 1992.

In 2020 the unemployment rate estimated at 24.17%.² In 2019, it was estimated that a total of 1,007,030 persons were employed in the country.³ 524,966 were formally employed and 482,064 were informally employed. This was the result of an eight year decrease of informal employment. Only in 2018 there was a temporary and modest inversion of this trend. Unfortunately, this trend of reduction of informal employment was not sufficiently compensated by a growth of formal employment, which in 2018 even decreased and in 2019 recovered only partially. As a consequence, after 2013 in Armenia total employment has been always decreasing (**Figure 1**). In this negative context the positive element is that the share of total employment, which is formal, has increased from 33% in 2011 to 52% in 2019.

² The IMF World Economic Outlook Database, (2021).

³ <https://ilostat ilo.org/topics/employment/>

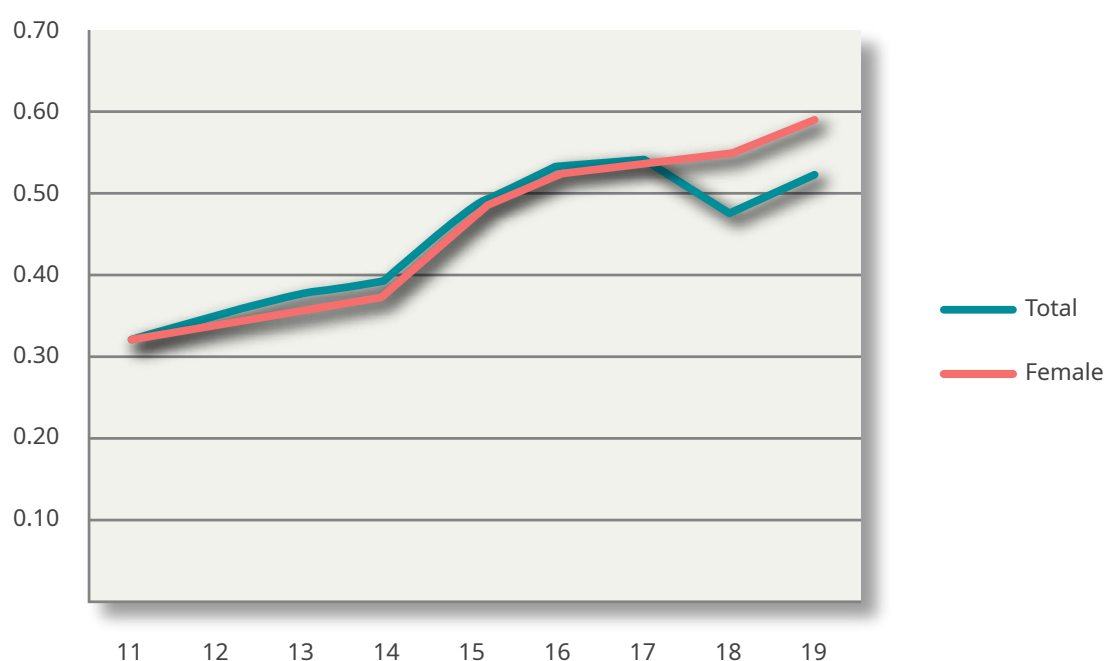
Figure 1. Armenian population**Figure 2. Total Employment in Armenia. Source: ILOSTAT⁴**

⁴ <https://ilostat ilo.org/topics/employment/>

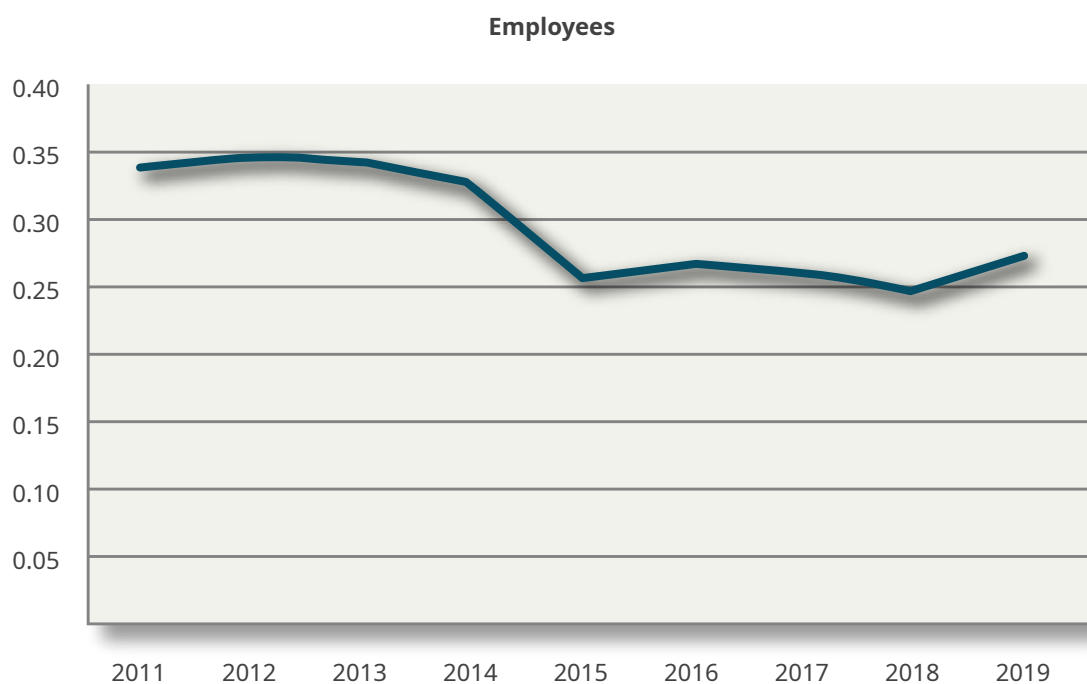
To have a more analytical view of the phenomenon older data may help. "In 2009, it was estimated that a total of 1.2 million persons are employed in the country. This is equivalent to 81.3% employment rate among the economically active population. Of the employed, 96.6% have one job while the remaining 3.4% have multiple jobs. (ADB, 2011:xiii). "Privately owned enterprises generated 70.7% of the total employment in 2009, followed by state-owned enterprises, at 25.7%." (ibid).

"Formal production units supplied majority of the jobs (52.4%), followed by informal enterprises (37.9%) and subsistence household production (9.8%). Of the total employment, about 52.1% can be considered informal. This is equivalent to 621,700 jobs with informal arrangements." (ibid.)

Figure 3. Share of formal employment in total employment in Armenia



We can notice (**Figure 3**) that, in this framework, a higher share of women was in formal work, at least in 2018 and 2019.

Figure 4. Share of employees in total informal employment

We also see (Figure 4) that the total share of employees in informal employment has decreased between 2012 and 2019. This could mean that less informal employment now exists in the formal economy.

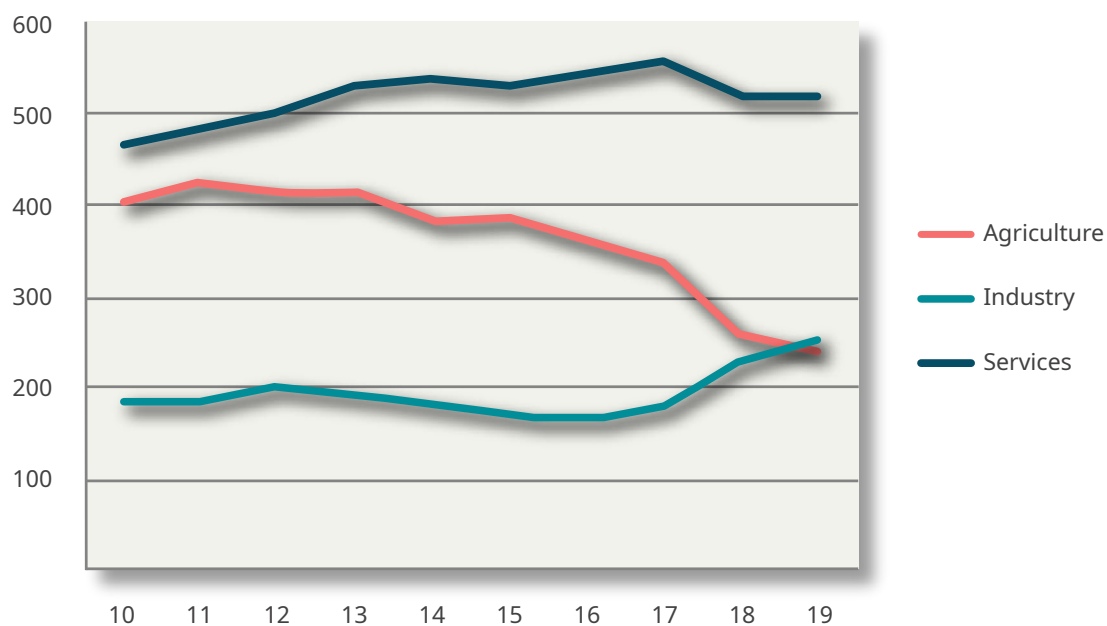
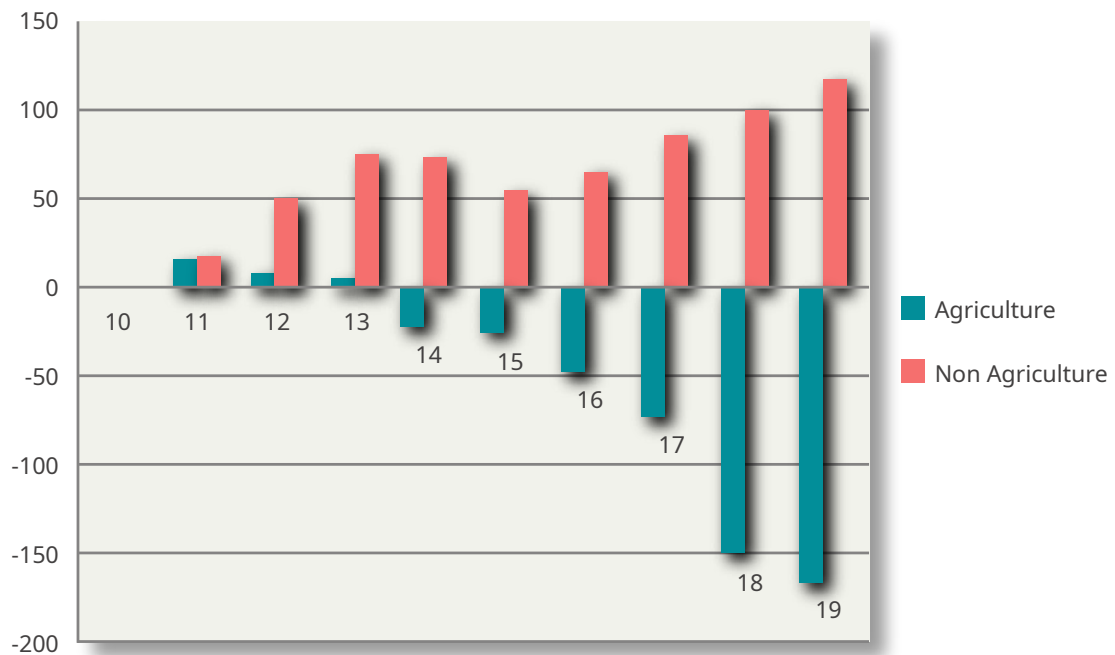
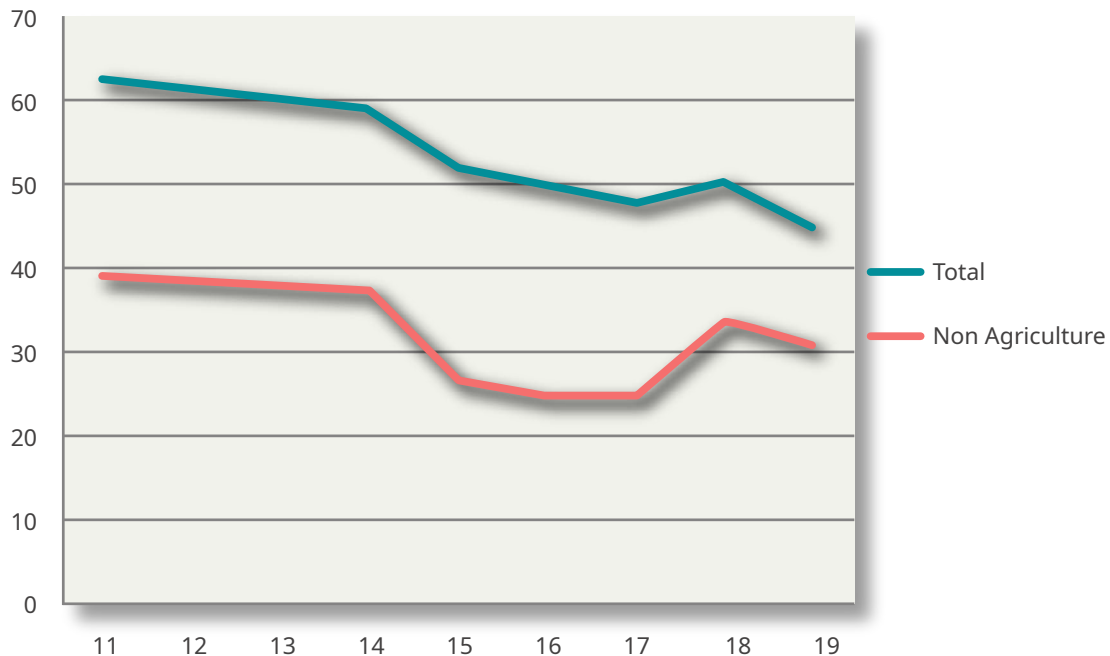
Figure 5. Employment in different sectors

Figure 6. Variation of employment between the year in question and 2010

It is worth noticing (**Figure 5**) that the reduction of Armenian employment is mostly a problem affecting agriculture. This sector between 2011 and 2019 has been characterized by losses of jobs and industry and services only partially have been able to create enough jobs to compensate these losses. **Figure 6** shows for each year the difference between the total employment in one sector and the situation in 2010. We can observe that in 2019 the agriculture had 166,000 workers less than in 2010, having lost 41% of its employees in 2010. The other sectors have created 116,000 new jobs, 50,000 less than those lost in agriculture.

The reduction of agricultural employment per se is normal in the course of development and it is not a problem, if it is compensated by other sectors, it doesn't happen enough in Armenia. The reduction in the agricultural sector, where most of labour is informal, implies a consequential reduction of the informal jobs and the informal economy.

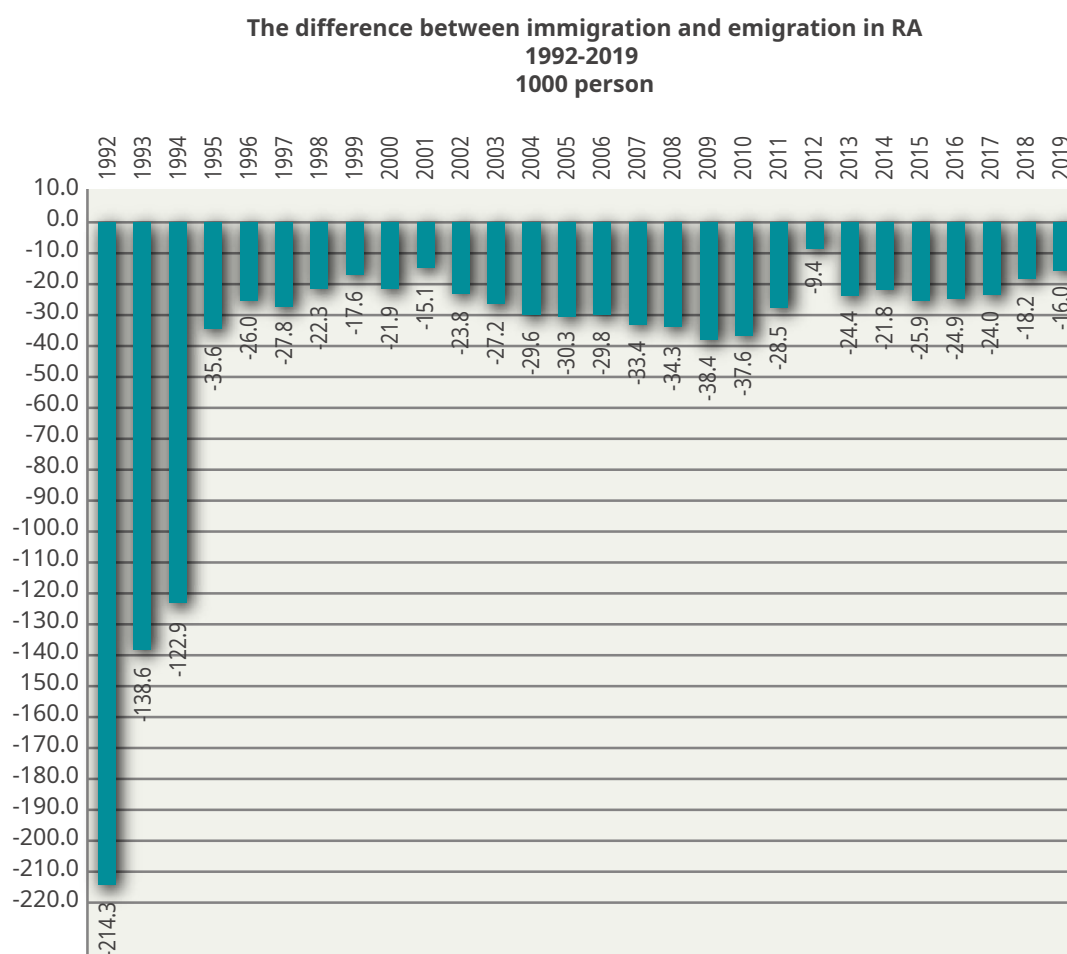
Figure 7. Share of informal employment. Source: ILOSTAT



We can notice that outside agriculture (see **Figure 7**) the share of informal employment has decreased more and that in 2019 was slightly higher than 30% (30.5%). In the same year 96.6% of agricultural employment was in the informal economy. Even so, since 2019 most of informal workers, 256,850 people, work in non-agricultural activities. Only 225,214 people are informally employed in agriculture. Considering the low incomes and low productivity in agriculture, these data strengthen the argument that most of the missing taxes and missing social contributions are not lost in agriculture, but in the industry and service sectors, and the efforts to support transition to formality must be concentrated there.

According to ILOSTAT, in 2019 the share of informal employment was 44.9%; among young workers (with age between 15 and 24) informal employment was more frequent 47.5% than among those more than 24 years old 44.6%, even if the difference was not huge.

Figure 8. Immigration net balance



Data on migration continues to put the issue of formality and informality in its context, because important reasons for emigration from Armenia are poor employment, unemployment and informal jobs. There are too few decent jobs and many Armenians go abroad to look for better employment conditions. **Figure 8** provides a view of net migration balance in Armenia between 1992 and 2019. Most of the net migration from Armenia took place after the collapse of USSR, in the first years of independent Armenia, but the process has never stopped. The net migration balance, the difference between immigration and emigration, even in recent years, has been negative by about 20,000 people per year. Every year Armenia loses about 0.68% of its total population because those who leave are more than those who come to the country. This probably shows a situation of difficulty and dissatisfaction with the employment opportunities in the country.

"Workers with formal arrangements generally earn better than those who depend on informal employment, that's why formalisation is needed not only for the country, but also for employers to defend their rights and freedom."

Table 1. Size distribution of firms and their employees on February 1, 2021⁵

Companies by number of workers	Number of companies	Percentage of the total	Number of workers
TOTAL			
Total	51 469	100	610 427
1-9 workers	42 578	82.7	111 970
10 – 49 workers	7 004	13.6	148 648
50-249 workers	1 621	3.1	152 369
More than 250 workers	266	0.5	197 440
Public sector			
Total	4 098	100	202 660
1-9 workers	724	17.7	4 352
10-49 workers	2 484	60.6	62 871
50 –249 workers	796	19.4	68 815
More than 250 workers	94	2.3	66 622
Private sector			
Total	47 371	100	407 767
1-9 workers	41 854	88.4	107 618
10-49 workers	4 520	9.5	85 777
50-249 workers	825	1.7	83 554
More than 250 workers	172	0.4	130 818

We can see that 82% of total employment was in firms with more than 9 employees, even if 82.7% of firms had less than 10 employees. In the private sector firms with less than 10 employees represent 26% of total private employment even if they represent 88.4 of total private firms. Approximately one third of employment is in the public sector and two thirds are in the private sector.

Armenia has ratified 8 fundamental ILO conventions and 29 technical conventions.

⁵ June 1, 2021 Report of the RA Statistical Committee

1.2. SMEs in Armenia

Union membership is not widespread in Armenia and most employment relationships are based on individual agreements. (ESEE in Armenia, 2016:62) The presence of trade unions could push for the formalization of employment relations. Their limited presence does not help the fight against informal employment even in formal companies.

Informal companies are usually not large. They belong to the environment of micro small and eventually medium-sized enterprises. Also, informal employment and informal companies are more frequent in formal SMEs than in larger and more structured formal firms.

SMEs play a crucial role in poverty reduction and job creation in Armenia.

"In the studied period (2015-2017), the SMEs accounted for 77% of the Active taxpayer, provided an average of 35% of country's GDP and 30.3% of its labor market, whereas the tax revenues coming from small and medium enterprises accounted for 16.7% of total tax revenues." (BSO, 2018:17)

"In 2017, the GDP of Armenia amounted to 5,580.1 bln AMD, while the turnover generated by the SMEs in the same year was 1 920.3 bln AMD (14.2% growth as compared to 2016), or 34.4% of Armenia's GDP. At the same time, micro businesses accounted for 11.1% of the country's GDP (or 619 bln AMD), small businesses – 11.7% (or 655 bln AMD), and medium businesses – 11.6% (or 644 bln AMD)." (BSO, 2018:6)

"Having a big share in the GDP formation, in 2017 SMEs also provided 246,702 jobs (8,391 more jobs than in 2016) which comprises 30.3% of total jobs (deducted jobs in the state institutions) for the given year, where 76,615 micro businesses provide 122,142 jobs (or 15% of total number of employees), 4,570 small businesses create 63,144 work places (or 7.7% of total number of employees), 1,024 medium businesses open up 61 416 work places (or 7.5% of total number of employees)." (BSO, 2018, 6-7)

"Each micro company provides employment for an average of 2 people, having on average turnover of around 8.07 million AMD (10% growth in comparison with 2016 indicator). Meanwhile, each small enterprise provides jobs for an average of 14 people and generates on average 143.3 million AMD. Last, but not the least, each medium enterprise creates on average 60 workplaces and has an average annual turnover of 628.9 million AMD (4.8% growth in comparison with 2016)." (BSO, 2018:7).

Does the Government provide a regulatory framework that encourages firms to expand their operations, if the business case permits? 41.7% answered "No, not at all" (ESEE in Armenia, 2016:14), 28.7% answered "somewhat" and 9.4% express more positive opinions. A relative majority has a negative view. (ESEE in Armenia, 2016:14)

From 2018-2020 a very important change for SMEs was the law on public and private partnership, which is making new regulations and easier ways for private sector to work and create partnership with the government and public sector. As a result, to make a partnership with the government, companies and activities need to be registered and fully formal.

Also, in 2019 new regulations gave a lot of advantages to the SME's, especially to individual entrepreneurs and legal entities; family businesses became exempt from all taxes arising on business (value added tax, profit tax, etc.), as well as obligations typical of a tax agent, such as tax calculation, withholding and payments to the state budget.

For each hired employee involved in a family business, a monthly income tax of 5,000 drams is paid.

The family business is not exempt from the real estate tax, vehicle property tax, value added tax, and customs duties levied on imported goods. A family business entity submits only the following tax reports: the annual turnover report (once a year until February 1 of the following year) and a monthly report on income and income tax paid to employees (up to the 20th day of each reporting month). The subject of a family business may be a sole proprietor whose employees are all members of his family (parent, spouse, children, siblings) or a legal entity whose shareholders / participants and employees are members of one family. The turnover (income) in all areas of activity in the previous year should not exceed 18 million drams. The person should not be considered as a VAT or turnover taxpayer.

The following entities can not be considered as family business:

- Organizations engaged in the purchase and sale of goods and individual entrepreneurs.
- Patent taxpayers in that part of the activity.
- Excise taxpayers.
- Auditing, and payment and settlement organizations.
- Banks, credit organizations, insurance companies, investment companies, specialized participants in the securities market, pawnshops.
- Investment funds, fund managers, foreign exchange buying and selling activities, foreign currency buying and selling activities.
- Casinos or winners of games or lotteries.
- Catering companies.
- Organizations that have committed the third violation of the cash register operation rules during the tax year and individual entrepreneurs from the date of registration of the violation until the end of the tax year including that day.
- Affiliated organizations, sole proprietors, unless their affiliates (or) individuals have filed a tax return with the tax authority after the filing date.
- Affiliated organizations and individual entrepreneurs, if by the decision of a head of the tax authority the total sales turnover of all types of activities of recognized commercial organizations and individual entrepreneurs during the previous tax year or the current tax year exceeds 18 million drams.
- Organizations that are parties to a joint venture contract, as well as a contract for the supply of goods, a commission or a contract for the supply of goods on behalf of an agent, sole proprietors.

The relevant statement must be submitted to a tax authority at the place of registration by February 20 of the current year (and in case of new registration, within 20 days after registration) (there is an announcement form in the tax authorities).

In these cases, the application must be submitted for each year. The application must be accompanied by: the charter of the legal entity and the state registration certificate, and in case of a sole proprietor, the registration certificate. Identity documents of all persons (owners, employees) involved in the family business (passport or residence card or refugee convention travel document) documents proving the fact of being a

family member (birth certificates, marriage certificates, etc.), copies of all the mentioned documents.

This new framework is the result of a new SME development strategy.⁶ In 2018, the RA Government has initiated a new SME development plan for 2019-2021.

The strategy has been developed, which is used as a supporting document; therefore, it was considered to conduct a study in the SME sector fulfilling the needs of SMEs, possible directions of reforms and the results recorded so far. In this regard, the Armenian Business Coalition with EU funding is implemented under the leadership of the Armenian Bar Association Constructed by the Constructive Dialogue Commitment Program. The sub-grant "New effective development of the SME sector in Armenia" was initiated and implemented within the framework of the Strategy with the aim of providing a documentary basis. SMEs develop a new strategy and implement further reforms which will contribute to increasing the stability of the SME sector and create a favourable environment. The survey results were then submitted to the community stakeholders and discussed on December 20, 2018 in Yerevan.

Also on August 27, 2020, the Government of the Republic of Armenia adopted the Small and Medium Enterprise Development Strategy for 2020-2024 and the action plan for 2020-2022 developed by the Ministry of Economy of the Republic of Armenia.

The goal of the strategy is to create a favorable environment for SMEs in the Republic of Armenia through the development of entrepreneurial skills, implementation of ideas, increasing competitiveness, which will enable it to ensure the access of domestic and foreign markets for SMEs.

The target measures of the strategy are aimed at increasing the availability of financial resources for SMEs, capacity building, as well as the creation of the institutional and legal environment necessary for the promotion of entrepreneurial culture.

As a result of the implementation of the measures defined by the strategy, it is planned to promote the growth of SME productivity, increasing it in 2020-2023 by 3%, and in 2024 by 7.5%. In particular, the addedvalue created by one employee in SMEs in 2024 will make 12 million AMD, which is almost twice the same as in 2018 (in 2018 the indicator is 6.7 million AMD).

As a result of the targeted actions set by the strategy, the number of people employed in SMEs will increase by an average of 2.5% per year.

In order to mitigate the effects of the pandemic, more attention has been paid to improving the bankruptcy process, secondhand mechanisms, overcoming additional difficulties with access to finance, and the need for SMEs to be involved in large value chains. As a result of the implemented actions, not only will the productivity of SMEs be significantly improved, the number of employed will increase, but also, due to the transferred skills, entrepreneurship can become an alternative to work abroad, lost jobs, income recovery.

⁶ https://ccd.armla.am/wp-content/uploads/2019/03/%D5%93%D5%84%D5%81_%D4%B9%D5%A1%D5%B8%D6%82%D5%B6-%D5%80%D5%B8%D5%AC_%D4%B1%D5%B4%D6%83%D5%B8%D6%83%D5%B8%D6%82%D5%B4.pdf

1.3. Informality and GDP

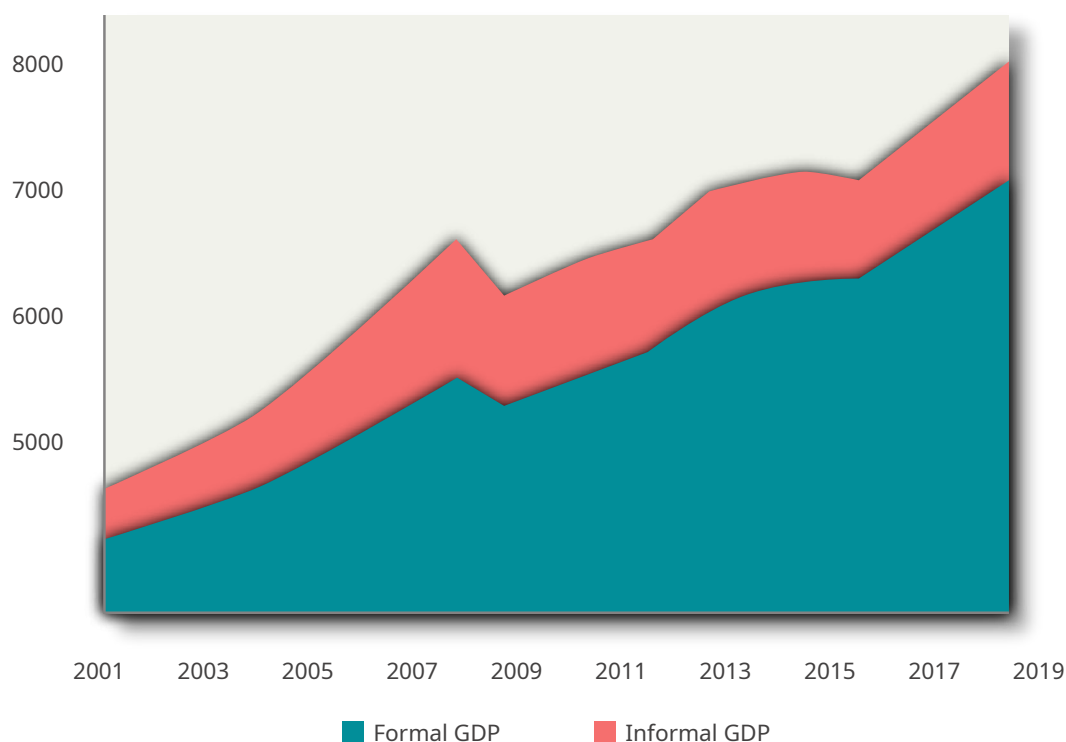
“During the economic crisis in 2009, the share of the informal sector to total gross value added (GVA) reached 11.2%. By industry, contribution of the informal sector to total GVA was highest in the following: agriculture (22.4%), other services (16.6%), construction (15.4%), and wholesale and retail trade (14.8%).

The informal economy was dominated by agriculture (36.2%), construction (26.6%), and trade (18.6%). Meanwhile, in terms of administrative unit, Yerevan has the largest share of all the informal units of the country (38.8%). Ararat hosts (12.1%) of the Armenian informal units, Shirak (9.1%), Armavir (9.1%), Syunik (8.8%), and Kotayk (4.9%).” (ADB,2011:xiv)“Labor productivity in the formal sector exceeds that of the informal sector by 4.8 times.” (ADB,2011:xv)

The informal economy in Armenia and consequently the amount of undisclosed assets continues to be a concern, that is why this requirement is completely eliminated in the field of agriculture –by 13.11.15 with the corresponding amendments made in the legislation, but this is not the main reason for the problems. This chart shows the informal economy and GDP dynamics in absolute terms. It is noteworthy that the absolute volume of the informal economy in the observed period, in contrast to the relative volume, showed a relatively stable behavior.

The decline of the GDP of the informal sector in relation to total GDP in the considered period was not reflected. In this sense, it is noteworthy that although the informal economy ratio in 2018 was only 28% against 58% in 2001, the absolute volume of informal turnover increased by about 2.63 times in the mentioned period, amounting to about 27–28% of the formal GDP. In the long term if the growth rate of the formal sector will be higher than that of the informal sector, the weight of the informal sector will become smaller and smaller. The analysis of the absolute values can lead into confusion because big advanced economies have of course, in absolute terms, a bigger informal sector than Armenia.

Figure 9. GDP of the formal sector and GDP of the informal sector in Armenia



According to some economists⁷ high taxes cause "distortions" in taxpayers' behavior, diverting economic processes from the desired development path. According the well know Laffer curve, when taxes exceed a certain critical threshold, their further increase leads to a decrease in state revenues, as in other equal conditions the tax base is reduced.⁸ In other words, in such cases, the increase in tax rates does not serve its purpose in the sense that it has a negative impact on the revenue side of the state budget. The problems with this theory are multiple.⁹ The first is that the tax rate which leads to a reduction of total revenue is not known, it is not the result of some formula and it is basically in the territory of opinions. The second is that this theory does not explain why some of the most advanced and developed economies in the world have extremely high tax rates. Probably tax payers are not much interested in their tax rates, but are interested in what they receive in public services for the money that they pay in taxes.¹⁰ A possible field of intervention is the preferential tax regimes (PTR) form Micro, small and medium enterprises (MSMEs). With PTRs taxes maybe simplified or reduced for small firms. In this way MSMEs may find being in the formal economy easier.¹¹

7 A. Gerritsen, Optimal taxation when people do not maximize well-being, *Journal of Public Economics*, Vol.144, 2016, p 122-139

8 Kaplow, Tax and Non-tax Distortions, *Journal of Public Economy*, Vol. 68, No. 2, 1998, pp. 303-306: See also Lofer Loss

9 See, for example:
Philip Mirowski, 1982, What's Wrong with the Laffer Curve?, *Journal of Economic Issues*, Vol. 16, No. 3 (Sep., 1982), pp. 815-828

Stiglitz, J. E. (2004). *The roaring nineties: A new history of the world's most prosperous decade*. New York: W.W. Norton.

Saez, Emmanuel, Joel Slemrod, and Seth H. Giertz. 2012. "The Elasticity of Taxable Income with Respect to Marginal Tax Rates: A Critical Review." *Journal of Economic Literature*, 50 (1): 3-50.

10 https://www.ilo.org/global/publications/working-papers/WCMS_803925/lang--en/index.htm

11 On this topic see https://www.ilo.org/global/publications/working-papers/WCMS_803925/lang--en/index.htm

1.4. Policy

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. In 2015, the 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.¹² Despite, this, informality among enterprises and jobs in Armenia is still widely spread, even if decreasing, as shown in **Figure 3**.

Therefore, this paper looks into the current status as well as legal and regulatory requirements to register and formalize a business and its workers in Armenia. Furthermore, the paper identifies support programmes and structures that aim to develop the MSME sector in the country, which is closely linked to the transition to formality of enterprises. Based on this analysis, the paper identifies key priority areas to foster enterprise formalization.

In Armenia there is an ‘operational’ distinction between registered and non-registered entities.

¹² Source: International Labour Office (ILO). 2016. *The enabling environment for sustainable enterprises in Armenia*.

2. Registration of business

2.1. Registration of the company

2.1.1. Background. Regulatory and institutional framework

Businesses entities are most often registered as Limited Liabilities Companies (LLCs) and Joint stock Companies (JSCs). For both forms the registration process is quite similar with minor specific aspects. In particular, the JSCs are required after their registration to make a Register un order to contract with a licensed operator, since the Register of Shares (securities) issued by a joint stock company is kept by the Central Depository of Armenia (CDA), which operates through those licensed operators. In contrast, the register of hares and shareholders of an LLC is kept by the company itself.

Individuals also have an option to register as a sole proprietor and operate without creating a legal entity.

The general regulations on entrepreneurship, rights and obligations of legal entities, their legal personality and responsibility can be found in the **Civil Code of the RA (1998)**.

The specific regimes and regulations applicable to registration and operation of legal entities can be found in laws regulating legal entities activity. The examples are the Law of the RA on Limited Liability Companies (2001) and **the Law of the RA on Joint Stock Companies (2001)**.

The SP registration and activities performed are regulated by **the Law of the RA on Sole Proprietor (SP) (2001)**.

The registration process itself is regulated by **the Law of the RA on State Registration of Legal Entities, Separate Divisions of Legal Entities, Enterprises and Sole Proprietors (2001)**.

The fees for all registrations performed by the State Register on Legal Entities are prescribed in **the Law on State Fee (1997)**.

Registration of relationship with an administrative body falls under **the Law of the RA on the fundamentals of administration and administrative procedure (2004)**. The law regulates the relations between individuals and legal entities from one side and administrative bodies from the other side, which arise in connection with adoption of administrative acts, claims filed against decisions, actions and inaction of administrative bodies, the execution of administrative acts and compensation of damages caused by the administrative proceedings.

The body responsible for registering legal entities and sole proprietors is **the State Register of the Legal Entities of the Ministry of Justice of the Republic of Armenia**. The State Register is in Yerevan as well as other regions of Armenia.

The Ministry of Justice organizes and oversees the activities of the State Register through the Head of the State Register. Among other things the Ministry:

- Adopts regulations concerning the access to the information stored by the Register;
- Adopts the standard forms that can be used for registration of the companies;
- Adopts regulations concerning the creation of archives;
- Adopts regulations on conduct of hearing during the proceedings;
- Adopts regulations concerning the reporting procedure if such requirements are imposed on legal entities;
- Resolves claims brought against the State Register;
- Oversees the registration processes;
- Acts on behalf of the State Register;
- Exercises other functions provided by law.

2.1.2. One Stop Shop registration

The registration of legal entities is performed by **the State Register of the Legal Entities of the Ministry of Justice of the Republic of Armenia** which is located both in Yerevan and other regions of Armenia.

The registration with tax authorities supposes that a unique taxpayer identification number (TIN) is issued to the taxpayer. According to the Tax Code, companies and sole proprietors registered in the State Register of Legal Entities obtain their numbers through the Register. Similarly, the Register, upon the registration of the business, issues a card number of a personal account for social payments.

In practice, this translates into a One Stop Shop, i.e. a complete registration through one centralized register by one visit only. This allows the business to start its operation right after receiving the certificate of registration from the State Register of Legal Entities.

On July 22, 2020, the Ministry of Justice launched the joint Public Services Office in the Centre of Yerevan (in the building of the Ministry), where citizens can immediately get services of the Civil Registry Agency, the State Register of Legal Entities, the State Revenue Committee, National Archives, Social Security Service, Migration Service, Cadastre Committee, Burial Bureau, as well as notary services. In the past the State Register of Legal Entities was located on one of the busiest streets in Yerevan and was the only one in Yerevan, it was constantly overcrowded, so formal business registration was often lasted for decades, if not months, after its actual start. Due to effective legal regulations, the registration and cancellation of firms is easy. To cancel a company, one needs to send only two written/web messages to the state bodies (SRC and the State Register of Legal Entities), but de-registration is still a hard and difficult process.

The e-register system has a special role in the field of formalization of activities, because it allows you to register economic activities only through a website without visiting any office.

2.1.3. Mandatory documents

The documents that shall be submitted to the Register include the following:

- Registration application filled in by a Register employee upon the visit of the applicant;
- Founding decision or minutes of the founding meeting;
- Charter (bylaws) of the legal entity;
- Documents certifying payment of a state fee for registration, where applicable (see **Cost and time** below)
- Personal information about the director (CEO) of the company;
- Declaration about real beneficiaries of the company, where applicable.

If the founder of the company is a foreign legal entity or a citizen of a foreign country, the founding documents of that legal entity or a passport of that individual are required, which shall be legalized (verified by apostille) and translated into Armenian.

As to registration as a Sole Proprietor, the individual will only need to visit the Register and present his passport and the necessary information to a Register employee to fill the application form.

2.1.4. Liquidation and bankruptcy

The process of liquidation of a legal entity and suspension of its activity is equally subjected to a simple procedure, which can be performed with the assistance of a Register employee.

The insolvency procedures are governed by **the Law of the RA on Bankruptcy (2006)** which regulates the grounds of bankruptcy as well as procedural aspects of the process.

The law contains the grounds for voluntary and involuntary insolvency processes. An application can be presented by the creditor in case of an uncontested payment obligation exceeding 1 million AMD delayed by the debtor for more than 60 days after its due date. A company can apply for bankruptcy voluntarily if the liabilities of the company exceed the value of its assets by more than 1 million AMD. The voluntary bankruptcy can also be initiated by a company if the amount of its public legal payment claims (such as tax obligations) exceeds the value of its assets.

Insolvency cases are brought before general jurisdiction courts of Armenia and considered by a bankruptcy judge. The procedural matters not addressed by the Law of the RA on Bankruptcy are governed by the Civil Procedure Code of the RA.

In case of voluntary insolvency, the decision declaring the debtor bankrupt is adopted in 3 days after the application has been accepted by the court, and in case of involuntary insolvency it takes 15 days. Except of liquidation and bankruptcy, the owner/founder and the main director can also just cancel/ suspend the activity of the company by just sending the letter to the SRC, which is free. The letter just needs to be signed and sent to the official e-mail of SRC.

If a financial rehabilitation program is not submitted in the time limits provided by the law or the proposed program is not approved, the realization of the program is prematurely interrupted, or the approval of the report of the bankruptcy administrator on the rehabilitation program is refused, the court decides on the liquidation of the business.

2.1.5. Closing Companies or Deregistration.

The other face of registration is when a company stops its activity, it is deregistration. This creates a situation with many companies, which operate, but are not registered, and many companies, which are registered, but do not operate.

Closing a company is considered complicated, and many people prefer not to do it. "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." (ESEE in Armenia, 2016:64)

"In all the cases when an entrepreneur suspends his/her business activities by means of submitting a relevant application, it continues to be considered registered in the State Registry as an existing taxpayer. This was the reason that the RA Law "On liquidating companies and removing individual entrepreneurs from state registry that fail to submit tax reporting by January 1, 2014" was adopted, as a result of which 54.000 companies will liquidated by January 1, 2019. The importance to distinguish the active taxpayers from the registered ones is emphasized once referring to the numbers at hand. As such, according to the State Registry at the end of 2017 there were about 180,000 registered taxpayer entities, out of which only 106,596 (or 59.2%) comprise the active taxpayers. (..) Such a big discrepancy between active and registered taxpayers lies in the complicated liquidation process which forces businesses to freeze their activities applying suspension rather than closure." (BSO, 2018:4-5).

2.1.6. Availability of standard forms

The Register offers standard forms for all the documents mentioned above and necessary for registration,¹³ including funding decisions, charters and declaration on real beneficiaries. Those forms are offered upon the visit and are also available on the web page of the Register. The standard forms of founding documents can be used for the companies not willing to adopt a sophisticated corporate structure; hence they are usually quite suitable for MSMEs.

The requirement to present the necessary documents is deemed duly fulfilled when the applicant presents to the Register the information, which is sufficient to fill the standard forms for registration. On the other hand, if an applicant decides to use the standard forms, the employees have an obligation to assist the applicant to fill the forms or personally enter the information provided by the applicant in relevant data system used by the Register.

¹³ The standard forms are available only in Armenian.

2.1.7. Cost and time

No state fee is applicable for registration of LLCs and JSCs. The registration is performed during 2 business days after the submission of the full package to the Register. For an extra-budgetary fee of AMD 30.000 the registration process can be accelerated and performed during 1 business day.

The registration as SP is performed for a State fee of AMD 3000. The registration is performed in one business day. The registration of the SP is terminated upon submission of relevant application to the Register.

2.2. Permits and licenses

2.2.1. Background. Regulatory and institutional framework

Certain business activities can be performed only based on a license (permit) issued by the relevant authority. Respective relations are regulated by **the Law of the RA on Licensing (2001)**, which is applicable to relations of the parties as long as the specific field is not regulated by separate laws. Between 2018 and 2020 there were 14 amendments and additions to the RA Law on Licensing, but most of them were not related to the practice of new license activities. Amendments were about technical changes in the Law.

The fees for licenses issued for specific activities are prescribed in **the Law of the RA on State Fee (1997)**.

The complete list of the activities that are subject to licensing can be found in Article 43 of the Law on Licensing of the RA. In some cases, the licensing process may involve a request for expert opinion, competitive selection processes, certain qualification for the persons involved, presentation of reports and other information, etc.

Depending on the activities of the business, the authority responsible for the issue of the licenses may be:

The Central Bank of Armenia;

The Public Services Regulatory Commission of the Republic of Armenia;

The National Commission on Television and Radio of the Republic of Armenia;

The State government body/bodies responsible for the oversight of this specific field;

The body regulating the use of atomic energy.

2.2.2. Cost and time

The licenses prescribe conditions of performance of certain activities and are issued during 23 business days after the full package of application documents is submitted to the respective authority, unless otherwise provided by law.

However, it shall also be noted that, the procedure initiated with the purpose of obtaining a license is considered to be an administrative procedure in the sense of the Law of the RA on the fundamentals of administration and administrative procedure (2004). According to Article 48 (1) of the Law, if the administrative body, which has the authority to adopt certain administrative actions based on lawfully initiated procedures, does not adopt a

decision by the deadline imposed by the law, the decision is deemed to be adopted and the applicant can start operating accordingly. Therefore, whenever the administrative body fails to issue the license during 23 business days or in the term proscribed by other laws, the license is deemed to be issued.

The costs associated with permits largely vary depending on the activity in question and can be found in the Law of the RA on State Fee.

It is important to integrate this information with the observations of representatives of the business community.

"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." (ESEE in Armenia, 2016: 64).

"Concerning the regulatory framework, focus groups participants believe that it is not primarily legislation itself that is problematic but rather its implementation. Frequently changing regulations result in distrust by companies and are perceived as a lack of stability. Furthermore, the time to adapt to new regulations is said to be insufficient. All stakeholders share the same concern that they are not included in the process of creation and drafting the legislation." (ESEE in Armenia, 2016: 35)

"Nearly half of the interviewed enterprises (41%) agrees with the statement: "The overall amount of time the company management spends on dealing with the requirements of government regulation is a major issue for firms." Only a small number of respondents (20%) disagrees 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)." (ESEE in Armenia, 2016: 36)

The case of lawyers working informally

To work as a lawyer on legal cases one should have an advocacy license. The body, which has the right to give an advocacy licence is the Chamber of Advocates. Now there is a new law¹⁴ which does not allow lawyers who do not have a lawyer's license to appear in court as a party representative. According to Article 52 of the current Code, representation in court is exercised by lawyers, including foreign lawyers accredited in accordance with the law.¹⁵ Deprived of the right to appear in court since April 9, 2018, many lawyers switched from formal to informal activities, replacing judicial representation with personal counseling and filing lawsuits and applications. Prior to the entry into force of the above-mentioned regulation, the State taxed the provision and implementation of legal services by non-licensed lawyers, while as a result of the regulation, informal activities within the legal community increased significantly. For example, the focus group participant Kakach Sultanyan¹⁶ said that before this settlement her law firm consisted of 6 non-licensed lawyers. Later on, being deprived of the right of judicial representation and consequently losing a significant number of clients and income, her law firm ceased to operate in a formal sense and now provides its services at a lower cost, but without any registration and with five informal employees.

In connection with this, a bill¹⁷ was introduced in the National Assembly by the Deputy Gevorg Petrosyan. According to that bill, a capable citizen with higher legal education, who has at least five years of professional experience as a lawyer, could represent clients in court. This text, if adopted, would allow the legal community engaged in informal activities to be almost completely formalized, but the draft was not adopted and the issue remained unresolved, leading to the maintenance of informal activities.

Kakach Sultanyan stated that the reason for her law firm informal activity is injustice. She is a lawyer with many years of professional experience and this new law deprived her of the right to work as a representative. A person, who graduated recently and has an advocacy license can act as a representative.

This new Armenian law is similar to those required in other countries, e.g. Italy, Germany or UK. If a license is based on real legal competence, its presence is a guaranty for clients and improves the quality of the legal system. Problems may come, if licenses are not awarded on the basis of real legal knowledge and ability. In any case the transitional period presents problems, before lawyers with many years of experience will be able to obtain a license and this may foster the creation of an informal legal sector.

14 Article 52 of the RA Civil Procedure Code adopted on February 9, 2018 and entered into force on April 9, 2018

15 Article 52 of the RA Civil Procedure Code adopted on February 9, 2018; entered into force on April 9, 2018
The following persons may represent others in court:

1) Persons directly envisaged by this Code; 2) Persons authorized by the persons envisaged by parts 2-5 of Article 49 of this Code, who are in employment relations with the represented legal entity, state or local self-government body, administrative district; 3) persons who: a. represent free of charge their parent, child, grandfather, grandmother, grandson, uncle, aunt, uncle, aunt, relative or non-relative (father or mother) brother or sister, the latter spouse or child, as well as his or her spouse or parent, child; the interests of a relative or non-relative (father or sister) brother or sister b. The interests of the legal entity, whose twenty or more percent of the authorized capital shares or stocks belong to them or to the persons mentioned in sub-clause of this clause, are represented for a fee or free of charge. 3. The same person can be a representative of two or more persons participating in the case at the same time during the hearing of the case, if there is no conflict between their interests.

16 The name was changed based on the RA Law on Personal Data Protection

17 The draft P-366-14.11.2019-PI-0110

3. Tax and social payment obligations of businesses

3.1. Background. Regulatory and institutional framework

The relations arising in connection with payment of taxes and performance of other compulsory payments are regulated by the Tax Code of the RA (2016), which fully entered into force on 1 January 2018 and replaced several laws and regulations.

The authority responsible for the field is the Tax Service of the State Revenue Committee of the Republic of Armenia.

3.2. Obligation to act as a tax agent and tax payments

According to the RA tax legislation, businesses act as tax agents for their employees. This implies that when paying revenues to their employees, the businesses have to calculate the taxes and other obligatory payments, withhold those payments and pay them to the state budget on behalf of employees.

The payments that are normally calculated, withheld and paid by employers are:

- Income tax on revenues of employees;
- Funded pension payments;
- Payments to the Insurance Fund for Servicemen.

According to the tax legislation, the income tax of individuals is calculated and paid monthly by tax agents at current rates which are as follows: (as of 2018-2019)

- For the monthly taxable revenue up to AMD 150,000 – 23% (2018-2019)
- For the monthly taxable revenue between AMD 150,000 and AMD 2 million – 28%;
- For the monthly taxable revenue above AMD 2 million – 36%.

After recruiting a new employee but not later than one day before the commencement of work, tax agents have to submit to tax authorities an application for registration of a new employee, which includes personal information of the employee.

Each month, by the 20th day of the next month, tax agents must electronically submit to the tax office a respective statement on income tax return and pay the calculated income tax to the state budget.

The same requirements are set for mandatory social payments.

A funded pension system has been launched in Armenia since 2014. Due to some concerns raised by the population, the compulsory component of the system has been postponed until 2018 to allow gradual integration of the reform into Armenian legal and economic system. The general idea is that, for participants of this system a contribution

from the salary is to be paid monthly to a selected pension fund, which is matched by a monthly contribution from the government. The contributions are calculated and made as follows:

- 5% on monthly salary up to AMD 500,000;
- The difference between 10% of monthly salary above AMD 500,000 and AMD 25,000.¹⁸

Recently, the Insurance Fund for Servicemen is created in Armenia to insure the social wellbeing of soldiers injured while on active duty as well as that of families of soldiers who died while performing their duties. Every employed person in Armenia is to pay 1000 drams from their monthly salary to the Fund. Accordingly, this payment is also withheld and paid by the employer. No further social contributions are withheld or directly paid by the employees themselves.

“Social protection in Armenia is only likely if a wage worker is employed under formal arrangements; benefits received by informal wage workers are zero. About eight in 10 formal wage workers have pension funds paid by their employers. Three in five formal wage workers receive sick leave, paid leave, and maternity/ paternity leave.” (ADB,2011:xiv)

“The expenditure on old age pensions, 1.68% of the GDP, seems to be rather low comparing to other countries (Croatia 6.38%, Macedonia 4.08%) and the coverage (80% in 2011) could be improved. However, the latest available data on both indicators is as of 2013 and 2011 respectively. Still further improvements can and should be made to ensure adequate social protection.” (EESA in Armenia, 2016:76)

In 2019 Armenian parliament changed the Law of Pensions and due to the changes of a the 1st of January pensions have the following rates.

- The minimum pension is 26,500 drams (instead of 25,500 drams).
- The amount of the basic pension for calculating the amount of military pension is 18,000 drams (instead of 16,000 drams);
- The cost of one year of work experience for the first ten years is 950 drams (instead of 800 drams),
- The cost of one year of military service is 1,600 drams (1,500 drams).
- The amount of the military disability pension of a serviceman of the compulsory military service:
 - 40,000 AMD for the first group disabled person (instead of 36,000 AMD)
 - 30,000 AMD for the disabled of the second group (instead of 26,000 AMD)
 - for the third group disabled it is 27,000 AMD (instead of 25,500 AMD)
- The amount of the military pension in case of loss of the breadwinner family member during the compulsory military service is – 27,000 AMD (instead of 25,500 AMD)
- In case of a child under 18 years of age who has lost both parents (or a child studying with existing day care) – 90,000 AMD (instead of 80,000 AMD).

¹⁸ Until 2020, the contributions are calculated for maximum AMD 500.000 from the overall monthly income of the employee and hence at the rate of 5%. Accordingly, the maximum monthly contribution made by the employer for one employee is currently AMD 25.000.

- The amount of benefits in case of old age, disability and loss of a breadwinner will increase to 26,500 drams (instead of 25,500 drams), and in case of a loss of both parents, for a child under 18 years old or a child with day care it is 90,000 drams (instead of 80,000 drams).

In 2019, the National Assembly adopted a new law,¹⁹ which introduced a flat tax system instead of the previous progressive taxation. The regulation came into force on January 1, 2020. Now, due to the flat tax system, the income tax rate is 22% and every year it will become 1% lower. According to the new regulations income tax current rates will be as follows: 22% – 2020, 21% – 2021, 20.5% – 2022, 20% – 2023.

This reform is aimed at avoiding tax evasion and supporting the formalization of employees.

3.3. Registration/declaration of the employees

With exception to the declaration of a new employee made to tax authorities and described above, there is no further obligation of declaration/registration of employees including with the authorities responsible for the labour and social affairs.

3.4. Taxation of the business

The taxation of the business activity is regulated by the Tax Code of the RA. The Code provides for two systems of taxation in this regard.

In the scope of the **taxation general system**, organizations, SPs and notaries have to pay the **profit tax and/or VAT**. The rate of the profit tax is 20% of taxable revenues and the VAT is paid for taxable transactions completed by the business at the rate of 20%.

As to the **special system of taxation**, three regimes available to the businesses are the following:

- **Turnover tax**, which replaces the profit tax and VAT, with the exception of revenues taxable by the patent tax;
- **Patent tax**, which replaces the profit tax and VAT, with respect to activities that are subjected to patent tax payment;
- **Family business system** treatment, which results in exemption from the profit tax and VAT, with exception to revenues taxable by the patent tax.

The tax legislation also contains incentives that might benefit SMEs. For instance, the profit tax, income tax and VAT exemption is provided by the law from the activities performed in the frontier regions. The policy objectives of this regulation are the development of frontier regions and the sustainable and proportionate economic growth.

Other group that benefits from tax exemption are self-employed individuals performing one of the activities provided by the law and whose annual turnover does not exceed AMD 9 million. Those individuals may apply and be exempt from all taxes with the exception of taxes and duties payable for import of goods.

¹⁹ Law on Making Amendments and Addenda to the Tax Code

3.4.1. Turnover tax

The turnover tax regime is a simplified tax regime available to relatively small businesses, which is optional for all businesses who are eligible according to the Tax Code of the RA.

The businesses are normally eligible for the turnover tax regime, if their annual turnover for all the activities performed during the preceding tax year does not exceed AMD 58.35 million. The generally applicable rate for those businesses will be 5%, which is calculated on the overall turnover received as a result of goods distribution, work performance and/or provision of services during a respective tax year.

As soon as the company turnover exceeds AMD 58.35 million for the tax year, the business falls from the specific regime into the general regime and the revenues generated from that point on and until the end of that tax year are taxable at the rates of the general taxation regime.

Companies usually choose the turnover tax regime upon their registration or at the beginning of the tax year. However, certain business cannot be turnover taxpayers, including the following:

- Taxpayers who are falling under the excise tax regime, which covers sale of specific goods, for instance, gasoline, alcoholic beverages, etc.;
- Taxpayers who are falling under the patent tax regime, with regards to respective activities;
- Banks, insurance companies and other financial institutions;
- etc.

The Tax Code takes into consideration affiliation of businesses, to avoid the situations where the activity of the same stakeholders is divided and performed by several legal entities to reduce the turnover received by one business. To prevent such abuse of the regime, the overall turnover limit of AMD 58.35 million is calculated for all affiliated entities, who are considered to be one business. Therefore, if the turnover for the group of affiliated companies exceeds the AMD 58.35 million annual limit, every company in that group is prohibited from choosing the turnover tax regime for the upcoming tax year. Likewise, if the companies were initially allowed to use the turnover tax regime, after the turnover of the group exceeds AMD 58.35 million for respective tax year, every company in that group will fall out into the general tax system.

Also, it is necessary to mention the turnover tax is payable by commercial organisations and individuals (individual entrepreneurs). The turnover tax replaces the VAT and (or) CIT obligations for SMEs, with the exception of individual entrepreneurs and notaries for whom it replaces only the VAT. There are certain revenue thresholds that taxpayers should not exceed to be considered as turnover taxpayers (see the description of the Value Added Tax above). Businesses producing/importing excisable goods are required to account for VAT on their sales. Certain ownership and internal thresholds are also applicable for entities to be considered as turnover taxpayers. The taxpayer should file an application to the tax authorities before 20 February of the calendar year to become a turnover taxpayer. Note that there are also some other requirements that the taxpayer should meet to become a turnover taxpayer. Subdivisions of foreign companies in Armenia (i.e. PEs) cannot become turnover taxpayers.

The turnover tax is imposed on the reporting period income (revenue) as follows:

Type of income	Tax rate (%)
Trading activities*	5.0
Production activities	3.5
Newspaper sales by publishing companies	1.5
Rental income, interest, royalties, and assets' disposal (including estate property)	10.0
Income on notary activities	10.0
Organizing lottery activities	25.0
Income on public food organization	6.0
Other revenues from the activities not included in the public food organization section of the economic activity classifier of the turnover taxpayers operating in the public catering sector	20.0
Income on other type of activities	5.0

*The tax rate on the sale of secondary raw materials is 1.5%. Turnover taxpayers engaged in trade activities may deduct 4% of cost of the goods for sale (including imported goods) purchased during the reporting period from the turnover tax payable for that period, provided such purchases are properly documented. However, the final tax payable for the trading activities, after the deductions, should not be less than 1.5% of the taxable turnover for the reporting period. The purchases not deducted in the reporting period because of the limitations above may be deducted in the future periods.

Starting from 1 January 2020, excise taxpayers may also be considered turnover taxpayers.

Taxpayers who are engaged in public catering activities may be considered taxpayers on their request, regardless of whether they qualify for a turnover taxpayer.

Turnover taxpayers are required to submit tax calculation on a quarterly basis and make tax payment within 20 days following the end of the reporting period.

3.4.2. Patent tax

Patent tax is a payment that is made to the state budget and replaces the profit tax and/or the VAT. In contrast with the turnover tax regime, it is not based on the "opt in" system. Rather, the revenues that are generated from the activities specifically designated by the Tax Code are to be taxable by the patent tax.

At least one day before the start of their activities or one day before the expiry of the latest certificate issued by the tax office, the business shall submit a declaration to the tax authorities. Based on that declaration the tax authorities electronically issue a certificate to the applicant with regards to activities and reporting period indicated in the declaration.

Usually the following activities are taxable by the patent tax:

- Transportation of passengers by a light vehicle,
- Transportation of passengers by a bus or minibus,
- Services of hairdresser,
- Technical services of vehicle maintenance,
- Parking services,
- Organization of billiard gaming,
- Organization of ping pong gaming,
- Organization of food sell and purchase, as well as games (with exception to gambling) via vending and other machines,
- Medical dental services,
- Technical dental services,
- Organization of totalizators,
- Organization of internet totalizators,
- Sell and purchase of precious stones and/or metals and/or objects made from precious metals through sell points (tables) in respective markets (in gold markets).

Each category of activity is defined by the Tax Code, which also clearly indicates exceptions for the patent tax regime for specific activities. The exceptions are the following:

- Transportation services provided by buses or minibuses that commence on the territory of Armenia but end outside of it or commence outside of the territory of Armenia and end outside of its borders,
- Parking services that register the entry and exit of vehicles,
- etc.

For the activities that fall under the patent tax listed above, the amount of tax is calculated based on the units defined by the Tax Code. Accordingly:

- Transportation services are taxed based on the number of vehicles,
- Hairdressing services and vehicle maintenance services are taxed based on the number of employees,
- Parking services are taxed based on the surface of the parking lot,
- Organization of billiard and ping pong gaming is taxed based on the number of tables,
- etc.

Based on those criteria, a fixed amount of taxation is introduced for each taxable unit depending on where those activities are located. Five territorial categories are in the Tax Code:

- Yerevan,
- Central cities of regions,
- Other cities,
- Bordering villages,
- Other places.

Each of the territories is assigned with a different amount of tax per unit with the most preferential rate provided for activities performed in bordering villages. For each reporting period the tax is calculated and paid the day before the start of the activity indicated in the declaration filed to tax authorities. If a taxpayer ceases or suspends its activities, the paid taxes are not returned.

3.4.3. Regime for family business

The family business is defined as a business activity jointly performed by several members of a family. The members of family are parents, spouses, children and siblings.

The family business system is equally based on an “opt in” regime. The family business can qualify for the family business system if the overall turnover of the business has not exceeded AMD 18 million for the previous tax year.

The SP can also be qualified as a family business if they are operating only with assistance of their family members who may also be their employees.

A legal entity may be qualified as a family business if the authorized capital of that company is held exclusively by one or more members of the company and the company operates only by those shareholders or by assistance of their family members who may also be recruited as employees of the company.

Several business activities are excluded from the family business taxation system, including the following:

- The SPs and legal entities who are operating in the field of sale and purchase;
- Taxpayers who are falling under the excise tax regime;
- Taxpayers who are falling under the patent tax regime, with regards to respective activities;
- Banks, insurance companies and other financial institutions;
- etc.

The family business regime extends to all the activities of the business with exception to those activities that fall under the patent tax.

Family businesses have to calculate and submit to tax authorities their annual turnover, however they are fully exempt from any obligation of calculation and payment of taxes to the state budget, including as a tax agent (with some minor exception relating to import of products, calculation and payment of 5,000 AMD as a tax agent of employees, calculation and payment of environmental and road taxes).

Family businesses, depending on their performance, can fall out of this regime and opt in the turnover tax regime or if they do not qualify for it, fall under the general system of taxation by the profit tax and VAT.

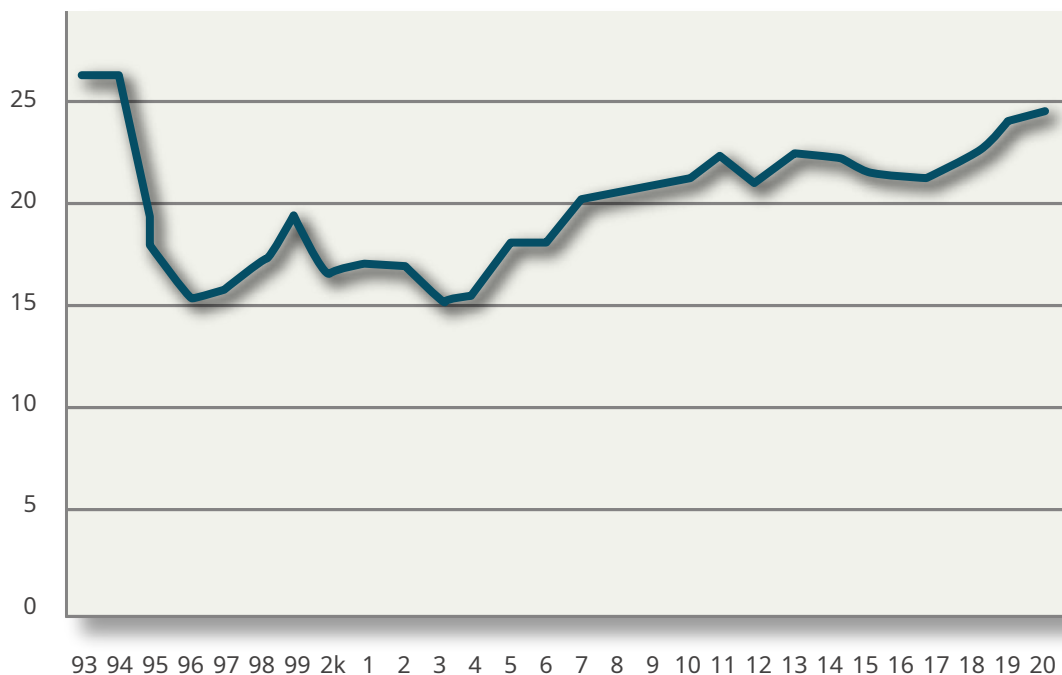
In 2019 the tax regulations for family businesses were changed; instead of them now Armenia has micro businesses, which have 24 million AMD turnover and may pay only 5,000 AMD taxes for each worker. A high threshold of annual turnover aims at facilitating the activity of many business owners.

3.4.4. In practice, how much tax do SMEs pay?

"In line with the new regulations on the IT startups, family and bordering businesses in 2017, 2536 entities falling in one of those categories received tax exemption and have been working under the privileged status (4.8% of all SMEs). At the same time, (...) turnover tax payers totaling 54,331 entities comprise 66% of the operating SMEs." (BSO, 2018:14)

"The taxes paid by the SMEs have reduced in 2017 by 2.3% (or by 4.9 bln AMD) in comparison with 2016 and amounted to 209.3 bln. AMD, while the number of SMEs has steadily been growing since 2014 by 3% on average. It's worth to mention that in 2017 the number of operating SMEs has increased by 5046 or 6.5%. The latter inconsistency can be explained by the increase of the number of SMEs that enjoy full tax exemption or other tax privileges leading to lower overall tax payments coming from the SMEs. Further closer look at the composition of the SMEs in tax revenues (...) show that tax payments by SMEs in the total tax revenues have decreased, occupying now the share of 16.7% as opposed to 19.8% in the year of 2016. The tax payments decrease is mainly fuelled by lower portion contributions from small and medium businesses." (BSO, 2018:15) "The current contribution reinstates the importance of the SME development and its definition as backbone of the Armenian economy. In the studied period [2014-2017], the SMEs accounted for 77% of the Active taxpayer, provided an average of 35% of country's GDP and 30.3% of its labour market, whereas the tax revenues coming from small and medium enterprises accounted for 16.7% of total tax revenues." (BSO, 2018:17). In 2020, according to the IMF (2021) data, the Government Revenue is estimated at 24.2% of the GDP. This level is still low but there is a positive trend of continuous growth of this percentage, which started in 2003,.

Figure 10. Budget revenue as a share of GDP. Source: IMF WEO Database.



In 2020 the public budget of Armenia presented a deficit of almost 7%, but the year 2020 was a special one, with the Covid-19 pandemic and the war. The situation in 2019 was much better with a budget deficit of just 1% of GDP, however between 2016 and 2020 the

average deficit has been equal to 3.6% of GDP. This suggests that the 2019 result, even if encouraging was not yet a stable one.

Tunyan (2005) estimated that in 2003 between 82 and 105 billion drams of tax revenues were lost because of the shadow economy. According to this author, "the major reason for existence of the shadow sector in the economy in Armenia is the relatively easy and not risky possibility of tax avoidance". (Tunyan, 2005:21).

According to the IFC *"about 16 percent of companies' turnover and about 15 percent of individual entrepreneurs' turnover is hidden for taxation purposes. These indicators may be used as benchmarks for understanding the possible scope of tax evasion in the country, with some cautions. On average, companies pay 16 percent of all salary payments unofficially. Individual entrepreneurs hide less - about 12 percent of total salary payments. Comparing underreporting between companies with different turnover shows that the more money a company makes, the less it is inclined to hide turnover for taxation purposes. There is an opposite trend among individual entrepreneurs - the more an individual entrepreneur makes, the more incomes he or she hides for taxation. Most taxpayers indicated that the fallibility²⁰ of tax legislation and the possibility of collusion from tax officials are the main circumstances that allow for tax evasion.*

There is also a difference in underreporting incomes in the different regions and sectors. Companies underreport more in the north region and least in the south region and Yerevan¹²⁸, while businesses involved in production evade more than businesses from other sectors of the economy." (IFC, 2011: 116).

There is an issue of tax evasion, which requires further research.

Regarding taxation the view of bussiness onwers is the following:

"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 the huge tax compliance cost triggered by the lack of proper regulation." (ESEE in Armenia, 2016:37) Process to be simplified (ESEE in Armenia, 2016:37)

Employers ask: *"Tax legislation must be business friendly and must not represent the obstacle for business development.*

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 business, 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." (RUEA, 2017:10)

²⁰ The term is in the quoted document and means the tendency to make mistakes or to be wrong

4. Accounting and reporting obligations

All legal entities registered in Armenia as well as representative offices and branches of foreign legal entities operating in Armenia have to comply with accounting obligations prescribed under the Law on Accounting of the RA (2002) and with international accounting standards adopted in the territory of Armenia. Companies with the overall annual revenue exceeding AMD 500 million have to switch to an electronic accounting system.

Tax calculations (reports) are presented to a tax authority by taxpayers or their agent (in case of employees) via online platform accessible by individual TINs. Standard forms of calculation sheets and the rules of their completion are adopted by the tax authorities.

The reporting itself can be done by an accountant as well as by the business owner. Tax agencies provide any information and assistance necessary to fill in and submit tax calculations.

The reporting is relatively simple for small businesses who fall under simplified regime of taxation. For instance, in case of the turnover tax regime, the system allows you to enter the overall turnover amount and calculate applicable taxes. Calculations are also relatively simple for revenue taxes calculated by the employer acting as a tax agent of employees.

As for medium or even some small businesses, who fall under the general taxation regime of the profit tax and VAT payments, those will usually be able to afford standard accounting and reporting services by way of outsourcing and in some cases keeping a part-time or even a full-time accountant for more complicated and individualized transactions.

5. Procurement

5.1. Public Procurement

Government procurements are regulated by the Law of the RA on Procurements (2016). One of the principles adopted by the law is the extension of the scope of participants and encouragement of competition among them.

There is nothing in the law to hinder the participation of MSMEs to the public procurement procedures per se. However, the law provides that invitations include qualifying standards, which might include requirements concerning:

1. Sector of professional activity;
2. Professional experience;
3. Technical capacity;
4. Financial capacity;
5. Human resources.

Nonetheless, the possible limits of such requirements are set forth in Government Decree N 526-N (4 May 2017). Moreover, the law itself provides an additional guarantee by affirming that no standard can be included in the invitation, which:

1. Is not listed above;
2. Is discriminatory and limits the competition by unreasonably complicating or simplifying the competition in the procurement process;
3. Is not proportionate, that is to say does not directly derive from the necessity to perform the contractual obligations.

Hence, the MSMEs are usually able to participate in government procurements, unless there is a reasonable justification to set forth higher standards for a certain order, which leads to participation of bigger enterprises.

There are some limitations in terms of participants, for instance, companies with overdue tax obligations higher than the smaller of AMD 50,000 and 1% of price the offer made by the enterprise cannot normally participate to the process. However, those limitations do not target MSMEs and are seeking to eliminate the companies with negative track record for illegal activities.

5.2. SMEs as suppliers of large companies.

Armenia currently does not have any legislation directly aimed at encouraging bigger enterprises or the State itself to subcontract the SMEs. However, there are private commercial chambers where the members are encouraged to subcontract other members of the chamber. Such chambers include the American Chamber of Commerce in Armenia (AmCham), the Chamber of Commerce and Industry France Armenia (CCI FA), the Armenian British Business Chamber (ABBC), etc. The membership in those organizations is usually accessible to most SMEs with annual membership fee starting around AMD 150,000 annually.

6. Inspections

The inspections are regulated by the **Law of the RA on Organization and Implementation of Inspections (2000)**. Armenia has adopted a risk-based inspection system, which implies adoption of inspection plans by the competent bodies. The risk is the possibility of damage caused by the operations of the enterprise to human life and health, environment, property interests of individuals, legal entities and State, natural and energy resources.

According to the risk that represents the sphere of operation of the enterprise as well as the risk attributable to individual characteristics of a certain enterprise, the latter are put into three categories:

1. High risk;
2. Moderate risk;
3. Low risk.

The high risk group cannot contain more than 20% of the overall enterprises that are subject to inspection by a public authority.

The annual inspection plan for each year is adopted by the competent authority on 1 December of each preceding year and can be amended only by permission of the Prime Minister. Before 20 January of each year the public authority which has performed the inspections publishes in its official website a report covering the inspections during the previous year.

The same public authority may carry out inspections of one enterprise:

- Not more than once in a year for high risk enterprises;
- Not more than once in 3 years for moderate risk enterprises;
- Not more than once in 5 years for low risk enterprises.

Re-inspections can be done only in exceptional circumstances and based in the grounds exhaustively listed in the law.

In practice, the inspections do not disrupt normal operation of companies in Armenia. Among different forms of inspections, tax inspections are more noticeable for SMEs, which do not fall under oversight of other licensing and supervisory bodies that conduct inspections in mainly big licensed enterprises, i.e., medical centres, banks, etc. So, operations of relatively small businesses are not disrupted by frequent inspections like in other fields (e.g., fire security, workplace inspections, etc.) and are usually conducted by tax authorities to ensure compliance.

Some enterprises are incentivized by the process of issuing certificates to the “law-abiding” taxpayers that allow them to benefit from exclusion from risk groups and be subjected to inspections only very rarely.

An important step towards the formalization of labour was the State Labor Inspectorate of the Republic of Armenia established by the decision of the Government of the Republic of Armenia on July 29, 2004, which is within the Ministry of Labor and Social Affairs. It was established under the 1947 Labor Inspection Convention and had the power to oversee compliance with labor law. In 2013, the inspectorate was transferred to the staff

of the RA Ministry of Health, and already in 2015 its powers were reduced. Until 2015, the Inspectorate had the authority to monitor exclusively the working conditions of the employee, which are related to the protection of the employee's health. According to the RA Government Decision,²¹ the Health Inspection Body of the RA Ministry of Health has been established,²² " According to the law,²³ the Health Inspection Body of the RA Ministry of Health was reorganized into the RA Health and Labor Inspection (HLI) Body, the charter of which was approved by the RA Prime Minister.²⁴ By the decision of the Prime Minister²⁵ changes and additions were made to the Charter.

280 staff units have been assigned²⁶ to the HLI. As a result of the increase of the statutory functions, in June 2020²⁷ further 340 staff units have been assigned to the HLI, increasing by 60 the total number of the staff.

The purpose of the Health and Labour Inspection is to ensure compliance with the requirements of the legal acts in the field of health, as well as with the labor legislation, other normative legal acts containing labour law norms, collective and employment contracts. The tasks of the HLI are: ensuring the sanitary and epidemiological safety of the population, medical care, service, drug circulation, labor law, including protection of workers health and safety in the spheres and preventive compliance with RA laws and other regulatory requirements, implementation of measures in the mentioned spheres.

The HLI authority consists of the main professional structural-territorial subdivisions, which are located in the whole territory of the Republic of Armenia. The main professional structural subdivisions are:

- the Drug Circulation Control Department;
- the Medical Aid and Service Supervision Department;
- the Hygienic, Sanitary Hygienic and Anti-Epidemic Control Department;
- the Risk Assessment, Inspection Planning and Analysis Department;
- the Legal Assistance and Document Management Department;
- the Awareness, Consultation and Public Affairs Department;
- the Quality Assurance Department;
- the Mobilization Department;
- the Department of Labor Legislation Supervision.

The existence of the HLI contributes to the formalization of work and business, but the lack of appropriate powers has a negative impact on the efficiency of this state body. In particular, before 2015, the administration carried out by the current state inspection body directly forced employers to register all employees, otherwise the inspection body had the authority to impose fines. In 2012 alone, the Inspectorate carried out 395 inspections. As a result of the inspections, the amount 144,412,019 AMD was found that was the salaries not paid to employees. Moreover, according to the same report,

²¹ No. 444-N of April 27, 2017

²² According to Article 7, Part 10 of the RA Law on Public Administration Bodies

²³ Article 4 of the RA Law, on June 11, 2018

²⁴ Decision No. 755-L of June 11, 2018

²⁵ Decision No. 768-L of July 3, 2020,

²⁶ By the decision of the Prime Minister No. 706-A of June 11, 2018

²⁷ By the decision of the Prime Minister No. 808-A of July 16, 2020.

the Inspectorate organized 409 seminars, which were attended by 8,455 citizens and representatives of employers.

Currently, the HLI operates on the basis of the Labor Code of the Republic of Armenia and its Charter. According to it,²⁸ the powers of the inspection body are to exercise control over the health protection and safety norms for employees in the cases and in the manner prescribed by law, which includes:

- a. Implementation of the control over the existence, maintenance and operation of the mandatory requirements defined by the legislation of the Republic of Armenia on the protection and safety of workers at work, including the collective and individual protection of occupational safety measures.
- b. Investigation and analysis of the causes of accidents and occupational diseases in the workplace in cases and in the manner prescribed by law.
- c. Methodological assistance to employers and trade unions in the implementation of labor legislation and other legal acts, providing relevant information and advice.
- d. Report on compliance with the guarantees according to the labor legislation for persons under 18 years old, as well as pregnant or breastfeeding women and childcare workers.
- e. Temporary cessation of work in the cases and according to the procedure defined by the Labor Code until elimination of violations.

As a result, the powers of the HLI in the field of labor relations, with certain exceptions, are limited only to the issues of safety and health of employees. Meanwhile, the scope powers of the inspection body by international standards is incomparably wide.²⁹

The State Revenue Committee (SRC) has an extremely important role, having a number of legislative powers in the fight towards a more formal economy.

It is necessary to mention, that the SRC has the right not only to check the formality of business and workers, but also to send written notices, carry out explanatory work and verbal notifications. All these actions have effects on the formalization process.

The problem with the SRC's activities in the field of formalization

is that its activities are not directly aimed at restoring the violated rights of employees. However, those unregistered employees, which are found as a result of inspections and subsequent fines, may force the employer to be more consistent in registering employees and concluding employment contracts. All this is in the interest of employees and of fair competition.

²⁸ Sub-clause 10 of Clause 11 of the Charter

²⁹ ILO Convention No. 150 on the Regulation of Labor Matters provides for a wide range of powers of the inspection body to meet the needs of as many employees as possible. Article 3 1 1 of ILO Convention defines the functions of the labor inspection system. These are: (a) Ensure compliance with legal provisions relating to the working conditions and protection of employees at work, such as working day, salary, safety, health and welfare, child and youth employment, and other similar matters, to the extent authorized to ensure compliance. labor inspectors, (b) to provide technical information and advice to employers and employees on the most effective means of complying with those provisions.

Table 2. Identified cases of informal business activity

Period	Number of cases
01/01/2018 – 01/01/2019	246
01/01/2019 – 01/01/2020	188
01/01/2020 – 01/03/2020	30
01/03/2020 – 01/09/2020	158
01/09/2020 – 01/12/2020	49

Thus, in general, it can be concluded (see **Table 2**) that through the activities of the State Revenue Committee in 2018-2020, more than 671 cases of non complying activities were detected.³⁰

Apart from informal activities, the SRC is the only body to find unregistered informal workers. The activity of the SRC in this direction is remarkable and it is presented in the attached table.³¹

Table 3. Identified cases of workers in informal employment

Period	Number of cases
01/01/2018 - 01/01/2019	2158
01/01/2019 - 01/01/2020	2380
01/01/2020 - 01/03/2020	297
01/03/2020 - 01/09/2020	943
01/09/2020 - 01/12/2020	376

According to the analysis of statistical data in Table 3, in the period ending 2018-2020, a total of 6124 workers in informal employment were identified in Armenia.

It is noteworthy that on October 2, 2019, the SRC officially launched the Support to the Tax Administration of Armenia program. Welcoming the participants of the event, Deputy Chairman of the State Revenue Committee Mikael Pashayan highlighted the implementation of such programs. "The State Revenue Committee has always cooperated with international organizations represented in Armenia in the areas where there was a need for reforms and innovative approaches, and perhaps that is why the current system, as such, is less inferior to similar structures in developed countries in terms of functionality and organization of work." The goal of the Support to the Tax

³⁰ This does not apply to cases of finding informal workers.

³¹ The data were received through an official inquiry of the State Revenue Committee.

Administration of Armenia program is to assist the tax administration of Armenia in the implementation of the 2020–2024 strategy, with the aim of reducing the informal economy, increasing tax revenues by strengthening the capacity of internal resources. The project is planned to be implemented within 18 months.

Funded by the French Development Agency (AFD) and implemented by the Expertise France Agency, the Support to Tax Administration program is part of the support provided to the Government of the Republic of Armenia.

7. SME legislation and institutional framework

7.1. Institutional framework

7.1.1. SME Development National Centre of Armenia

The Small and Medium Entrepreneurship Development National Centre Fund (SME Development National Centre of Armenia) was established by the Government of Armenia in 2002. The SME Development National Centre is authorized to provide state support to small and medium entrepreneurship (SME) in the country. The support is provided through implementation of annual SME State Support Programs with resources allocated from State budget.

The SME Development National Centre of Armenia's activities are targeted at:

- Ensuring a dialogue between SMEs and state;
- Increasing efficiency and competitiveness of SMEs;
- Ensuring availability of business development services for SMEs;
- Expanding the financial opportunities for SMEs;
- Promoting innovations and RandD activities of SMEs;
- Assistance for establishment of new SMEs;
- Supporting internationalization of SMEs' activities.

The SME Development National Centre of Armenia is mandated to provide the following technical assistance:

- Information and consulting on all the aspects of doing business in Armenia;
- Promotion and branding of local products;
- Sales promotion;
- Export promotion;
- Start-up support;
- Supporting in realization of new technology/innovation.

In the scope of its mandate the Centre is also providing financial assistance in the form of:

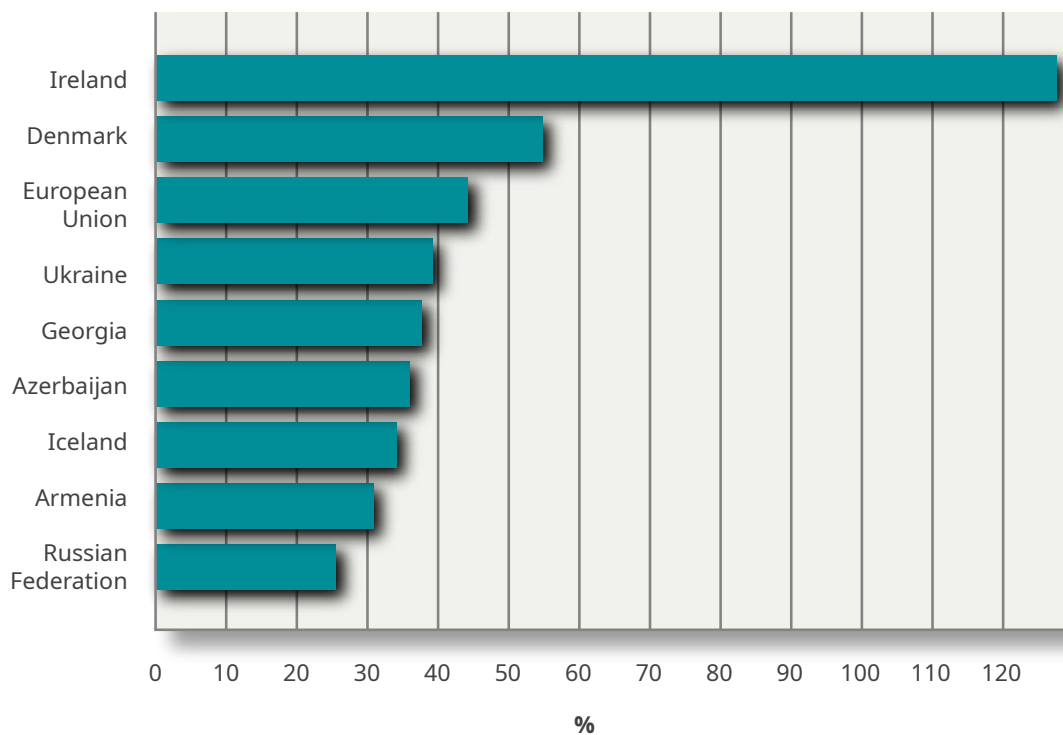
- Provision of Loan guarantees;
- Equity financing;
- Start-up support;
- Partial subsidizing of credit interest rates.

The SME Development National Centre of Armenia provides its services mainly through specialized private companies selected by tender procedures.³²

³² More information about the Centre can be found online at : <<https://www.smednc.am/en/>>.

According to EESE in Armenia (2017), the export is growing, but hampered by complicated procedures, which deter some companies from exporting. Even in 2020 the export represented a relatively small share of Armenian GDP, especially if we consider the limited size of the country. It is normal that in small countries e.g., Denmark or Ireland, see **Figure 11**, exports count usually for a much larger share of GDP.

Figure 11. Export as a share of GDP in selected countries



Add to this the regional instability that for Armenian companies is an important negative factor. The case of Armenia, the case of a small country where export has a relatively small weight, can be partially explained with the physical isolation of the country and with its difficult relations with most of its neighbours. In perspective an improvement in its export will probably pass by an improvement of the relations with its neighbours.

In this context a major potential pull factor for formalization (formalizing firms to export their products), becomes weaker.

In this context development of the Euro-Asian Union may have positive effects, by creating export opportunities, which a large market may offer and imposing the higher standards of formality, which trading partners require.

The SME Development National Centre of Armenia publishes annual reports that are available in its official web page. According to the Annual Report in 2017, AMD 152,600,000 has been granted from the State budget for implementation of annual projects of the centre. The support programs focus on rural areas, with 96.7% of implementation performed in distant and bordering villages and cities. The work and operation of the Centre remains relevant and adapted to the needs of the market. During 2017, the SME

Development National Centre of Armenia has provided partnership and still supports the Sevan Startup Foundation, which is a platform for raising and accomplished entrepreneurs that seek general trainings, grants and investments.³³

During 2017, the SME Development National Centre of Armenia has guaranteed loans to 13 existing SMEs in the overall amount of AMD 192,7 million, which secured access to loan portfolio in the amount of AMD 411,6 million. The centre has also guaranteed loans to 66 startups in the amount of AMD 288.5 million.

The SME Development National Centre of Armenia has also implemented various projects aimed at supporting women entrepreneurs, introducing possibilities of cooperation with investors, increasing accessibility to markets, etc.

7.1.1.1. Trainings

In the framework of the SME Development National Centre “Start-up Business Support Program” under the scope of Small and Medium Entrepreneurship State Support Annual Programs, the support is provided to start-up entrepreneurs to help in the implementation of their business ideas.

The program involves components of training, professional consulting, provision of information, and financial support. Consequently, start-up entrepreneurs acquire skills in business planning, marketing, management, production, financial planning, and more. During seven months, start-up entrepreneurs – with the assistance of professionals – develop their individual business plans and implement them.³⁴

7.1.1.2. Education and Informal Employment

“Formal employment is more associated with better educated workers; 41.0% of total formal employment constitutes workers with college education. In comparison, only 6.5% of informal jobs are carried out by college graduates.” (ADB, 2011:xiv)

The educational system probably has problems (EASE in Armenia, 2016).

“Of the compared countries, Armenia reached better result than Macedonia but it still lags behind Georgia, Croatia and Latvia. In the focus group, discussions about 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 possesses 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.

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

³³ More information about the Sevan Startup Summit can be found online at [210823_ARMENIAN_INFORMALITY-2018-2020\(1\).docx](https://ss.am/sevan/210823_ARMENIAN_INFORMALITY-2018-2020(1).docx) <https://ss.am/sevan/>.

³⁴ More information about the program can be found online at [210823_ARMENIAN_INFORMALITY-2018-2020\(1\).docx](https://www.smednc.am/en/content/training/210823_ARMENIAN_INFORMALITY-2018-2020(1).docx) <https://www.smednc.am/en/content/training/>

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". (EESE in Armenia, 2016:66).³⁵

Thus, if the educational system of Armenia is not satisfactory, it could have two potential effects:

- a) the educational system would not provide all those skills, which could weaken the bargaining power of job-seekers, pushing them to accept informal employment. Actually, highly qualified workers, with strong skills, would be in a stronger negotiation position; the absence of strong skills makes workers weaker. Their weakness could make them accept less guaranteed employment conditions;
- b) probably a weak educational system would not contribute to motivate people to pay taxes. It is possible that if people knew that they could send their children to a quality state school, they would see a clear example that paying taxes brings great benefits. This may not always be the case in Armenia.

The "public expenditure on education" indicator 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." (EESE in Armenia, 2016:66)

"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. (EESE in Armenia, 2016:67)"

7.1.1.3. Information support

The SME Development National Centre of Armenia provides business information support programs. In addition, entrepreneurs are provided with specialized literature, business guides and reference books at the central and regional branch offices of the SME Development National Centre of Armenia free of charge.³⁶

7.1.1.4. Financial Support

The Loan Guarantees Provision program allows the solvent entrepreneurs to get loans in case of insufficient pledge amount and low liquidity, which is particularly specific for the SMEs operating in distant locations and those that are close to the border regions of Armenia. The program allows entrepreneurs to qualify for loans by guaranteeing up to 70% of the principal of the loan and the interest rates for up to 5 years. The maximum

³⁵ A good way to assess the quality of an education system could consist in considering the performance abroad of the average former student. If those , who graduated in country A , in country B on average perform well, the problem is not with the educational system of country A.

³⁶ More information about the support can be found online at [210823 ARMENIAN INFORMALITY-2018-2020\(1\).docx](https://www.smednc.am/en/content/information_support/) <https://www.smednc.am/en/content/information_support/>.

guaranteed amount cannot exceed 15 million drams. The annual interest rates for the loans provided by the SME DNC of Armenia partner banks through the Loan Guarantees Provision program are lower than those practiced in the market.

The list of partner banks of SME Development National Centre includes:

- ACBA Bank /www.acba.am/
- ID BANK /www.idbank.am/
- Ardshintbank /www.ardshinbank.am/
- Inecobank /www.inecobank.am/
- Unibank /www.unibank.am/
- Armbusinessbank /www.armbusinessbank.am/
- VTB Bank (Armenia) /www.vtb.am/
- Armswissbank /www.armswissbank.am/

The applicant SMEs have the right to select the bank.³⁷

Figure 12. Domestic credit to private sector (% of GDP)³⁸

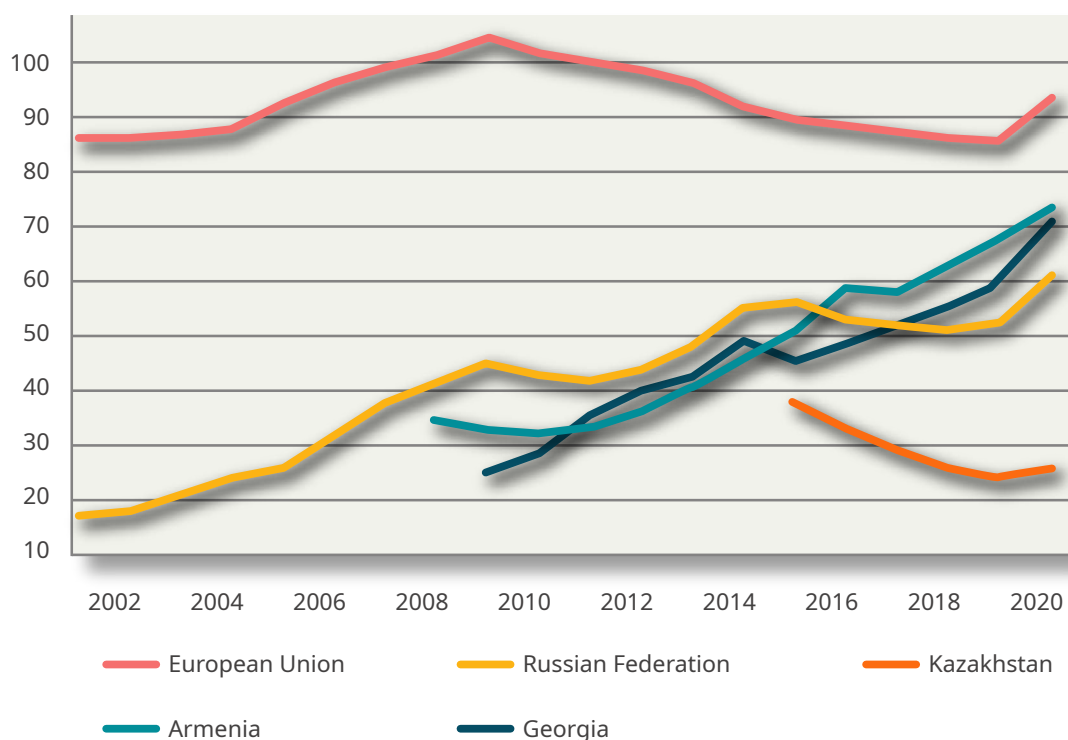


Figure 12 shows that in Armenia domestic credit to private sector is not too far from the EU average, i.e. it is not particularly low.

³⁷ More information about the program can be found online at [210823 ARMENIAN INFORMALITY-2018-2020\(1\).docx](https://www.smednc.am/en/content/financial_support/) <https://www.smednc.am/en/content/financial_support/>.

³⁸ <https://data.worldbank.org/indicator/FS.AST.PRVT.GD.ZS?locations=AM-RU-KZ-EU-GE>

7.1.1.5. Local Economic Development

For creation, development and increasing of competitiveness of community-based SMEs, in 2012 the SME Development National Centre of Armenia has introduced a new strategic direction named the Local Economic Development and the department of Local Economic Development Programs (the Department) has been created within the SME Development National Centre.

The purpose of the Department is to identify the economic potential of communities of Armenia, and undertake economic development initiatives on that basis to enhance local competitiveness.

Within the frameworks of local economic development programs, the SME Development National Centre had launched the localization and implementation of the international best practices. As a result, the German PACA (Participatory Appraisal of Competitive Advantages) method and the Japanese OVOP (One Village, One Product) concept have been used.³⁹

7.1.1.6. Construction of Industrial Systems

In the framework of this direction, efforts were put to identify the regions of Armenia, where the dried fruit, cheese, wine production and guest house business could develop. A business model of micro franchising is planned to be developed and published as a handbook. The project also seeks to provide technology development grants to the SMEs.⁴⁰

7.1.1.7. Enterprise Europe Network in Armenia

The SME Development National Centre of Armenia also acts as the Business Cooperation Centre of the Enterprise Europe Network in Armenia. The EEN activity in Armenia is directed to the internationalization of Armenian entrepreneurship and enlargement of their opportunities for entering into European markets, development of their innovative capacities and technological advancement. In order to promote the international cooperation, the Enterprise Europe Network periodically organizes several regional, national and European level events.⁴¹

7.1.1.8. Partnerships for Rural Prosperity

Since August 2013 the United States for International Development (USAID) has launched the five-year Partnerships for Rural Prosperity (PRP) Program in Armenia, which is being implemented by the SME Development National Centre of Armenia. The main goal of this Program is to empower rural communities to discover and realize their hidden potential.⁴²

³⁹ More information on program can be found online at [210823 ARMENIAN INFORMALITY-2018-2020\(1\).docx](https://www.smednc.am/en/content/local_economic_development/) <https://www.smednc.am/en/content/local_economic_development/>.

⁴⁰ More information about the program can be found online at [210823 ARMENIAN INFORMALITY-2018-2020\(1\).docx](https://www.smednc.am/en/content/construction_industrial_systems/) <https://www.smednc.am/en/content/construction_industrial_systems/>.

⁴¹ More information about the project can be found online at [210823 ARMENIAN INFORMALITY-2018-2020\(1\).docx](https://www.smednc.am/en/content/business_internationalization/) <https://www.smednc.am/en/content/business_internationalization/>.

⁴² More information about the program can be found online at [210823 ARMENIAN INFORMALITY-2018-2020\(1\).docx](https://www.smednc.am/en/content/prp/) <https://www.smednc.am/en/content/prp/>.

7.1.1.9. Boosting competitiveness of regional SMEs

“Boosting competitiveness of regional SMEs” is a two-year EU funded Project commenced on December 14, 2016. The implementation of the program is coordinated by the Small and Medium Development National Centre of Armenia. The overall objective of the Project is to boost competitiveness of regional SMEs and create sustainable employment opportunities in Lori, Syunik and Armavir regions/marzes of Armenia.⁴³

7.1.1.10. Erasmus for Young Entrepreneurs

Erasmus for Young Entrepreneurs is an exchange program for entrepreneurs; it aims at helping new entrepreneurs to acquire relevant skills for managing a small or medium-sized enterprise by spending time in an enterprise in another EU country. It contributes to improving their know-how and fosters cross-border transfers of knowledge and experience between entrepreneurs.

Erasmus for Young Entrepreneurs is available for Armenian young entrepreneurs due to Armenia’s accession to the Competitiveness of Enterprises and Small and Medium Enterprises Program since 2016.

The SME Development National Centre of Armenia has been selected by the European Commission as a contact point to guide entrepreneurs throughout exchange program: providing help with the application and with the establishment of a successful relationship with a suitable entrepreneur.

COSME (2014 – 2020) is an EU financed Program, which is available for EU member states and the countries involved in European Neighborhood Policy (ENP); it started on 29th December 2015 also for Armenia. Armenia is the seventh country outside the EU to join and contribute to the Program, after Montenegro, the former Yugoslav Republic of Macedonia, Moldova, Turkey, Albania and Serbia.

The budget of the COSME program running from 2014 to 2020 is €2.3bn. COSME supports SMEs in the following directions:

- Access to finance;
- Access to markets;
- Encouraging entrepreneurship;
- Creating better framework conditions for competitiveness.

Main beneficiaries of the Program are SME entities, individual entrepreneurs, business support organizations, as well as regional and national development bodies.⁴⁴

7.1.1.11. Scaling up for grow

“Scaling up for grow” is one-year EU funded Project commenced on September 1, 2017. The project is implemented by SME DNC of Armenia in the scope of EEN (Enterprise Europe Network). The main objective of the project is boosting regional scaling up SMEs in further grow and internationalization.

⁴³ More information about the program can be found online at [210823 ARMENIAN INFORMALITY-2018-2020\(1\).docx](https://www.smednc.am/en/content/prdp_am/) <https://www.smednc.am/en/content/prdp_am/>.

⁴⁴ More information about the program can be found online at [210823 ARMENIAN INFORMALITY-2018-2020\(1\).docx](https://www.smednc.am/en/content/erasmus/) <https://www.smednc.am/en/content/erasmus/>.

Main supporting tools are:

- Thematic trainings,
- Individual consultancy,
- International partner search by EEN tools.

As target groups are selected scaling up SMEs operating up to 5 years in food processing sector.⁴⁵

7.1.2. Development and Investments Corporation of Armenia

“Development and Investments Corporation of Armenia” Universal Credit Organization closed joint-stock company started its activity on the basis of license N 28 issued on August 07, 2009 by the Central Bank of RA. The Company was created under the program “Crediting of economy stabilization” of the Government of Armenia and has a purpose of promoting the development of small and medium-sized entrepreneurship.⁴⁶

7.1.3. SME Cooperation Association NGO

The NGO has been established in 2014 with the objective to protect the interests of existing SMEs and start-ups in Armenia and support the latter in their operations. The NGO provides free business consultancy to entrepreneurs, publishes suggestions of legislative amendments, organizes events and meetings of members to provide information support.

On 6 April 2018, the SME Cooperation Association NGO together with 10 other organizations representing SMEs in Armenia have signed a memorandum on the establishment of the cooperation platform between the National Assembly and private SMEs. The objective of the NA SME Council will be to create a platform of cooperation with the legislative body and to adapt the legislation to the needs of SMEs. After the creation of the Council one deputy will be invited to become its member.⁴⁷

7.1.4. Foundation for Small and Medium Businesses

The Foundation for Small and Medium Businesses (FSMB) is a non-profit, non-governmental organization, founded in November 1998.

The main goals of the Foundation are to enhance the formation and growth of the small and medium business sector in Armenia by developing and sponsoring high-qualified assistance to small and medium businesses, helping business organizations to share resources, knowledge and experience and to encourage them in developing cooperation and partnership. The main activity of the organization is aimed at improving the business

⁴⁵ More information about the program can be found online at [210823 ARMENIAN INFORMALITY-2018-2020\(1\).docx](https://www.smednc.am/en/content/scaling_up/) <https://www.smednc.am/en/content/scaling_up/>.

⁴⁶ More information about the organization can be found online at [210823 ARMENIAN INFORMALITY-2018-2020\(1\).docx](http://smeinvest.am/en-home.html) <http://smeinvest.am/en-home.html>.

⁴⁷ More information about the SME Cooperation Association NGO can be found online at [210823 ARMENIAN INFORMALITY-2018-2020\(1\).docx](http://sme.am/) <http://sme.am/>. More information about the NA-SME Council will soon be made available online at www.smecouncil.am.

environment in Armenia, creating favourable investment climate and civilized legislative field, enhancing the development of small and medium size business sector in Armenia. This foundation does not seem to be active in recent years.⁴⁸

7.1.5. Union of Advanced Technology Enterprises

Founded in 2000 as the operating information and communication technology (ICT) enterprise business association, the UATE was established by enterprises and companies in the information technologies /IT/ and information and communication technologies/ ICT/ sectors aiming at the advocacy business promotion and advancement of research in the ICT sector. The UATE members are local and international organizations operating in Armenia, they are particularly involved in software development Internet technologies and e-commerce research and development semiconductor design and other specialties. A significant number of the members occupy a leading position in the global market.

Its main strategic directions:

- High-tech education and workforce development;
- Promote Armenian high-tech brand (Why Armenia);
- Private sector and government cooperation;
- Military industry;
- Industry lobbying;
- Business and entrepreneurship development;
- UATE development.

IT entrepreneurship:

1. The UATE does not only contribute to the technology sector development, but it also tries to incorporate international experience through international conferences, congresses, symposiums etc. For instance, in 2016 the UATE organised the Digitec Business Forum, which had up to 100 delegates. The conference covered such areas like business community, government agencies, international organizations and experts and many more. And due to the great success.⁴⁹
2. One of the numerous strategic events of UATE was the Business Innovation Forum held in November 2018 within four thematic key areas of the forum, such as Science and Innovation, Education and HighTech, Cyber Security, future Armenian economy development. National and international stakeholder, representatives and experts share knowledge on status quo, best practices and define challenges in the respective field. In practical workshops and dedicated working groups recommendations will be developed and concrete ideas proposed.⁵⁰

⁴⁸ More information about the foundation can be found online at [210823 ARMENIAN INFORMALITY-2018-2020\(1\).docx](http://fsmb.am/index.htm) <<http://fsmb.am/index.htm>>.

⁴⁹ For further information see <https://10times.com/company/union-information-technology-enterprises-armenia>.

⁵⁰ See <https://www.bif.am/>

Education and workforce

The Association has a notable input in enhancing the education landscape by implementing modern engineering education initiatives through all over Armenia. One of UATE's most successful projects is a program of Armath engineering laboratories within the public school system of Armenia.

Currently, **more than 250 engineering laboratories** operate on the territory of Armenia, Artsakh and Georgia. More than **6500 students aged 10–18** are introduced to **science, technology, engineering, and math education** through interactive after-school classes, exciting competitions, innovative camps and more.

According to the Grant Thornton Consulting CJSC assessment:

- *84% of Armath students were admitted to the University;*
- *39% were working and studying;*
- *45% of employed students were involved in programming, 29% were involved in other areas of IT sector and the rest were involved in engineering and technical jobs;*
- *12% of employed students have founded startups;*
- *the salaries of employed or start-up founded students were between AMD 50,000 and 300,000, averaging AMD132,561.*

Other renown projects include “From Army to IT”, a program dedicated to transferring knowledge to the participants of the Four Day War and then involving them in the most advanced field when addressing the issue of employment. In the framework of the project the participants are provided with an opportunity to learn programming skills free of charge and in line with the labor market requirements. The experience shows that the program let demobilized soldiers to tackle the problem of unemployment and moreover to become future entrepreneurs creating jobs for others.⁵¹

In May 2020 UATA with the Armath Engineering Laboratories opened a call for volunteers who hold English language lessons for the Armath coaches from all regions of Armenia in the export of the Armenian model of technology education. The importance of this call was not only engineering, but also the chance for the citizens of all regions of Armenia to take part in it.

7.1.6. Union of Manufacturers and Businessmen of Armenia

The Union of Manufacturers and Businessmen of Armenia (UMBA) was founded in 1996 with the goal of having active participation in improving the economic legislation and protection of interests of local manufacturers, development of international business cooperation, creation of mutually beneficial relations for companies inside Armenia and abroad. UMBA performs its activities on the basis of self-management, transparency and democracy, with the principles of voluntariness and equality of membership. UMBA cooperates constructively with all power structures: the Administration of the President of the RA, the National Assembly and its committees, the Government of RA with its units.

⁵¹ For other numerous projects in fields of Education, Arms Industry, Industry Lobbying and IT Entrepreneurship check out the official website of the UATE <http://www.uate.org/>

UMBA cooperates with a number of Armenian state and non-governmental organizations. UMBA takes active participation in the activity of trade and economic committees established between Armenia and a number of other countries.

Activities:

One of the UMBA's main functions is informational service that aims to provide information to the managing bodies and members of the Union using contemporary communication systems. By using global and local computer networks the information is timely brought to the attention of the Union members.

UMBA actively cooperates with mass media, scientists, R&D groups. The informational field includes analysis of publications in mass media, TV programs, cooperation with Armenian and foreign organizations, advertisements and announcements aimed to promote the establishment and lobbying of the interests of entrepreneurship in the country.⁵²

Contribution to economic reforms:

A sign of definite contribution is the expansion of the scope of activities of the UMBA member companies. As a consequence, there is market development and the creation of new workplaces. In particular, the essential part (about 70%) of tax revenues into the State budget is provided by the members of the Union and this also tends to grow from year to year.

The Union is frequently involved in state economic and social programs implemented in Armenia, the most important of which today are the Strategic Program of Poverty Reduction and the Anticorruption Strategic Program.

The Union plays a lead role in organizing discussions of draft laws and legislative changes and coordination of the participation of the interested parties – governmental and non-governmental organizations, representatives of private businesses. In these regards UMBA participation in the following discussions may be mentioned: the discussion of the draft of the RA Law on Tax Inspections, discussion of the RA Law on Social Cards, discussion of the draft of the Labour Legislation, discussion of the RA Law on Social Security of the Population in case of employment and unemployment.

UMBA stands in support of implementation of some social and cultural programs. Particularly, notable financial assistance has been given to the Golden Apricot First International Film Festival, the construction of the North-South highway in Nagorno-Karabakh Republic, the Chess Academy etc.

Projects in cooperation:

Many economic projects of the Union are supported by international organizations such as: the Eurasia Foundation, the European Union, the World Bank, UNDP, USAID and others. Besides the Union has implemented and takes part in the implementation of the following projects:

- The Eurasia Foundation – Monitoring and Support to Liberalization of Economic Legislation;
- VET – a program which supports the development of an integrated and unified vocational education training system in Armenia directed to training experts in accordance with business needs and increasing the employment in RA;

⁵² See <http://umba.am/eng/cat.php?id=254>

- AEPLAC – the Armenian European Policy and Legal Advice Centre aimed at improving the RA legislation in accordance with EU criteria, particularly in tax and customs fields;
- Together with Armenian Merchants NGO, the Armenian Foundation of Independent Analyses was established in April 2004, the mission of which is to support the creation of favorable environment for businesses and formation of dialogue between the state and the society through independent analyses and researches;
- Together with OSCE, the Assessment of Corruption Risks in Customs Services of the Republic of Armenia program was implemented in November 2004;
- The EU BAS program, which supports provision of business consultation;
- Cooperation with the French University of Armenia in training experts capable to establish their own business and manage companies;
- Cooperation with the International Labour Organization in the sphere of social welfare, creation of safe and secure work conditions.

Furthermore, the Union of Manufacturers and Businessmen of Armenia is a member of the International Congress of Industrialists and Entrepreneurs, and constantly participates in the activities of the International Labour Organization (ILO). In 2009 the UMBA also joined the Union of Black Sea and Caspian Confederation of enterprises and the Armenian Trade Network.

In the framework of signed agreements UMBA collaborates with foreign organizations, such as the Unions of Manufacturers and Businessmen of Russia, Ukraine, Belarus, and Georgia; the Union of Armenians in Russia, the Georgian Tax-Payers Union; the Chambers of Commerce of Greece, Poland, Romania, Argentina, Turkey; the Federations and Associations of Entrepreneurs of Lebanon, Egypt, Bulgaria; the Iran-Armenian Chamber of Commerce, French Confederation of Small and Medium Businesses, Lithuanian Union of Businessmen, American Council of Scientists and Engineers of Armenia, Moscow Association of Businessmen.

In order to support the cooperation between businessmen of Armenia and foreign countries, the Union periodically organizes business forums and special discussions, with the participation of Armenian businessmen on the one side and businessmen of Russia, Ukraine, Estonia, Lebanon, Iran, Romania, France, Bulgaria, Turkey, Greece, Argentine, Brazil, Portugal on the other. It explores the markets of different countries, considers the expediency of organizing exhibitions of Armenian production with the intention to form in perspective Armenian trade houses in the given countries. Simultaneously samples of Armenian goods and respective legal and other information on taxation, customs legislation, association and trade agreements are provided to interested parties.⁵³

One of the recent projects is the Support to Armenia-Turkey Rapprochement aimed to facilitate engagement between civil society groups, establishment and development of business partnerships and regional professional networks, and enhanced understanding between the people, for peace and economic integration in the region.⁵⁴

Also in 2018 UMBA held the training course for specialists from business service provider and the business support organizations organized within the Enterprise Europe Network Armenia implemented by SME DNC of Armenia.

⁵³ For further information check the official website of the Union: <http://umba.am/eng/cat.php?id=254>

⁵⁴ See <http://umba.am/eng/page.php?id=22>

During the four-day training, 15 participants got acquainted with the preparation for exporting to the EU market, strategy development, production organization requirements according to international standards and other topics.

In the end of October 2018, another project was organized by UMBA. The innovation management mentorship project was to conduct the mentorship project on innovation management for at least 10 IT companies. Afterwards, it was foreseen to organise individual coaching on innovation commercialisation and individual road map development for 5 companies.

Except of this UMBA organized the Armenian-Greek, Armenian-Indian and other⁵⁵ business forums, which help the formal businesses to make international connections and also they are the additional motivation for formalization of non-formal businesses.

7.1.7. Armenian Young Women Association

The Armenian Young Women Association (AYWA) was founded in 2004; it is a non-profit, non-governmental organization comprised of young people united in their determination to improve the status of women in Armenia, regardless of political affiliation, educational/cultural background, ethnic origin or religious outlook. The AYWA missions is to lead social change and achieve equal opportunities and rewards for all Armenian women. It is an integral element in transforming into a just and productive society for all.

The overall goal of this organization is to strengthen the role of young women in all aspects of the Armenian society.

Realizing appropriate and joint strategy to solve current problems, AYWA demonstrates the professional approach to organizing educational courses, consultations, discussions and different types of events, involving larger audience.

In some projects, AYWA gathers both women and men, thus raising the public awareness on Women issues and building a healthy atmosphere between genders.

AYWA main objectives are:

Young Womens Leadership Development

- Young woman leader school and other leadership courses;
- Awards for young women.

Business and Personal Skills Development

- Quilting skills;
- English language training;
- Business training course;
- Computer training;
- Friday Night Discussion Group for Young Men and Women;
- Womens' Health Issues.

⁵⁵ <https://eenarmenia.am/en/multicontent/news/319/>, <https://eenarmenia.am/en/multicontent/news/278/>, <https://eenarmenia.am/en/multicontent/news/351/>

Projects:

Since November 2017, the **Promoting Women's Participation on Local Level through Social Entrepreneurship Project** *has been funded by the Government of the Netherlands*.

The goal of the project is to increase participation of women in social, political, and economic life of their communities through enhancing their skills and abilities and endorsing their self-confidence and motivation.

The project has been implemented in the various locations: Yerevan, Shirak region, Lori region, Tavush region, Gegharkunik region, Kotayk region, Aragatsotn region etc.

The Community Women Councils is established as a result of the training. And they will be able to take part in **small grants' contest (€100-200) for implementation of local and intercommunity social initiatives**.

The leaders have an opportunity to present their projects of establishing social enterprises in their communities during the capacity development 2nd phase training.

The groups have an opportunity to work with their mentors after the trainings. The best ideas of establishing social enterprises will take part in a grant contest (€ 700-1000) for the Project.

Such global issues as migration and its social-economic consequences also concern AYWA. Hence in the framework of the project called "Maximizing the social and economic impact of migration for better future in Armenia" organized in Lori, AWAY tried to implement the effective Migration and Development Policy in Armenia, fostering local development by strengthening the positive impact of migration on social and economic development with the engagement of Armenian Diaspora.⁵⁶

7.1.8. Chamber of Commerce and Industry of Armenia

The Chamber of Commerce and Industry of the Republic of Armenia was founded in April 2002 with a specific aim of regulating the system activity of the Chamber of Commerce and Industry of the Republic of Armenia, Yerevan and the Regional Chambers of Commerce and Industry, as well as a wide range of organizations founded by the CCI of RA. Yerevan and Regional Chambers as stipulated by the RA Law were integrated and established the CCI of the RA representing their mutual interests in compliance with the RA law on "Chambers of Commerce and Industry.

Functioning as non-profit and non-commercial organization, the Chamber of Commerce and Industry of RA (CCI of RA) represents the interests and the framework of SME activities embracing all business areas including industry, local and foreign trade, agriculture, financial system and other directions.

Through analysing the Chamber's main activities it is clear that its main missions include the contribution to the promotion of economic development of the Republic of Armenia and facilitating its integration into the global economic system, creating favorable conditions for enterprise development, business environment, promotion of export and investments, support to SMEs, assisting business organizations to create mutually beneficial foreign relations and establishing joint ventures in different sectors of economy.

⁵⁶ For further information on this and various other programs check the link <https://www.aywa.am/en/projects>

Aiming at solving the mentioned problems, the Chamber has the following functions:

- To promote competitive product manufacturing and enhancement of export potential;
- To assist the establishment of cooperation between business organizations, and become a bridge between the business and state bodies;
- To contribute to the establishment and development of business promotion infrastructures;
- To cooperate with other business promotion institutions, integrate all Chambers of Commerce and Industry within the country;
- To exchange know-how with various international institutions;
- To encourage CCI of RA member companies' engagement in valuable projects which can be effective for creating sustainable business environment;
- To support businesses to get access to funding and provide business development and incubation services to startups;
- In case of demand of entrepreneurs or trade unions to perform product impartial expertise, supervision of the quality and quantity of the products and thus is legally liable for its credibility.

The Chamber's Regional Chambers, cooperating closely with their member companies, are providing a wide spectrum of services aimed at the improvement of business environment. Business organizations are members of the Regional Chambers. The latter initiate organizational commitment of various exhibitions, presentations which are aimed to support Small and Medium Enterprise development, encourage comprehensive and harmonized development of all types of entrepreneurship, creation of favorable conditions for free competition.

In the framework of integration into global market the Chamber cooperates with bilateral Chambers, such as the Belgian-Armenian Chamber of Commerce, Armenian Chamber of Commerce in Australia, Armenian-American Chamber of Commerce etc.⁵⁷

7.1.9 Republican Union of Employers of Armenia

The Republican Union of Employers of Armenia (RUEA) is a self-financing, self-governing, non-profit organization and as a legal entity, according to the RA legislation, is registered by the state register of the central body, the RA Ministry of Justice. The RUEA was established in 2007 based on the RA Labour Code, the RA Law on Unions of Employers and requirements of the convention of the International Labour Organization (ILO). The RUEA is the only organization in Armenia that is in social partnership with the Government of Armenia and the Confederation of Trade Unions of Armenia at national level.

The RUEA mission is to promote favorable business environment and protect business community interests to drive economic success and prosperity. The RUEA vision is a competitive and sustainable businesses environment as a foundation of developed and prosperous Armenia. The RUEA unites 31 territorial and sectorial unions and about 14000 members. Most of its members are individual entrepreneurs and SMEs. About 26% of actively operating Armenian companies are members of the RUEA. These companies make 42% of employees working in the private sector in Armenia.

⁵⁷ For more information check out the website https://armcci.am/?page_id=3765&lang=en

Key priority sectors include the following, (i) lobbying and advocacy; (ii) Social Dialogue and Social Trilateral Partnership; (iii) reduction of informal economy and corruption; (iv) Labour market and educational cooperation; (v) Business cooperation; (vi) Improving the business environment (favorable legal and regulatory environment); (vii) Enterprise productivity increase and export promotion; (viii) Promotion of labor protection in enterprises, 21 commissions and working groups in total.

Being a social partner, the RUEA cooperates with governmental and non-governmental organizations in different spheres implementing different programs targeted at the socio-economic development of the country. The RUEA is a member of various commissions of the National Parliament of Armenia in economic, financial, social and other fields.

Due to its various publications, reports and support, the RUEA has a strong influence on formalisation process, also, through its members, as well as non-member companies, the RUEA promotes business growth and entrepreneurship.⁵⁸

The situation here was much improved over the last year, with main difficulties experienced during the summer/autumn of 2020. The RUEA had worked very closely with the government on the development of effective mechanisms and actions to support enterprises, resulting in 24 initiatives to facilitate access to credit, partial payment of salaries, and support with taxes. In addition to advocacy efforts, the RUEA had been working very closely with members and non-members alike to provide consultations and recommendations on organising remotely. With the support of ACT/EMP (Moscow), they had developed information brochures. Notably, the RUEA increased its membership over this period and did not lose any members. All sectors of the economy, including tourism, were now operating again and the economy was growing. In close cooperation with the Ministry of Education, they were organising fast, short-term, training courses to upskill the workforce. There had been challenges regarding tripartite social dialogue in the beginning, largely because the parties had been heavily engaged in Covid response, but a tripartite collective agreement had been signed in October, which had improved the situation. Efforts were underway to create a more harmonised approach to economic development in the country.

In the first part of 2021, the Labor Protection Policy was adopted by the RUEA and approved by its Board in 2021. Also, during the Covid-19 pandemic the RUEA has published 4 books for employers in late 2020 to overcome the effects of COVID-19 to ensure employee safety. They are "Safe Return to Work", "Coronavirus Functions in the Workplace", "Working from Home with COVID-19", "Six-Step Business Continuity Planning during COVID-19".

7.1.10 Trade Unions

The formalisation of employees could be fostered by strong trade unions. Soviet times trade unions benefited from state support and thus provided certain material benefits and privileges for workers. The trade unions of the post-communist area do not receive the same kind of state support and must gain the trust of the workers with more limited means. The number of employees has grown steadily in those sectors of the economy, where membership rates are usually low. In particular, employment has declined in manufacturing, mining, construction, transport and public services, with traditionally

⁵⁸ <http://employers.am/Support.aspx?lang=eng>

high membership rates. Instead, there has been an increase in employment in finance, insurance, real estate and services, which are sectors that imply a high level of competition and wage flexibility. This often limits the unions' ability to negotiate raises of wages. This situation may lead employees to prefer individual advocacy, rather than collective action. Given the significant share of self-employed and family farms, the agriculture also has low levels of trade union membership. Many companies in Armenia are small. In small organizations, direct communication and negotiation, individual solutions to each case, are more common than collective action. In these conditions trade union participation is not high. A stronger formalization process, would be helped by the strengthening the organisations representing the interests of workers.

Article 4 of the RA Law on Trade Unions stipulates that a trade union is established by the decision of the founding meeting (conference, congress) convened on the initiative of its founders (at least three employees). As a rule, in Armenia trade unions are formed by people working for a single employer. In addition, the budgets of trade unions operating at the local level are supplemented mainly by allocations made by the employer, which makes the trade union dependent on the employer. Single employer unions may refrain from going to court to protect the interests of their members. The protection of employees' interests is often limited to the level of exchange of advisory, purely professional assessments. A draft⁵⁹ law was introduced in the RA National Assembly on 23/01/2019. That draft proposed the possibility of forming and joining an independent trade union, which would be accessible to people with various occupations working for different employers, unless union membership is prohibited by law for this category of workers. According to that draft law, trade unions would not be dependent on the employer and would be financed exclusively by employees' membership fees and from any other source not prohibited by law, but not from the employer. A more independent union could not only increase the protection of workers' rights and the role of trade unions, but also it would inform workers and help them to formalize their involvement in informal activities. The draft law was not adopted.

7.2. RA Government adjunct entities

1. The Expanded Public Council of Revenue Policy Improvement is established by the Decree of the RA Ministry of Finance. During the regular sessions of the Council, RA Ministry of Finance representatives, NGOs and famous international consulting organizations are involved with the advisory capacity in the discussion and preparation of draft legislation. Recently one of the main occupations of the Council has been drafting the Amendments of the RA Tax Code. In this framework a number of issues are regularly presented by the representatives of the SME Accountants Association, the Republican Union of Employers of Armenia, the RA Chamber of Commerce and Industry, as well as the Association of Accountants and Auditors of Armenia were discussed during the session. Particularly the Council discussed issues related to the withdrawal of transaction documents, multiple use returnable containers, taxation provisions of the sphere of public catering with turnover tax, the restrictions imposed on cash payments, misinterpretations connected to some of the provisions of the RA Tax Code, as well as other issues.

⁵⁹ P-006-23.01.2019-MI-011/0

According to the Ministry of Finance the main purpose of the aforementioned amendments is to form a stable and predictable tax environment as well as continuous improvement of the business environment from the point of view of establishing prerequisites for investment attractiveness and economic growth of the national economy.

In particular, the new taxation system is the micro-entrepreneurship system and the approaches of profit tax and income tax rates reduction were introduced and discussed at the session.

One of the novelties of the draft are the creation of favorable conditions for entrepreneurs, including the proposition to raise the annual income threshold of eligibility of the taxpayers, which means that even more people would be taxed by a turnover tax, the reduction of income tax percentage, and most importantly the replacement of the regime of family entrepreneurship by the micro-entrepreneurship, which extends the circle of eligible people able to benefit of tax privileges, and namely those concerning the turnover tax.

2. The SME Development Council was established on the 7th of July, 2011,⁶⁰ as a result of the joint initiative of the Government and the EBRD. The Council serves as a platform for constructive policy dialogue aimed at identifying and resolving key constraints to the SME development and it is a unique platform for the SMEs to raise problems and discuss their solutions directly with the Prime Minister.

The Council is an advisory entity, which is created for the goal of contributing to the development of the SME favourable business environment through cooperation of state and private actors. Hence there are representatives of the state and private sector, interested international organisation representatives, who are willing to provide the Council with technical assistance.

The Council's missions⁶¹ include discussions of SME development up-to-date issues, examination of SME development suggestions, deliberation of decisions about the possible solutions to the problems discussed.

It is worth mentioning that SME Development Council is in charge of creating the Strategy for SME Development 2016-2018 in which not only it has analysed the Policy and regulations implemented in the SME sector in RA, but also suggests Small and Medium Enterprise Development Strategic Objectives and Main Directions of Activities, comes up with RA SME sector Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis.⁶²

3. The Council of Revenue Administration Reforms chaired by the State Revenue Committee is created by State Revenue Committee decision N 204-A in 2016 to assist the latter in tax and customs administration with the purpose to ensure effective cooperation between the government, business community and the society. The Council is also an advisory body. During the sessions the Council examines propositions of amendments to the tax and customs legislation made by the State Revenue Committee.

⁶⁰ By the Prime Minister's decision N 638 – N

⁶¹ According to the Prime Minister's decision N.638

⁶² For Further information see <http://www.bso.am/wp-content/uploads/2016/02/SME-Development-Strategy.pdf>

4. Another possible step towards formalizing employment could be changes to the tax code that were originally intended in a different form, by which employees who were also students at a higher education institution could direct their income tax to the payment of tuition fees. However, the draft⁶³ adopted in the first reading underwent significant changes during the second reading. The government itself defined the list of professions in which employees would be able to direct the income tax from their salaries to pay rent, and the list established by the government was not popular. Less than 2,000 students study in the mentioned specialties in Armenia, and if we exclude the students who do not work, according to the official data, 120 students used the combination program, which is a very small number compared to at least 13,000 program potential beneficiaries. Of course, it is obvious that in case of paying any service with income tax, the employee is interested in going to the exclusively registered job, which is an essential factor for the formalization of activities and relations.

7.3. Legal framework

7.3.1. National Assembly of RA

The National Assembly of the 7th convocation elected in December 2018 has made several changes related to labour and economic activity.⁶⁵

No significant changes or additions have been made to the RA Law on Trade Unions. Stronger trade unions could probably contribute to the formalization of jobs. There was

⁶³ P-390-26.11.2019-TH-011/0

⁶⁴ According to Article 88 of the Constitution of the Republic of Armenia, the National Assembly is the representative body of the people. The National Assembly exercises legislative power, exercises control over the executive branch, adopts the state budget and performs other functions defined by the Constitution.

Unlike the governing bodies, the RA National Assembly does not have the authority to carry out control or operative-investigative actions, but being the only legislative body, the RA National Assembly develops, amends and completes all legal tools that allow the governing bodies to carry out economic activities, including: control over business formalization. In addition, it has the power to change all the laws in general, due to which the economic activity, state administration, their efficiency and the conditions necessary for the formalization of business can become easier, contributing to the promotion of formalization, or more complicated, having the opposite effect.

⁶⁵ 1. 15 amendments and additions to the RA Labor Code;
 2. 51 amendments and additions to the RA Tax Code;
 3. 10 amendments and additions to the Law on State Registration of Legal Entities, Separate Subdivisions of Legal Entities, Institutions and Individual Entrepreneurs
 4. 3 amendments and additions to the Law on Limited Liability Companies;
 5. One amendment to the Law on Tax Privileges of the Self-Employed Persons, then this law was repealed,
 6. 2 amendments and additions to the RA Law on Employment,
 7. On approving the list of goods not subject to excise tax imported by organizations and individual entrepreneurs, the import of which is exempt from value added tax ", 2 amendments and additions to the law;
 8. Addendum to the Law on Tax Exemption of Activities in Border Settlements: 1
 9. 6 amendments to the Law on Local Duties and Payments;
 10. 1 amendment to the Law on Land Tax;
 11. 14 amendments and additions to the RA Law on Licensing;
 12. 1 amendment to the Law on Minimum Monthly Salary;
 13. Two amendments and or additions to the RA Law on Property Tax;
 14. 7 amendments and additions to the Law on Organization and Conduct of Inspections in the Republic of Armenia;
 15. 38 amendments to the Law on State Duties;
 16. The RA Law on Public-Private Partnership was adopted.

The normative-legal acts that have the status of a draft are not presented here

just one change of technical nature and limited connection with the actual activity of the unions.

At least two of the standing committees in the National Assembly, the Standing Committee on Health and Social Affairs and the Standing Committee on Economic Affairs, have the authority to monitor the implementation of the laws concluded by their committees. These commissions did not use that authority.

7.3.2. Law of the RA on State Support of Small and Medium Entrepreneurship (2000)

The Small and Medium sized enterprises are covered by **the Law of the RA on State Support of Small and Medium Entrepreneurship (2000)**. The law introduces a classification of MSMEs into 3 groups (micro, small and medium sized) and provides a definition of each category.

Micro-enterprise: commercial organization or sole proprietor who has less than 10 employees and who's profits perceived from the operations of the previous year or the balance value of all assets by the end of that year do not exceed AMD 100 million.

Small sized enterprise: commercial organization or sole proprietor who has less than 50 employees and who's profits perceived from the operation of the previous year or the balance value of all assets by the end of that year do not exceed AMD 500 million.

Medium sized enterprise: commercial organization or sole proprietor who has less than 250 employees and who's profits perceived from the operation of the previous year or the balance value of all assets by the end of that year do not exceed respectively AMD 1500 million and AMD 1000 million.

The law also sets forth the main directions of State support to MSMEs:

- Creation of favourable legal environment;
- Provision of financial and investment support, as well as of guarantees;
- Fostering creation and development of supporting infrastructure;
- Information and consultancy assistance;
- Advancement of external economic activities;
- Support of implementation of innovative operations and modern technologies;
- Realization of favourable tax policies;
- Education and training of human resources;
- Creation of simplified systems of recording statistical and accounting reports;
- Support in the sphere of government procurements.

The law provides that the support of MSMEs is realized by way of adoption of annual programs by the government.

8. Other issues

8.1. Corruption

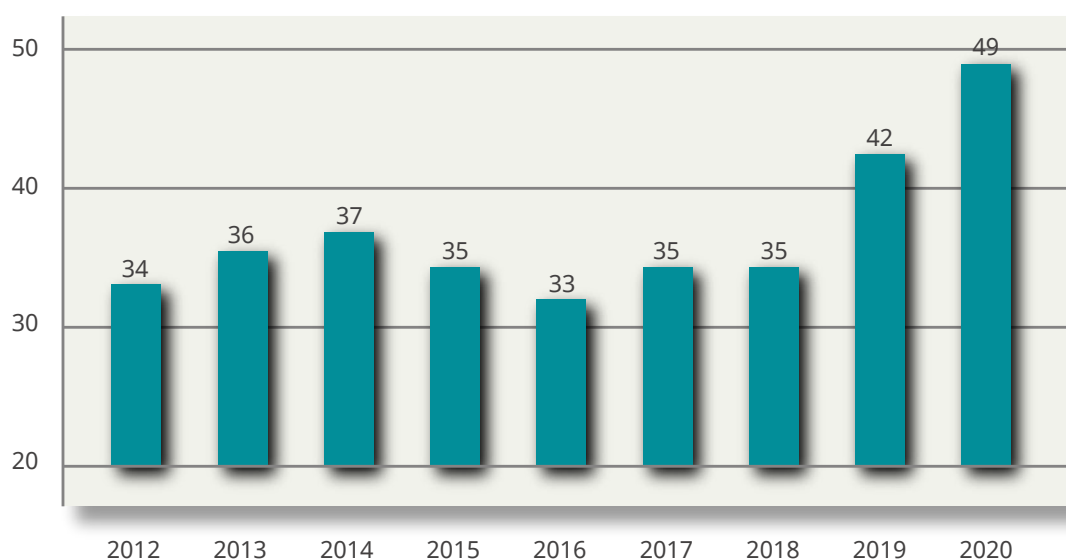
Armenia still faces some issues with corruption. According to the EESE survey, 17.7% of all respondents stated that bribery and other forms of corrupt payments are issues that often consistently impact firms in the country, which is highly worrying. On the other side, 22.3% of the companies state that 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.

According to the World Bank,⁶⁶ the Armenian performance in terms of control of corruption is not good.

From the point of view of corruption risks, according to the 2020 report of Transparency International,⁶⁷ Armenia has significantly improved its position in the perception of corruption in the country.

In 2017 Transparency International ranked Armenia 107/180 with a Corruption Perception Index (CPI) of 35 from 100 (the higher the index, lower is the perception of corruption in the country). In 2020 the Armenian CPI is equal to 49.

Figure 13. CPI index of RA 2012-2020, Transparency International



⁶⁶ World Bank, Worldwide Governance Indicators.

⁶⁷ <https://www.transparency.org/en/cpi/2020/index/nzl>

Among its neighbors, Armenia is second only to Georgia, whose CPI 2020 is 56. As in the previous year, Armenia is ahead of its other three neighbors: Turkey (40 points, 86th to 91st places), Azerbaijan (30 points, 129th to 133rd places) and Iran (25 points, 149th to 156th).

If the corruption perception is decreasing, potentially affecting formalization, then the lack of a non-taxable salary threshold in the RA legislation remains problematic.

For the prevention of corruption is it necessary to mention the Corruption Prevention Commission of RA.

The law about the Commission was adopted in 2017, but selection of commission took place only in 2019. Members have been elected by the National Assembly of Armenia.

Functions of the CPC are the following:

- maintenance of the declaration registry;
- regulation of the declarations analysis process and publication of the declarations;
- detection of conflict of interests of high-ranking officials (except for conflict of interests of members of Parliament, members of Constitutional Court, judges and prosecutors);
- detection of violations of ethics rules by high-ranking officials (except for the violations of ethics rules by members of the Constitutional Court, judges and prosecutors in fulfillment of their official responsibilities, as well as violations of ethics rules by members of Parliament);
- submission of recommendations on elimination and prevention of conflict of interests and violations of ethics rules of high-ranking officials to the President, the National Assembly and the Government of Armenia;
- detection of violations of ethics rules (not related to the fulfillment of their official responsibilities) by members of the Constitutional Court, judges and prosecutors as well as submission of recommendations on the elimination and prevention of those violations to the President, the National Assembly, the Constitutional Court and the Prosecutor General of Armenia;
- within its authorities, publication of information on detection of violations of ethics rules and conflict of interests as well as actions taken related to those violations;
- adopting the requirements for filling in the declarations and the procedure of their submission;
- examination of cases related to administrative offences, as well as imposing of administrative sanctions, as set by the legislation, for the failure to submit property, income and related persons' declarations of high-ranking official, as well as property and income declarations of their related persons to the Commission on Ethics of High-Ranking Officials of Armenia within the prescribed time frame, as prescribed by the current law, or submitting declarations with violation of requirements and the declaration filling procedure or for providing incorrect or incomplete information in the declaration.

Also, it is important to mention jurisdiction, declaration analysis and instituting a proceeding of CPC.

Jurisdiction/the commission has the right to:

- demand and obtain all necessary documents related to the issues being discussed by the Ethics Commission from state or local self-government bodies, state or community institutions and government organizations or their officials;
- demand from competent state or local self-government body, state or municipal institution and government organizations or their officials (excluding the Constitutional Court members, courts, judges and prosecutors) to conduct verifications, studies, and expert analysis on the aspects to be clarified that are related to issues being discussed by the Commission on Ethics of High-Ranking Officials and to send the results;
- members of the Ethics Commission have a right to visit any state or community institution or organization without any constraint as well as get familiar with any material and document related to the issues being under the discussion by the Ethics Commission. Members of the Ethics Commission can get familiar with the state, service, commercial or any other secret information protected by law according to the legislation of Armenia.

Declaration analysis

The Commission conducts verification of the credibility and completeness of the data on filling and submission process of the declaration in accordance with the methodology and order established by the Commission.

During the declaration analysis process, the Commission has the right to demand and obtain from a competent state or local self-government body, the Central Depository and other persons owning the right to maintain the registry of securities owners (nominees), credit bureaus (including through electronic inquiry method), information, documents related to the declarant high-ranking official, as well as his/her family members, excluding the cases prescribed by the Republic of Armenia Law on Banking Secrecy.

The interoperability of the Ethics Commission's electronic information data base to the data bases of other state and local self-government bodies, and the above mentioned organizations, as well as the Commission's online accessibility to the data subject to declaration are ensured in the declaration analysis process.

Instituting a proceeding

The Commission on Ethics of High-Ranking Officials institutes proceedings on its own initiative. The Ethics Commission can institute a proceeding on the violation of ethics rules on the basis of:

1. application of any person;
2. its own initiative;
3. high-ranking official's application to study issues related to violations of ethics rules.

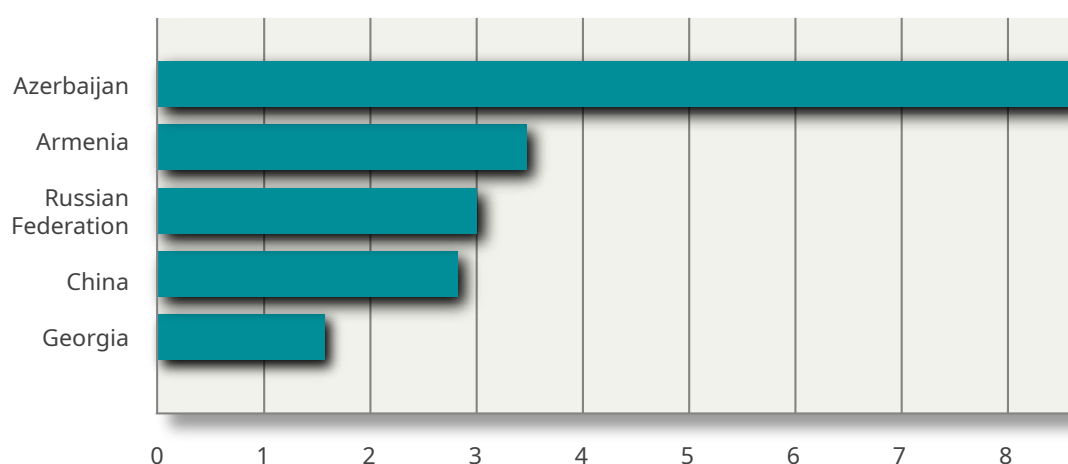
The conclusion of the instituted proceeding is given by the Commission within 1 month. The conclusion on the violation of the ethics rules by the high-ranking official and the decision based on it by the competent official of the respective state institution, in case there is such, shall be published on the website of the respective state institution within 5 working days following the adoption of that decision. If the Ethics Commission discovers any elements of crime during its examination, it forwards all the documents to the Prosecutor General's Office of the Republic of Armenia. The Ethics Commission sends the conclusion on the violation of the ethics rules to the President of the Republic of Armenia and to the superior of the high-ranking official.

If during the proceeding on the administrative offence, the Commission concludes that there are elements of intentionally non-submission of the declarations or providing of false information in the declaration or concealment of the data matter of declaration, the Commission, upon a well-reasoned decision, immediately, no later than within 3 days, forwards all the materials of the proceeding to the General Prosecutor's Office of the Republic of Armenia adopting a decision to suspend the proceeding. Upon the receipt of the decision on the rejection of instituting a criminal case, suspension of the criminal case, termination of the criminal proceeding or discontinuation of the criminal prosecution, the Commission, within 5 days, restarts the suspended proceeding, and in case of receiving of accusative judgment entered into legal force, within the same period, discontinues the proceeding.

8.2. Credit to SMEs

Lately, in the Armenian **financial market**, the SMEs might be affected by the difference for deposit interest rates and rates for loans, which in 2020 was is around 3.52%.⁶⁸ This was lower than in Azerbaijan, but higher than in Turkey, Russia, China and Georgia. According to the statistics of the World Bank, in Armenia the average deposit interest rate for the 2020 was 8.11. Whereas the average rate for loan for the same period was 11.801%.⁶⁹ Nevertheless, as has been exposed above, there are several State-supported programs, that aim to assure the accessibility of financing to SMEs.

Figure 14. Interest rate spread in 2020 (lending rate minus deposit rate, %)⁷⁰



⁶⁸ <https://data.worldbank.org/indicator/FR.INR.LNDP?end=2020&locations=AM-GE-AZ-RU-CN&start=2020&view=bar>

⁶⁹ These rates apply to deposits and loans in AMD.

⁷⁰ <https://data.worldbank.org/indicator/FR.INR.LNDP?end=2020&locations=AM-GE-AZ-RU-CN&start=2020&view=bar>

Similar issues are raised in a 2010 ADB study:

“From all the sampled enterprises, 21.3% reported that to be able to manage their business activities, they take loans. Four in five informal enterprises, which availed themselves of credit to finance their business activities, tap private money institutions, such as banks, pawnshops, cooperatives, or private moneylenders, to finance their business activities. Among those who did not apply for loans to finance their business, 52.1% identified high interest rate as a primary reason for their decision (ADB, 2011:xv).”

The more companies fund their activities with internal funds, the less they need to show formal arrangements and formal accounting to the external world. If the probability of obtaining formal credits from financial institutions is low, the main driver to formalize it is weak. Usually, companies have a major incentive to keep formal accounts, in order to dialogue with financial institutions. In this field there is also an issue of dissemination of financial information.

Other findings limit the extension of what was stated above. In 2020 82.5% of adult Armenians were registered with a private credit bureau. Credit registries are considered of good quality. They do facilitate lending decisions. Similarly, the information about financial products is 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 (ESEE in Armenia, 2016).

“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.” (ESEE in Armenia, 2016:55).

According to business people “Collateral sharing schemes are scarce” (ESEE in Armenia, 2016:56)

8.3. Health Care and Welfare

“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.” (ESEE in Armenia, 2016:75). In 2018 Armenia spent on health about 10% of GDP (it was 7.11% in Georgia, 5.3% in Russia, 4.12% in Turkey and 3.5% in Azerbaijan). The share of GDP per se is not low, problems are probably due to the small Armenian GDP and the balance between private and public expenditure. Countries where the private sector plays a big role in health supply usually end up with low cost effectiveness of their health system.

A study of the Armenian welfare system provides further clarifications:

"In Armenia a drastic shift occurred from strong social citizenship rights to a residual, privatized, and informal model of welfare in post-Soviet Armenia. The Armenian welfare system has come to resemble a variation on the "liberal" model of welfare capitalism (Esping-Andersen, 1990). The main features of welfare liberalism in Armenia are as follows. First of all, the notion of social rights has been gradually marginalized. Instead, poverty status has become the main criterion for social entitlements. In particular, universal welfare benefits have been replaced with a system of means-tested benefits that target the poor. Secondly, the degree of state involvement in the provision of public utilities, health care, and other public services has been drastically reduced, including privatization or decentralization of most social assets and public services and introduction of out-of-pocket payments and user fees for all previously subsidized public utilities and services. Thirdly, the liberal principles of individual responsibility and self-reliance have become prevalent in important public policy arrangements, a process that Ferge (1997) describes as "the individualization of the social." In particular, individuals are expected to participate in the co-production of social services and infrastructure facilities by contributing cash and labor.

At the same time, the Armenian welfare system differs significantly from the liberal welfare regimes in the OECD countries. First of all, the Armenian system provides insufficient income support even for those covered by the statutory welfare arrangements. Thus, the existing formal social security provisions are modest and do not enable poor individuals to maintain an adequate standard of living without reliance on the labor market and informal networks and coping mechanisms. It also leaves a large proportion of poor individuals eligible for means-tested benefits with no income support. Secondly, unlike the liberal economies of the OECD countries, the labor market in Armenia is much less effective at ensuring basic income security. The market reforms in Armenia have not significantly strengthened the labor market as a source of income security. Thus, the neo-liberal reforms have not actually led to the emergence of a liberal regime. Instead, they have led to growing informalization of the welfare system.(...) Thus, we are observing a transition from a socialist welfare state to an "informal security regime" (Wood and Gough, 2006). Two of the distinguishing features of this regime are the minimal role of state social protection and strong reliance on informal relationships. In particular, individuals in poor countries rely largely on family, community, and patron-client networks and not on the labor market to sustain their livelihoods." Babajanian (2008).

9. COVID-19

9.1. State of emergency and lockdown

On March 13, 2020, the WHO declared COVID-19 a pandemic, after which on March 16, 2020 the Government of the Republic of Armenia, using Article 120 of the Constitution of the Republic of Armenia, declared a state of emergency in the country, imposing restrictions on numerous rights and freedoms⁷¹:

Public events as well as the activities of public catering establishments, shopping and entertainment centres were prohibited. During the state of emergency, state, community and non-state general education (including pre-school), pre-vocational (vocational), secondary vocational and higher education institutions, out-of-school upbringing (children's creative and aesthetic Centres, music, painting and art schools, clubs, sports schools, health camps and other organizations providing extracurricular education), as well as in the educational process in international educational institutions operating in the Republic of Armenia, except for distance learning, were prohibited.

Almost all economic activities were banned, with the exception of food outlets, pharmacies, agricultural markets, hospitals and other medical facilities. Individuals could not leave their place of residence, except for the employees of the National Assembly, the Constitutional Court, courts and the Office of the Human Rights Defender on their way to and from work.

It should be noted that before the state of emergency and such drastic restrictions, the population was not prepared for such changes, because there was no accumulated income and few savings. The country had experienced the election campaign and there was as well the unserious attitude of the authorities towards COVID-19.^{72,73,74}

As a result, employers and employees did not even know about online meeting applications (Zoom, Microsoft Teams) and there was no mobile electronic cash register. All this led not only to severe economic consequences, but also to a sharp increase in unemployment and informal activities.

9.2. Tourism

On May 16, all the tourist organizations of Armenia, which were engaged in tourist activities, ceased their formal activities, switching to incoming informal tourist activities. This is very worrying, because informal activities in tourism are in a significant number. Passenger vehicles and guides are generally not registered or service contract workers, and most of the inbound tourism due to the state of emergency considered to be an

⁷¹ <https://www.arlis.am/DocumentView.aspx?docid=140212>

⁷² <https://www.youtube.com/watch?v=k2D7pqvNcUM>

⁷³ <https://www.youtube.com/watch?v=T1zFJVBKYOY>

⁷⁴ <https://www.youtube.com/watch?v=GKziXTZIN-M>

insurmountable force and the normative act underlying it shifted to informal activities throughout the state of emergency.

9.3. Debts during the lockdown

A trend towards informality was observed in all the spheres of service provision, the activity of which was banned or temporarily severely restricted. This was linked with the position of the Armenian banking system during the state of emergency. Most of the Armenian banks stated that they did not temporarily stop charging for the fulfillment of loan obligations, but they were offering the option of one-time payment of general liabilities within the set deadline. Due to this, the Armenian citizens, most of whom have credit obligations, had to find a job (formal and informal) even during the state of emergency, in order to avoid penalties, fines and forced confiscations for missing fulfillment of their credit obligations.

9.4. Government support to business and families

The outbreak of coronavirus (COVID-19) in February 2020 caused an emergency, which slowed the global economic growth. The existing restrictions hurt industry and agriculture - the key sectors of the economy focused on exportation, as well as tourism and the hotel industry. Due to the crisis, organizations have faced a number of problems, including restrictions on the office presence of employees, supply chain disruptions, and the decline in demand due to changes in the consumer behavior and government-imposed restrictions. Despite the fact that these problems are typical of large and small and medium-sized enterprises, the crisis was a particularly severe blow to the SME sector.

In order to meet the challenges posed by the spread of COVID-19, on March 26, 2020, the Government of the Republic of Armenia adopted a package of comprehensive measures dedicated to neutralization of COVID-19-driven economic impact, which envisages several tools for provision of assistance to Armenian businesses, in particular:

1. The provision of loans on preferential terms was planned, which was aimed at solving the problems and temporary difficulties of the borrowers due to their situation. The assistance was applicable to the loans provided to businesses solely for the purpose of carrying out the expenses specified by the given decision, only if compliant with the mandatory criteria for provision and the necessary requirements.
2. The purpose of the 2nd measure was to support business entities operating in the agricultural sector to alleviate the problems caused by the spread of COVID-19.
3. The purpose of the 3rd measure was to provide emergency assistance to business entities that operated as small and medium-sized enterprises and met the criteria stipulated by the measure to continue operations or re-organize or adapt to the changed economic situation. Within the framework of the measure, assistance at the maximum value of 50 million Armenian drams was provided to business entities in the form of targeted preferential loans received from banks or credit institutions operating in the territory of the Republic of Armenia.

4. The purpose of the 5th, 18th, and 21st measures was to support individual business entities with provision of one-time grants for protection of effective jobs endangered by the difficulties caused by the spread of COVID-19.
5. The purpose of the 10th measure was to support individual micro enterprises in the Republic of Armenia with provision of one-time grants due to the spread of COVID-19.
6. The purpose of the 17th measure was to support individual business entities operating in the sector of high technologies in the Republic of Armenia for protection of effective jobs endangered by the difficulties caused by the spread of COVID-19, as well as for promotion of implementation and commercialization of innovative ideas in this field.
7. The purpose of the 19th measure was to facilitate the implementation of entrepreneurial ideas of beneficiaries seeking to start a business from scratch and the development of innovative business plans of the beneficiaries through expansion of entrepreneurial knowledge and enhancing the accessibility to financing. By means of this measure the guarantee fund of the Investments Support Centre, established within the framework of the annual SME state support programs, was replenished, which was envisaged for lending with a guarantee loan and implementation of realistic business projects meeting the requirements of the measure.
8. The purpose of the 23rd measure was to provide assistance to Armenian business entities operating in certain sectors directly related to tourism, to alleviate their financial problems, ensure the continuity of their operations, and maintain existing jobs.
9. The purpose of the 24th measure was to support business entities, which in 2020 are engaged in processing of agricultural raw materials, including grape processing, to mitigate the risks caused by the spread of COVID-19 and associated with the current liquidity of their finished products and attract necessary additional financial resources for grapes purveyance.
10. The purpose of the 25th measure was to support transport companies servicing the tourism sector by reimbursing 75% of the unpaid interest from April 1, 2020, which had the goal of helping these companies repay their loan obligations to ensure the continuity of their businesses, as well as protect the assets pledged as collateral for a development loan.

For the same period, there was almost no effective monetary assistance from the government, and support for some sectors was so low that those involved in the formal economy preferred to be fired and move to informal activities. In total, the government had planned 22 measures to neutralize the economic effects of Coronavirus, 9 of which were aimed at supporting the activities of businesses, 13 - to support individuals (unemployed or underemployed), but the conditions for their use were either too strict, which did not allow Citizens affected by coronavirus to use them, or the amount of support was too small. Silvard Davityan, a member of the Employees' Focus Group, stated that he had applied for a government assistance program and received AMD 1,000 in support when his registered salary was AMD 100,000.^{75,76}

⁷⁵ <https://www.gov.am/am/covid19/>

⁷⁶ <https://www.gov.am/am/covid-19-cragrer/>

Already in 2021, the members of the focus group "I Katar" and "Somedream" LLC used the "Work Internship" program announced by the Ministry of Labor and Social Affairs, according to which the entire period of the program is paid within 3 months.⁷⁷

According to this scheme a specialist organized an internship in a company for selected unemployed individuals.

They would receive the following payments:

- To the unemployed the salary in the amount of the minimum monthly salary;
- to the employer, income tax calculated from the salary of the unemployed and in cases prescribed by law, the reimbursement of the targeted social payment;
- To the specialist, on a monthly basis, the amount of 50% of the minimum monthly salary established by law.

Meanwhile, according to the two members of the focus group, 3 months of their employment under this program have already passed, but the state, particularly the Ministry of Labor and Social Affairs, has not made any payments, even forbade employers to make payments, as a result of which MLC "sponsored" the informal activity and the violation of the employee's labor rights.

In the current context of COVID-19, the anti-crisis programs developed to neutralize the consequences are almost exhausted and remain partially unfulfilled (the program aimed at promoting private investment, for which about 80 billion drams was provided, was not implemented).

9.5. Online stores

There are more than 200 registered delivery services in Armenia, 15 formal online stores, and their number reaches thousands on the Internet. During the state of emergency, when people were barred from leaving their homes, shipping services and online shopping gained momentum, leading to the emergence of new types of legal issues. Online shops, which carry out formal activities, actually resell or deliver the goods with prospective buyers in advance, and Articles 379-388 of the RA Tax Law regulate the cases when stores must issue a receipt by the cash register.

If presenting a receipt when selling at a specific address does not pose a problem, then the situation is different for delivery services and especially exclusively for online stores. Online stores are in fact resellers, and in the conditions of incomplete elaboration of the current legislation, both the initial seller and the online store have to provide a cash register receipt. The original seller to the online store, then the latter to the final buyer, which causes a sharp decline in online store incomes, in some cases even negative incomes. In such conditions, online companies have tried to move to the formal sphere by concluding commission agreements, but the initial sellers do not always agree to cooperate with online platforms, which leads to a large number of informal activities in the field.

On the other hand, the impossibility of moving cash registers in cases when the operator is not registered as a mobile trader causes other problems for formal activities, leading

⁷⁷ The name was changed based on the RA Law on Personal Data Protection

to an increase in informal economic activity. Moreover, according to Article 380, Part 3 of the RA Tax Code, some activities are exempted from the obligation to provide a cash register receipt.

- 1) Provision of utility services to the population;
- 2) Sale of lottery tickets;
- 3) Sale of tickets for road transportation, cargo transportation and travel by road, water, rail, air;
- 4) Sale of agricultural products and personal use items owned by citizens, as defined by Article 126, Part 1 of the Code, by stores located in the places of trade;
- 5) Sale of agricultural products defined by Part 1 of Article 126 of the Code carried out by means of vehicles;
- 6) In case the vehicle is provided with a taximeter (meter), transportation by passenger taxis;
- 7) Organization of casinos and (or) games of chance;
- 8) Sale of religious items and / or provision of religious services by religious organizations registered in accordance with the law;
- 9) Sale of state postage stamps (postage stamps and other marks) certifying payment for postal services at face value;
- 10) Postal and courier activities;
- 12) Sale of newspapers and magazines in kiosks, if the share of newspaper and magazines sale exceeds 50% of the total sales turnover. The sales turnover of newspapers and magazines is carried out in a separate manner;
- 13) Those who provide food to students and employees of educational institutions during working days in the territory of the general educational institutions.

It should be noted that mobile shopping outlets and car dealers also had this problem, which was attempted to be solved by the amendments made to the Tax Code on 01.06.2020. These changes also brought to life the use of new electronic cash registers as defined in Article 380-1 of the Tax Code.⁷⁸

According to Part 4 of Article 380-1, which was newly accepted by the national assembly, technical requirements for electronic cash registers, requirements for their registration, deregistration, mandatory e-receipt, as well as the website or e-commerce platform (e-commerce platform) are defined. The exchange of information between the electronic cash register and the electronic management system of the tax authority is carried out at a special rate approved by the tax authority (web service description).⁷⁹

⁷⁸ <https://www.arlis.am/DocumentView.aspx?docid=143031>

⁷⁹ At the same time, according to part 5 of the above-mentioned article:

Adopting this draft law on 01-06-2020, the government technical decision N 1976-N of December 3, 2020, defined the technical requirements for electronic cash registers, their registration, deregistration, mandatory e-receipt of the electronic coupon provided by them, such as the website or electronic Requirements to the application (electronic trading platform), moreover, the decision came into force only on 14.12.2020.

Due to such careless and belated attitude by the government, from 16.03.2020 to 14.12.2020, i.e. not only during the state of emergency, but even after it, the online platforms and delivery operators were not able to enter into formal or complete formal activities, and in some cases, they were subject to administrative liability for not providing cash register receipts. During the focus group discussion, Sarmen Galstyan, a member of the group and a private entrepreneur, said that he, as a sole proprietor, had applied to the officials for the regulation of electronic cash registers, but after seeing the results he thought that "it is better not to change anything."⁸⁰

9.6. Voluntary work

COVID-19 was marked by legal issues related to volunteer work and a clear lack of regulation. According to Article 102, Part 2 of the Labor Code of the Republic of Armenia, voluntary work and work performed for the purpose of providing assistance cannot be considered illegal, the procedure and conditions for such work shall be established by law.

In addition, regulations on volunteer work (by the way, the most extensive in the RA legislation) are presented in the RA Law on Non-Governmental Organizations.⁸¹

As a result of the general analysis of normative legal acts, it becomes clear that volunteer work is allowed only in non-governmental organizations, where, however, instead of concluding a voluntary employment contract, a preference is given to the issuance of a certificate.

On March 16, 2020, the RA Ministry of Health posted an announcement on its official Facebook page that the Ministry needed volunteers. Three days later, according to Lilit Babakhanyan, head of the public relations department at the Ministry of Health, only

⁸⁰ The name was changed based on the RA Law on Personal Data Protection.

⁸¹ According to Article 17 of this law:

1. The organization may have beneficiaries in accordance with its goals, as well as they may involve volunteers in its work.
2. The beneficiaries of the Organization are the persons or groups of persons envisaged by its charter, for the benefit of which the activities of the Organization are carried out. The Law of the Republic of Armenia "On Charity" and the Labor Code of the Republic of Armenia shall apply to the legal relations of involving volunteers by the organization insofar as those regulations do not contradict the law.
3. If the volunteer's working hours exceed 20 hours per week, the Organization shall enter into a volunteer contract with the volunteers.
4. The volunteer contract is an agreement between the volunteer and the Organization, on the basis of which the volunteer voluntarily performs voluntary work for a certain period of time without remuneration, and the Organization provides necessary, safe and harmless conditions for voluntary work.
5. The contract on voluntary work states:
 - 1) year, month, date, place of signing the contract;
 - 2) The name of the organization;
 - 3) The position, name, surname of the person signing the contract on behalf of the organization;
 - 4) The name and surname of the volunteer;
 - 5) Description of volunteer work and work functions, procedure and conditions;
 - 6) Rights and responsibilities of the organization and volunteer;
 - 7) Working time regime;
 - 8) The term of the contract.
- The contract for voluntary work may also include other conditions for voluntary work.
6. The organization provides compensation to the volunteer for the expenses actually incurred by the volunteer as a result of the voluntary work.
7. It is prohibited to involve volunteers in the business activities of the Organization.
8. Disputes related to volunteer work are resolved in accordance with the law of the Republic of Armenia.

4,000 applicants wanted to volunteer to support the Armenian government in the fight against coronavirus. However, even in the case of cooperation with the state, volunteers in many cases continued to carry out their activities informally.⁸²

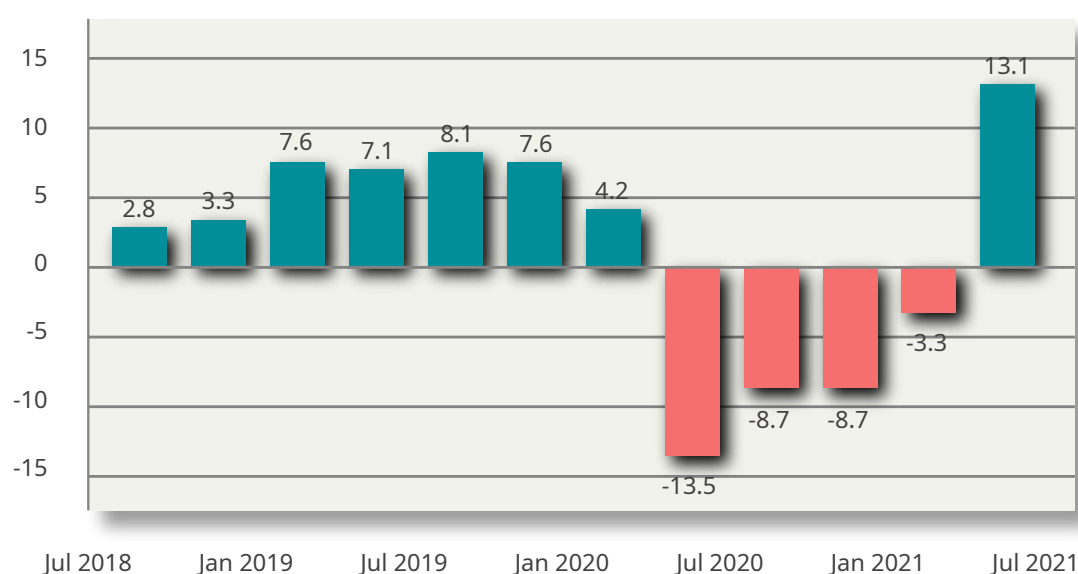
9.7. Decline of economic activity

Due to COVID-19 pandemic, in 2020 the Armenian gross domestic product (GDP) was 7.46% smaller than in 2019. This was mostly due to the decline in the sectors of processing industry, accommodation and catering industry, and trade. The economic decline (**Figure 15**) continued in the first quarter 2021, when the GDP was 3.3% smaller than in the same quarter of the previous year. Finally in the second quarter 2021 the GDP was 13.1% bigger than in the second quarter of 2020. Services and transports have been among the most affected sectors.

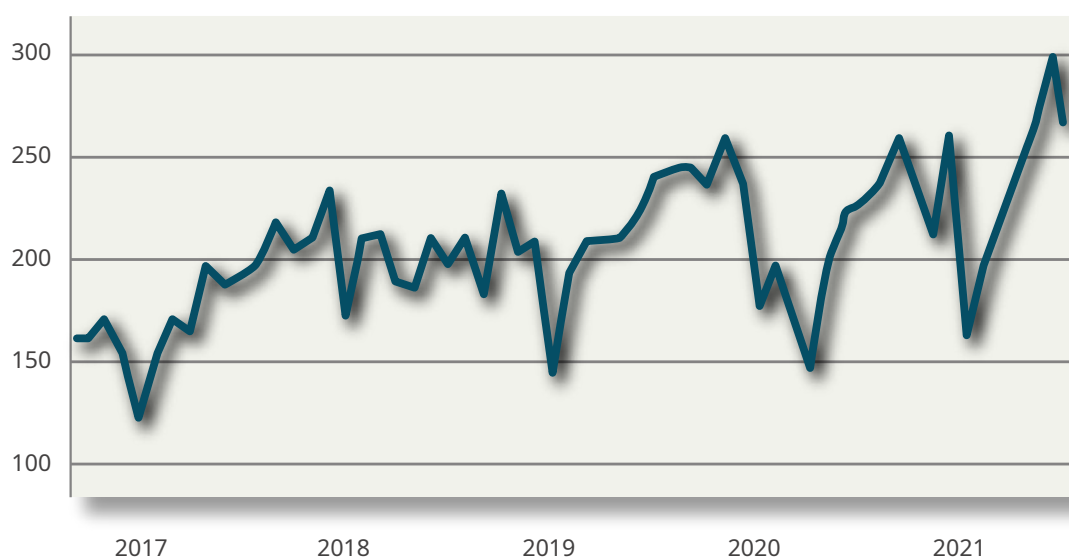
Being integrated in the global value chains, the effects of the global economic slowdown are indirectly reflected on the Armenian economy, especially the demand for Armenia's exports. In January – August 2020, the volume of commodity exports amounted to 1,567.9 million US dollars, decreasing by 106.4 million US dollars or 6.0% compared to the previous year. The reduction in the volume of the gross commodity exports was largely due to the following products:

- Brandy: the decline was -26 million US dollars or -18.8%,
- Iron smelting: the decline was -7.6 million US dollars or -28.4%,
- Diamond stone: the decline was -19.5 million US dollars or -53.1%,
- Tobacco: the decline was -15.5 million US dollars or -9.6%,
- Jewelry: the decline was -15.3 million US dollars or -52.4%.

Figure 15. GDP variation per quarter of the year compared with the same quarter of the previous year



⁸² For the regulation of voluntary work in other countries see the Appendix.

Figure 16. Exports in USD

The tourism sector is one of the most affected sectors of the economy due to the pandemic. In January – June 2020, tourist visits amounted to 331,264 people, which is less by about 458,791 visits/people or about by 60%. When we consider the end of 2020 and 2021 (**Figure 16**), we observe some kind of recovery of exports.

According to Armstat⁸³ the GDP of the first seven months of 2021 was 5.2% bigger than that of the corresponding period in 2020. This is not enough to recover the production volumes of 2019, but is a step in the right direction.

9.8. Public finance and macroeconomic policy

The management of public finances by the government is based on the principle of implementation of inertial programs. Budget expenditures are simply increased if necessary, creating risks in terms of debt sustainability, but no program analysis is performed, expenditures that have lost their expediency in the current situation are not identified and can be reduced (and there are many), as well as no guarantees of debt stability. In 2020 the public debt of Armenia was equivalent to 53.70% of Armenian GDP. This percentage per se does not mean much, however two other figures raise concerns. Ten years earlier (**Figure 18**) the debt was just 14.63% of GDP. It has grown very fast. The other more worrying information is that all, private and public, liabilities of Armenia with the rest of the world, exceed its assets abroad by a sum, which is equivalent to 80% of Armenian GDP. This figure is very worrying, it means that Armenians have to pay interests, rents and dividends to foreigners for almost 200 millions (1.58% of GDP) per year.

It should be noted that in the current situation of the economic crisis, the emergence of the government debt crisis, which will be accompanied by the impossibility of debt refinancing, can have catastrophic consequences for the Armenian economy.

⁸³ <https://armstat.am/en/?nid=157&id=800>

Figure 17. Public revenues and public expenditure

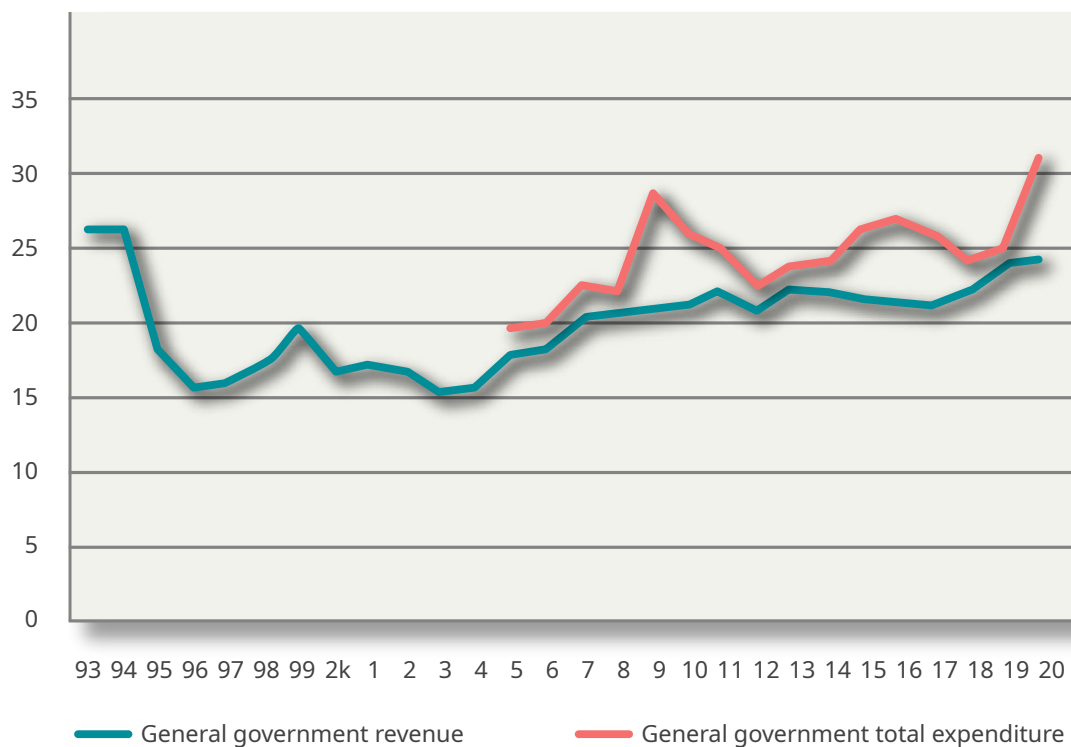
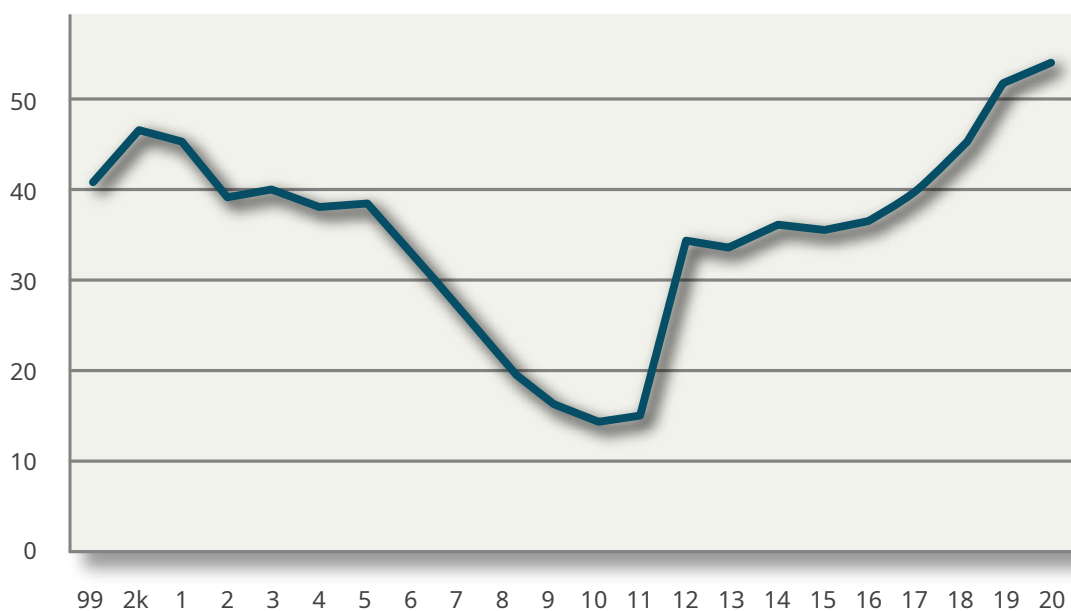


Figure 18. General Government Gross Debt



The Central Bank reacted sharply to the threats to the stability of the financial system by raising the interest rate. This will prevent currency outflows, stabilize the exchange rate and slow down further price growth. But at the same time, it will lead to a complete restraint of demand, further reducing economic activity. In the current situation, it can have long-term negative effects, so it is necessary to intervene in fiscal policy to give new impetus to the economy, which, however, is not provided for in the 2021 budget.

10. The armed conflict in Nagorno Kharabakh

10.1. The war

On September 11, 2020 at 17:00 the state of emergency in the Republic of Armenia ceased to function, on the same day the quarantine was established.⁸⁴ There was no ban on economic activity during the quarantine (unlike during the state of emergency and especially during its initial period), but the situation in terms of impact on the formalization changed dramatically on 27.09.2020, when the RA Armed Forces launched military operations against the Artsakh Republic. By the decision of the government of September 27, 2020 No 1586-N, the martial law was declared in Armenia. According to the 1st point of the appendix to the decision of the Government, a general mobilization was announced, with impact on the economy and the formalization process.

According to Article 5 of the RA Law on Employment, those, who are in compulsory military service, are considered as occupied (they do not enter in the number of the inactive or of those unemployed, but the compulsory military service is not considered employment. However, the RA legislation did not regulate employment in cases when a person voluntarily participates in hostilities. This was also problematic due to the fact that the participants in the voluntary hostilities were in danger of losing their jobs. On 09.10.2012 the National Assembly acted in order to prevent and normalize the voluntary military service. It clearly defined that the employee's job (position) must be maintained during military duties, enlistment in conscription units, as well as participation in training gatherings and military exercises. The new changes in the law also stipulate that in the above cases, if there no is other reason of dismissal, the employer shall remunerate the employee by agreement of the parties or by collective agreement. In this case, it should be borne in mind that the proposed regulation was a provision providing for additional remuneration during the mentioned period, as it referred to the cases when some remuneration for the employee is already provided by the state, but not by the employer.

Prior to the amendment, in accordance with the regulations of the current Code, the employee may be withdrawn from annual leave only with the employee's consent. However, it should be noted that taking into account the fact that, in case of declaration of martial law, the activities of state and territorial administration, local self-government bodies and organizations are transferred to martial law, and there may be an objective need for recalling employees of these bodies and organizations on leave. Therefore, in this case, the Labor Code established other regulations for the mentioned relations. Due to financial problems, the Code stipulates that in the case of martial law, an employee recalled from the leave will not be paid for the unused days of leave.

As a result of these measures, participants of the mobilization not only kept their jobs to a certain extent, but also acquired the status of employed and significantly increased the amount of formal employment.

⁸⁴ Decision of the Government of the Republic of Armenia No 1514-N

10.2. Refugees

On the other hand, due to the large number of refugees, the Armenian Government announced only one program aimed at providing three months of work to IDPs from lost territories in Artsakh, while the program was announced and launched, but an oral survey by the Ministry of Labor and Social Affairs revealed that that the state has not fulfilled its obligations to date, has not paid the salaries of the citizens who worked under that program.⁸⁵ During the meeting with members of the focus group, it became clear that the employer, due to the fact that the state did not fulfil its responsibilities at all, had to pay the employee in cash, actually contributing to the activation of the informal economy.

⁸⁵ 90 thousand refugees/IDPs according to data of the December 18 data of the RA MTA Migration Service.

11. The focus groups

In order to make this report more practical and effective, it was decided to organize several discussions with focus groups. The first focus group consisted of formal and informal companies from the trade, travel, printing, manufacturing and other industries. In this first group there were 12 members: 2 from trade industry, 2 from travel and tour services, a winery owner, a representative from soft drinks manufacturing company, a representative of cannery, an owner of oil manufactory, a representative from a tattoo saloon and a representative from a legal company.

The focus group methodology according to Wilkinson

The literature on this topic is wide, but we refer to Wilkinson (1998).⁸⁶ The focus group is an informal discussion among selected individuals about specific topics.

The members of the group may be drawn together specifically for the research- in which case it is usually recommended that groups are relatively homogeneous, particularly in relation to 'prestige' or 'status' factors such as occupation, social class, or age.

Discussions between group participants, directed to a greater or lesser degree by the group 'moderator', are usually audiotaped (sometimes videotaped) and transcribed.

Crucially, focus groups involve the interaction of group participants with each other as well as with the moderator, and it is the collection of this kind of interactive data which distinguishes the focus group from the one-to-one interview.

The 'hallmark' of focus groups, then, is the 'explicit use of group interaction to produce data and insights that would be less accessible without the interaction found in a group'.

Focus groups have been used in three main ways.

First, they have been used as an adjunct to other methods, as part of a multi-method research design.

Secondly, they have been used as a primary research method in their own right, perhaps most commonly to conduct phenomenological research on people's own views and understandings.

Then, they have been used as a form of participatory action research, with the aim of empowering participants and promoting social and political change.

⁸⁶ Wilkinson, Sue, 1998, Focus group methodology: a review, International Journal of Social Research Methodology, Volume 1, 1998 – Issue 3.

The two most common research designs involve:

(a) using focus groups in an initial exploratory or hypothesis generation phase, prior to developing a more structured and systematic interview schedule or questionnaire; and (b) using focus groups in a final follow-up phase, to pursue an interesting finding from a large-scale survey or simply to add richness and depth to a project. Our informality research falls in between.

Focus groups can appear cheap, quick and easy to run. However, there are a number of disadvantages to the method, including limited reliability and validity, and various forms of moderator and respondent bias. The moderator may push participants towards certain answers.

Focus groups are a particularly good choice of method when the purpose of the research is to elicit people's understandings, opinions and views, or to explore how these are advanced, elaborated and negotiated in a social context. The data generated by focus groups are interactive and qualitative -and therefore best suited to qualitative analysis, although some (limited) quantification may be undertaken. Focus group data are best reported with extensive illustrative extracts, which are often vivid and compelling to readers-and reports may consequently be lengthy. Focus groups are unlikely to be the method of choice when statistical data and generalizable findings are required: samples are usually small and unrepresentative, and it is difficult to make a good theoretical case for aggregating data across a number of diverse groups, or for making direct comparisons between groups.

The practical aspects of focus group methodology should not be overlooked or minimized. As with any qualitative method, the focus group researcher must pilot the question guide and test the procedure; spend time recruiting, briefing and debriefing participants; check and re-check the recording equipment; and pass many painstaking hours in transcription and analysis.

Recruitment is an important aspect. It can be difficult to get groups together (particularly professionals with over-stretched or inflexible work schedules) and impossible to run them if several people fail to turn up (it is always necessary to over-recruit).

Moderating a focus group requires very different skills from one-to-one interviewing, and is difficult to juggle with the practicalities of operating recording equipment and/or taking notes (a co-moderator or assistant is highly desirable).

Finally, co-ordination of activities 'on the day' (e.g., organizing room layout, materials, name badges, refreshments; managing staggered arrivals and departures; dealing with the specific needs of particular individuals without neglecting others) is typically a challenge and another good reason to have an assistant.

Focus groups provide access to participants' own language, concepts and concerns.

Some familiarity with the language habitually used by research participants is important both for effective communication and in order to develop an adequate understanding of their experiences and beliefs. Like one-to-one interviews, focus groups enable the researcher to listen to people talking. However, in focus groups, the research participants talk primarily to each other, rather than to the researcher, and they talk in a way which is more 'naturalistic' than a one-to-one interview.

Compared with a one-to-one interview, it is much harder for the researcher to impose her or his own agenda in the group context. Reduced researcher control gives focus group participants much greater opportunity to set the research agenda, and to develop the themes most important to them.

Focus groups encourage the production of more fully articulated accounts. In focus groups people typically disclose personal details, reveal discrediting information, express strong views and opinions.

It is an often-commented feature of focus groups that they 'allow respondents to react to and build upon the responses of other group members. In this way, focus group interactions encourage the production of more articulated accounts. This may occur either in response to disagreement or to agreement from other group members.

Contrary to the commonly accepted view that intimate or sensitive information is more likely to be elicited in a one-to-one context, focus groups typically facilitate disclosure of personal-sometimes discrediting-experience as accounts are articulated. Issues of confidentiality arise for the group as a whole, not just the researcher, and need to be addressed in any focus group project. Typically, the 'ground rules' for a focus group will include the stipulation that personal information should not be discussed outside the group context, but it is difficult, if not impossible, for the researcher to ensure that this stipulation is met. Other ethical issues in focus group research stem from group dynamics, insofar as participants can collaborate or collude effectively to intimidate and/or silence a particular member, or to create a silence around a particular topic or issue, for example. In such cases, it falls to the group moderator to decide whether/how to intervene, and it can be difficult to balance such conflicting goals as ensuring the articulation of accounts, supporting individuals, and challenging offensive statements.

Focus groups also offer an opportunity for researchers to see exactly how views are constructed, expressed, defended and (sometimes) modified during the course of conversations with others.

The second focus group consisted of formal and informal employees. The whole group consisted of 12 participants, but only 10 of them took part in the discussion. 2 of them were lawyers, one member was a freelance teacher, one member was an informal designer, a tour guide and a driver, 3 persons were involved in agriculture and the last member was an economist.

According to representatives of formal and informal business, one of the hardest problems in formal business is the rigidity of the tax code. Many different and difficult changes are frequently introduced into the tax code. Companies do not have enough time to learn and practice; for them making business is much more difficult, that's why even formal companies sometime have to work in informal way.

Some of business representatives said that they must omit the registration for some of their workers, because workers need to earn more, and instead of paying income tax, social security payment and mandatory pension contributions, companies pay these sums to their employees. On the contrary, a member of the employees focus group said that her director is not registering her and does not pay taxes and other payments only to get more profit.

In addition to the references mentioned in this report, participants of the focus group also raised many issues: the rudeness of administration especially from SRC, the delay of legislative reforms, the futility of new legislative changes, the ineffective and harmful activity under coronavirus lockdown, the lack of government assistance to businesses and employees, large fines, the lack of courses and trainings about formality and the lack of adequate assistance to the refugees.

The difficult issue was the inaccessibility of public discussions on the draft laws in the National Assembly especially when there is no public awareness about them.

At the same time, it should be noted that according to the focus group members, there is no sex discrimination in public bodies and in the private sector. The same situation is about corruption. It was not mentioned during the focus group discussions.

12. Conclusions, recommendations and achievements

12.1. Achievements in 2019

Based on the 2019 formalization report and validation workshop in Erevan a number of proposals were developed by workshop participants to facilitate the formalization of the informal economy:

1. In the 2019 report recommendations 1 and 2 suggested to promote the institution of social partnership and entrepreneurial culture among businessmen.

Standard social partnership usually foresees a dialogue between employers and employees. In this sense we cannot report major steps forward. However, a more limited dialogue about taxes, involving two components of the private sector (RUEA and other private organizations) and the public authorities, took place. On 05.10.2020 the RUEA, the government and other representatives of the private sector signed a trilateral agreement, which promotes the cooperation among them. The chairmanship of this dialogue rotates every year among the signatories.

2. In 2019 recommendations 4 and 5 proposed to promote formalization as a possible precondition for the development of companies and participation in public procurement.

From the legislative point of view, the tax system has changed. The income tax decreased, the profit tax has been reduced from 22% to 20%. This could bring positive effects on business formalization and development. However, COVID-19 and the Artsakh conflict had negative effects on the formalization of business and employees.

Some temporary schemes were developed to foster the hiring of refugees, who had lost their home as a consequence of the Nagorny Karabakh conflict. Similar schemes have been developed to foster the employment of young graduates without working experience. According to these temporary schemes, the formal hiring of an individual could be exempted from taxes. New formal jobs for members of these categories were able to obtain special employment conditions. In this way the registration and retention of employees could become easier. The aim of these schemes is consistent with the goal of fostering formal labour, but, at least in some cases, there were deficiencies with their implementation.

3. In 2019 recommendations 7 and 8 suggested to promote formalization as a guarantee of workforce development and career planning and parts of the last report proposed to significantly improve the administration of state bodies to identify ways to eliminate obstacles to formal status.

RUEA representatives provided the SRC administration with advice. At the same time, RUEA actively cooperated with the Health and Labor Inspectorate of RA.

4. In 2019 recommendation 12 suggested to promote the significant improvement of the administration of state bodies.

In June 2020⁸⁷ the total number of the staff of the Health and Labour Inspectorate has been increased by 60 FTEs, bringing it to 340. This should increase the ability of this organisation to foster better working conditions.

Over the past year and a half, RUEA has conducted more than 30 trainings, concerning the improvement of labour protection.

12.2. Recommendations:

Based on the problems presented in this paper, we propose to make the following changes to increase the level of formalization of the economy

1. To make appropriate legislative changes and ensure the existence and practical application of the powers of the Labor Inspectorate under Article 3.1.1 of the ILO Convention on Labor Activities;
2. To facilitate the strengthening or creation of independent trade unions, which could promote the effective protection of workers' rights and the formalization of informal employees;
3. To ensure a balanced presentation of the powers and functions of the state hygienic and anti-epidemic inspectorate and state labour inspectorate in the charter of the newly established Health Inspectorate;
4. To carry out the mission of protection and restoration of the employee's rights in legal documents related to the Labour Inspectorate;
5. To change the perception of the inspectorate as a punitive body, through public awareness, trainings and working discussions with stakeholders. The same applies to the State Revenue Committee;
6. To establish the institute of alternative tax inspections, to introduce a mechanism of inspections by the labour inspectorate on a voluntary basis, on the initiative of the employer. In case of inspections initiated by the employer, they must exclude the application of the measures of responsibility defined by the legislation, envisaging a procedure for complying with the instructions.
7. To ensure a sufficient number of labour inspectors in line with the requirements of ILO Convention No. 81. Justify any reduction of human resources (also, so far) with a substantiated analysis based on measurable, quantitative data;
8. To organize training for labour inspectors in the areas of flexible working conditions and labour relations, the activities of virtual organizations, the impact of new technologies on working conditions and other current topics;
9. To ensure the specialization of labour inspectors and their continuous development by areas of work (trade, services, manufacturing, etc.) and by certain risk groups (e.g., street children, migrants, unregistered workers, etc.);

⁸⁷ By the decision of the Prime Minister No. 808-A of July 16, 2020.

10. To establish a specialized training Centre for training, retraining and continuing education of labour inspectors. In this respect, the experience of the State Revenue Committee is exemplary;
11. To establish a minimum level of non-taxable salary that is not subject to any type of taxation or payment;
12. To launch a pilot program in which organizations that will move from informal to formal activities within 3 months will be exempt from liability and all types of tax liabilities except income tax for employees. This will significantly contribute to the formalization of the economy, providing additional income for the state in the future;
13. To reduce the amount of cash payments through legislation by setting cash thresholds, while ensuring the availability of certain bonus benefits in the initial period (at least 3 years), to encourage non-cash payments;
14. To conduct public hearings, awareness and seminar discussions on labor rights through relevant ministries, especially among young people, presenting the benefits and guarantees of formal employment;
15. To refrain from launching projects in economically difficult times that will not be fully and timely implemented;
16. To strengthen the relationship between the Ministry of Labour and Social Affairs, the State Employment Agency and the private sector, having a common database of unemployed and jobseekers to fill vacancies quickly, which can be done by sending a mobile application or email according to pre-provided data and specialty;
17. To set a period of at least one month for the entry into force of new normative-legal acts affecting the tax system, during which to present the changes through private visits and awareness sheets.
18. To establish legislation to fully and properly regulate the voluntary work. It is desirable that the legislation regulating voluntary work to be included in the Labor Code in the form of a separate chapter in order to ensure the comprehensiveness of the laws;
19. To increase the budget of the Ombudsman in order to increase the efficiency of the study of labour rights and freedoms.

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Appendix

A. Distribution of workers by sectors

	Total		From total to sectors	
			Public servants	Private sector
A - S	610 427	TOTAL	202 660	407 767
A	6940	Agriculture, forestry and fishing	1 348	5 592
B	10321	Mining industry and Exploitation of open pits	–	10 321
C	72297	Manufacturing	–	72 297
D	19730	Electricity, gas, steam and good air supply	1 630	18 100
E	6404	Water supply, sewerage, waste-Management and Recycling	2 800	3 604
F	20003	Construction	151	19 852
G	106120	Wholesale and retail trade, cars and motorcycles repair		106 120
H	19857	Transportation and spare economy:	8 120	11 737
I	23756	Accommodation and Catering organization:	–	23 756
J	29137	Information and communication	1 619	27 518
62, 63.1	17 698	Information Comm. technologies	91	17 607
K	20 890	Financial and insurance activities	908	19 982
L	8 037	Real state economy	937	7 100
M	21 003	Professional, scientific-technical activity	6 368	14 635
72	5 438	scientific research and developments	4 508	930
N	14 933	Administrative and support service activities	2 276	12 657
O	35 758	Public administration and protection, compulsory social security	35 758	
P	111 892	Education	103 942	7 950
Q	47 583	Healthcare and social service	27 127	20 456
R	16 004	Culture, entertainment and rest service	9 239	6 765
90-91	9 557	of which, art and culture	8 998	559
S	19 762	Other services	437	19 325

B. International and foreign regulation of voluntary work

Many countries have regulated voluntary work. For example, in Austria, Denmark, Estonia, Finland, France, Germany, Greece, Ireland, Lithuania, the Netherlands, Slovakia, Sweden and the United Kingdom, the problem has been solved with normative-legal acts.^{88, 89, 90} Many European countries^{91, 92, 93, 94} have laws^{95, 96, 97, 98, 99} on volunteer work,

⁸⁸ https://m.facebook.com/ministryofhealthcare/photos/a.1455069768067481/2588298178077962/?type=3&nd_tn_=%2As%2AsH-R

⁸⁹ <https://www.azatutyun.am/a/30497724.html>

⁹⁰ Belgium, Cyprus, Czech Republic, Hungary, Italy, Latvia, Luxembourg, Malta, Poland, Portugal, Romania, Spain, Bulgaria, Slovenia.

⁹¹ In Latvia The Law on Associations and Foundations accepted in 2003 defines volunteering as unpaid work or the provision of services by an individual without being in a legal employment relationship, and which is aimed at achieving the goals set forth in the association or foundation. Unpaid work or service for the benefit of a volunteer, volunteer company or beneficiary that pursues a profit or commercial activity may not be considered as voluntary work. Youth volunteering, defined as "Youth Volunteering", should focus on community service activities and contribute to the development of knowledge, skills, abilities and attitudes, as well as the useful use of leisure time.

⁹² In Malta according to the Voluntary Organizations Legal Act of December 11, 2007, a "volunteer" is a person who provides unpaid services through or for a voluntary organization. Therefore, volunteering is done voluntarily, by choice and motivation and without financial gain. The legal act also defines the "volunteer sector", which includes voluntary organizations, volunteers, voluntary organizations providing monetary or asset grants, beneficiaries of volunteer and volunteer services and managers of such organizations.

⁹³ In Poland Volunteering is regulated by the Law on Public Benefit and Volunteering. According to that legal act, "A volunteer is a person who voluntarily and without remuneration provides services in accordance with the law." The law further stipulates that a person who acts voluntarily must be properly qualified and meet the benefit criteria provided by him / her if other legal acts provide for legal acts on such qualifications or requirements. Individuals who decide to start or join an organization are not volunteers because they provide services for the benefit of the organization. Other definitions are used in Poland. The network of volunteer Centres defines a volunteer as "an individual who voluntarily and unpaid provides benefits to organizations, institutions, and individuals outside of family or friends." Klon / Jawor defines volunteering as "an individual's unpaid contribution to social activities performed voluntarily for non-governmental organizations, religious and social movements."

⁹⁴ In Portugal Volunteering was legislated in November 1998. The law defines "volunteering" as a set of "community and social interest measures" carried out by individuals without economic gain, in the interests of individuals, families or communities in need of non-profit, government or private organizations. The law excludes from its scope activities that are carried out in an isolated or sporadic manner or on the basis of family, friendship or similar relationships, assuming that these activities must be carried out on a regular basis. "Volunteer" under Portuguese law is a natural person who freely and responsibly dedicates himself / herself to volunteering in the organization according to his / her skills and free time without expecting payment.

⁹⁵ In Belgium The Law on the Right to Volunteer provides a general definition to define the exact meaning of volunteering. Volunteering is not paid. Volunteers volunteer for free. Volunteers may receive a limited amount of money to cover their expenses. Volunteering does not involve coercion. The volunteer carries out activities without any obligation and the latter can not be forced to carry out any activities. Volunteering is done for others or the community. Volunteering means being helpful to those who are not family or acquaintances, in the organization or in society in general, and it should be distinguished between volunteering and professional activities. A volunteer cannot carry out the same activity and as an employee and, voluntarily for the same employer. A volunteer may volunteer in his / her own organization only on the condition that he / she clearly distinguishes between the activities he / she carries out as a paid staff and as a volunteer.

⁹⁶ In Cyprus according the law accepted in 2006, a "volunteer" is defined as "a person who offers his service to individuals or groups or to society in general, directed to social or other needs without any remuneration, financial or other services or other means

⁹⁷ In Czech Republic The Act on Volunteering adopted in 2002 gives the legal definition of "volunteer". He / she can be an employee / unemployed person, a student, a pensioner, etc. and volunteering should be based on his / her abilities and skills. It should be noted that there is a difference between two different types of volunteers: mutually beneficial volunteering (informal volunteering) and community benefit

which is an effective tool against non-formal work at volunteer sector and necessary legal acts to prevent labor abuse.¹⁰⁰ Also, specific regulations and chosen legal acts are helping to distinguish employees from the volunteers, separate them and solve their problem in each specific way¹⁰¹ without losing time and experience.

The ILO defines volunteering, as time that individuals spend unpaid in the course of their activities, either through the organization or directly for others outside their own family. In addition to the above, in 2012 The Youth Initiative Forum, in partnership with the Council of Europe European Commission and the European Youth Foundation, launched the European Charter of Volunteer Rights and Responsibilities. The Charter provides the following definition of "volunteerism": Volunteering is done by volunteers. The activity is carried out for a non-profit and does not replace paid staff. The activity can be carried out within the framework of volunteering providers or on the volunteer's own initiative.

The Charter provides several provisions for volunteer service providers, two of which are guidelines to regulate the field of volunteerism.

Article 27: Income of voluntary service organizations shall not be taxed.

Article 28: Voluntary service organizations shall select volunteers according to their mission and vision, as well as taking into account the specific skills and profiles of the volunteers, if certain volunteering activities require them.

volunteering (formal volunteering).The above-mentioned Law on Voluntary Service refers only to official volunteering. The criterion for describing the activity as a publicly beneficial volunteer is based on the following: how useful the activity is in its community (e.g., scouts, maternity ward, sports club, etc.) or how useful it is to others (e.g., nursing home, children with disabilities, animal welfare, etc.).

⁹⁸ The Hungarian Law on Voluntary Activities for Public Interest, adopted in 2005, defines "voluntary activities for public purposes" as work performed in a host organization without compensation. The pre-war traditions, the state socialist experience and the American and Western European models, which create a mixture of terminology, have influenced the everyday definitions of the Hungarian non-profit sector. "Volunteering and volunteer organizations are intertwined with the so-called 'civil sector' and seldom act on their own.

⁹⁹ In Italy The term "volunteering" in Italy refers to all types of activities, whether formal or informal, part-time or part-time, at home or abroad. It is done voluntarily, by choice and motivation and without any concern for financial gain. It helps individual volunteers, communities and the community at large. It is also a tool for individuals and associations focused on human, social or environmental needs and concerns. Formal volunteering adds value but does not replace skilled and paid employees.The Law on Volunteering (1991) explicitly states that volunteering should be spontaneous, gratuitous, non-profit, and should be undertaken solely for the purpose of solidarity. The volunteer "operates on a free and unpaid basis, contributing to creative and effective responses to the needs of the beneficiaries of its activities and the realization of public good."

¹⁰⁰ In Romania legal acts connected to the volunteerism was adopted in 2001 and amended in 2006. It defines volunteering as: A) Volunteering is a charitable activity that is done voluntarily by a person and is aimed at helping others without motivating them to earn financial or material income. B) Beneficial activities are carried out in various fields, such as social assistance and service, environmental protection, culture, education, arts, etc. C) The organization hosting or volunteering should be a non-profit private or public organization operating for a charitable purpose. D) If the contract is concluded, the volunteer is obliged to carry out charitable activities without receiving financial compensation. E) The beneficiary can be an individual or an organization; The organization signing the contract with the volunteer does not have to be identical with the beneficiary of the volunteer activity.

¹⁰¹ In Spain Volunteering is defined by law as a group of activities of general interest formed by individuals who are not engaged in employment, public service, trade, or any other paid relationship. Volunteering outside of isolated, sporadic, or individual non-profit or nonprofit organizations, motivated by family relationships or company, is excluded from the context of volunteering.

