

## Entrepreneurship in Armenia

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### Abstract

The Armenian economy is mostly private and is characterized by a strong big business sector. But despite common perceptions, the share of small and medium-sized enterprises in the economy is growing. Key obstacles for Armenia's small businesses are corruption, lack of protection for investments and property, and the complexity of the tax administration.

### Background

In the Soviet Union, the entire economy was state owned. However, before it seceded from the USSR, Armenia started to create a private economy. On November 30, 1990 the Council of Ministers of the Republic of Armenia adopted a decision "On the privatization of both industrial and non-industrial objects" which marked the beginning of the large-scale privatization of state property. The privatization of land and its distribution among the peasants began in March 1991.

Privatization proceeded quickly and if at the end of 1990 only 11.7% of the GDP of the country was carried out by private enterprise, in a year, this proportion had increased to 32.7%, and by 1998 comprised 74.5% of the entire economy<sup>1</sup>. Privatization was practically complete by 2004, when the share of the private sector reached 84% of the economy. It has not grown since then<sup>2</sup>, while the number of state companies is only 0.7% of all registered firms<sup>3</sup>.

By 1998, industry, transport and public services still were not fully privatized, while such micro-business as retail traders and small farms were totally private. For comparison, in many other former Soviet republics, the share of the public sector in the economy was much higher. In Georgia, the main privatization took place in 2005–2008 and in Russia many large enterprises are still owned by the state.

However, since privatization in Armenia was not planned properly and was carried out by the transfer of vouchers for public property to the population, the result has been that the state received almost nothing

from privatization;<sup>4</sup> at the beginning of the privatization process, state property holdings were estimated at 20–40 billion dollars.<sup>5</sup> Another consequence of privatization was the growing polarization in society: by the early 1990s, the majority of the population being in extreme poverty<sup>6</sup> preferred to sell their vouchers, which were quickly concentrated in the hands of a small group of individuals. First, they privatized all objects associated with the food industry and trade. At the same time, many heavy industrial plants were closed and for the first time in Armenia, large-scale industry was concentrated.

In 1990, industry and construction, two spheres of the economy which were dominated by large enterprises, made up 54.6% of GDP. By 2000, this number fell to 38.4% of GDP and to only 35.4% of GDP in 2010.<sup>7</sup> Accordingly, the major enterprises lost their share in Armenia's economy. By contrast, the agricultural sectors, as well as retail and service sectors have been developing. And if in the area of trade Armenia has several large retail chains, small and medium businesses dominate much of the services sector and most of the agricultural sector.

### Large Enterprises in Armenia

A new phenomenon for the Armenian economy has been the emergence of influential owners in the late 1990s; they have mastered the former state-owned enterprises or occupied dominant positions in foreign trade. In public discourse, they are called "oligarchs"

1 Peculiarities and Stages of Economic Reforms In Armenia 1991–1998, National Statistical Service of Armenia, p. 4. [armstat.am/file/article/tntbar\\_91-98eng\\_1.pdf](http://armstat.am/file/article/tntbar_91-98eng_1.pdf)

2 Small and Medium Entrepreneurship Development National Center of Armenia, SME in figures [smednc.am/?laid=1&com=module&module=menu&id=189](http://smednc.am/?laid=1&com=module&module=menu&id=189)

3 Firms with private domestic ownership make up 89.9% of all firms, firms with private foreign ownership: 7.7%; with state ownership: 0.7%. See WB, IFC Enterprise Surveys Website, Rev. 7, 2011. Running a Business in Armenia [www.enterprise-surveys.org/~media/FPDKM/EnterpriseSurveys/Documents/Country%20Notes/Armenia-09.pdf](http://www.enterprise-surveys.org/~media/FPDKM/EnterpriseSurveys/Documents/Country%20Notes/Armenia-09.pdf)

4 Foreign direct investment to the Armenian economy during 1992–1996 totaled only \$54.4 mln.

5 See Oleg Gasparyan. Armenian experience in mass privatization (Rus.), Central Asia and Caucasus #2, 1999 [ca-c.org/journal/cac-02-1999/st\\_09\\_gasparjan.shtml](http://ca-c.org/journal/cac-02-1999/st_09_gasparjan.shtml)

6 In 1992, GDP per capita in Armenia was only \$87.8, making Armenia one of the poorest societies in the world. See Peculiarities and Stages of Economic Reforms In Armenia 1991–1998, National Statistical Service of Armenia, p. 3. [armstat.am/file/article/tntbar\\_91-98eng\\_1.pdf](http://armstat.am/file/article/tntbar_91-98eng_1.pdf)

7 Statistical Yearbook of Armenia, 2011 p. 581 [armstat.am/file/doc/99466733.pdf](http://armstat.am/file/doc/99466733.pdf)

and often demonized,<sup>8</sup> often with the use of leftist or “green” rhetoric<sup>9</sup>.

Initially in the privatization process, the largest and most profitable trading enterprises were taken by the combatants who returned from the Karabakh war and filled many high level government positions. Later the most successful merchants joined this class and gradually forced the former soldiers out of their government positions and partly out of the economy.

The new class of influential owners that rose in the late 1990s–early 2000s became a kind of a corporation and its representatives jointly entered high-level state positions, where they were well represented.<sup>10</sup> They achieved the greatest representation in the parliament elected in 2007; according to the opposition they gained 76 seats out of 131.<sup>11</sup>

Soviet Armenia was an industrialized republic that manufactured high-tech products. However, much of the production belonged to the military industry, and the enterprises of Armenia produced an estimated 40% of the total output of the USSR military electronics<sup>12</sup>. Since the industry did not adapt to the needs of the peacetime economy, it simply stopped working.

What are the major enterprises in Armenia today? According to the 2011 ranking of the largest taxpayers, most of the top ten companies are natural monopolies. In addition, among the largest companies are distribution networks, telecommunication companies, and companies involved in the sales or import of essential goods. Another important feature of the largest companies is that most of them partially or totally represent foreign capital.<sup>13</sup>

First place in the list belongs to the Zangezur copper-molybdenum plant, representing the mining industry. It

provides 3.5% of all taxes<sup>14</sup> and has a significant share in the country’s exports. In second place is “ArmRosGazprom”, which provides gas supply and distribution across the country’s pipeline network. In third place is the telecommunication company “K-Telecom”, fourth is “Alex Grig” primarily engaged in importing, fifth: “Armenia Telecom Company”, representing the telecommunications sector, sixth is “City Petrol Group”, seventh: “Electric networks of Armenia”, eighth: “Flash”, which sells gasoline, ninth is the “International Airport of Armenia”, and in tenth place is the construction company “HAEK”.

The industrial sector today consists of the mining industry, electricity production, and light industry (mostly food production). Big business is well represented in the mining and energy sector, while the food industry is diversified. As of 2010, large businesses made up 57% of GDP in Armenia<sup>15</sup>.

### Small and Medium Enterprises in Armenia

Prime Minister Tigran Sargsyan and President Serzh Sargsyan have repeatedly made statements about the need to support small and medium enterprises in Armenia.<sup>16</sup> There is a wide spread perception that big business poses a danger to Armenia through the ongoing concentration and monopolization of the economy. In fact, data do not confirm the thesis that the economy is increasingly being monopolized. During all recent years, small and medium enterprises have increased their presence in the economy.

By contrast, in Georgia, there is an ongoing consolidation among businesses and the share of SMEs is declining: In 2000, small and medium enterprises made 33% of GDP<sup>17</sup>, in 2003: 29.4%<sup>18</sup>, and by 2010 this figure had dropped to 15%. Small and medium enterprises in 2011 amounted to 16.5% in the total turnover of business in Georgia, showing a permanent decline during the last decade, with the exception of the crisis year 2009<sup>19</sup>.

8 For ex. see Hakob Badalyan. How Oligarchy Wastes Armenia. Mar. 23, 2012. [Lragir.am/lragir.am/engsrc/comments25555.html](http://Lragir.am/lragir.am/engsrc/comments25555.html)

9 “However, observers believe for the city authorities, which defend the interests of private property to the detriment of municipal green space, as many say, it has become a matter of principle, and they are unlikely to give up.” Naira Hayrumyan. Experts: Armenian oligarchy’s fate at stake in Mashtots Park. Apr. 2, 2012. ArmeniaNow.com [armenianow.com/society/environment/37004/yerevan\\_mashtots\\_park\\_pavilions\\_dismantling](http://armenianow.com/society/environment/37004/yerevan_mashtots_park_pavilions_dismantling)

10 Alexander Iskandaryan. Armenia between autocracy and polyarchy (Rus.), Pro Et Contra, #3–4, 2011. Carnegie Endowment for International Peace Moscow Centre [carnegieendowment.org/files/ProetContra\\_52\\_19-28.pdf](http://carnegieendowment.org/files/ProetContra_52_19-28.pdf)

11 Arshaluys Mghdesyan. General Elections in Armenia: Oligarchs will be replaced by their representatives? (Rus.) Nov. 30, 2011 Regnum.ru [regnum.ru/news/1472984.html](http://regnum.ru/news/1472984.html)

12 See Military Industry of Armenia. (Rus.) Military Caucasus [mil.kavkaz.net/?q=node/94](http://mil.kavkaz.net/?q=node/94)

13 See the full list here: [express.am/taxes/taxes7.pdf](http://express.am/taxes/taxes7.pdf) (Arm.)

14 For more detailed information on Armenian state budget and tax income, see Socio-Economic Situation of RA, January–December 2011, p. 104 (Arm.) National Statistical Service of Armenia, [armstat.am/file/article/sv\\_12\\_11a\\_211.pdf](http://armstat.am/file/article/sv_12_11a_211.pdf)

15 SME share totals 43% of Armenia’s GDP. Sep. 14, 2011. Pan-Armenian.net [panarmenian.net/eng/news/78037/](http://panarmenian.net/eng/news/78037/)

16 See for example: Serzh Sargsyan at the 13<sup>th</sup> Republican Convention. Mar. 10, 2012 A1Plus.am [a1plus.am/en/official/2012/03/10/president](http://a1plus.am/en/official/2012/03/10/president); PM Answers Questions of Interest to Political Analysts, Journalists. Jun. 6, 2012 [gov.am/en/interviews/1/item/3200/](http://gov.am/en/interviews/1/item/3200/)

17 Vladimir Khikhadze. Small business loses its share in Economy. (Geo) Mar. 12, 2012 Banks and Finances [bfm.ge/banks/3642..html](http://bfm.ge/banks/3642..html)

18 Small and Medium-Sized Enterprises in the Caucasian Countries in Transition. Experience in Armenia, Azerbaijan and Georgia. p. 9 UNITED NATIONS. New York and Geneva, 2006 [erene.org/country/unece\\_cau.pdf](http://erene.org/country/unece_cau.pdf)

19 Production Value By Enterprise Size. National Statistics Office of Georgia [geostat.ge/cms/site\\_images/\\_files/english/business/by%20](http://geostat.ge/cms/site_images/_files/english/business/by%20)

In Armenia, the methodology for determining the size of the business differs from that in Georgia: if in Georgia enterprise size is determined by its turnover, in Armenia it is determined by the number of people employed. In all spheres the micro-enterprises are considered those that employ up to 5 people. Small enterprises in industry are considered those that employ up to 50 people, in education and energy: up to 25 people, and in transport, trade, services, etc.: up to 25 people. Medium industry enterprises in Armenia are those that employ up to 100 people, education and energy: up to 50 people and services: up to 30 people. All others are considered large.<sup>20</sup>

Tables 1 and 2 on p. 14 present data on small and medium enterprises in Armenia.

As we can see, each year more than 10,000 new small and medium enterprises are registered as opposed to 200 to 400 new large companies. Most companies are now registered as SMEs and the statistics for the first six months of 2012 show that there are 6,047 newly registered individual entrepreneurs, 1,479 limited liability companies and 54 joint-stock companies (both open and closed).<sup>21</sup>

Thus, we see that the small and medium businesses are gradually increasing their share in the economy and Armenia is ahead of many countries in the region, including Azerbaijan (15%), Bulgaria (33.3%), Moldova (28.9%) and even Greece (27%)<sup>22</sup>, but is behind more developed countries, where SMEs make up nearly 50% of GDP.<sup>23</sup>

It is worth mentioning that compared with the domestic market, the presence of SMEs in international trade is significantly lower: SMEs share of exports is 18%, while its share of imports in recent years fluctuated around 35–38%, and in the crisis year fell to 26.2%. However, Armenia is not unique in this regard. In the Netherlands,

where the SME's share in GDP is 50%, SMEs provide only 27% of overall imports and 19% of exports.<sup>24</sup>

Another reason for the low level of SMEs in international trade is the high cost of cargo transportation, especially taking into account Armenia's landlocked position and the transport blockade.<sup>25</sup> The export of one container costs in average of \$1,815 (\$1,595 for Georgia, \$1,153 for Greece), and the import of one container costs about \$2,195 (\$1,715 for Georgia, \$1,265 for Greece).<sup>26</sup> The decline in the share of SMEs in imports in 2009 was due to a rise in the price of transportation costs by 44% in 2009, which imposed too heavy a burden for the small and medium-sized importers.

### Armenian Businessmen's Reaction to the Crisis

Before the crisis, Armenia's economy has been growing rapidly due to favorable external conditions: inflow of foreign currency, the growth of foreign markets and domestic demand. After the recession the recovery in Armenia has been slow. GDP fell 14.1% in 2009, while it grew only 2.2% in 2010 and 4.7% in 2011,<sup>27</sup> the Armenian economy is still far from making a full recovery whereas the economy of Georgia has recovered and exceeded pre-crisis levels.<sup>28</sup>

In 2009, exports decreased by 30%. Private transfers, which financed household consumption and the construction sector, fell by the same amount. In this situation, most companies were able to survive but faced reduced turnover.

Therefore, Armenia has also been able to avoid large-scale layoffs: in 2009 employment dropped by about 4%, but most of them were at non-permanent jobs. As for full-time jobs, in some cases, salaries were cut, but layoffs mostly were avoided.<sup>29</sup>

size%20of%20enterprises/production%20value.xls

20 Small and Medium Entrepreneurship Sector in Armenia 2007–2009, p.5. Small and Medium Entrepreneurship Development National Center of Armenia. [smednc.am/download.php?f=1252&fc=REFERENCE%202007-2009%20english.pdf](http://smednc.am/download.php?f=1252&fc=REFERENCE%202007-2009%20english.pdf)

21 According to Socio-Economic Situation of RA, January–February... January–July, 2012. National Statistical Service of Armenia.

22 Dr. Antal Szabó. Development of entrepreneurship and SME sector in the BSECRegion. ERENET Profile. ISSUE Vol. VI No. 4, p. 15. Oct.2011, UN. [erenet.org/publications/profile24.pdf](http://erenet.org/publications/profile24.pdf). It should be noted that the methodology used for counting SMEs in GDP for Albania and Romania differs from others. While Albania shows 70% SME share in GDP, there are only 21.8% employed in SME (See Erenet issue Vol. VII No 2. May, 2012. [erenet.org/publications/profile26.pdf](http://erenet.org/publications/profile26.pdf))

23 For more details, see: Meghana Ayyagari, Thorsten Beck, and Asli Demirgüç-Kunt. Small and Medium Enterprises across the Globe: A New Database, p. 22. Aug. 2003. World Bank [www-wds.worldbank.org/external/default/WDSContentServer/1W3P/IB/2003/09/30/000094946\\_0309160409277/additional/106506322\\_20041117160012.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/1W3P/IB/2003/09/30/000094946_0309160409277/additional/106506322_20041117160012.pdf)

24 Moritz Roth. SMEs in the Netherlands. Making a difference, April 13, 2011 p.5. Deutsche Bank Research. [dbresearch.com/PROD/DBR\\_INTERNET\\_EN-PROD/PROD0000000000271742/SMEs+in+the+Netherlands%3A+Making+a+difference.PDF](http://dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD0000000000271742/SMEs+in+the+Netherlands%3A+Making+a+difference.PDF)

25 Even before gaining independence, Armenia faced blockade from Azerbaijan and since gaining independence also from the Turkish side. Thus, 84% of officially recognized borders of Armenia, or 1050 km., are blocked.

26 Country Profile: Armenia, p. 12. Doing Business. World Bank, International Finance Corporation [doingbusiness.org/~media/fpdkm/doing%20business/documents/profiles/country/ARM.pdf](http://doingbusiness.org/~/media/fpdkm/doing%20business/documents/profiles/country/ARM.pdf)

27 See Gross Domestic Product at market prices, Time Series. Armenian National Statistical Service [armstat.am/en/?nid=126&id=01001](http://armstat.am/en/?nid=126&id=01001)

28 In 2009, decline consisted 3.8%, while in 2010 GDP grew by 6.3% and in 2011 by 7.0%. See Gross Domestic Product of Georgia in 2011. National Statistics Office of Georgia [geostat.ge/cms/site\\_images\\_files/english/nad/GDP\\_2011\\_\\_press-release\\_\\_Eng1.pdf](http://geostat.ge/cms/site_images_files/english/nad/GDP_2011__press-release__Eng1.pdf)

29 According to Socio-Economic Situation of RA, January–December, 2011, p. 88 (Arm.) National Statistical Service of Armenia [armstat.am/file/article/sv\\_12\\_10a\\_141.pdf](http://armstat.am/file/article/sv_12_10a_141.pdf)

However, despite the significant decline in foreign trade, local businesses partially reoriented to meet domestic demand, which decreased less than foreign trade. During the crisis in 2009 about 90% of production by enterprises was sold in Armenia, and only 10% exported.<sup>30</sup>

Each sector performed differently. The first shock hit industry and construction, while agriculture, trade and services showed smaller declines. The most dramatic reduction came in construction, which is heavily dependent on foreign transfers made by diaspora Armenians. As the crisis in Armenia's construction began later than in the U.S., at some point, real estate purchased by American-Armenians in Yerevan, had comparable prices as in California. As a result, many American-Armenians have sold their property in Armenia and bought real estate in the U.S., which they could not afford earlier. Prices in the real estate market fell, with a negative impact on the construction sector and the Armenian currency exchange rate.

The weakening of large enterprises has led to the fact that small and medium enterprises in 2009 amounted to 30.6% of total industrial production (comparing to 22.3% in 2008), a similar situation took place in the transport sector, where the share of SMEs increased by 7.2% and reached 28%.

On the other hand, in construction, the most affected sector during the crisis, the share of SMEs dropped since many small construction firms went out of business because of the increased competition while those that remained saw their income decline. Another consequence of the crisis was the closure of many small companies, which previously had operated in the shadows. The crisis has forced the government to seek new sources of revenue for the treasury and has required these firms to pay taxes. These companies were located mostly in the poorer regions of Armenia.

### Business Environment in Armenia

According to the Index of Economic Freedom prepared by the Heritage Foundation, the Armenian economy is "moderately free" and close to being ranked "mostly free," taking 39<sup>th</sup> place in the world, ahead of several advanced economies. On most of the technical indicators, Armenia shows good or very good results: for example, a high score in business freedom, labor freedom, monetary freedom, trade freedom, fiscal freedom, etc. However, estimates in the rule of law section, such as the protection of property rights and freedom from corruption, are very low.

According to another report, the World Bank Ease of Doing Business Index 2011/2012, Armenia held the 55<sup>th</sup> position and with five reforms implemented in 2011 is one of the leaders in carrying out reform.<sup>31</sup> Since Armenia is suffering from a lack of investment, the government is trying to fix the business environment in order to attract potential investors. As one of the five reforms in 2011, Armenia made starting business easier by establishing a one-stop shop that merged the procedures for name reservation, business registration and obtaining a tax identification number and by allowing for online company registration.<sup>32</sup> Thus, the business environment in Armenia is gradually improving.

Despite the majority of good results, Armenia showed one of the worst results in tax administration, taking 153<sup>th</sup> place in the world. The main tax rates are not very high. Thus, the income tax in Armenia ranges from 10 to 20%, while in Austria it spans from 36.5% to 50%.<sup>33</sup> In this case, there is a public inquiry to increase the upper limit of taxes for large enterprises and use a progressive tax.<sup>34</sup> But despite the comparatively low tax rate and some improvements in the administration of its payment, it is still a problem: the businessman in Armenia has to make 34 payments and spend 500 hours on paying taxes each year.<sup>35</sup> This complexity increases the risk of corruption in the tax area and poses a problem for small and micro enterprises.

According to many SME representatives, large business is in a privileged position in the tax sphere and that is how they explain why a large proportion of SMEs operate in the shadows. Partially, in the shade are big businesses that seek ways to split up their businesses to get tax benefits. For this reason the tax collection rate remains low and amounts to 17% of GDP, excluding social security contributions. However, in late 2011, the Government of

30 See WB, IFC Enterprise Surveys Website, Rev. 7, 2011. Running a Business in Armenia, p. 4 [enterprisesurveys.org/~media/FPDKM/EnterpriseSurveys/Documents/Country%20Notes/Armenia-09.pdf](http://enterprisesurveys.org/~media/FPDKM/EnterpriseSurveys/Documents/Country%20Notes/Armenia-09.pdf)

31 See Doing Business Report 2011–2012, p. 6. WB, IFC. [doingbusiness.org/~media/FPDKM/Doing%20Business/Documents/Annual-Reports/English/DB12-FullReport.pdf](http://doingbusiness.org/~media/FPDKM/Doing%20Business/Documents/Annual-Reports/English/DB12-FullReport.pdf)

32 Country Profile: Armenia, p. 20. Doing Business. World Bank, International Finance Corporation [doingbusiness.org/~media/fpdkm/doing%20business/documents/profiles/country/ARM.pdf](http://doingbusiness.org/~media/fpdkm/doing%20business/documents/profiles/country/ARM.pdf)

33 See Georgia: Selected Issues, p. 39. Apr. 2011, International Monetary Fund [www.imf.org/external/pubs/ft/scr/2011/cr1193.pdf](http://www.imf.org/external/pubs/ft/scr/2011/cr1193.pdf)

34 According to Caucasus Institute Parties Pre-election Promises, this promise was one of the most common and was made by practically all parties, including members of ruling coalition. See: Nina Iskandaryan, Hrant Mikaelian, Tatev Sargsyan. Parties Pre-Election Promises. [c-i.am/wp-content/uploads/2012/05/brief-prefinal.pdf](http://c-i.am/wp-content/uploads/2012/05/brief-prefinal.pdf) (Rus)

35 Country Profile: Armenia, p. 70. Doing Business. World Bank, International Finance Corporation [doingbusiness.org/~media/fpdkm/doing%20business/documents/profiles/country/ARM.pdf](http://doingbusiness.org/~media/fpdkm/doing%20business/documents/profiles/country/ARM.pdf)

Armenia developed a package of reforms aimed at equalizing the conditions for SMEs and large companies.<sup>36</sup>

Among other results, it is worth mentioning insufficient level of protecting investors, in which Armenia takes the 97<sup>th</sup> place in the world. Thus, the three major problems affecting Armenia's ratings are corruption, lack of protection for investments and property, and the complexity of the tax administration.

### Corruption

The topic of corruption deserves detailed attention. The fact is that the assessment of corruption embedded in the Index of Economic Freedom is a reflection of Armenia's Transparency International Corruption Perception Index. Armenia ranks low in this index, earning 2.6 points out of a possible 10, which shows a deterioration since 2005. Is the corruption environment worsening in Armenia?

According to the Transparency International Global Corruption Barometer 2009, 22% of respondents in Armenia reported that one of their household members paid a bribe in the past 12 months. According to the results of Global Corruption Barometer 2010/2011, this number improved to 19.4%. Certainly, this is not the only measure to estimate bribery and corruption, but it makes it possible to compare with different countries. As we see in Table 3 on p. 15, among the many countries there is no direct correlation between the perception of corruption and how often people give bribes.

Thus, we see the contrast between the dynamics of perceived corruption and its actual physically measured indicator as a proportion of those who gave a bribe in the past year in the population.

Other studies show similar results. For example, according to the EBRD 2005 Transition Report, Armenia showed one of the best results in the EBRD region in terms of freedom from corruption and was only slightly lower than those of Georgia and a number of Central European countries (but better than most of the Balkan and Eastern European states), showing improvements from 2002.<sup>37</sup>

Later surveys conducted by the CRRC (Caucasus Barometer) likewise tell the same story.<sup>38</sup> The willingness of the Armenian businessmen to pay bribes is significantly lower than the average for the countries of

Eastern Europe and Central Asia, and slightly higher than those in Western Europe. Also, the level of losses due to theft, robbery, vandalism, and arson is very low.<sup>39</sup>

### Private Initiative

It seems that the problem of post-crisis recovery is also subjective. According to the EBRD 2011 Transition Report, successful business startups comprised less than 4% of the total population, which is the worst result of all transit countries and only a quarter the rate of major EU member states.<sup>40</sup>

Thus, Armenia is facing a shortage of private initiative, which is probably the main factor hindering the development of SMEs. This problem is common within most successor states of the former Soviet Union<sup>41</sup>, but in Armenia it seems to be more acute.

A survey conducted by CRRC in November 2011 shows that 57% of people find it necessary to increase the share of government in the economy, and only 18% insist on continuation of the economic liberalization.<sup>42</sup> Such paternalistic attitudes among the population have a negative impact on willingness to open a business and reduce the level of private initiative. Another obstacle to entrepreneurship is the high level of distrust in the government and the perceived level of corruption, which causes people to rate their chances of success very low. This circumstance is an important motivator for emigration, the rate of which is high in Armenia and was about 8–15% per year during 2008–2011.<sup>43</sup> Therefore, many who plan to emigrate in near future postpone the decision to start a business in order to realize it in another country.

Women are able to give new impulse to the development of entrepreneurship in Armenia. In recent years, women in Armenia began to show more initiative than before. According to the World Development Indicators & Global Development Finance database, in 2005 only 11.5% of firms had female participation in ownership while in 2009 they made up already 31.8% of all firms.<sup>44</sup>

36 Sara Khojoyan. Armenia Prepares for Major Tax Reform. Nov. 11, 2011. Institute for war and peace reporting [iwpr.net/report-news/armenia-prepares-major-tax-reform](http://iwpr.net/report-news/armenia-prepares-major-tax-reform)

37 Transition Report 2005. Business in Transition, p. 13. EBRD. [ebrd.com/downloads/research/transition/TR05.pdf](http://ebrd.com/downloads/research/transition/TR05.pdf)

38 According to CRRC polls, 9% of respondents reported one of household members paying bribe during last 12 months in 2008. By November, 2011 this number had decreased to 6%.

39 See WB, IFC Enterprise Surveys Website, Rev. 7, 2011. p. 5. Running a Business in Armenia [enterprisesurveys.org/~media/FPDKM/EnterpriseSurveys/Documents/Country%20Notes/Armenia-09.pdf](http://enterprisesurveys.org/~media/FPDKM/EnterpriseSurveys/Documents/Country%20Notes/Armenia-09.pdf)

40 Transition Report 2011. Crisis and Transition. P. 78. EBRD [ebrd.com/downloads/research/transition/tr11.pdf](http://ebrd.com/downloads/research/transition/tr11.pdf)

41 Compare CIS and other regions results in table "If someone wants to start a business in this country, can they trust the government to allow their business to make a lot money?" Latin Americans See Barriers to Entrepreneurship. Oct. 22, 2010. Gallup. [gallup.com/poll/143966/Latin-Americans-Barriers-Entrepreneurship.aspx](http://gallup.com/poll/143966/Latin-Americans-Barriers-Entrepreneurship.aspx)

42 See Caucasus Barometer 2011

43 According to State Migration Service of Ministry of Territorial Administration of Armenia, 43,800 people emigrated only in 2011. For detailed statistics visit [smsmta.am](http://smsmta.am).

44 World Development Indicators & Global Development Finance database in Excel format can be downloaded here: [databank.worldbank.org/databank/download/WDlandGDF\\_excel.zip](http://databank.worldbank.org/databank/download/WDlandGDF_excel.zip).

In conclusion, the perceived high level of corruption and other barriers to business is becoming a significant factor hindering the development of SMEs in Armenia. Despite the desire among large companies to achieve a

greater presence in the markets, small and medium businesses are gradually increasing their share in Armenia's economy and now have reached the level of Central and Eastern Europe, i.e., 43% of GDP.

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## DATA

### SMEs in Armenia: Participation in the Economy and Business Environment

Table 1: SME Participation in the Economy of Armenia

	SME, share in GDP*	Share of SME employees in total number of employed people	Total number of registered SMEs during the year	Share of obligatory social security payments paid by SMEs as a % of the total of the obligatory social security payments	Share of taxes paid by SMEs as a % of the total amount of taxes paid in Armenia
2002	34.4	28.2			
2003	36.5	31.0	8,295		
2004	38.6	32.9	8,889	33.0	28.3
2005	39.8	34.0	9,445	33.9	27.9
2006	40.3	35.1	10,082	35.0	27.7
2007	41.0	40.7	12,535	45.7	25.2
2008	41.7	42.1	20,952	50.9	28.0
2009	42.5	42.2	14,023	48.7	26.8
2010	43.0				

\* Non-financial GDP, except agriculture

Sources: Reference Book. *Small and Medium Entrepreneurship Sphere in Armenia 2003–2004*, p. 8. Yerevan, 2005; Reference Book. *Small and Medium Entrepreneurship Sphere in Armenia 2005–2006*, p. 45. Yerevan, 2007 (in Armenian); Reference Book. *Small and Medium Entrepreneurship Sector in Armenia 2006–2008*, p. 14. Yerevan, 2009; Reference Book. *Small and Medium Entrepreneurship Sector in Armenia 2006–2008*, p. 9. Yerevan, 2010; SME share totals 43% of Armenia's GDP [panarmenian.net/eng/news/78037/](http://panarmenian.net/eng/news/78037/)

Table 2: International Activities of SME

	The share of foreign investments made in SMEs as a % of overall FDI	Shares of SMEs in export	Shares of SMEs in import
2003		14.3	31.6
2004	9.1	15.7	34.8
2005	10.4	16.4	36.3
2006	9.5	16.9	36.8
2007	8.8	17.4	37.3
2008	8.2	17.9	37.8
2009	8.0	17.7	26.2
2010		18.0	