

2008

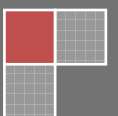
# All National Program On Building A “Center of Excellence” For The Business And Investment Environment Of Armenia

## CONCEPT

Armenia should become the “CENTER FOR EXCELLENCE” with its business and investment environment, the best place in the region for entrepreneurship, for starting and developing a business.

Ministry of Economy  
of Republic of Armenia

2008



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## VISION

Armenia should become the “CENTER FOR EXCELLENCE” with its business and investment environment, the best place in the region for entrepreneurship, for starting and developing a business.

## OVERVIEW

The urgent need for creating a business-enabling environment in the Republic of Armenia (RA) is stated in the pre-election program of the President of RA, in the provisions of the strategy of national security of RA and in the Government program of RA and in action plan for 2008-2012, which is to ensure the implementation of that program. Thus, striving reforms should be implemented to achieve the stated goal. About 85% of those reforms have been carried out within 15 months of the newly appointed governments, where reforms have been implemented within the last three years.

The positive results of the reforms carried out by a government become obvious for the public, particularly, in terms of new vacancies, improvements in the fields of health and education, thus, triggering the demand of future reforms.

The newly appointed governments, that have achieved significant success, have implemented their first generation reforms simultaneously in several directions. In particular, Georgia, as a result of urgent reforms undertaken since 2004, have improved its ranking according to the World Bank (WB) *Doing Business 2008* report, moving from the 112<sup>th</sup> place to 18<sup>th</sup>, out of 178 countries.

The concept includes clear reform recommendations, which can be implemented on a short-term basis, within a year and a half. The Government of RA takes this challenge into an account and has the will and opportunity to rapidly start the implementation of the recommended reforms.

This concept has been developed by taking into account the approaches, recommended by the WB *Doing Business* experts, considering each of 10 topics (set of indicators) of the 2008 report for fast-paced reform implementation: starting a business, dealing with licenses, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, closing a business.

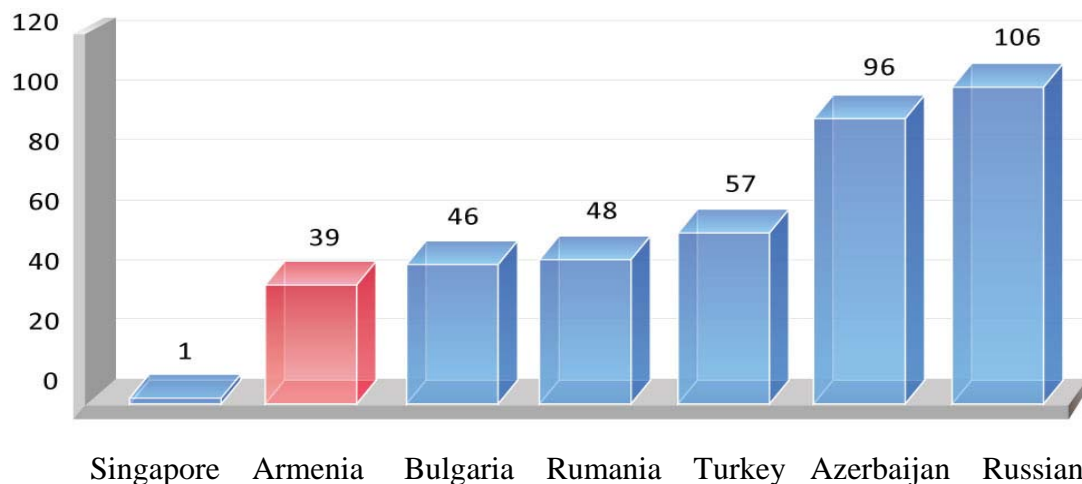
- Start from the simple one – these administrative reforms that do not require legislative amendments;
- Reduce the administrative procedures, by minimizing the direct interactions between the entrepreneurs and public officials;
- Introduce standard forms for legislative regulations applications and ensure the public is well informed;

- Improve the administration for enforcement of legislation.

## Armenia in the WB *Doing Business* 2008 Report

The WB 2008 report on the ease of *Doing Business* index ranks and compares 178 countries, which have direct impact on the development of the business environment and economic growth. In this report, Armenia ranks 39<sup>th</sup> among 178 countries, increasing its previous year rank from 46.

### Armenia's ranking in *Doing Business* 2008 report in comparison with a number of other countries.



### Current investment situation in Armenia

- In 1991-2007 foreign investments in Armenia have totaled to 3.5 billion USD, out of which the investments for the period of 2000-2007 exceeded 2.9 billion USD.
- In 2007, the flows of foreign investments in the real sector of economy have totaled to 845.4 million USD (which is an increase of 34.6 % from 2006).
- As of January 1, 2008, Armenia's FDI /GDP ratio is 27.2%.
- As of January 1, 2008, in Armenia with the participation of foreign capital 3698 companies have been founded.

### Challenges

Armenia should become a regional "Center of Excellence" for business and investment environment. Having a business in Armenia should be profitable, and the conditions for opening up a business should be attractive, which in particular will contribute to the development of aggressively growing SMEs and their penetration into the neighboring markets as well as into the markets of developed countries.

The following challenges are to be faced toward formulating a business-friendly environment in

Armenia through state regulations, streamlined, transparent and cost effective services and procedures, fair competition conditions, market and physical infrastructures, supporting the development of businesses, educational system responding to the needs of the economy:

- Improvement and development of business and investment environment;
- Liberalization of economy;
- Promotion of fair competition;
- Simplification of administrative procedures;
- Implementation of tax and customs well balanced fiscal policy;
- Training of specialists meeting the international standards;
- Implementation of the public education programs and measures to increase level of awareness aimed to formation of consumer's protection culture.

## Strategy

### 1. Formation of a favorable business environment:

- Stability, predictability, and clarity of the legislation regulating the field of entrepreneurship;
- Fully guaranteed protection of investments;
- Simplification of state regulations, designed for the entrepreneurial activities;
- Development of effective mechanisms, schemes, and institutional structures that will enhance the effectiveness of state support to business people;
- Engagement of know-how, management skills, and innovations;
- Enhance the competition in the international markets;
- Ensuring mutually beneficial cooperation between private and public sectors;
- Proper legal protection of private property;
- Provision of infrastructure efficiency promoting business.

### 2. Development of IT society and e-government:

- Digitalization and compatibility of databases conducted by state bodies: formation of state registers;
- Introduction of electronic system of the services provided by state bodies;
- Increase of the level of e-literacy and public awareness;
- Provision of IT modern tools, solutions, and availability of services;
- Widespread physical, financial, quality, and content availability of telecommunication means.

### 3. Provision of intellectual property protection (IP):

- Provision of mechanisms of full implementation of the legislation regulating the sphere of IP protection;
- Provision of international recognition of copyrights and other related rights in connection with intellectual property registered in RA.

### 4. Development and reinforcement of the economic role of Diaspora:

- Ensuring the targeted consistency of the policy approach toward the Diaspora;
- Engagement of the potential and capacities of Diaspora in the economic development of the country;
- Building a mutually beneficial and trustworthy partnership;
- Promoting the potential of Diaspora investors.

# Strategical Directions

## 1. Starting a business

The indicator for founding a company includes the number of steps that the entrepreneur has to go through for starting his/her entrepreneurial activity, their average duration, the costs associated with it, and the minimum capital requirement as a share of per capita GDP.

### 1.1 Benchmarks/Numerical Targets

*Doing Business* takes into account the officially required time, procedures, and costs associated with starting a new business and officially running it. To start up a company in Armenia in average takes 9 procedures, 18 days, and 4.8% of per capita GDP costs. Moreover, the minimum capital requirement is 3.1% of the per capita GDP. Internationally, Armenia ranks 47<sup>th</sup> in terms of that indicator.

Indicators <sup>1</sup>	Armenia	Australia	Estonia	Georgia	Regional	OECD	Armenia 2010
2008 Rating	47	1	20	10			3
Number of procedures	9	2	5	5	8.8	6.0	2
Number of days required	18	2	7	11	26.1	14.9	3
Cost (% GDP per capita)	4.8	0.8	2	9.5	11.1	5.1	2.0
Minimum paid capital (% GDP per capita)	3.1	0.0	28.1	0	45.3	32.5	0.0

### 1.2 Tactics and Timelines

- Formulation of administrative information registers: compatible systems of online (electronic) registration and recording on a joint technological base (deadline: 01.01.2010);
- Establishment of “Business support centers” which will provide public services to the economic subjects on “one stop shop” basis, particularly, on the entire process of starting a business and getting connected to other administrative registers, utility services (deadline: 01.07.2009);
- Elimination of the requirement for minimum capital, as well as the need for the documented verification (documentary proof) with the exception of those legal entities that are established for being engaged in financial intermediary activities (deadline: 01.01.2009);
- Elimination of the requirement for submitting a charter of the legal entity at the registration (deadline: 01.01.2009);
- Elimination of the mandatory requirement for having a seal (deadline: 01.01.2009);

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<sup>1</sup> The classification methodology of *Doing Business* is used for the calculation of all 10 indicators without taking into account the potential reforms carried out by other countries

- Elimination of the requirement for getting a permission prior to obtaining a seal, in case a legal entity wants to have a seal (deadline: 01.01.2009);
- Elimination of the requirement for registration of individual entrepreneurs, and issuing tax codes in compliance with the international best practices to the physical entities willing to be engaged in entrepreneurial activities (deadline: 01.01.2009).

## 2. Licensing (construction permits)

The index on dealing with licenses (construction permits) indicates the procedure, time, and costs associated with it, including the receipt of the required licenses and permits, in compliance with the notification and supervisory requirements, and connections to the utility services.

### 2.1 Benchmarks/Numerical Targets

The licensing procedures (construction permits) consisted of 19 procedures, with an average duration of 116 days and cost 3.3 million AMD or 411 % GDP per capita, out of which almost 3 million AMD was to be mandatory transferred to a charity fund<sup>2</sup>. In the ease of getting building permits Armenia ranks 73<sup>rd</sup>. Georgia has established a center, where all the data from the relevant ministries is put together on construction permits. In Georgia and Estonia, the cost for getting a license for a business is 15 times less compared to Armenia.

Indicators	Armenia	New Zealand	Estonia	Georgia	Regional	OECD	Armenia 2010*
2008 Rating	73	2	14	11			7
Number of procedures	19	7	13	12	24.0	14.0	9
Number of days required	116	65	117	113	251.3	153.3	110
Cost (% GDP per capita)	411.3	25	28.1	28.9	628.4	62.2	30

### 2.2 Tactics and Timelines

- Centralize the issuance of all types of building permits in one body (deadline: 01.07.2009);
- Provision of services in community centers through “one stop shops,” including the connections to the utility services (deadline: 01.07.2009);
- Defining timelines in laws and regulations for issuing any type of permits (deadline: 01.01.2009);
- Reducing the number of established procedures and approvals or bringing them together into one procedure (deadline: 01.01.2009);
- Improving access to information on processes and procedures, providing to them user

<sup>2</sup> E.g. building an industrial warehouse in Yerevan

friendly explanations (deadline: 01.10.2008);

- Eliminating the mandatory requirement for transferring money to the charity funds (deadline: immediately).

### 3. Regulation of Labor Relations

The index on employing workers reveals those complications that the employers face when hiring and firing an employee<sup>3</sup>.

#### 3.1 Benchmarks/Numerical Targets

The difficulty of hiring index in Armenia is 33, rigidity of hours is 40, the difficulty of firing index is 20. In the world for the ease of regulating labor relations Armenia ranks 48<sup>th</sup>. Seventy-five countries neither regulate the nighttime work, nor impose special non-working days. Countries struggle to balance the rights with the labor market flexibility and job stability, as a result, many countries have erred by enforcing unneeded regulations and thus, causing harm to both businesses and employees. The reforms should focus on maximum liberalizing the labor market and shifting the jobs from shadow to formal economy. Georgia’s index for hiring employees is zero.

Ranking	Armenia	Singapore	Estonia	Georgia	Regional	OECD	Armenia 2010
2008 Ranking	48	1	156	4			7
Hiring Index	33	0	33	0	36.3	25.2	0
Employment Rigidity Index	40	0	80	20	51.4	39.2	20
Difficulty of firing Index	20	0	60	0	32.1	27.9	0
Cost of firing Index (Salary per week)	13	4	35	4	26.1	25.7	4.3

#### 3.2 Tactics and Timelines

- Elimination of the requirement for signing employment contracts and imposing time restrictions and streamlining the performance of the body regulating employment relations of legal entities (deadline: 01.01.2009);
- Increasing the flexibility of job termination (deadline: 01.01.2009);
- Reduction of notice for job termination period and payment amount reduction (deadline: 01.01.2009);
- Reduction of restrictions on working hours or overtime payment (deadline: 01.01.2009);
- Reduction of restrictions on nighttime working hours and weekends (deadline: 01.01.2009).

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<sup>3</sup> The Rigidity of Employment Index is the average of three sub-indices: Difficulty of Hiring Index, Rigidity of Hours Index, and Difficulty of Firing Index. Each of these indices assigns values between 0 and 100, with higher values representing regulations that are more rigid. The index for being hired is the average of three sub-indicators

## 4. Registering property

The index on property registration describes the ease of acquiring property, and includes the number of procedures, time, and costs associated with it.

### 4.1 Benchmarks/Numerical Targets

Although Armenia ranks the 2<sup>nd</sup> in the world with property registration indicator, still there is a room for improvement in terms of further reforms. The introduction of an electronic searchable database on procedures will enable to furthermore improve Armenia's ranking, and turn it into one of the countries in the world that has the most effective procedures in the field of transfer of the property right.

Indicator	Armenia	New Zealand	Estonia	Georgia	Region	OECD	Armenia 2010
2008 Ranking	2	1	21	11			2
Number of Procedures	3	2	3	5	6.2	4.9	2
Number of days required	4	2	51	5	92.4	28.0	2
Cost (% of property)	0.4	0.1	0.5	0.1	2.4	4.6	0.3

### 4.2 Tactics and Timeline

- Creating the opportunity for online (electronically) procedures of state registration of the rights and responsibilities toward the property at the Real Estate Cadastre (deadline: 01.07.2009)
- Simplification of procedures prescribed for Real Estate rent.

## 5. Getting credit

The index on getting credits presents the legal rights of borrowers and lenders.<sup>4</sup>

### 5.1 Benchmarks/Numerical Targets

In private credit bureau Armenia's adult population is 13.5% and 2.8% is in public credit registry (while in the Great Britain that number comprises population's 85%). In terms of the ease of getting credit, Armenia ranks 36<sup>th</sup>. The ranking will further improve, if the credit organizations' (including utility companies') membership to the credit bureau becomes mandatory, which will enable people, who do not have a bank loan or credit card, to start a credit history. Such reform will expand the scope of the bureau performance, and will make it easier for entrepreneurs to launch a business and

<sup>4</sup> Legal rights index ranges from 0 to 10, with higher scores indicating that collateral and bankruptcy laws are better designed to expand access to credit. The credit information index measures rules affecting the scope, accessibility and quality of credit information available through either public or private credit registries. A score of 0-6 is assigned, with higher values representing more credit info availability from public registry or the private credit bureau (or both):

have access to the necessary resources.

While in previous year, the law in RA is enforced for 14% (in comparison to the United Kingdom's 85%).

Indicator	Armenia	Great Britain	Estonia	Georgia	Region	OECD	Armenia 2010
2008 Ranking	36	1	48	48			13
Legal rights Index	5	10	4	5	5.6	6.4	7
Credit Information Index	5	6	5	4	3.4	4.8	6

## 5.2 Tactics and Timeline

- Expansion of the scope and level of information collected and provided by the credit registries (deadline: 01.01.2009);
- Increasing the scope for the types of assets which can be used as a collateral (deadline: 01.01.2009);
- Simplification of the seizure procedures and its time reduction (deadline: 01.01.2009);
- Elimination of all types of restrictions on out-of court seizures of property (in case there are no controversies) (deadline: 01.01.2009);
- Establishment of a unified registry for collateralized property and facilitation of the exchange of information among banks and financial institutions (deadline: 01.07.2009).

# 6. Protecting investors

The investors' protection index presents the full breakdown of three levels: transparency of activities (the level of disclosure indicator), director liability (the responsibility for one's own performance), shareholder lawsuits index if s/he acted fraudulently or in bad faith (the ease of launching a lawsuit against a shareholder), and the strength of the indicator for investor's protection<sup>5</sup>. Compared to Estonia and Georgia, Armenia's indicator is higher, however we are lagging behind in terms of Director's Liability and Disclosure/transparency.

## 6.1 Benchmarks/Numerical Targets

This field describes the impact level of legal rights on the deals of investors/shareholders with the company directors, who form the minority. Armenia ranks 2<sup>nd</sup> in terms of Director's liability, and ranks 5<sup>th</sup> in terms of legal protection of minor investors/shareholders in the disclosure indicator. On the protection of investors/shareholders, Armenia ranks 83<sup>rd</sup>.

Indicator	Armenia	New Zealand	Estonia	Georgia	Region	OECD	Armenia 2010
2008 Ranking	83	1	33	33			12
Disclosure Indicator	5	9.7	8	8	4.9	6.4	8

<sup>5</sup> Indices waver between 0-10, the higher values representing better investment protection degree, more rights for disclosure, director liability, and shareholder suits

Director Liability Indicator	2	10	4	6	3.8	5.1	6
Shareholders lawsuits Indicator	8	9	6	4	6.3	6.5	8
Legal Investors Protection Indicator	5	10	6	6	5	6	7

## 6.2 Tactics and Timeline

- Introduction of corporate governance principles (deadline: 01.07.2009);
- Increased requirement for disclosure of deals (deadline: 01.07.2009);
- Improved possibilities for filing cases against the directors, for mismanagement of corporate assets (deadline: 01.07.2009);
- Improved access to the company documents for shareholders for oversight and control (deadline: 01.07.2009);
- Improved conditions for mandatory disclosure of the deals that have conflict of potential interests (deadline: 01.07.2009);
- Accounting and audit international standards translation and adoption (01.01.2010);
- Approximation of qualification requirement for accountants and auditors to international standards (EU 8<sup>th</sup> directive) (01.01.2009).

# 7. Paying taxes

The total tax rate is the indicator that an average sized company has to pay in a given year, as well as the administrative burden that the businesses bear for the unpaid taxes. This indicator includes the number of those payments that a business has to pay for the time spent on preparation, registration, and payment, and the share of the business profit that must be paid as a tax.

## 7.1 Benchmarks/Numerical Targets

In terms of the ease of paying taxes in the world Armenia ranks 143<sup>rd</sup>, which is the worst indicator of the *Doing Business* report. Every year Armenian companies spend 1120 man/hour (196 days) to fill out tax forms, comply with the requirements and make 50 different tax payments. In terms of longer duration/time, this indicator is the 5<sup>th</sup> worst ranking in the world. Most of the time is spent on calculation and filing of documents for VAT and social contribution payments; 40 hours every month for each type of the mentioned taxes. Yearly additional 13 payments are required for the profit tax and 160 man/hour. In about 1/4<sup>th</sup> countries in the world, the tax filing and payments are done electronically. According to experts, countries where the checkups are based on risk analysis, provide better tax collection rates, therefore, the current level of complicated tax payments and the inadequate tax administration are one of the main factors for the existence of significant shadow economy and the cause for poor tax collection rates.

Estonia has higher effective average tax rate (49%) compared to Armenia (36%), however, it ranks higher than Armenia in terms of the ease of paying taxes, thus the tax management needs to

undertake serious reforms. In Estonia, the businesses make only 10 payments a year.

Indicator	Armenia	Singapore	Estonia	Georgia	Region	OECD	Armenia 2010
2008 Ranking	143	2	31	102			80
Number of Payments	50	5	10	29	46.3	15.1	29
Number of hours required	1120	49	81	387	451.5	183.3	300
Total tax rate (% of profit)	36.6	23.2	49.2	38.6	50.8	46.2	36.6

Types of taxes	Armenia		Singapore	
	Payments (number)	Time spent on it (hours)	Payments (number)	Time spent on it (hours)
Social Security Contributions	12	480	1	10
Corporate Profit Tax	13	160	1	30
VAT	12	480	1	9

## 7.2 Tactics and Timeline

- Simplification of tax administration and improved efficiency, particularly for the SMEs (deadline: 01.01.2009);
- Introduction of tax self-reporting system (deadline: 01.07.2009);
- Introduction of online system for tax reporting and electronic payments (deadline: 01.07.2009);
- Introduction of a system for selection of tax payers based on risk factors subject to an audit/checkup, and its universal application (deadline: 01.07.2009);
- Reduction of the frequency of tax payments, decreased number of tax reports and combination of several types of taxes into one (deadline: 01.01.2009);
- Elimination of corruption in the tax bodies, introduction of Ethics and Behavior Codes (deadline: 01.01.2009);
- Reduction of tax rates and diversification of tax base (deadline: 01.01.2010).

# 8. Trading across borders

The index on trading across borders presents the standardized procedures for distribution of goods and costs associated with imports/exports. Every single official procedure is included, starting from signing a contract between the parties and ending with distribution of the goods.

## 8.1 Benchmarks/Numerical Targets

An average of 30 days is required in Armenia for export and 24 days for import with the costs respectively totaling to 1165 USD and 1335 USD. Seven documents are needed for export, and eight documents – for import. Among 178 countries, Armenia ranks 118<sup>th</sup> in trading across borders index. This is the second worst indicator for Armenia, among the 10 indicators that the *Doing Business* provides. The studies revealed that each delayed day for the exported goods complicates

and reduces the export level for 1%. The reduction of 10% export delays of time-sensitive agricultural products, will increase the export level for more than 30%.

Indicator	Armenia	Singapore	Estonia	Georgia	Region	OECD	Armenia 2010
2008 Ranking	118	1	7	64			21
Export (number of documents)	7	4	3	8	7	4.5	3
Export duration (days)	30	5	5	12	29.3	9.8	5
Export Cost (in USD per container)	1165	416	675	1105	1393	905	1165
Import (number of documents)	8	4	4	7	8.3	5	3
Import duration (days)	24	3	5	14	30.8	10.4	5
Import Cost (in USD per container)	1335	367	675	1105	1551	986	1335

### Export procedures

Cost in USD	Armenia		Estonia	
	Days	Costs	Days	Costs
Documents Preparation	17	30	1	200
Inland transportation and handling	10	850	1	300
Customs clearance and technical control	1	35	1	25
Ports and terminal handling	2	250	2	150

### Import procedures

Cost in USD	Armenia		Estonia	
	Days	Costs	Days	Costs
Documents Preparation	13	115	1	200
Inland transportation and handling	5	950	1	300
Customs clearance and technical control	3	20	1	25
Ports and terminal handling	3	250	2	150

## 8.2 Tactics and Timeline

- Expansion of the risk management system and improvement of efficiency based on the performance history of EEA (external/foreign economical activity) subjects (deadline: 01.01.2009);
- Expansion of post customs clearance audit and improvement of efficiency (deadline: 01.01.2009);
- Expansion of the possibility for submitting information online and increasing the efficiency for internal information exchange (deadline: 01.01.2009);
- Radical reduction in the customs clearance duration for export/import procedures (deadline: 01.01.2009);
- Reduction of the number of paperwork required for customs clearance (deadline: 01.01.2009);
- Increase of transparency in the methodology for valuation of goods and approaches (deadline: 01.01.2009);
- Elimination of corruption in customs, introduction of Ethics and Behavior Codes (deadline: 01.01.2009).

## 9. Enforcing contracts

The index on contract enforcement looks at the ease of enforcing commercial contracts, which is based on the processes of disputes related to payments. This includes the time spent by the plaintiff from the moment of the claim initiation to the moment of the actual payment, including the costs and number of procedures.

### 9.1 Benchmarks/Numerical Targets

In Armenia, addressing a commercial dispute takes an average of 50 procedures, which lasts 285 days and totals to 19% of the overall cost of the claim. For comparison, Estonia and Georgia have 36 procedures. In terms of ease of enforcing contracts, Armenia ranks 64<sup>th</sup> in the world. To file the initial claim and notify the respondent in average takes 40 days, which in terms of duration ranks 100<sup>th</sup> in the world.

Indicator	Armenia	Hong Kong	Estonia	Georgia	Region	OECD	Armenia 2010
2008 Ranking.	64	1	29	42			24
Number of Procedures	50	24	36	36	35.9	31.3	36
Number of days required	285	211	425	285	443	443.3	285
Cost (% of the claimed amount)*	19.0	14.5	17.3	29.9	22.7	17.7	19

\* It is assumed that the claimed amount should be equal to 200% of income per capita.

### 9.2 Tactics and Timeline

- Reduction of court processes and enforcement of verdict (deadline: 01.07.2009);
- Revision of the trial duration and reduction of the entire duration of the trial and judgment processes (deadline: 01.01.2009);
- Setting a clear cut timeline for accepting the claim and starting the trial (deadline: 01.01.2009);
- Exercising control over the courts for adhering to the set timelines (deadline: 01.07.2009);
- Streamlining the timelines for the procedures on filling the claim at the courts and notifying the respondent (deadline: 01.01.2009);
- Establishment of alternative private services for mandatory enforcement of court judgments (deadline: 01.01.2010);
- Formation of intermediary courts in line with the international best practices (deadline: 01.07.2009).

## 10. Closing a Business

The index on closing a business presents the time and cost related to the procedures. The time and

cost required to resolve bankruptcies is shown below. The data identifies weaknesses in existing bankruptcy law and the main procedural and administrative restrictions in the bankruptcy process. The recovery rate, expressed in terms of how many cents on dollar recovered from the insolvent firm, is also shown.

*10.1 Benchmarks/Numerical Targets*

It takes an average of 1.9 years and costs 4% of the overall estate to run a company through the bankruptcy process in Armenia.

Indicator	Armenia	Japan	Estonia	Georgia	Region	OECD	Armenia 2010
2008 ranking	42	1	50	105			42
Duration (years)	1.9	0.6	3	3.3	3.2	1.3	1.6
Cost (% of estate)	4	4	9	4	13.7	7.5	3
Recovery rate (cents on the dollar)	42.0	92.6	39	22.8	28.9	74.1	42

*10.2 Tactics and Timeline*

- Reduction of the timelines and simplification of the procedures for resolving bankruptcies (deadline: 01.07.2009)
- Increase rights to creditors (deadline: 01.07.2009)
- Reduction of the number of bankruptcy procedures (deadline: 01.07.2009)
- Qualifications’ improvement and increase of responsibility for the bankruptcy managers (deadline: 01.07.2009)

***COMPARATIVE ADVANTAGES OF THE PROJECT***

Armenia has a number of comparative advantages over the countries of the region, which are additional stimuli for making Armenia a center of excellence for business and investment environment. Below are listed the comparative advantages, which will promote the flow of foreign investments into Armenia and formulate competitive economy in relation with world markets:

- Elimination of the corruption;
- Policy of simple tax tariff;
- Opportunity for free circulation of capital and 100 percent property possession rights for foreigners;
- An opportunity to become a significant trade link between Islamic countries, Russia and the West due to the geographical position of Armenia, outstanding reforms directed to the facilitation of entrepreneurship and entrepreneurial culture and spirit which gradually become a tradition;

- WTO membership and free trade agreements between Russia and CIS countries;
- Potential for concluding a deep free trade agreement with European Union;
- Spurring up the flow of heavy investments into Armenian market through the Diaspora businessmen and their business ties.

## ***PROJECT IMPLEMENTATION RISKS***

According to the *Doing Business* indicators, in order to achieve a successful business-enabling environment, so that the results are visible in development of overall economy, it is necessary to: fully implement the laws, provide operational and highly effective institutional structures and public management system, as well as a certain level of development of the business community and the economy. Given the simplified administrative procedures and more liberal regulations, the possibility of abuse by certain number of business people is a risk. In order to minimize that risks and introduce modern systems for the protection of the consumers' interests, it is required for Armenia to switch to the direct implementation of European standards. Besides, the quality control services should switch from quality assurance controls to designing, developing actual quality standards and delivering respective services. In addition, the post customs clearance and tax audits related to risks should evolve with increased effectiveness.

### ***Risks to program:***

- Insufficient funding from the public and private sectors, as well as from the donors;
- Not coordinated policy implementation, with parallel implementation of activities that are not coordinated.

## ***INVOLVED PARTIES***

### ***Program sponsors:***

- The Government of RA
- The World Bank
- International Finance Corporation
- The WB *Doing Business* experts
- Public-Private Partnerships (PPP)
- NGO's working in the field

### ***Associated participants:***

- Standard costs model program experts
- Representatives and experts from Diaspora
- *The involvement of Diaspora is particularly important in the light of their experts' knowledge and information exchange potential*

### ***Beneficiaries:***

- Business Community
- Public

## ***THE PROGRAM MEASURABLE BENCHMARKS***

To measure the results of the program the indicators of the WB/IFC joint report *Doing Business* will be applied, as they do not require allocation of any resources and development of a new methodology, is carried out the *Doing Business* team and at their own costs, as well as gives us the opportunity to compare the business environment of 178 countries assessed with the same methodology.

Except *Doing Business* classification and its report on Republic of Armenia, to monitor progress of reforms will be used *Regulatory and Administrative Costs Survey*, which on annually basis conducted by the Government of the Republic of Armenia, in partnership with the World Bank, to assess the private business development climate and impact of administrative and regulatory changes undertaken by the Government during the year.

Information on business climate improvement reforms will be posted in official web sites of the public agencies and will be introduced to mass-media, as well as round-tables and discussions with business community and other interested parties will be organized, to ensure transparency of reforms.

## ***COST/BENEFIT ANALYSIS***

According to international comparison, it is estimated that the cost of reforms to be implemented in any of the 10 indicative areas of the *Doing Business* report ranges between 1-2 million USD. The experience also shows that both the international donors and the private sector are willing to contribute more than 60-70% of those costs. Meanwhile, the same world comparisons show that elimination of administrative obstacles, simplification of procedures, and improved transparency far more exceed the cost incurred.

<b>Country</b>	<b>Procedures</b>	<b>Saved money by the businesses</b>
Azerbaijan	Simplification of registration procedures	5, 788, 765 \$
Belarus	Simplification of registration procedures	15, 352, 107 \$
Tajikistan	Simplification of checkup procedures	8, 463, 462 \$
Ukraine	Simplification of checkup procedures	211, 912, 413 \$
Uzbekistan	Simplification of registration procedures	13, 953, 338 \$
	Simplification of licensing and permit procedures	10, 191, 132 \$
	Simplification of tax statements	4, 570, 699 \$
	Simplification of checkup procedures	16, 303, 879 \$
	Total in Uzbekistan	45, 019, 049 \$

Thus, if we also take into account that the improved business environment in a country will result in increased investments, attraction of new businesses, in public savings, etc., the implementation of reforms presented in this Concept paper is of acute importance.

## ***PROGRAM IMPLEMENTATION PERIOD***

Period of 2008-2012