

EXCERPT  
FROM THE PROTOCOL OF THE RA GOVERNMENT SESSION  
44-16  
ON THE ENDORSEMENT OF THE STRATEGY FOR SMALL AND MEDIUM  
ENTREPRENEURSHIP DEVELOPMENT 2016-2018

To endorse the Strategy for Small and Medium Entrepreneurship development for 2016-2018, in accordance with Annex.

October 1, 2015

RA Prime Minister  
Hovik Abrahamyan

*Annex  
to the Protocol Decision No 44  
of the RA Government Session  
of October 1, 2015*

# **STRATEGY**

**FOR SMALL AND MEDIUM ENTREPRENEURSHIP  
DEVELOPMENT 2016-2018**

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## **Introduction**

1. The Small and Medium Entrepreneurship (SME) sector is one of the priority directions of economic development of the Republic of Armenia. Continuous efforts are being made by the RA government towards the development of the sector, particularly towards the development of SME state support system.
2. The annual programs on SME state support are being developed and implemented in the country starting from 2001, which aim at implementation of the following directions of the SME sector state support stated in the RA law on “State Support for Small and Medium Enterprises”:  
... Maintain and strengthen support infrastructure to SME entities, business training support (capacity building), business information and consulting support to SME entities, financial and investment support, local economic development, support to sectoral businesses, support to women's entrepreneurship, support to export of local products, ensuring expansion of international cooperation for the SME entities, development and implementation of SME development joint programs with international and foreign donor organizations.
3. While in the previous years the SME development policy was mostly focused on the SME entities' quantitative growth and accessibility of resources, the coming years will focus on knowledge, enhancing the quality and competitiveness.
4. At the same time, during the implementation of this strategy it will be necessary to ensure a unified approach to policy, programs, activities related to the SME sector that are being developed and implemented in Armenia by the government structures, civil society representatives, private sector, international organizations, which in turn will be in line with the objectives defined by the strategy and with the activities aimed at their implementation.

### **Chapter 1. The Policy Implemented in the Republic of Armenia in the Sector of Small and Medium Entrepreneurship**

5. There is no one general solution to all the problems of SMEs. Many countries have achieved success due to decentralized policies for SME development, others, especially the small countries, have been able to promote the SME competitiveness through more centralized approaches.
6. The SME development strategy goal over the next three years (2016-2018) is to ensure a competitive environment for small and medium business activity, through promotion of enterprise development and dissemination of knowledge in entrepreneurship, access to finance, simplifying the tax system and improving the mechanisms for dialogue with the private sector,

as well as through promotion of innovation and sustainable development.

7. SME development policy and strategy development functions are assigned to the Ministry of Economy, which is also the structure responsible for the SME sector state support programs development.
8. Within the framework of the state support for SMEs program of 2002, as the program activity, the "Small and Medium Entrepreneurship Development National Center of Armenia" Foundation has been established by the Government decree N282 dated 19.03.2002 (SME DNC of Armenia), which is the main structure implementing SME sector state policy in Armenia and programs aimed at development of the sector.
9. The international and foreign organizations and a number of projects implemented by them also play a significant role in the process of SME development and support programs development and implementation in Armenia.

## **Chapter 2. Brief Description of the Small and Medium Entrepreneurship Sector in the Republic of Armenia**

10. The guaranteed measure to ensure social cohesion and economic growth in the country is the availability of developed small and medium entrepreneurship. The issues of creation of employment and thereby - elimination of poverty, get radical solutions only through the development of small and medium-sized organizations that are shaping the middle class of the society. Elimination of the barriers to small and medium enterprise development by continually identifying and introducing the most effective support mechanisms is a pressing issue for the government of the Republic of Armenia.
11. According to the information database of the RA Ministry of Finance, 74365 SME entities had activities throughout the entire territory of Armenia during the year of 2014, of which 68117 were supersmall, 5109 – small and 1139 – medium-size enterprises. The total volume of turnover of the above mentioned business entities amounted to 1565934 million AMD and the taxes paid by the latter amounted to 237710 million AMD.
12. The abovementioned indicators of the SME sector<sup>1</sup>, differentiated based on the activity area, are presented in the tables – respectively by the number of tax payers, number of employees, volume of turnover and paid taxes.

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<sup>1</sup> a) the main classification condition is the number of employees, volume of turnover b) the areas are chosen based on the classification adopted in 2012,

c) as data are studied separately by each area, the data of the same tax payer that performs several type of activities, are reflected in each area separately,

d) information is provided according to the data available in the database as of May 2015.

### Chapter 3. Legislative Regulation

13. Over the past 10 years, the structural changes in the economy of the Republic of Armenia and the economic policy carried out in the country impose new requirements on the private sector, particularly with regard to the small and medium entrepreneurship development. That is why, there was a need to review and clarify the current classification criteria for SME entities in Armenia, which will enable more efficient implementation of SME state support in Armenia, simplified and improved statistical procedures related to the SME sector, as well as approximation to the standards of the European Union countries and ensuring the comparability of indicators characterizing the SME sector.
14. In 2011, the SME definition in the Republic of Armenia was brought in line with the definition of SME used in the EU member countries, according to which the classification was based on the number of employees involved in SME entities, the annual turnover or the balance value of assets.
15. At present, according to this definition, the SME entities are classified as follows:
  - 1) supersmall: micro-sized commercial organizations and individual entrepreneurs with an average number of listed employees up to 10 people, and with the last year's profit or the value of assets as of the previous year-end balance sheet not exceeding 100 million AMD.
  - 2) small: commercial organizations and individual entrepreneurs with an average number of listed employees up to 50 people, and with the last year's profit or the value of assets as of the previous year-end balance sheet not exceeding 500 million AMD.
  - 3) medium: commercial organizations and individual entrepreneurs with an average number of listed employees up to 250 people, and with the last year's profit or the value of assets as of the previous year-end balance sheet not exceeding 1500 million AMD and 1000 million AMD respectively.
16. It should be noted that almost all countries applying European standards have the opportunity to carry out a comparative statistical analysis, which obviously creates more precise picture of the level of SME development in different countries, in terms of the assessment of the placing and role of the SME sector in the economy of the country. In the countries which apply such standards, due to more clear differentiation of SME entities, micro-sized, small and medium-sized enterprises are provided an opportunity to employ relatively mild taxation, to implement more targeted government support measures, etc.

## Chapter 4. Assessment of the Small Business Act

17. Ten dimensions of the "Small Business Act" (SBA) assessment have been used during the development of the Small and Medium Enterprises Development Strategy of 2016-2018, and this strategy is an indirect tool for introducing the principles of these 10 areas of SBA. The "Small Business Act" (SBA) has been developed in the European Union in 2008 as the main instrument promoting small and medium enterprise. "Small Business Act" is the main document for small and medium enterprise development in European countries. SBA is a set of 10 directions that need to be considered while developing and implementing small and medium enterprise development strategies both at the European Union<sup>2</sup> and national levels. SBA aims to improve attitudes towards entrepreneurship by simplifying legislative and operational environment for SMEs and by eliminating obstacles to their development.
18. Main priorities of SBA are: Promoting entrepreneurship; reducing legislative barriers; increasing access to financing; availability of markets; and the internationalization of business.
19. The Republic of Armenia participates in SBA assessment since 2010. SBA assessment consists of 10 principles, each of which includes a number of specific actions for implementation. Thus, these principles clearly define the priorities that the governments can be led by in order to promote the small and medium entrepreneurship development. Based on the preliminary assessment results of 2016, the SWOT analysis conducted by the OECD is presented in the Chapter 10 of the Strategy.
20. After the SBA revision in 2011<sup>3</sup> more weight was given to one of the principles: "First think small". The latter is also defined as the main principle (EU 2011). This principle requires not only the simplification of legal and administrative environment for SME activities, but also includes checking of policy procedures affecting small and medium entrepreneurship. It provides clear and specific guiding base to policy-makers for promoting SME activities. SBA and "First think small" principle in the Republic of Armenia shall become the guiding orientation framework while developing and implementing small and medium entrepreneurship development policy. Therefore, the SBA principles are included in this strategy and reflected in the strategic objectives.

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<sup>2</sup> EU 2008: Think Small First, A Small Business Act for Europe, Brussels 2008. See <http://eur-lex.europa.eu/legalcontent/EN/TXT/PDF/?uri=CELEX:52008DC0394&from=EN>

<sup>3</sup> EU 2011: Review of the Small Business Act for Europe, Brussel 2011. See <http://eur-lex.europa.eu/legalcontent/EN/TXT/PDF/?uri=CELEX:52011DC0078&from=EN>

21. **10 areas of the Small Business Act are as follows:**

- 1) **Entrepreneurship learning and women's entrepreneurship** – To establish development enabling environment for small and medium, as well as family enterprises
- 2) **Bankruptcy and second chance for SMEs** – Create an environment, where "honest" businesses that have gone bankrupt, will be able to get a second chance
- 3) **Regulatory framework for SME policy development** – Develop procedures in accordance with the "First think small" principle
- 4) **Operating environment for SMEs** – Implement public administration responding to the needs of SMEs
- 5) **a) Support mechanisms for start-ups and SMEs** – Establish public administration instruments responding to the needs of SMEs
  - a. **b) Public procurement** – Simplify SME participation in public procurement system and effectively use state aid resources for SMEs
- 6) **Access to financing for SMEs** – Simplify SME's access to finance and and develop a legal and business environment that will facilitate timely payments in commercial transactions.
- 7) **Standards and technical regulations** – Help SMEs to maximally benefit from the opportunities offered by the EU Common market
- 8) **a) Entrepreneurship skills** – Promote the modernization of SME entrepreneurial skills and application of all kinds of innovations
  - b) Innovations policy for SMEs**
- 9) **SMEs in "green" economy** – Encourage SMEs to turn environmental challenges into opportunities
- 10) **Internationalization of SMEs** – Encourage and support SMEs to benefit from markets growth.

22. Based on the SBA assessment the strategic objectives towards SME development are included also in seven main groups, which will be discussed in Chapter 7 of the strategy. The presented directions/areas for implementation of strategic objectives and the SWOT analysis by OECD (Chapter 10) will serve as a basis for the dialogue between state-private sector during SME development policy development and implementation, as well as for cooperation with various international organizations.

## **Chapter 5. Indicators of the « Doing Business» Report**

23. The SME sector development is influenced also by implementation of measures aimed at improvement of indicators of the World Bank's "Doing business" report, these measures have the most and immediate impact on SME entities, due to their features and sensitivity towards conditions of the business environment
24. "Doing Business" report ranks the regulations that have a direct impact on the business environment, including SME sector, providing the opportunity to carry out cross-country comparisons in 10 areas between the 189 surveyed countries: establishment of companies, obtaining construction permits, registering property, getting credit, connection to electricity supply, protection of investors, paying taxes, foreign trade, enforcement of contracts, recognition of bankruptcy.
25. As a result of continued reforms implementation, in the "Doing Business 2015" report, Armenia has registered progress, which has a positive impact on the SME sector business entities, in particular:
  - 1) Armenia has improved its position among 189 countries in 4 points, based on revalued results going up from the 49<sup>th</sup> to the 45<sup>th</sup> place.
  - 2) According to the report, Armenia's business environment is the best among the CIS countries and second in the region after Georgia.
  - 3) According to the report, Armenia's business environment is more favorable than in some of the EU member states, such as Romania, Slovenia, Italy, Greece and Luxembourg.
  - 4) Armenia has registered 70.6 points for the "Distance from the limit" index, while the ranked first Singapore had 88.3.
26. The 10 areas of the "Doing Business" report for 2015, as well as comparative figures for other countries are presented in Tables 5-7.

## **Chapter 6. The Role of the SME Development Council**

27. To make implementation of the ongoing reforms in the SME sector most targeted and effective, as well as in order to strengthen the public-private sector dialogue, according to the the Prime Minister's decision N638-Ն dated 7 July 2011, the Small and Medium Enterprise Development Council has been established, the chairman of which is the RA Prime Minister. The Council is comprised of the Minister of Economy, First Deputy Minister of Economy, head of the Yerevan Office of the European Bank for Reconstruction and Development (EBRD), head of the Yerevan

office of the Organization for Security and Cooperation in Europe (OSCE), as well as representatives of the business community. SME Development Council is an advisory-consultative body, which, aiming to present recommendations to the government bodies with regard to small and medium enterprise sector's business environment development issues, implements the necessary measures together with the business community. The Council organizes work sessions, which are convened at least once every three months, as well as holds special sessions when necessary. Invited government body representatives, as well as EBRD experts participate at the Council work sessions. The work of the Secretariat of the SME Development Council chaired by the RA Prime-Minister is carried out by the RA Ministry of Economy. Of issues solved by the SME Council, the following can be distinguished as positive results:

- 1) the e-signature tariff has been decreased,
- 2) the provision of information to the tax inspectorate regarding the aggregate financial calculations through the cash register reduced from 12 times to 4 times a year,
- 3) a common Form of reporting has been developed for supersmall and small businesses on the "Income tax calculation by an organization" and "Employers' mandatory social protection fees report",
- 4) the process of liquidation of individual entrepreneurs has been simplified,
- 5) the process of changing the purpose of use of the apartment in a multi-apartment building from a residential to an office space has been simplified,
- 6) The process of transit of the goods and transport/vehicles through the RA customs has been improved.
- 7) a relief has been introduced on the tax burden and administrative arrangements for those considered as license fee payers,
- 8) the ban imposed by the enforcement officers on the use of the disputed amount only, has been clearly defined
- 9) the legal entity registration process has been improved through introduction of the notification sheet,
- 10) development of rules on transportation of the combined cargo has been carried out,
- 11) the RA law on "Turnover tax" has been adopted,
- 12) the procedure for submission of documents required for importing food has been simplified
- 13) "new generation" cash registers acquisition conditions for SMEs have been improved
- 14) a preferential taxation system has been introduced within the family business

15) the process of receiving the product's country of origin certification and examination deed has been simplified,

16) the RA Law on " State Support to Information Technology Sector" has been adopted.

28. The SME Council will serve as a platform for conducting a study on issues to be discussed, resolved, for development of activities and measures necessary within the framework of the SME strategic objectives defined for 2016-2018. The accountability on the efficiency of the implemented measures and carried out works will be ensured through the Council, given the fact that the Council is comprised of not only private sector representatives, but also most of them represent multi-member organizations.

### **Chapter 7. Small and Medium Enterprise Development Strategic Objectives and Main Directions of Activities**

29. Small and medium enterprises occupy important positions in all economic sectors of Armenia, in some of them forming the basis of the relevant sectors. According to data of the information database of the Ministry of Finance, during 2014 the SMEs provided jobs to about 370 thousand people (the number of employees by sector is presented in Table 2). They are an important source for ensuring economic growth, export growth, job creation and private investment attraction, especially in sectors where productivity of SMEs is comparable to the productivity of large enterprises (such sectors are the industry, especially the processing industry, construction, services and individual services). Thus, successful establishment of new SMEs and promotion, development of sustainable activities are economic policy priorities in Armenia.
30. Direct support to SMEs is also important because the increasing number of small and medium-sized businesses is an important factor for shaping the country's middle class. Specific policy measures should be implemented consistently to support middle class formation, encourage and support individual business initiatives.
31. The government's economic policy priority aimed at SME sector development during 2016-2018, the main policy objective for direct support to SMEs is dynamic and growing SME sector where entrepreneurs can start and develop their activities in the legally regulated field, with minimal administrative and legislative obstacles.
32. Proceeding from the stated above, improvement of business environment and business culture can be defined as SME development 2016-2018 strategy mission, that aims at ensuring creation and growth of sustainable SME entities. And formation and development of a

competitive SME sector in Armenia can be emphasized as the major strategic objective.

33. Identification and differentiation of strategic objectives and activity areas envisaged towards their implementation have been carried out based on the study of the SME sector situation in Armenia and its analysis, during which have been used: possible ways for solution to issues raised as a result of a number of discussions with business associations and private sector representatives, EU policy assessments on SBA areas, results of SWOT analysis carried out by the OECD.

34. **Strategic objective 1 – Improvement of the institutional, legislative and operational environment for creation and development of SMEs.**

This strategic objective is related to solution of the following problems of the SME sector development:

- 1) To establish a favorable business environment and tax system for SME entities' development.
- 2) To ensure such an environment where the honest entrepreneurs who have faced the verge of bankruptcy, can easily get a second chance.
- 3) To configure the regulations according to the 'Think Small First' principle.
- 4) To improve access to finance for SMEs, to form such a legislative and operational environment that will facilitate the timely payment of commercial transactions.

35. Due to the extremely limited involvement of sufficient human and material resources, in addition to a favorable legal framework often no less vital for the SMEs is the stability of the legislation. To reach the defined goal it is necessary to simplify to the possible extent the current legislation and legal arrangements. Due to frequent legislative changes, SMEs experience significant difficulties while adopting changes in legislation and legal regulations, for a long time their enforcement proceeds with violations and improper implementation, which leads to undesirable consequences. Frequent changes deprive SMEs of carrying out their activities in compliance with all applicable laws and of planning their further activities and development plans based on the existing situation. On the one hand, such complexities lead to unfavorable and unacceptable operating environment for businesses, where they are unable to carry out actions to ensure compliance with the new requirements, and are forced to direct limited material and human resources to study and implement the requirements of new legislative changes. On the other hand, such situation does not contribute to the formation of positive expectations provided by the stability and, based on that, implementation of new business initiatives, establishment of new companies, and quantitative and qualitative growth of SMEs.

36. In this regard, in a short-term it is important to establish a stable legislative framework, when the SME sector companies during the next three year period will be able to carry out their activities

unchanged and within the already familiar legislative framework. The set of these policy instruments should consist of both direct support measures, and relevant framework policies. In order to strengthen and develop small and medium enterprises differentiated policies should be developed and applied for micro enterprises and small and medium enterprises. The latter are important for their growth and development perspective, and in order to implement more effective policies it is necessary to explore important factors conditioning further growth of the SMEs.

37. Practical support to SMEs will include assistance to the sector businesses in solving the issues occurring in the course of their daily activities.
38. Such support will be provided in the main directions of economic activity through provision of consulting, support, financial, economic and marketing professional assistance.
39. For the implementation of the above, support and consulting mechanisms will be created that will enable offering solutions to specific problems arising in the course of the specific business activities and the means and resources for realization of these solutions.
40. These measures will include targeted and situational practical support actions that will be implemented based on the requests and needs of the SMEs. The following basic steps can be distinguished:
  - 1) Ensure access to information on the establishment of SMEs and entrepreneurship opportunities,
  - 2) Coverage of support programs and policies implemented in the SME field in Armenia.
  - 3) ensuring active involvement of private sector in legislative changes.
41. **Strategic objective 2 - improving access to funding for SME entities.** This strategic objective intends to improve the accessibility of financing for SME entities and to develop such a legal and operational environment that will facilitate the timely payments on commercial transactions.
42. Taking into account the specifics of SMEs, they often are not provided with opportunities to access all those financial resources that are available to larger enterprises. Therefore, the availability of funds and appropriate level of involvement still remain on the agenda of SMEs. To solve these problems, it is necessary to develop additional financial instruments, from which SME entities can benefit and can effectively use them. The need for improved access to finance is especially great for start-up businesses. Very often the businesses are not aware of the various financial instruments offered in the market.
43. In order to reach the defined goal and to solve the mentioned problems it is necessary to implement the following measures:

- 1) Study the need/requirements of financial resources for SME entities,
  - 2) Study the SME demand for funds,
  - 3) Continue providing affordable loans to SMEs,
  - 4) Provision of loan repayment guarantees for SMEs,
  - 5) Provision of advice to newly established SMEs on opportunities to attract funds,
  - 6) Support and training on business plan development.
44. **Strategic objective 3 – Promotion and development of entrepreneurial capacity (culture).**  
This strategic objective is related to modernization of SME capacities and promoting innovation.
45. One of the key prerequisites for improving business environment is the development of entrepreneurial culture. The study of the current situation made it clear that we need to continue entrepreneurship education at schools, as well as at higher education institutions, during vocational education and training. Cooperation between educational institutions and the private sector for the development of entrepreneurial education will enable school and university students to gain knowledge and experience for starting their own business initiatives, as well as to cooperate effectively with each other.
46. The need for application of scientific analysis, research, innovative approaches and innovative product in modern economic reality is undeniable from the perspective of ensuring effective, competitive and sustainable economy. This imperative becomes even more significant for SMEs, considering the specifics of small and medium companies, when such companies are not able to fund innovative methods or outcome, product design and development; on the other hand, due to the same characteristics they are not able to introduce innovative methods, product and technology. In this context, there are two major flaws: lack of innovative management methods and lack of innovative technologies introduction, low level of innovative product creation.

The following measures need to be implemented to fill these gaps:

- 1) Ensuring the awareness of SMEs on instruments available in financial market,
- 2) Study of SME needs for financial resources
- 3) Creation of affordable financial instruments, provision of long-term loans through specific target programs to enable establishment of innovative research and technologies, product development and introduction by SMEs,
- 4) Creating favorable conditions for production of innovative products by SMEs through involvement of research and consulting organizations, provision of affordable long-term financial loan resources,

47. **Strategic objective 4 – Increasing the internal and external competitiveness of SMEs.**

This strategic objective is related to the solution of the following issues:

- 1) create a business environment, where the companies can thrive,
- 2) help the SMEs benefit from the opportunities provided by the EU and the EAEU common markets,
- 3) encourage and help the SMEs to benefit from the markets expansion,
- 4) encourage resource efficient activities of the SMEs and increased “green” production/services.

48. SME development policy should be aimed at making them sustainable and competitive both in domestic and international markets. Promotion of local products and support will be provided for the development of local resource-based products and services to promote local brands. Actions on internationalization of SMEs activities are necessary for promoting their exports, which in most cases are not available to SMEs due to financial and professional difficulties related to the implementation of such operations. In order to overcome these difficulties, "Armenia's Export Insurance Agency" has been founded in 2013 according to the Government decree of the Republic of Armenia, with a mission to promote the RA export sector. The main goals are:

- 1) to promote exports by insuring the non-payment risk by foreign buyers,
- 2) to promote the provision of accessible and available financial resources to small and medium-sized enterprises,
- 3) to promote the development of export commercial risk insurance private market.

49. Continuous measures are implemented by the Agency aimed at developing new instruments that would allow the SMEs to solve the problems related to working capital.

50. The following steps targeted at internationalization of SMEs will include:

- 1) Activities for ensuring standard compliance of SME's production,
- 2) Increasing exporting capacity, provision of professional consulting services, supporting participation in exhibitions, business conferences held abroad,
- 3) Design and implementation of targeted programs for export financing and insurance,
- 4) Identification of SMEs with export potential and their capacity building.

51. **Strategic objective 5 – Improving public-private sector dialogue.** This strategic objective is related to making public administration responsive to the needs of SMEs.

52. In order to enhance the effectiveness of public policies targeted at the development of the SME sector public-private sector dialogue needs to be significantly expanded and strengthened, where business associations have an important role as mediators and, in many cases, they are

initiating a dialogue. Government-private sector dialogue should be built on compromise, mutual trust and mutual understanding. SME development strategy will become an additional stimulus for developing this dialogue aimed at ensuring the active involvement of the private sector in implementation of measures promoting the SME sector. Active involvement of entrepreneurs, employers and business associations in implementation of public policies is also important from the standpoint of ensuring the transparency, quality and efficiency of these policies.

53. Given the current situation, the following measures will be required to implement for increased effectiveness of public-private sector dialogue:
- 1) implementation of active public discussions by using various means during the implementation of legislative changes,
  - 2) ensuring active participation of the business associations and providing feedback on implemented measures.
54. Increasing the communication level on SME sector policy and the sector activities are crucial for the SMEs in terms of access to information related to their activities and ensuring the awareness. Often, SMEs lacking adequate human and material resources do not have the opportunity to be properly informed about the state policy in the field, implemented programs, processes and trends. For this reason, SMEs lose certain part of their potential capacity to operate effectively, which generally has a negative impact on the development of the sector.
55. If proper awareness level is maintained, SMEs will have access to all the opportunities provided by the projects, activities, support instruments implemented in the sector, will be ready for most effective and flexible planning of their activities, which will allow being competitive in the variable operational field and consistently be in compliance with modern developments and the situation.
56. **Strategic objective 6 – Strengthening SME Development Support Institutions.** In order to ensure effective operation of the SME development support institutions, close cooperation is needed both between them and with the state bodies. Within the implementation framework of the SME development annual measures it is envisioned to attract various business associations and public sector representatives to ensure the implementation of all the objectives reflected in this strategy. It is also expected to use the SME Development Council as a platform for implementation of the relevant objectives and actions. Representatives of various public sectors need to be actively involved, considering that various legislative regulations of the SME sector are implemented by various bodies; community and regional administration leaders should also be involved, because, according to the point 6 of the Article 40 of the RA Law on Local Government, the community head must submit proposals regarding the community involvement

to the Annual Development Program of the Small and Medium Enterprises of the Republic of Armenia.

57. **Strategic Objective 7 – Promoting women's entrepreneurship, as well as support for start-up businesses.** The definition of this objective does not imply that promotion of women's entrepreneurship and provision of support to start-ups should not be considered during the implementation of other strategic objectives. Defining a separate objective means providing additional attention to these issues. Currently there are no statistical data on women's entrepreneurship, enabling effective implementation of their development policy, however, a number of measures aimed at promoting women's entrepreneurship and their activities are implemented within the SME support annual programs. It is necessary to continue and expand the provision of direct support and consulting activities to women entrepreneurs during the 2016-2018.
58. Promoting the support for start-up businesses is important in the sense that they do not have sufficient knowledge and experience, often do not possess sufficient financial resources, thus the state support can play a significant role in their establishment and further development. Supporting start-up businesses is also important for the creation of new jobs, reduction of unemployment. For implementation of this objective, measures are also designed in the small and medium-sized enterprises annual support programs, which will continue and expand during the 2016-2018.
59. It should be noted that all measures and activities aimed at implementation of all the presented objectives, their implementation schedules will be reflected in detail in the small and medium enterprises annual support programmes for 2016-2018, as well as in the government's annual action plans.
60. As a result of achieving these objectives and implementation of general measures, the medium-term (2016-2018) benchmark in the economy will be the increased output of the SMEs and providing a stable foundation for ensuring up to 40 percent of GDP share. Strengthening the position of SMEs and their development will increase their competitiveness level and its main characteristic – labor productivity growth. Currently, depending on the industry, the productivity of SMEs in the EU countries is 3 to 5 times higher than the similar indicator of the Armenian SMEs. In the medium-term it is expected to increase this indicator of local SMEs up to 2 times, contributing to the increased SME production share of export. Sustainable development of small and medium enterprises will be guaranteed through innovative activity of SMEs, implementation of economic activities and business initiatives based on innovation and knowledge, human capital development. At the same time, diversification policy is important for the basic and

priority sectors, namely, the establishment of SMEs based on research, by developing those areas where there is scientific potential.

61. In order to successfully implement all these areas the following will be needed: to maintain the principles of competition and equal conditions for business entities while developing and implementing economic policies, establishing a favorable legal framework, as little as possible changes in the legislation regulating the SMEs activities, envisioning soft management and administrative procedures related to SMEs, while implementing and complying with them in a non-discriminatory and consistent manner.

**Chapter 8. 2014 Data of the SME Sector and Indicators of the  
“Doing Business” Report of 2015**

**Table 1. The number of tax payers considered to be SME entities**

	Micro	Small	Medium	Total
	<b>2014</b>			
Agriculture, forestry and fishery	377	72	36	485
Mining industry and exploitation of open mines	252	75	12	339
Processing industry, including:	5629	678	184	6491
non food	3397	427	112	3936
food	2272	260	73	2605
Construction	794	453	138	1385
Wholesale and retail trade: repair of cars and motorcycles	42308	1151	169	43628
Transportation and storage facilities	2248	272	53	2573
Organization of accommodation and public catering	2443	385	74	2902
Information and communication	1182	247	53	1482
Education	296	161	55	512
Health care and social services for the population	879	294	145	1318
Culture, entertainment and recreation	396	69	21	486
Other	11313	1251	201	12765
<b>TOTAL</b>	<b>68117</b>	<b>5109</b>	<b>1139</b>	<b>74365</b>





**Table 4. Taxes paid by the SMEs (mln. AMD)**

	micro	small	medium	Total
	2014			
Agriculture, forestry and fishery	382	596	1765	2743
Mining industry and exploitation of open mines	510	1411	1514	3435
Processing industry, including:	5537	8807	13074	27417
non food	3655	6107	8265	18027
food	1930	2757	4809	9495
Construction	2845	11335	15250	29429
Wholesale and retail trade: repair of cars and motorcycles	27539	24258	21024	72821
Transportation and storage facilities	1873	5490	2987	10351
Organization of accommodation and public catering	2561	3044	3554	9159
Information and communication	2165	4544	5693	12402
Education	159	846	1592	2597
Health care and social services for the population	1260	1950	5413	8624
Culture, entertainment and recreation	317	367	836	1520
Other	12813	24079	20319	57212
<b>TOTAL</b>	<b>57961</b>	<b>87239</b>	<b>92510</b>	<b>237710</b>

**Table 5. The 2015 indicators of the report “Doing Business”: The best business environment in the NIS countries<sup>4</sup>**

<b>COUNTRY</b>	<b>Armenia</b>	<b>Kazakhstan</b>	<b>Belarus</b>	<b>Kyrgyzstan</b>	<b>Moldova</b>	<b>Russian Federation</b>	<b>Ukraine</b>	<b>Tajikistan</b>	<b>Uzbekistan</b>	<b>Azerbaijan</b>
<b>2014-published</b>	37	50	63	68	78	92	112	143	146	70
<b>2014-re-assessed</b>	49	76	57	99	82	64	112	177	149	88
<b>2015</b>	45	77	57	102	63	62	96	166	141	80
<b>Changes compared to re-assessed indicators</b>	+4	-1	0	-3	+19	+19	+16	+11	+8	+8

**Table 6. Armenia’s position in the region, second place**

<b>Country</b>	<b>Georgia</b>	<b>Armenia</b>	<b>Azerbaijan</b>	<b>Turkey</b>	<b>Islamic Republic of Iran</b>
<b>2014-published</b>	8	37	70	69	152
<b>2014-re-assessed</b>	14	49	88	51	132
<b>2015</b>	15	45	80	55	130
<b>Changes compared to re-assessed indicators</b>	-1	+4	+8	-4	+2

<sup>4</sup> Turkmenistan is not included.

**Table 7. Comparative table of Armenia’s position in the 2014-2015 World Bank reports “Doing Business”**

Index	Tax payments	External trade	Company establishment	Getting construction	Electricity connection	Property registration	Enforcing contracts	Receiving loans	Recognition of bankruptcy	Protection of investors
<b>2014</b>	73	124	5	82	132	7	119	30	67	25
<b>2015</b>	41	110	4	81	131	7	119	36	69	22
<b>Change</b>	+32	+14	+1	+1	+1	0	0	-6	-2	-1

### **Chapter 9. Small and Medium Entrepreneurship in OECD and Developing Countries - Similarities and Differences**

62. Unlike many of the international strategic approaches that try to use a common approach to the different SME entities applying a principle of "all in one solution", it is necessary to distinguish, for example, a business-oriented SMEs and survival-oriented SMEs, high-tech and innovation-oriented SMEs and the "hidden champions", the average industrial oriented SMEs and small craft or trade-oriented businesses. Different SME entities require different policies and tools to overcome their specific barriers.
63. Thus, the SME development policy in Armenia, as well as in many OECD countries, has been declared as a priority for the economy. However, their success depends on the implementation of promotional programs in the system-wide context of competitiveness. In OECD countries 99% of companies are SMEs. They contribute to the 2/3rd of the generated added value in the economy.
64. New studies in OECD countries have shown that SMEs actually are not the power of innovation: they generally introduce innovations, but not as much as large companies do. They are, on average, are less involved in the discovery of new products or in introducing innovations into production processes. In OECD countries the power of innovation of SMEs is mainly concentrated in a range of knowledge-based enterprises, including the new companies with rapid growth. OECD's latest figures of 2010 show that in 11 OECD countries a high growth rate has been recorded among the 2-8 % of the enterprises with more than 10 employees, while in

case of innovative small (less than 10 employees) enterprises, the figure was only 1% (OECD 2010, 24). This does not mean that a significant part of the SMEs are not involved in innovation – they still deal with it, but to a lesser extent.

65. In OECD countries, SMEs are often classified as follows:
- 1) businesses with high potential in knowledge-based sectors, such as biotechnology, information technology, etc.
  - 2) hidden champions (e.g. in Germany) as specialized medium-sized businesses with high potential for exports of industrial products, such as machine engineering, electrical engineering or the automotive manufacturing industry
  - 3) average industrial SME entities that produce certain products or end-user products for the local market, such as textile and garment industry, or various manufacturing industries
  - 4) local service provider and handicraft enterprises, such as supermarkets, shops, carpentry manufactory, etc., that meet the local demand for domestic consumer goods.
66. These SME groups can be differentiated in developing countries as well, although the gaps in competitiveness are mostly large.
67. The reason behind that is the environment of poor accessibility to knowledge education, market and finance for SMEs. The structural and physical infrastructure, as well as political and social circumstances are also much weaker. This makes it difficult for SME growth in developing countries.
68. Many producers and self-employed people in the sector of production and services may be defined as surviving entrepreneurs. In order to be an entrepreneur overall they lack main assets/resources such as orientation towards market, entrepreneurial capacities and exploration for business opportunities. They often lack the prerequisites for growth, such as business strategy or basic skills in management. These companies rarely become competitive businesses. However, it will be necessary to provide them support structures and such a business environment that promotes and stabilizes their economic condition. It includes not only access to funding, but also promoting opportunities for new job creation, capacity development, as well as market knowledge and information on market.
69. In OECD and developing countries very similar but at the same time very different SME development obstacles can be identified. Thus, most of the **similarities** are associated to the failures of market and government policy. The government failures are associated to the:
- 1) bureaucratic obstacles, shortcomings of the existing legal framework for SMEs
  - 2) lack of the necessary institutional and physical infrastructure promoting growth of SMEs

- 3) lack of policy to overcome the government failure
  - 4) unavailability of certain public goods and the lack of such policies that would overcome market failures.
70. Market failures relate to the lack of supply of certain products that are not provided through market relations and require support from certain structures. These market failures include for example lack of access to information, lack of investment in research and development, lack of accessibility of certain services and similar other issues.
71. Overall, we can say that in OECD and many developing countries SMEs are trying to overcome public management failures, as well as market failures through certain intervention.
72. **Differences** - Despite all these similarities, many of these challenges are more severe in developing countries. This is mainly due to the various challenges of systemic competitiveness that will eventually lead to improper use of the opportunities from knowledge and lessons learnt. While many industrialized countries have developed a wide range of support mechanisms and institutions, many developing countries do not have such sustainable structural and strategic structures. It often involves:
- 1) In the existing SME policies lack of orientation towards competitiveness. In particular, activities of SME entities more often are stimulated through social support mechanisms than by means of business tools.
  - 2) Lack of generalized and targeted SME policies, which should focus on improving the competitiveness of SMEs and on the creation of a favorable environment for SMEs
  - 3) Weaknesses of business development services and structural and professional weaknesses of the support organizations
  - 4) Lack of linkages between the top-down and bottom-up, decentralized supportive measures
73. In terms of SMEs, in developing countries it leads to: lack of knowledge-based businesses; weak business ties between the suppliers and buyers; lack of accessibility to technology and market as well as industrial knowledge
74. Many strategies and programs have been developed to overcome the existing challenges of the SME sector in OECD countries in recent decades. To make clear the SME development high-quality policies' feature, the difference between efficient and inefficient implementation, it is necessary to carefully consider the various systemic elements, factors relating to the success.
75. At the entrepreneurial level (micro level) it is important to:
- 1) stimulate competition between businesses and encourage them to continuously improve their products and manufacturing processes

- 2) focus on motivation and growth potential for possible individuals gifted with entrepreneurship skills or abilities
  - 3) promote the development of relations and self-organization between businesses, their suppliers and customers, as well as providers of knowledge.
76. Although SMEs have some sense of their own responsibility to be competitive, they experience the need for structural support (mezo level) and supporting policies (macro level).
77. At mezo level there is a need for professional and training-oriented organizations that provide the necessary support for SMEs. It includes:
- 1) Market-oriented business organizations or cooperatives rather than business networking with social tendency. It provides entrepreneurs access to certain services, which is more than advocacy. It results into access to market information, skills, technology, finance and/or access to new markets. In a number of OECD countries, for example in Germany, Chambers and other business organizations (associations) have a strong role to play in providing such services, or in development of training programs and quality assurance process.
  - 2) Educational, research and development institutions that provide the skills development and capacity building. This relates to the needs of SMEs and promotes the knowledge flow and innovation in businesses, in order to improve their competitiveness in the market.
  - 3) Local and regional economic development agencies that understand local business needs and industry opportunities and support these competitive advantages and opportunities through promotion initiatives and other support mechanisms.
78. Successful relations between businesses (micro level) and supporting institutions (mezo level) will be possible only if we there are successful policies (macro level) in place, that:
- 1) provide a favorable business environment for SME entities; where the property rights, macroeconomic stability, as well as the competitive environment are guaranteed
  - 2) support both institutional and physical infrastructure (roads, access to public services, business property, etc.)
  - 3) promote programs that support institutions and enterprises to assume a responsible role
  - 4) create favorable political conditions that allow these businesses to overcome market and management failures.

## Chapter 10. Strengths, Weaknesses, Opportunities and Threats (SWOT) Analysis of Small and Medium Entrepreneurship Sector in the Republic of Armenia

79. SME development is the main cornerstone ensuring the competitiveness of Armenia. Since 2012 the government of the Republic of Armenia makes continuous steps for improved SME policy. Efforts for simplification of regulations, including the one window stop introduction and quantitative expansion of electronic management services for SMEs have significantly reduced the obstacles and operational costs for start-ups. Support services provided by SME DNC (including loan guarantees) are continuously expanding.
80. Despite the number of registered positive changes, challenges still exist in some areas, such as further promotion of export and ensuring access of SMEs to financing.
81. SWOT analysis conducted in SME sector will be the following:

**Strengths** are related to those skills that allow and facilitate the growth of SMEs. Strengths are important for the ability to facilitate the implementation of opportunities, reduction of weaknesses and challenges. The following strengths can be distinguished in the SME sector in the RA:

- 1) Significant progress in improving business environment (according to the World Bank 2015 report “Doing Business”, Armenia is ranked second among the Eastern Partnership member countries by the number of implemented reforms), improved electronic governance and company registration through one window stop principle
- 2) Export orientation and SME development are the priorities of economic policy
- 3) Successful experience in introducing legislation simplification and regulatory impact assessment
- 4) A wide range of SME-oriented financial support (including loan guarantees)
- 5) Good results of the SMEs in innovation, well-designed policy framework, including financial incentives
- 6) Support criteria are based on sustainable system of monitoring and evaluation, transparency of financial assistance to the beneficiaries is in place
- 7) High activeness and business acumen

82. **Opportunities** are good ways for using SME development and growth. These opportunities could contribute mainly to the domestic and international competitiveness of SMEs. They include:

- 1) Human resources
- 2) Growing export (pre-crisis level) can be promoted through the Eurasian Economic Union membership and the expansion of trade with the EU

- 3) Certain structural changes in the economy: increasing the share of processing industry and services in GDP, employment shifts, emerging information technology sector
- 4) Number of projects implemented by donor organizations for SME development
- 5) Availability of the Armenian diaspora with great potential
- 6) Initial development of funding from non-bank sources
- 7) Relatively high level of foreign direct investments can be directed to SME development programs
- 8) Participation in EU programs (membership to Enterprise European Network and COSME program).

83. **Weaknesses** are the substantial deficiencies that hinder SME growth. The following can be noted among them:

- 1) The tax administration remains a significant obstacle for SMEs
- 2) Customs procedures and trade regulations continue to hinder increase of export volumes
- 3) Statistical data collection incompatibility with the definition of SMEs
- 4) State-private sector dialogue failure
- 5) Difficulties in SME access to financing
- 6) High unemployment rate.

84. **Challenges** can damage the strengths, accelerate the development of weaknesses and hinder the realization of opportunities. The following issues can act as a threat:

- 1) The small domestic market, unfavorable geographical location, infrastructure gaps are the obstacles to export development
- 2) Significant shock due to regional developments and dependence on remittances (18-20% of GDP)
- 3) Lack of export financing activities,
- 4) Dependence on donor assistance programs
- 5) The presence of large volumes of shadow economy
- 6) Lack of initiatives for regional development outside Yerevan
- 7) Low level of competition in certain product markets.