2019 SBA Fact Sheet

ARMENIA

Key points

Past SME performance[1]: In Armenia, SMEs play an important role. They account for 66.1 % of employment and 59.9 % of value added. In 2016-2017, Armenian SME value added increased by 3.8 %. This was accompanied by a fall in SME employment of 4.7 %.

Implementing the Small Business Act for Europe (SBA):

Overall Armenia's SBA profile scores below the EU average. The country is below the EU average in the 'second chance' and internationalisation principles. Nevertheless, the country performs above the EU average in 'responsive administration'. The constraints in data availability for a limited number of indicators need to be kept in mind when interpreting the overall results.

SME policy priorities:

The SME strategy seeks, in the medium term, to foster entrepreneurship in Armenia, boost SME productivity, and competitiveness, targeting domestic and international markets through introduction of more productive technologies and generation of innovative ideas. As a result, the creation and development of innovative and competitive SMEs will contribute to the sustainable and inclusive development of the Armenian economy.

The following strategic directions have been highlighted for strengthening the SME sector in Armenia: 1) Increasing access to financial resources, 2) Capacity building and entrepreneurial culture of SMEs, 3) Ensuring access to markets for SMEs, 4) Creation of favourable institutional and legal environment for SME development.

Armenia has relatively high rates of firm entry, thus displaying strong entrepreneurship. However, firms face challenges in achieving growth and moving up the value chain, and many firms fail early and/or remain informal. Key areas for reform are the introduction of tailored and diversified SME support policies, removing regulatory burdens for the business, diversifying access to finance (especially for early stage companies and export SMEs), supporting integration in regional and global value chains, tackling the lack of knowledge on export opportunities and providing respective export promotion advice.

About the SBA fact sheets:
The Small Business Act for Europe (SBA) is the EU's flagship policy initiative to support small and medium-sized enterprises (SMEs). It comprises a set of policy measures organised around 10 principles ranging from entrepreneurship and 'responsive administration' to internationalisation. To improve the governance of the SBA, the 2011 review of it called for better monitoring. The SBA fact sheets, published annually, aim to improve the understanding of recent trends and national policies affecting SMEs.

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1. SMEs — basic figures

Class size	Number of enterprises			Number of persons employed			Value added		
	Armenia		*EU28*	Armenia		*EU28*	Armenia		*EU28*
	Number	Share	*Share*	Number	Share	*Share*	Million €	Share	*Share*
Micro	55 424	93.8 %	*92.9 %*	60 537	23.9 %	*29.4 %*	926.4	22.2 %	*20.5 %*
Small	3 017	5.1 %	*5.9 %*	56 999	22.5 %	*20.2 %*	860.4	20.6 %	*17.6 %*
Medium-sized	514	0.9 %	*1.0 %*	49 770	19.7 %	*16.9 %*	715.2	17.1 %	*18.1 %*
SMEs	**58 955**	**99.8 %**	***99.8 %***	**167 306**	**66.1 %**	***66.5 %***	**2 502.0**	**59.9 %**	***56.3 %***
Large	108	0.2 %	*0.2 %*	85 754	33.9 %	*33.5 %*	1 677.7	40.1 %	*43.8 %*
Total	**59 063**	**100.0 %**	***100.0 %***	**253 060**	**100.0 %**	***100.0 %***	**4 179.7**	**100.0 %**	***100.0 %***

These are data for 2017 provided by the Institute of Statistics Armenia and Eurostat (Structural Business Statistics Database) and were processed by DIW Econ. The data cover the 'non-financial business economy', which includes industry, construction, trade, and services (NACE REV. 2 Sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The Armenian data include additionally section S95. The advantage of using Eurostat data is that the statistics are harmonised and comparable across countries. The disadvantage is that for some countries the data may be different from those published by national authorities.

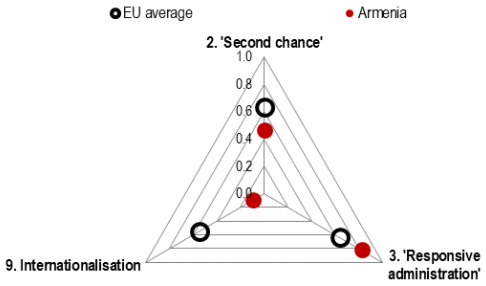
In Armenia, SMEs play an important role. In 2017, 99.8 % of all firms in the Armenian 'non-financial business economy' were SMEs. They were responsible for 66.1 % of all employment in the Armenian 'non-financial business economy' and generated 59.9 % of overall value added. These shares are similar to the respective EU averages of 66.5 % and 56.3 %.

Wholesale and retail trade is the most important sector in Armenia, more than two thirds of all SMEs (68.1 %) generated 35.1 % of total SME value added and 31.2 % of total SME employment in this sector. These shares are significantly higher than the respective EU averages: In the EU, SMEs in *wholesale and retail trade* accounted for 22.1 % of SME value added and almost one quarter (24.6 %) of SME employment. *Manufacturing* and *construction* come second and third in importance for Armenian SMEs, respectively accounting for 17.8 % and 17.1 % of total SME value added and 20.3 % and 9.6 % of total SME employment. The productivity of Armenian SMEs, calculated as value added per person employed, is almost three times lower than the EU average of EUR 43 600, amounting to only EUR 15 000.

Most recently, in 2016-2017, Armenian SME value added increased by 3.8 %. This was accompanied by a fall in SME employment of 4.7 %.

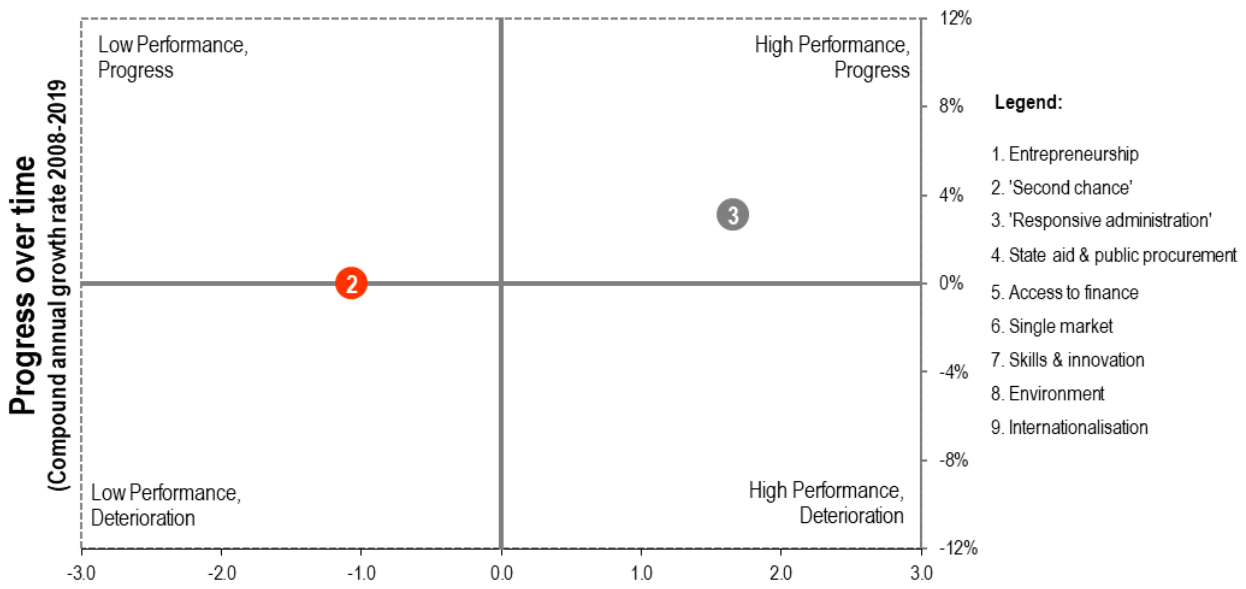
One of the fastest growing SME sectors with respect to SME value added growth was *accommodation and food services*, increasing by 28.3 % in 2016-2017. The *wholesale and retail trade* sector also achieved solid SME growth in 2016-2017, with SME value added rising by 15.4 %. Due to the large size of the sector, SMEs in *wholesale and retail trade* were the main drivers of overall SME value added growth in the 'non-financial business economy'.

2. SBA profile[2]



Armenia's SBA profile is below the EU average. The country performs below the EU average in the 'second chance' and internationalisation principles. Nevertheless, the country performs above the EU average for the 'responsive administration' principle.

SBA performance of Armenia: state of play and development from 2008 to 2019[3]



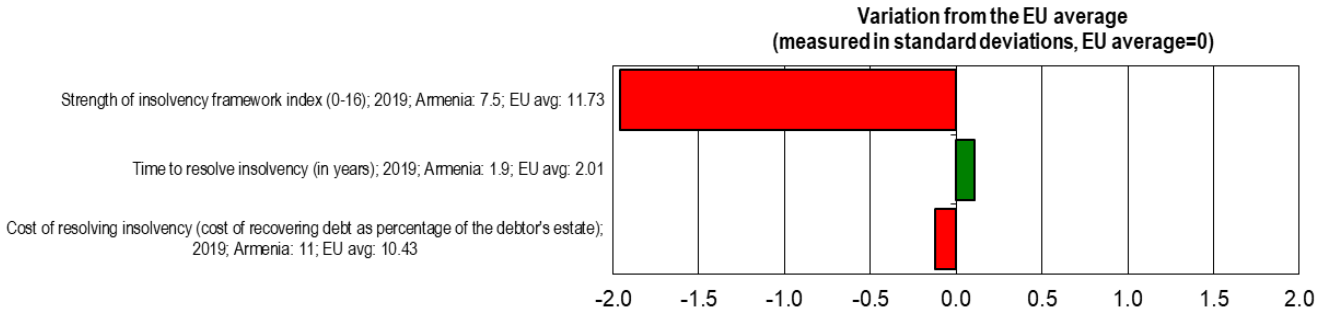
Note: The scores presented in the chart above are not fully comparable to those displayed in previous versions of the fact sheet. This is due to a review of the framework of indicators used to assess performance across the SBA principles. Only the aspects with sufficient background data are presented. The value for progress over time was set to 0% in case of insufficient data and marked in the above chart by a diamond shape. For more details, please consult the methodological note on the webpage of the SME Performance Review: http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/

3. SBA principles[4]

3.1 Entrepreneurship

Regarding the indicators related to this principle, no sufficient data has been collected. Therefore, it is not possible to draw any general conclusions on the performance on entrepreneurship vis à-vis the EU.

3.2 'Second chance'

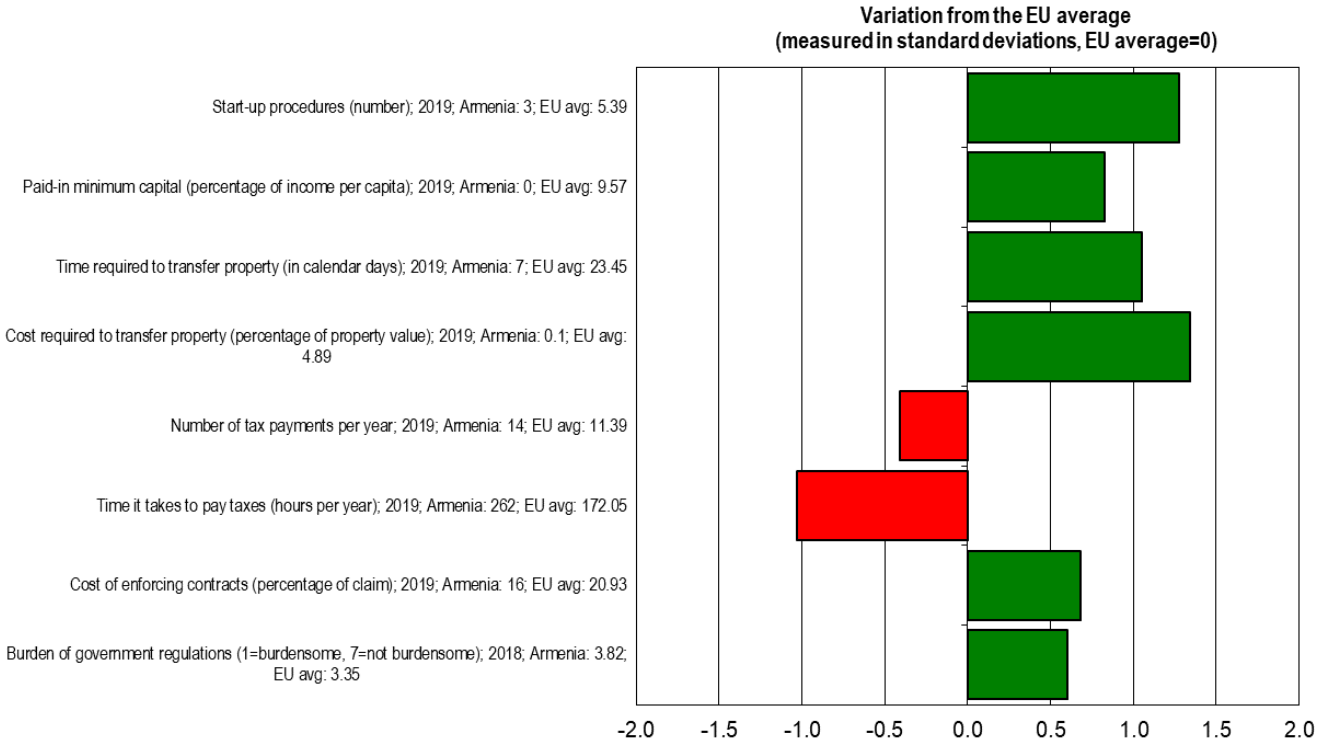


Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

'Second chance' refers to ensuring that honest entrepreneurs who have gone bankrupt get a second chance quickly.

Overall, Armenia performs below the EU average for this SBA principle. The country performs critically below the EU average in the strength of insolvency framework index. However, its performance remains in line with the EU average for the time to resolve insolvency (1.9 years in 2019 compared to 2.01 years for the EU average) and for the cost of resolving insolvency (11% in 2019 compared to 10.4% for the EU average) as percentage of the debtor's estate.

3.3 'Think Small First' and 'Responsive administration'



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

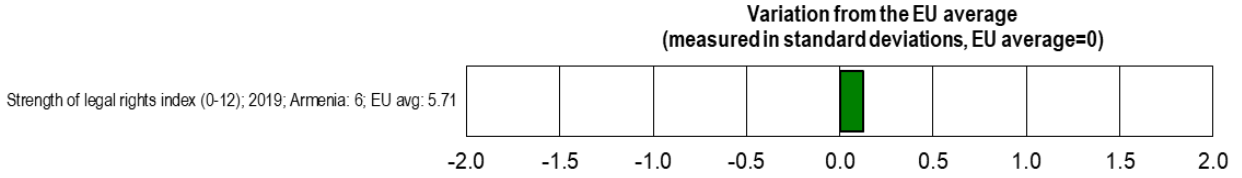
The 'think small first' principle is meant to be a guiding principle for all policy- and law-making activities. It requires policymakers to take SMEs' interests into account at the early stages of the policy-making process. The principle also calls for newly designed legislation, administrative rules and procedures to be made simple and easy to apply. 'Responsive administration' refers to public administration being responsive to the needs of SMEs.

Armenia performs above the EU average in the area of 'responsive administration'. 6 out of 8 available indicators score above the EU average. For instance, the best performing indicator is the time required to transfer a property: 7 days in 2019 compared to 23.4 days for the EU average. Country's performance in the indicator related to the number of tax payments per year is in line with the EU average (14 in 2019 compared to 11.4 for the EU average). Despite progress made in the time it takes to pay taxes (262 hours in 2019 compared to 313 hours in 2018), Armenia's performance is this indicator is still below the EU average.

3.4 State aid & public procurement

Regarding the indicators related to this principle, no sufficient data has been collected. Therefore, it is not possible to draw any general conclusions on the performance on state aid & public procurement vis-à-vis the EU.

3.5 Access to finance



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

In the area of access to finance, Armenia performs in line with the EU average in the strength of legal rights index. Regarding the remaining indicators to this principle, no sufficient data has been collected. Therefore, it is not possible to draw any general conclusions on the performance on access to finance vis-à-vis the EU.

3.6 Single market

As Armenia is not an EU Member State, there is no relevant comparable data regarding the single market.

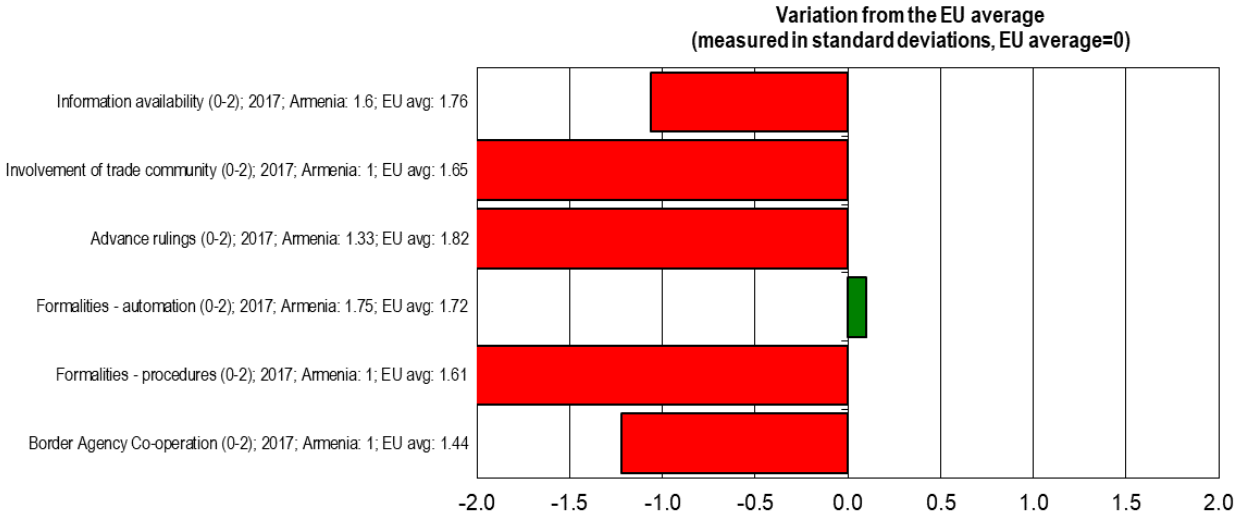
3.7 Skills & innovation

Regarding the indicators related to this principle, no sufficient data has been collected. Therefore, it is not possible to draw any general conclusions on the performance on skills & innovation vis-à-vis the EU.

3.8 Environment

Regarding the indicators related to this principle, no sufficient data has been collected. Therefore, it is not possible to draw any general conclusions on the performance on environment vis-à-vis the EU.

3.9 Internationalisation



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

Armenia is performing below the EU average for this SBA principle. The country scores significantly low in the following indicators: information availability, involvement of trade community, advance rulings, formalities – procedures, and border agency co-operation. However, it performs in line with the EU average in formalities –automation.

4. Interesting initiative

Below is an example of an initiative from Armenia to show what governments can do to support SMEs.

SME support schemes implemented by the SME Development National Centre of Armenia with EU support (Boosting Competitiveness of Regional SMEs project)

With funding from the European Union and the Government of Armenia, the project supported start-ups and growth-oriented SMEs through targeted financial assistance. Entrepreneurs from selected regions of Armenia underwent comprehensive training with an action-oriented approach and experiential learning methods to develop and enhance their business management skills and personal competencies. The project targeted active youth and women with feasible business ideas and bankable businesses. Sub-grants were provided on competitive basis to the most realistic and bankable business projects; the grants were complemented with loans provided through the SME Development National Centre's loan guarantee scheme. It the frames of the project, from December 2016 to February 2020, 28 sub-grants were provided with an average grant size of 3000 EUR, leveraging around 160.000 EUR credit funds. As a result, 28 businesses were supported creating 42 new sustainable jobs. The project also supported the establishment of an innovative Roadside Station as a multi-functional facility aimed at facilitating local economic development. In addition, a web-based sector specific and thematic knowledge platform was established following the logic of the business life-cycle providing SMEs with an access to a database of business information, business guides, video materials, success stories and support toolsets.

References: www.smednc.am

Important remarks

The European Commission produces the SBA fact sheets, which combine the latest available statistical and policy information. Produced annually, they help to organise the available information to facilitate SME policy assessments and monitor SBA implementation. They take stock and record progress. They are not an assessment of national policies. Rather, they should be regarded as an additional source of information to improve evidence-based policy-making. They do not and cannot reflect all measures the government has taken over the reference period. This SBA fact sheet is not related to other SBA assessments carried out with a different methodology.

SME Performance Review:

https://ec.europa.eu/neighbourhood-enlargement/policy/policy-highlights/sme-performance-review_en

Small Business Act:

http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/index_en.htm

Entrepreneurship and SMEs:

https://ec.europa.eu/growth/smes

Endnotes

[1] The two graphs below present the trend over time for the variables. They consist of index values for the years since 2008, with the base year 2008 set at a value of 100. As from 2017, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008-2016 figures from Eurostat's Structural Business Statistics Database. The data cover the 'non-financial business economy', which includes industry, construction, trade and services (NACE Rev. 2 sections B to J, L, M and N). They do not cover enterprises in agriculture, forestry and fisheries or largely non-market service sectors such as education and health. A detailed methodology can be consulted at: http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/

[2] The 2019 SBA fact sheets benefited substantially from input from the European Commission's Joint Research Centre (JRC) in Ispra, Italy. The JRC made major improvements to the methodological approach, statistical work on the dataset and the visual presentation of the data.

[3] The quadrant chart combines two sets of information. Firstly, it shows current performance based on data for the latest available years. This information is plotted along the X-axis measured in standard deviations of the simple, non-weighted arithmetical average for the EU. Secondly, it shows progress over time, i.e. the average annual growth rates from 2008 to 2019. These are measured against the individual indicators which make up the SBA area averages. Hence, the location of a particular SBA area average in any of the four quadrants provides information not only about where the country is located in this SBA area relative to the EU average at a given point in time, but also about the extent of progress made between 2008 and 2019. All SBA principles, with the exception of the 'think small first' principle for which there is not enough statistical data available, are calculated as composite indicators following the OECD/JRC Handbook guide. A detailed methodology can be consulted at: http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/

[4] The policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2018 and the first quarter of 2019. Only those measures were selected which are expected to have the highest impact in the SBA area in question