

Reforms to improve the investment climate in Armenia

Increasing private investment is vital to help Armenia return to a path of solid growth as experienced before 2020. This requires continuous work on the business and investment environment. To support the government's ongoing efforts, the German Economic Team and three business associations active in Armenia presented a study of 13 proposals addressing issues experienced by Germany- and EU-related companies and investors in Armenia.

The proposals cover the entire business environment, ranging from simplifying problematic trade formalities to combatting market concentrations, from sweeping, comprehensive reforms to solutions of clearly delimited problems for companies in a specific field. Outlining concrete reform steps to be taken, proposals are designed to be relatively easily implementable. If implemented, they will contribute to further improving the investment climate, thus unlocking more investment in Armenia. The German Economic Team is ready to support the government in the implementation process.

Proposals from German/EU companies in Armenia

The study combines the economic policy expertise of the German Economic Team (GET) with the practical knowledge of three German/European business associations active in Armenia: the European Business Association (EBA), the German Business Association (DWV) Armenia and the German Eastern Business Association (OA).

Employing an approach successfully applied to several other transition countries that GET is advising on behalf of the German government, the study is utilising a bottom-up methodology. In a comprehensive survey and consultation process, member companies of the business associations pointed out areas of the business environment where they experienced problems in their day-to-day operations in the past. In cooperation with experts from Schneider Group (tax and accounting) and Concern Dialog (legal matters), concrete proposals to address the problems on a policy level were then developed. GET experts analysed and verified all proposals to ensure their suitability, effectiveness as well as consistency with broad reform objectives such as competitive and free markets.

Large and small proposals

Effective improvement of the business climate requires addressing large and small reform needs alike. Doing both at the same time also has advantages: smaller, more incremental reforms are usually easier to implement and can hence quite quickly deliver tangible

results. On the other hand, more comprehensive reforms will require more time to implement, but then also deliver larger benefits.

Reform proposals by categories

Category	Number of proposals
High-impact reforms	2
Regulatory issues	4
Tax and accounting issues	4
Foreign trade issues	3
Total	13

Source: own research

The mix of proposals in our study recognises this complementarity. Two “high-impact reforms” address the need for “large” reforms, whereas the further eleven proposals still deal with issues affecting many companies in tax, regulation and trade issues, but require less complex implementation efforts. Each proposal clearly identifies a specific problem together with its proposed solution, is addressed to the responsible government institution, and states the expected benefit if implemented.

High-impact reforms

Two issues stood out as deficiencies of the present Armenian business environment in the consultations with companies.

Strengthening the anti-monopoly authority

Firstly, due to the small size of Armenia and the very limited regional economic integration, Armenian markets are small. Markets can therefore quickly become dominated by companies. At present, the State Commission for the Protection of Economic Competition (SCPEC) lacks the power to launch investigations on its own authority and to seize evidence from suspect companies, relying mostly on documents provided by other state organs. Hence, the SCPEC should be given the necessary powers, subject to judicial control and receive a general institutional strengthening in terms of resources and training.

Reforming the labour code

Similar to many other transition countries, Armenian labour law still reflects its Soviet legacy. This results in a very formal approach that slows down companies by requiring e.g. written and signed orders for even minor instructions. Even more, interests of employees and employers are not properly balanced. Short standard notification periods for employees and the inability to accommodate no-competition clauses put companies

at risk of employees with sensitive information taking it with them and using it to the company's disadvantage. Complex working time and vacation calculations present further obstacles to companies. We hence propose key elements for a comprehensive overhaul of the labour code. This will require further preparation and should incorporate international best practice but will be a major step forward for Armenia's business environment.

Quick wins

Of the other eleven proposals three are identified as "quick wins". These stand out by being very quick and easy to implement, requiring usually only the abolishment of a legal provision or a simple change of legal wording without need for complex re-drafting or institutional change. Hence, these proposals should probably be the first to be implemented. Demonstrable success in their implementation will help garner support for the further proposals.

Abolishing the need for "cash books"

Although many companies are connected to the tax authority via electronic accounting and register all cash operations with the tax authority on a daily basis, they are still required to maintain a physical "cash book". For all companies on the electronic system, this unnecessary double documentation should be abolished without replacement.

Accepting invoices for customs clearance

Under present law, the customs value of goods should generally be their price in the concrete transaction – documented in the invoice. However, in practice, the customs authority's focus on fraud prevention results in the establishment of customs value often becoming a lengthy process with many documents, creating substantial costs for companies. This imbalance should be rectified by revising the law to explicitly state that invoices should suffice as documentation in normal cases and by setting performance targets for customs.

Recognising training costs as operating costs

Only a small range of expenses are allowed to count as operating expenses of companies due to a very narrow definition. As a result, many expenses for training or teambuilding activities of companies cannot be deducted from the tax burden. To stop this disincentive for desirable activities increasing workforce productivity, deductible expenses should be recognised based on "operational necessity" as is internationally common.

Implementation

The proposals have been presented to the government and the business community. As improving the investment climate has been declared a priority by the new government, GET and the partnering business associations stand by to assist the government in implementing the proposals made in the study with specific policy advice and to monitor and document reform progress.

Author

David Saha, saha@berlin-economics.com

Editors

Dr Ricardo Giucci, Nikolas Schmidt

A more comprehensive analysis is provided by the Policy Study: [Improving the Business Climate – Boosting Private Investment: Proposals from German and European business in Armenia.](#)

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