

Republic of Armenia

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Dear colleagues,

Ladies and gentlemen,

Let me greet you, participants of the workshop, and express my gratitude to its organizers: the Organization of the Black Sea Economic Cooperation (BSEC) and the Konrad-Adenauer-Stiftung (KAS) with which we are connected by many years of successful cooperation leading to the development of SMEs in the Black Sea Region as well as the Small and Medium Industry Development Organization of Turkey and the Turkish Foundation for SMEs.

During our meetings (that have already become traditional) we usually presented the situation of SME development and the relevant

problems, exchanged information and experience. This workshop is particularly important because today we present the results of our activities related to the SME development in the recent years, which were rather successful.

A significant economic increase has been achieved in our country in the result of targeted and well-coordinated activities of the Government of Armenia. The SME development is paid special attention to.

Taking into consideration the role and strategic importance of SME in the social and economic development of the country, the SME sector has been recognized by the Government of Armenia as one of the top-priority areas of economic development. Therefore Government of Armenia takes consequent steps towards its development, in particular towards the creation and establishment of the SME State promotion system. We have achieved considerable results in this field.

In the last years small and medium entrepreneurship has become one of the most dynamic sectors of the Armenian economy.

The number of SMEs is increasing year by year. At present there are more than 120000 SMEs. 71562 out of 123951 SMEs are individual enterprises and 52389 are legal organizations functioning in almost all the economic branches: from commerce to high technological production. The role of SMEs in the job creation is obvious. Within the period of 2000-2005 more than 30 000 SMEs were set up, which provided nearly 70000 new jobs.

In 2005 more than 9500 new SMEs were registered that provided approximately 23000 new jobs. Thus at present SMEs make up 97% in the whole number of the registered enterprises, 48,3% of them are registered in Yerevan and 51,7% – in the regions.

SMEs play an important role in the GDP creation. In 2005 its share came to 40%, which is twice as much as in 2000. This trend is continuing up to now.

The share of SMEs in the export of Armenia in 2005 made up nearly 16,4% in comparison with 15,7 % in 2004.

The share of employees engaged in the SME sector is 34% in comparison with 32,9% in 2004.

The SME development index in Armenia calculated by the UN method is 171,9 in comparison with 117,8 in 2004 in comparison with 58,1 in 2002.

The positive changes in the recent years prove the policy conducted by the Government of Armenia aimed at the creation of favorable SME environment. The principles of this policy are laid down in the document "Concept of SME Development Policy and Strategy in Armenia", adopted by the Government of Armenia in 2000. This document presents economic, social and political goals of the state policy of SME development and the main directions of its realization. On this basis the "Law on SME State Support" was adopted in December 2000. According to this law the main directions of the state support of SME are:

- Creation of favorable legal environment
- Financial and investment support and provision of credit guarantees
- Assistance in creation and development of support infrastructures
- Business information and consultancy support
- Promotion of foreign economic activities
- Support of innovation activities and introduction of modern technologies
- Performance of favorable tax policy

- Vocational education and training
- Creation of simplified systems for statistic reports and accountancy
- Support of state purchases

At present the legal basis necessary for the entrepreneurial activities in Armenia has already been set up. The laws adopted in the last few years are fundamental for both economy in general and for the SME development in particular: "On Protection of Economic Competition", "On Protection of the National Market", "On Certification", "On the Simplified Taxation", etc.

In December 2002 Armenia became a member of the World Trade Organization (WTO), which is undoubtedly an additional incentive for the SME development.

Since 2001 an annual program of SME state support has been developing and implementing. The program is aimed at the realization of the main directions of the "Law on SME State Support".

The program is targeted at the solution of problems of the present stage of the SME development in Armenia. It includes the priority problems falling within the scope of the SME state support. Along with the expansion of the variety of measures the amount of finance for their implementation from the state budget is increasing year by year.

Within the framework of the state program in March 2002 the SME Development National Center of Armenia (SME DNC of Armenia) was established. This center became a main link of the state support and is to realize SME state support programs in accordance with the main state support directions. SME DNC of Armenia is governed by the Board of Trustees, which consists of the representatives of the government and of the business community (about 70%).

Nowadays regional branches of the Center are active in all the regions of Armenia. Therefore we can state that a stable basis of the SME state support has been laid down in Armenia

A number of measures aimed at the improvement of opportunities for SME activities were undertaken within the framework of these programs. Among them are the creation and development of SME support infrastructures for the provision of support for the introduction of innovations and modern technologies; provision of credit guarantees in the scope of financial and investment support of SMEs; provision of business information and consulting support of SMEs; organization of training courses for SMEs; implementation of start-up support programs as well as the expansion of SMEs export opportunities.

The SME support system in Armenia consists of:

- The governmental organization – Ministry of Trade and Economic Development, responsible for the elaboration of the SME policy and development concept as well as of state programs.
- Non-governmental/Semi-governmental organizations: Fund "Small and Medium Entrepreneurship Development National Center of Armenia" (SME DNC of Armenia), Business NGOs, such as Chamber of Commerce and Industry of RA, and business unions/associations. NGOs representing interests of entrepreneurs take an active part in the elaboration and discussion of the SME state policy in particular in the development and implementation of the state support programs.
- Other business supporting infrastructures: business support centers, business service providers etc.

A major role in SME development play the International and foreign Organizations realizing programs of technical and financial support:

WB, USAID, USDA, World Vision, GTZ, etc., Funds (Foundations) and Commercial Banks, Eurasia Foundation, SME DNC of Armenia, that provide convenient terms for cooperation with small businesses.

Thus, in spite of the difficulties of the transitional period, stable bases for a continuous SME development have been created as a further expansion of the state support and realization of the relevant programs.

Alongside despite obvious achievements and development trends, there are still a number of problems hindering the development of the SME sector in Armenia:

- Lack of equal and fair competitive environment
- Bureaucracy and imperfect administration
- Drawbacks in the tax system
- Drawbacks in system of customs administration
- Inaccessibility of finance: high interest rates, lack of guarantees and long-term loans
- Restriction of the domestic market and limitation of export opportunities
- Limited opportunities for start-ups

The state SME policy is aimed at the solution of these problems. The main components of this policy are improvement of the legal framework, expansion of financial and technical support, which will result in the further development of the SME sector in Armenia.

Moreover, the measures taken within the framework of the annual state programs are also targeted at the solution of these problems and the most optimised use of the SME potential.

Now we can say that the state policy of the creation of effective economic, social and political conditions as well as the expansion of the international cooperation in this sphere will ensure further strengthening of the SME sector and the national economy in general.

I would like to express once more my gratitude to the organizers of the workshop and congratulate the Organization of the Black Sea Economic Cooperation (BSEC) and the Konrad-Adenauer-Stiftung (KAS) on the 10th anniversary of their fruitful cooperation.

Let me also thank you for your attention and wish you much success in your activities aimed at the economic development of our countries.