

## About Armenia

The Republic of Armenia, a country in the Southern Caucasus with only a population of 2,971,650 (July 2007 est.),<sup>1</sup> is the smallest member of the former Soviet Republics. It was proclaimed an independent State by its Parliament on 21 September 1991. With an estimated per-capita GDP of USD5,700,<sup>2</sup> Armenia is considered a lower middle-income country.

Armenia is landlocked and does not have navigable waterways. Because of its geographical location and political isolation with Turkey and Azerbaijan, Armenia has high transportations costs. The main surface trade links are limited to a low- capacity rail and road connections with Georgia and its Black Sea ports, and a single road with Iran.<sup>3</sup> This is particularly important, as Armenia relies on the international fuel market due to its geographical location.

The Armenian population is largely concentrated in its urban centers, mainly in Yerevan.



\* This case study was developed by Prof. Ronald T. Chua, Asian Institute of Management, for the Asian Development Bank.

<sup>1</sup> CIA World Factbook 2007: Armenia. (n.d.). Retrieved August 23, 2016, from [http://stephansmap.org/CIA\\_World\\_Factbook\\_2007\\_Armenia.html](http://stephansmap.org/CIA_World_Factbook_2007_Armenia.html)

<sup>2</sup> Ibid

<sup>3</sup> Khachatryan, Knar. Microfinance in Armenia: Sector characteristics and adaptation strategies. Working Paper, IPAG Business School. 2014

Armenia has a few railway lines and an extensive road network. However, the infrastructure has deteriorated rapidly due to lack of funds. The distance from the southernmost town of Meghri in the province of Syunik to Yerevan is around 420 kilometers and takes more than seven hours of land travel. On the other hand, the distance between Yerevan and the northernmost town of Tashir in the province of Lori is around 160 kilometers and takes around three hours of travel time.

While car ownership has been growing steadily, it is still relatively low. Public transport plays a critical role, especially in cities. The Global Competitiveness Report for 2006-2007 ranked Armenia's general infrastructure at 87 out of 125 countries, with the score of 2.9 in a range of 1 (underdeveloped) to 7 (as extensive and efficient as the world's best). Among the components evaluated, Armenia's railroads ranked 76<sup>th</sup>, and its air transport infrastructure ranked 85<sup>th</sup>.<sup>4</sup>

The main development of Armenian roads took place between the years 1950- 1980, which resulted in quite a solid road network. Armenia's railway network includes the metro system that serves passengers in the capital. Most of Armenia's railways were built during the Soviet era. Some of the infrastructure was damaged during the 1988–1994 conflict with Azerbaijan.<sup>5</sup>

Annex A provides more background information on Armenia.



<sup>4</sup> The Global Competitiveness Report 2006–2007. World Economic Forum Geneva, Switzerland 2006.

<sup>5</sup> Badalyan, G. et al. Transport infrastructure and economic growth: Panel data approach for Armenia, Georgia and Turkey. Paper prepared for presentation for the 142nd EAAE Seminar Growing Success Agriculture and rural development in an enlarged EU. May 29-30, 2014. Corvinus University of Budapest.

## Armenia's Shadow Economy

A study conducted in 2005 revealed that Armenia was faced with problems caused by the existence of a shadow economy.<sup>6</sup> The study defines the shadow economy as “the part of the gross national product that, because of non-reporting and/or underreporting is not included in the official statistics.”

Although the tax system in Armenia is relatively lenient, given its low tax rates, widespread corruption and lack of public sector accountability have largely contributed to the growth of the country's shadow economy. Paying tax bribes had become customary to shield businesses from tax inspections. One of the few studies on the shadow sector of transition economies also suggests that one of the main reasons for companies to go underground is to avoid the burden of administrative regulations and taxation.<sup>7</sup>

While being part of the shadow economy entailed limited access to benefits accorded to legitimate businesses, such as the right of recourse to the courts for redress of legal issues and access to bank loans, the shadow economy continued to flourish due to unfair tax administration and regulations and government corruption. Shadow activities in Armenia include non-reporting and underreporting by businesses.

## The Agency for State Register of Legal Persons (SRA)

The Agency for State Register of Legal Persons (SRA) is a division under the country's Ministry of Justice. It is charged with administering state registration of legal persons, as well as of separated subdivisions, institutions of legal persons, and individual entrepreneurs. The SRA is mandated to perform state registration of legal entities and sole proprietors.

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<sup>6</sup> Bagrat Tunyan. The Shadow Economy of Armenia: Size, Causes and Consequences. Prepared for the Third International AIPRG conference on Armenia. January 2005.

<sup>7</sup> Ibid

The Law of the Republic of Armenia on the State Registration of Legal Entities defines state registration as “*the recognition by the state of the legal capacity of the given legal entity*”. Simply put, a business entity that is not duly registered will not be recognized by the State. Only registered businesses are recognized to have right of recourse to the courts for redress of legal issues. Also, only registered businesses have access to formal credit, such as bank loans.

In Armenia, a legal entity is deemed established on the date of its state registration. A legal entity, on the other hand, is deemed closed on the date of closure indicated in the state registration. Certificates attesting to these are issued to registered legal entities or sole proprietors by the regional units of the body performing the state registration of legal entities.

Article 5 of the Law of the Republic of Armenia on the State Registration of Legal Entities provides that State registration consists of the registration of: (a) a legal entity; (b) changes to charters of legal entities and the (c) liquidation (closedown) of a legal entity.

The SRA maintains all the documents relating to the registration of legal entities and sole proprietors. It is headed by a Deputy Justice Minister. The Head of the SRA is appointed by the Prime Minister of the Republic, taking into consideration the nomination put forward by the Justice Minister. The SRA consists of a central unit based in Yerevan and 49 regional units.

The regional units of the State Register perform the registration of legal entities and sole proprietors within its specific region. State registration begins with these regional units, as the documents for the state registration of legal entities must be submitted to respective regional units of the State Register, taking into account the place of location of the legal entities under registration. These regional units correspondingly enter records into the document admission register book. The regional units control the processes of formation of legal entities and verify compliance of the relevant documents with the requirements of law.

Usually, the basic legal documents for all legal entities are filed with the business registry. These can include not only joint-stock companies and limited liability companies but also sole proprietorships, cooperatives, farms, as well as nongovernment organizations.<sup>8</sup> Ideally, the registry must contain data pertaining to a company's legal status, its share capital, the authorized representatives, members of the boards of directors and its founders. The business registry must also have copies of companies' charters and annual financial reports.

There were around 123,000 enterprises under the business registry in 2007. These included 64,000 sole proprietorships, 944 open joint-stock companies, 3,198 closed joint-stock companies, and 39,221 limited liability companies.<sup>9</sup>

## Armenia's Rankings: Doing Business

The Director took a hard look at where Armenia stood in the international sphere by reviewing its standing according to the World Bank Doing Business Framework.

The World Bank's *Doing Business* project looks at domestic small and medium-size companies and measures the regulations applying to them through their life cycle.<sup>10</sup> The report compiles quantitative data to compare business regulation environments across several economies. In 2007, the report covered 175 economies.

*Doing Business* provides data and benchmarks which seek to encourage economies to compete towards more efficient regulation. In addition, *Doing Business* offers detailed subnational reports, which exhaustively cover business regulation and reform in different cities and regions within a nation. These reports provide data on the ease of doing business, rank each location, and recommend reforms to improve performance in each of the indicator areas.<sup>11</sup>

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<sup>8</sup> Armenian Business Registry. Draft Report. World Bank, Washington DC. 2007.

<sup>9</sup> Footnote 8, *Armenia: Institutional Modernization to Improve the Business Environment*. Asian Development Bank Technical Assistance Report. December 2009.

<sup>10</sup> <http://www.doingbusiness.org/about-us> Last accessed 15 June 2016

<sup>11</sup> Ibid

The data below on starting a business in Armenia, (one of several indicators of the ease of doing business), was published by the World Bank's Doing Business Report provides:

Year	Ease of Doing Business Rank	Starting a Business				
		DTF	Procedures (number)	Time (days)	Cost (% of income per capita)	Paid-in min. capital (% of income per capita)
DB2005	..	82.69	9	18	7	4.5
DB2006	46	82.82	9	18	6.1	4
DB2007	34	84.71	8	17	5.1	3.3

The 2007 Doing Business Report provides a detailed table on Armenia's ease of doing business ranking.

<b>ARMENIA</b>		Eastern Europe & Central Asia	GNI per capita (US\$)	1,470	
Ease of doing business (rank)	34	Lower middle income	Population (m)	3.0	
<b>Starting a business</b> (rank)	46	<b>Registering property</b> (rank)	2	<b>Trading across borders</b> (rank)	119
Procedures (number)	9	Procedures (number)	3	Documents to export (number)	7
Time (days)	24	Time (days)	4	Time to export (days)	34
Cost (% of income per capita)	5.1	Cost (% of property value)	0.4	Cost to export (US\$ per container)	1,600
Minimum capital (% of income per capita)	3.3			Documents to import (number)	6
		<b>Getting credit</b> (rank)	65	Time to import (days)	37
<b>Dealing with licenses</b> (rank)	36	Strength of legal rights index (0–10)	5	Cost to import (US\$ per container)	1,750
Procedures (number)	18	Depth of credit information index (0–6)	3		
Time (days)	112	Public registry coverage (% of adults)	1.5	<b>Enforcing contracts</b> (rank)	18
Cost (% of income per capita)	43.1	Private bureau coverage (% of adults)	0.0	Procedures (number)	24
				Time (days)	185
<b>Employing workers</b> (rank)	41	<b>Protecting investors</b> (rank)	83	Cost (% of claim)	14.0
Difficulty of hiring index (0–100)	33	Extent of disclosure index (0–10)	5		
Rigidity of hours index (0–100)	40	Extent of director liability index (0–10)	2	<b>Closing a business</b> (rank)	40
Difficulty of firing index (0–100)	20	Ease of shareholder suits index (0–10)	8	Time (years)	1.9
Rigidity of employment index (0–100)	31	Strength of investor protection index (0–10)	5.0	Cost (% of estate)	4
Nonwage labor cost (% of salary)	18			Recovery rate (cents on the dollar)	42.0
Firing cost (weeks of salary)	13	<b>Paying taxes</b> (rank)	148		
		Payments (number per year)	50		
		Time (hours per year)	1120		
		Total tax rate (% of profit)	42.5		

In 2007, Armenia's standing may be compared with the following comparator economies:

Economy	Starting a Business				
	DTF	Procedures (number)	Time (days)	Cost (% of income per capita)	Paid-in min. capital (% of income per capita)
Armenia	84.71	8	17	5.1	3.3
Azerbaijan	68.5	13	51	9.3	0.0
Bulgaria	75.34	9	32	7.9	63.9
Georgia	85.69	7	16	10.9	3.7
Romania	90.83	5	11	4.4	1.6
Russian Federation - Moscow	81.76	8	29	4.6	3.4
Turkey	85.07	7	7	26.5	18.7

For reference, the following table contains data on the top three ranked economies in 2007.

Economy	Ease of Doing Business Rank	Starting a Business			
		Procedures (number)	Time (days)	Cost (% of income per capita)	Paid-in min. capital (% of income per capita)
Singapore	1	6	6	0.8	0.0
New Zealand	2	2	12	0.2	0.0
United States	3	5	5	0.7	0.0

In the Global Competitiveness Report 2006–2007 produced by the World Economic Forum, Armenia was ranked 82<sup>nd</sup> out of 125 countries in the Global Competitiveness Index and 94<sup>th</sup> out of 121 countries in the Business Competitiveness Index.

## Business Registration in Armenia, Circa 2008

Starting a business in Armenia entailed the completion of between **seven to nine** procedures, to wit:

Procedure	No. of Days
(i) registering the name of the company at the State Patent Department through the State Registrar	2 days
(ii) procuring a written statement of deposited charter capital at a bank	1 day
(iii) procuring a registration card from the State Registry Office and filling it out	1 day
(iv) paying the registration fee at any bank	1 day
(v) registering with the State Registrar	7 days
(vi) registering with tax authorities and obtaining a tax identification number	2 days
(vii) obtaining a right at the National Police Department to order a seal for all official company transactions	1 day
(viii) ordering a seal	2 days
(ix) registering with the statistical office	1 day

The 2001 Law on State Registration of Legal Entities stipulated that the SRA must register a company in five days. However, this was not always met.

A large portion of the procedures enumerated above necessitated transacting with Armenia's Agency for State Register of Legal Persons (SRA). It must be noted, however, that in addition to the time spent in the SRA and organizing facilities such as utility connections, businesses applied for titles cleared from the Patents Offices and separately filed to get tax numbers from the State Tax Service. They likewise had to make transactions with banks, the National Police Department and the statistical office.

Each branch of the SRA covered a specific region and maintained its own business register. These regional units received the documents for the state registration of legal entities within their respective jurisdiction. This took into account the place of location of the legal entities under registration. These regional units entered records into the document admission register book, controlled the processes of formation of legal entities, and verified compliance of the relevant documents with the requirements of law.

The registration information was then forwarded to the central body (head office) and the details entered into a national register—the Unified State Register. The branches maintained their own paper-based local register while head office maintained the computer-based unified register. Submission of forms and documents held at the head office were made in paper format only.<sup>12</sup> Registration in the country was a one-time process. State registration vested the legal person with personality which subsisted until the company’s liquidation. Note that this legal personality was recognized nationwide, and not limited within a specific region.

The business registration system was totally manual. Regional units were not linked to the central body. Thus, a branch could not deal with a request for information on a legal entity outside its jurisdiction. In which case, requests were then referred to the central unit.

Although the SRA had a website that gave useful information on laws and legal requirements, it did not provide services such as downloadable and online forms, as well as register searches. The existing business registration processes suffered from all the weaknesses of a manual paper-based system, including cumbersome procedures for starting a business, and weak reporting.<sup>13</sup>

With all the above as givens, the Director of the SRA had to decide how his Agency could implement comprehensive and sustainable measures to improve its business registration process.

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<sup>12</sup> Armenia: Institutional Modernization to Improve the Business Environment. Asian Development Bank Technical Assistance Report. December 2009.

<sup>13</sup> Ibid

## Background information on Armenia<sup>14</sup>

**Economic Overview:** Under the old Soviet central planning system, Armenia had developed a modern industrial sector, supplying machine tools, textiles, and other manufactured goods to sister republics in exchange for raw materials and energy. Since the implosion of the USSR in December 1991, Armenia has switched to small-scale agriculture away from the large agroindustrial complexes of the Soviet era. The agricultural sector has long-term needs for more investment and updated technology. The privatization of industry has been at a slower pace, but has been given renewed emphasis by the current administration. Armenia is a food importer, and its mineral deposits (copper, gold, bauxite) are small. The ongoing conflict with Azerbaijan over the ethnic Armenian-dominated region of Nagorno-Karabakh and the breakup of the centrally directed economic system of the former Soviet Union contributed to a severe economic decline in the early 1990s. By 1994, however, the Armenian Government had launched an ambitious IMF-sponsored economic liberalization program that resulted in positive growth rates in 1995-2006. Armenia has managed to slash inflation, stabilize its currency, and privatize most small- and medium-sized enterprises. Despite strong economic growth, Armenia's unemployment rate remains high. Nuclear power plants built at Metsamor eliminated the chronic energy shortages Armenia suffered in the early and mid-1990s, but those plants are under international pressure to close. Armenia is now a net energy exporter, although it does not have sufficient generating capacity to replace Metsamor. Construction of a natural gas pipeline between Iran and Armenia has been completed and it is scheduled to be commissioned by April 2007. Economic ties with Russia remain close, especially in the energy sector. The electricity distribution system was privatized in 2002 and bought by Russia's RAO-UES in 2005. Armenia's severe trade imbalance has been offset somewhat by international aid, remittances from Armenians working abroad, and foreign direct investment. Armenia joined the WTO in January 2003. The government made some improvements in tax and customs administration in 2005, but anti-corruption measures will be more difficult to implement. Investment in the construction and industrial sectors is expected to continue in 2007 and will help to ensure annual average real GDP growth of more than 10%.

<sup>14</sup> CIA World Factbook 2007: Armenia. (n.d.). Retrieved August 23, 2016, from [http://stephansmap.org/CIA\\_World\\_Factbook\\_2007\\_Armenia.html](http://stephansmap.org/CIA_World_Factbook_2007_Armenia.html)

## Geography

Area:	<i>Total: 29,800 sq km land: 28,400 sq km water: 1,400 sq km</i>
Terrain:	Armenian Highland with mountains; little forest land; fast flowing rivers; good soil in Aras River valley
Natural resources:	Small deposits of gold, copper, molybdenum, zinc, bauxite
Land use:	<i>Arable land: 16.78% permanent crops: 2.01% other: 81.21% (2005)</i>
Irrigated land:	2,860 sq km (2003)

## Government

Country name:	<i>Conventional long form: Republic of Armenia conventional short form: Armenia local long form: Hayastani Hanrapetut'yun local short form: Hayastan former: Armenian Soviet Socialist Republic; Armenian Republic</i>
Government type:	Republic
Capital:	<i>Name: Yerevan geographic coordinates: 40 10 N, 44 30 E time difference: UTC+4 (9 hours ahead of Washington, DC during Standard Time) daylight saving time: +1hr, begins last Sunday in March; ends last Sunday in October</i>
Administrative divisions:	11 provinces (marzer, singular - marz); Aragatsotn, Ararat, Armavir, Geghark'unik', Kotayk', Lorri, Shirak, Syunik', Tavush, Vayots' Dzor, Yerevan
Independence:	21 September 1991 (from Soviet Union)
National holiday:	Independence Day, 21 September (1991)
Constitution:	Adopted by nationwide referendum 5 July 1995; amendments adopted through a nationwide referendum 27 November 2005
Legal system:	Based on civil law system; has not accepted compulsory ICJ jurisdiction
Suffrage:	18 years of age; universal

Executive branch:	<i>Chief of state:</i> President Robert KOCHARIAN (since 30 March 1998) <i>head of government:</i> Prime Minister Serzh SARGSYAN (since 4 April 2007) <i>cabinet:</i> Council of Ministers appointed by the prime minister <i>elections:</i> president elected by popular vote for a five-year term (eligible for a second term); election last held 19 February and 5 March 2003 (next to be held in 2008); prime minister appointed by the president and confirmed with the majority support of the National Assembly; the prime minister and Council of Ministers must resign if the National Assembly refuses to accept their program <i>election results:</i> Robert KOCHARIAN reelected president; percent of vote - Robert KOCHARIAN 67.5%, Stepan DEMIRCHYAN 32.5%
Judicial branch:	Constitutional Court; Court of Cassation (Appeals Court)

## Economy

GDP (purchasing power parity):	\$16.94 billion (2006 est.)
GDP (official exchange rate):	\$6.6 billion (2006 est.)
GDP - real growth rate:	13.4% (2006 est.)
GDP - per capita (PPP):	\$5,700 (2006 est.)
GDP - composition by sector:	<i>Agriculture:</i> 18.2% <i>industry:</i> 38.6% <i>services:</i> 43.2% (2006 est.)
Labor force:	1.2 million (November 2006)
Labor force - by occupation:	<i>Agriculture:</i> 45% <i>industry:</i> 25% <i>services:</i> 30% (2002 est.)
Unemployment rate:	7.4% (November 2006 est.)
Population below poverty line:	34.6% (2004 est.)
Household income or consumption by percentage share:	<i>Lowest 10%:</i> 1.6% <i>highest 10%:</i> 41.3% (2004)
Distribution of family income - Gini index:	41 (2004)
Inflation rate (consumer prices):	2.9% (2006 est.)
Investment (gross fixed):	33.3% of GDP (2006 est.)
Budget:	<i>Revenues:</i> \$1.057 billion <i>expenditures:</i> \$1.153 billion; including capital expenditures of \$NA (2006 est.)
Agriculture - products:	Fruit (especially grapes), vegetables; livestock

Industries:	Diamond-processing, metal-cutting machine tools, forging- pressing machines, electric motors, tires, knitted wear, hosiery, shoes, silk fabric, chemicals, trucks, instruments, microelectronics, jewelry manufacturing, software development, food processing, brandy
Industrial production growth rate:	-1.2% (2006 est.)
Electricity - production:	5.975 billion kWh (2005)
Electricity - consumption:	4.194 billion kWh (2005)
Electricity - exports:	1.011 billion kWh; note - exports an unknown quantity to Georgia; includes exports to Nagorno-Karabakh region in Azerbaijan (2005)
Electricity - imports:	231 million kWh; note - imports an unknown quantity from Iran (2005)
Oil - production:	0 bbl/day (2005)
Oil - consumption:	41,000 bbl/day (2004 est.)
Oil - exports:	NA bbl/day
Oil - imports:	NA bbl/day
Oil - proved reserves:	0 bbl (1 January 2006)
Natural gas - production:	0 cu m (2005 est.)
Natural gas - consumption:	1.63 billion cu m (2005 est.)
Natural gas - exports:	0 cu m (2005 est.)
Natural gas - imports:	1.63 billion cu m (2005)
Current account balance:	\$-87.3 million (2006 est.)
Exports:	\$1.019 billion f.o.b. (2006 est.)
Exports - commodities:	Diamonds, mineral products, foodstuffs, energy
Exports - partners:	Germany 18.1%, Netherlands 14.1%, Belgium 13.4%, Russia 13.1%, Israel 7.1%, US 6.1%, Georgia 5.1%, Iran 4.9% (2006)
Imports:	\$1.921 billion f.o.b. (2006 est.)
Imports - commodities:	Natural gas, petroleum, tobacco products, foodstuffs, diamonds
Imports - partners:	Russia 21.8%, Ukraine 7.8%, Belgium 7.6%, Turkmenistan 7.1%, Italy 6.1%, Germany 5.7%, Iran 5.7%, Israel 4.8%, US 4.5%, Georgia 4.1% (2006)
Economic aid - recipient:	ODA, \$193.3 million (2005)

Reserves of foreign exchange and gold:	\$1.072 billion (2006 est.)
Debt - external:	\$1.16 billion (30 September 2006)
Market value of publicly traded shares:	\$42.8 million (2005)
Currency (code):	Dram (AMD)
Exchange rates:	Drams per US dollar - 414.69 (2006), 457.69 (2005), 533.45 (2004), 578.76 (2003), 573.35 (2002)
Fiscal year:	Calendar year

## Communications

Telephones - main lines in use:	594,400 (2005)
Telephones - mobile cellular:	318,000 (2005)
Telephone system:	<i>General assessment:</i> system inadequate; an outdated telecommunications network inherited from the Soviet era; now 90% privately owned and undergoing modernization and expansion; mobile-cellular services monopoly terminated in late 2004 and a second provider began operations in mid-2005 <i>domestic:</i> the majority of subscribers and the most modern equipment, including paging and mobile-cellular services, are in Yerevan <i>international:</i> country code - 374; Yerevan is connected to the Trans-Asia-Europe fiber-optic cable through Iran; additional international service is available by microwave radio relay and landline connections to the other countries of the Commonwealth of Independent States and through the Moscow international switch and by satellite to the rest of the world; satellite earth stations - 3 (2007)
Radio broadcast stations:	AM 9, FM 16, shortwave 1 (2006)
Television broadcast stations:	48 (private television stations alongside 2 public networks; major Russian channels widely available) (2006)
Internet country code:	.am
Internet hosts:	8,270 (2007)
Internet users:	172,800 (2006)
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## Transportation

Airports:	12 (2007)
Airports - with paved runways:	<i>Total: 10 over 3,047 m: 2 2,438 to 3,047 m: 2 1,524 to 2,437 m: 4 914 to 1,523 m: 2 (2007)</i>
Airports - with unpaved runways:	<i>Total: 2 1,524 to 2,437 m: 1 914 to 1,523 m: 1 (2007)</i>
Pipelines:	Gas 2,002 km (2006)
Railways:	<i>Total: 839 km broad gauge: 839 km 1.520-m gauge (828 km electrified) note: some lines are out of service (2006)</i>
Roadways:	<i>Total: 7,633 km paved: 7,633 km (includes 1,561 km of expressways) (2003)</i>

Before the 2008 financial crisis, where Armenia's economy enjoyed a growth percentage of 12%, the government of Armenia had built a market-oriented economy. Despite a slump in the influx of foreign capital which had been on a steady decline since 2008, the government maintained a relatively low tax rate compared to countries in the same region, in an effort to maintain competitiveness.

Armenia, recognizing weaknesses in its bureaucratic processes, implemented policies and regulations aimed to promote efficiency and transparency in the context of doing business in the country.

In order to make the process of registration seamless and to lower transaction costs for private investors and, in particular, foreign investors, a 'one-stop shop' or agency supplying information on all requirements for carrying on a business in Armenia and where all application and registration procedures could take place was deemed necessary. This agency would have the responsibility of coordinating matters of registration with the relevant Ministries and government units, removing the burden of having applicants go from one office to another.<sup>15</sup>

On 26 June 2008, the Republic of Armenia, through Government Decision 775-N, drew up an action plan to introduce reforms in doing business to encourage foreign investments. The following reforms were introduced to ease the process of starting a business: the procedures for starting businesses were made uniform, the minimum authorized capital requirement was removed, seal authorization was made optional, and an interconnected electronic registry was to be introduced.

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<sup>15</sup> Armenia Country Economic Memorandum. Report No. 11274-AM. Volume I. World Bank  
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This was aimed at simplifying the procedures for registering businesses by reducing the time and costs, taking into consideration international standards operating in this sphere. Average processing time of registration prior to the introduction of reforms was around 20 days. A one-stop shop was also envisioned so that prospective entrepreneurs would need only to visit one institution to register a business. This institution would accept the documents and execute all the necessary steps including cooperating with the state registry and other state agencies such as the police, local governmental units, and other bodies.

Government Decision 775-N sought to effectively carry out the following changes in the process of registration:

1. Remove the requirement for submitting the charter of the legal entity (trade organizations) at the time of registration.
2. A written statement at the time of registration that the legal entity would engage in activities specified for the particular organizational and legal type by the legislation of Armenia (by default).
3. A copy of the charter may be submitted, if desired. The content of this is not checked, but only registered and recorded by the registering entity.
4. Remove the minimum authorized capital requirement, including the requirement for its existence (documentary proof).
5. Submission of information on the size of the capital by the legal entity is still required at the time of registration, which is not verified at that time, but only recorded. (Exception should only be made for legal entities set up for financial intermediation activities.)
6. Registration of a legal entity may be granted based on submission of the necessary minimum information, details (company name, etc.) through approval and issuance of an administrative act (ministerial act), which would at least include information on the company name and TIN.
7. For the STS (State Tax Service) to establish within a three-month period a working group in cooperation with foreign consultants to introduce a seal substitute by other individual means (in particular by creating an electronic base of signature samples and introduction of computer programs for signature checking.)
8. Remove the mandatory requirement for having a legal entity seal.

9. Create electronic administrative statistics and documentary database on legal entities, which will make the necessary information on legal entities accessible to interested governmental bodies.

On 28 July 2008, the Prime Minister issued an action plan that sought to transform Armenia into a center of excellence in governance in general, and to improve the business environment and reduce the cost of doing business in particular. A major segment of this reform dealt with increasing efficiency and simplifying the procedures in the State Registry Agency (SRA) through two initiatives: (1) full automation, so that the current system of manual registration is computerized; and (2) establishing a one-window operation to facilitate business startups.

In addition to the time spent in the SRA and organizing facilities such as utility connections, businesses apply for getting titles cleared from the Patents Offices and separately file to get tax numbers from the State Tax Service. The action plan envisaged setting up 10 "business facilitation centers" to handle all the tasks under one roof in coordination with the relevant agencies.

## **Armenia seeks ADB Funding and Assistance<sup>16</sup>**

At the request of the Government of Armenia, the Asian Development Bank (ADB) provided technical assistance to establish an automated online business registry (OBR). The TA aimed to increase efficiency and simplify procedures through two initiatives: (1) computerization of the existing manual system of registration of legal entities (except banking companies); and (2) establishing a one-window operation to facilitate business startups. The TA entitled Institutional Modernization to Improve the Business Environment was signed on 30 December 2009.

The TA sought to improve the business climate in Armenia through the development of an efficient Online Business Registration (OBR) system. The TA outputs included (1) an organization and business redesign study to seek the most appropriate technological model for the OBR in the State Registry of Legal Entities of the Republic of Armenia (SRA) and development and pilot testing of an automated business registry; (2) legal and regulatory frameworks/amendments to create a one-stop OBR; (3) establishment of an information

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<sup>16</sup> Based on: Technical Assistance Completion Report. TA 7414-ARM: Institutional Modernization to Improve the Business Environment

technology (IT) support unit in the SRA, with suitable equipment and facilities; and (4) effective management of the new automated system by SRA staff. The TA design was discussed extensively with the government and development partners and was consistent with the government's action plans to improve Armenia's business environment.

The Ministry of Justice (MOJ) was the executing agency and the SRA was the implementing agency for the TA.

An international IT and business registry expert helped design an IT strategy for the OBR, while an international and a national legal expert reviewed the legal and regulatory environment to set up the OBR, including the revision and drafting of the Law on the Unified State Register and related sub-laws and regulations.

An international IT consulting firm developed application software for the one-stop shop (OSS). The OSS software was interfaced with other related government agency systems (such as the State Revenue Committee and Intellectual Property Agency) and integrated with the core systems developed by the European Union's (EU's) "Introduction of e-Governance systems at the State Registry of Legal Entities of the Republic of Armenia" project.

The TA funded procurement of equipment for the OSS of SRA including networked computer servers and facilities for converting existing paper records into a computer-readable format.

The TA delivered the intended outputs and outcome. The government demonstrated strong ownership of reforms and the executing agency was fully satisfied with the TA outputs and outcome, which involved:

1. An organization and business redesign study which identified an appropriate technological model for the SRA as well as required improvements in SRA business processes and automated business registry which were developed and pilot-tested. The business and application analyses included a review of the existing business registration process and identification of the application software requirements in terms of new workflows, software components and data input, storage, and output, which would support the OSS.

2. **Legal and regulatory frameworks/amendments** for implementing the action plan were drafted and submitted to the government. The TA helped analyze the current legislation in force. A proposed draft supporting legislation in line with international best practices deemed necessary to achieve the reform goals was likewise submitted. The TA aided in drafting amendments to the Law on State Registration of Legal Entities and related laws. As implementation of the amendment of the Law (approved by the Parliament on 21 December 2010), the government adopted a package of decisions on 17 February 2011, including the regulation on defining the procedure of electronic submission of documents for registration (recordkeeping) and on peculiarities of state registration (recordkeeping). The TA also assisted the government in reviewing the new (completely revised) Law on State Registration of Legal entities, which was aimed at ensuring full implementation of the OSS concept and (approved by the Parliament on 19 March 2012).
3. **An IT support unit created in SRA**, with suitable equipment and facilities. The SRA network became part of a broader governmental network (e-gov.am) managed and maintained by the government's IT department. Two employees of SRA dealt with day-to-day maintenance and operational issues of the system at SRA. Several employees were trained to maintain the system when necessary.
4. **SRA staff to manage the new automated system effectively.** The SRA staff were able to effectively use the e-register for their day-to-day operations, and all registration procedures were done exclusively by the e-register system. Training for the operation and maintenance of the system were critical to implementing the system nationwide. The training component sought to ensure the correct and sustainable use of the system by government agencies—particularly the SRA—and to ensure its viable and sustainable use by the general public and private businesses.

## **The One-Stop Business Registry (OBR) and the One Stop Shop (OSS) Software**

On 25 March 2011, the One-Stop Business Registry (OBR) was launched by the Ministry of Justice. This centralized online system aimed to streamline startup procedures and simplify the business registration process. The OBR also housed a business library and accounting center together with other ministerial offices.

The launch of the OBR was coupled with the introduction of the One Stop Shop (OSS) Software which was connected to other related government agency systems such as the State Revenue Committee and Intellectual Property Agency.

Applicants could then apply for state registration by submitting an online application to the SRA through their website (<http://www.e-register.am>) or manually, by physically attaching the documents required by law.

Registrants could also then reserve their companies' business names and concurrently obtain their business registration and tax identification number at a single location. The application for a taxpayer identification number was filed with the tax authority at the one-stop shop with the TIN issued by the State Registrar.

State registration would be carried out within the time limit prescribed by the Law. However, shorter time limits could be set for the mentioned procedures provided that such services were already paid for. The complete list of the type and conditions of paid services, including the mandatory fees are in the Decision of the Government of the Republic of Armenia No. 1194-N dated 11 August 2011.<sup>17</sup>

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<sup>17</sup> Ministry of Justice, Armenia  
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## Armenia's Recent Rankings

Significant changes can be observed in Armenia's figures and business rankings in light of the country's efforts to attract foreign direct investments and create a suitable climate for the private sector.

According to the World Bank's Doing Business 2013 report, Armenia ranked 32nd out of 185 countries in terms of ease of doing business, 18 points up from 2012. This was due to improvements made in the application of construction permits (46th, from 49th in 2012) and ease of getting credit (40th, from 38th in 2012). Significant improvements in the "paying taxes" indicator (108th, from 152nd in 2012) by reducing the number of government forms required was also observed. According to the report, however, particular attention should still be paid to curbing corrupt practices.

In 2014, the country made starting a business easier by eliminating the company registration fees. In 2015, Armenia commenced streamlining post-registration procedures (Doing Business 2016).

Armenia has passed extensive reforms to improve its private sector and has been reaping the gains through its favourable investment climate. From 98th place (out of 144 economies) in 2010-2011, Armenia is now 82nd based on the 2015-2016 Global Competitiveness Index according to the World Economic Forum.

The Doing Business 2016 report now ranks Armenia as 35th out of 189 countries in terms of ease of doing business. This is three places higher than its 2015 ranking. It is significant to note that the country now ranks 5th in terms of starting a business, on account of the fact that it now only entails two procedures and three days to start a business.

## Summary of Doing Business Indicators

Indicator	Armenia DB2016	Armenia DB2015	Bulgaria DB2016	Georgia DB2016	Greece DB2016	Romania DB2016	Russian Federation DB2016	Best performer globally DB2016
<b>Starting a Business (rank)</b>	5	3	52	6	54	45	41	New Zealand (1)
<b>Starting a Business (DTF Score)</b>	97.78	97.77	91.1	97.76	90.7	91.94	92.35	New Zealand (99.96)
<b>Procedures (number)</b>	2.0	2.0	4.0	2.0	5.0	5.0	4.4	New Zealand (1.00)*
<b>Time (days)</b>	3.0	3.0	18.0	2.0	13.0	8.0	10.5	New Zealand (0.50)
<b>Cost (% of income per capita)</b>	1.0	1.0	0.7	3.1	2.2	2.0	1.1	Slovenia (0.00)
<b>Paid-in min. capital (% of income per capita)</b>	0.0	0.0	0.0	0.0	0.0	0.6	0.0	105 Economies (0.00)*
<b>Dealing with Construction Permits (rank)</b>	62	72	51	11	60	105	119	Singapore (1)
<b>Dealing with Construction Permits (DTF Score)</b>	72.43	70.32	74.45	82.77	72.63	67.19	65.23	Singapore (92.97)
<b>Procedures (number)</b>	18.0	20.0	16.0	7.0	18.0	15.0	19.0	5 Economies (7.00)*
<b>Time (days)</b>	84.0	84.0	110.0	48.0	124.0	257.0	263.5	Singapore (26.00)

Source: World Bank Doing Business 2016 (Armenia)

Indicator	Armenia DB2016	Armenia DB2015	Bulgaria DB2016	Georgia DB2016	Greece DB2016	Romania DB2016	Russian Federation DB2016	Best performer globally DB2016
Cost (% of warehouse value)	1.0	1.1	4.1	0.2	1.8	2.3	1.6	Qatar (0.00)
Building quality control index (0-15)	9.5	9.5	13.0	7.0	12.0	13.0	14.0	New Zealand (15.00)
Getting Electricity (rank)	99	96	100	62	47	133	29	Korea, Rep. (1)
Getting Electricity (DTF Score)	65.46	65.44	64.97	76.15	80.57	56.44	84.22	Korea, Rep. (99.88)
Procedures (number)	4.0	4.0	6.0	4.0	6.0	8.0	3.0	14 Economies (3.00)*
Time (days)	180.0	180.0	130.0	71.0	51.0	182.0	160.5	Korea, Rep. (18.00)*
Cost (% of income per capita)	87.3	92.6	317.3	461.8	70.0	573.7	93.1	Japan (0.00)
Reliability of supply and transparency of tariff index (0-8)	4.0	4.0	5.0	4.0	7.0	7.0	8.0	18 Economies (8.00)*
Registering Property (rank)	14	14	63	3	144	64	8	New Zealand (1)
Registering Property (DTF Score)	87.29	87.27	69.34	91.16	49.62	69.19	90.51	New Zealand (94.46)
Procedures (number)	3.0	3.0	8.0	1.0	10.0	8.0	3.0	4 Economies (1.00)*
Time (days)	7.0	7.0	11.0	1.0	20.0	19.0	15.0	3 Economies (1.00)*
Cost (% of property value)	0.2	0.2	2.9	0.1	4.9	1.4	0.2	Saudi Arabia (0.00)
Quality of the land administration index (0-30)	21.0	21.0	18.0	19.5	4.5	16.0	26.0	3 Economies (28.50)*
Getting Credit (rank)	42	36	28	7	79	7	42	New Zealand (1)

Source: World Bank Doing Business 2016 (Armenia)

Indicator	Armenia DB2016	Armenia DB2015	Bulgaria DB2016	Georgia DB2016	Greece DB2016	Romania DB2016	Russian Federation DB2016	Best performer globally DB2016
Getting Credit (DTF Score)	65	65	70	85	50	85	65	New Zealand (100)
Strength of legal rights index (0-12)	5.0	5.0	9.0	9.0	3.0	10.0	6.0	3 Economies (12.00)*
Depth of credit information index (0-8)	8.0	8.0	5.0	8.0	7.0	7.0	7.0	26 Economies (8.00)*
Credit registry coverage (% of adults)	0.0	23.5	64.7	0.0	0.0	15.9	0.0	Portugal (100.00)
Credit bureau coverage (% of adults)	94.1	65.8	0.0	74.5	81.2	50.1	70.2	22 Economies (100.00)*
Protecting Minority Investors (rank)	49	46	14	20	47	57	66	Singapore (1)*
Protecting Minority Investors (DTF Score)	60	60	71.67	68.33	61.67	58.33	56.67	Singapore (83.33)*
Strength of minority investor protection index (0-10)	6.0	6.0	7.2	6.8	6.2	5.8	5.7	3 Economies (8.30)*
Extent of conflict of interest regulation index (0-10)	6.3	6.3	6.3	7.7	5.3	6.0	5.0	Singapore (9.30)*
Extent of shareholder governance index (0-10)	5.7	5.7	8.0	6.0	7.0	5.7	6.3	4 Economies (8.00)*
Paying Taxes (rank)	41	41	88	40	66	55	47	United Arab Emirates (1)*
Paying Taxes (DTF Score)	82.51	82.51	74.19	82.76	78.45	80.69	81.6	United Arab Emirates (99.44)*
Payments (number per year)	10.0	10.0	14.0	5.0	8.0	14.0	7.0	Hong Kong SAR, China (3.00)*
Time (hours per year)	313.0	313.0	423.0	362.0	193.0	159.0	168.0	Luxembourg (55.00)

Source: World Bank Doing Business 2016 (Armenia)

Indicator	Armenia DB2016	Armenia DB2015	Bulgaria DB2016	Georgia DB2016	Greece DB2016	Romania DB2016	Russian Federation DB2016	Best performer globally DB2016
Total tax rate (% of profit)	19.9	20.1	27.0	16.4	49.6	42.0	47.0	Ireland (25.90)
Trading Across Borders (rank)	29	58	20	78	27	1	170	Denmark (1)*
Trading across Borders (DTF Score)	93.23	81.75	97.45	75.31	93.72	100	37.39	Denmark (100)*
Time to export: Border compliance (hours)	3	51	4	14	24	0	96	15 Economies (0.00)*
Cost to export: Border compliance (USD)	0	250	52	383	300	0	1,125	18 Economies (0.00)*
Time to export: Documentary compliance (hours)	2	2	2	48	1	1	43	Jordan (0.00)
Cost to export: Documentary compliance (USD)	150	150	52	200	30	0	500	20 Economies (0.00)*
Time to import: Border compliance (hours)	3	51	1	14	1	0	96	19 Economies (0.00)*
Cost to import: Border compliance (USD)	0	250	0	396	0	0	1,125	28 Economies (0.00)*
Time to import: Documentary compliance (hours)	2	2	1	24	1	1	43	21 Economies (1.00)*
Cost to import: Documentary compliance (USD)	100	100	0	200	0	0	500	30 Economies (0.00)*
Enforcing Contracts (rank)	28	36	52	13	132	34	5	Singapore (1)
Enforcing Contracts (DTF Score)	70.46	68.6	65.09	75.06	50.19	69.23	78.56	Singapore (84.91)
Time (days)	570.0	570.0	564.0	285.0	1,580.0	512.0	307.0	Singapore (150.00)

Source: World Bank Doing Business 2016 (Armenia)

Indicator	Armenia DB2016	Armenia DB2015	Bulgaria DB2016	Georgia DB2016	Greece DB2016	Romania DB2016	Russian Federation DB2016	Best performer globally DB2016
Cost (% of claim)	14.0	14.0	23.8	29.9	14.4	28.9	16.5	Iceland (9.00)
Quality of judicial processes index (0-18)	11.5	10.5	10.5	13.0	12.0	13.0	12.5	3 Economies (15.50)*
Resolving Insolvency (rank)	71	69	48	101	54	46	51	Finland (1)
Resolving Insolvency (DTF Score)	48	48.14	58.93	40.24	56.28	59.77	58.39	Finland (93.81)
Recovery rate (cents on the dollar)	36.9	37.2	34.0	39.9	34.9	32.7	41.7	Japan (92.90)
Time (years)	1.9	1.9	3.3	2.0	3.5	3.3	2.0	Ireland (0.40)
Cost (% of estate)	11.0	11.0	9.0	10.0	9.0	10.5	9.0	Norway (1.00)
Outcome (0 as piecemeal sale and 1 as going concern)	0	0	0	0	0	0	0	
Strength of insolvency framework index (0-16)	9.0	9.0	13.0	6.0	12.0	13.5	11.5	4 Economies (15.00)*

Source: World Bank Doing Business 2016 (Armenia)