

DOING BUSINESS GUIDE

ARMENIA

[2015]
v. 3

Executive Summary	5
Introduction	7
Research Objectives and Methodology	7
Armenia.....	11
Country Profile	11
Business Environment	12
Company Establishment	22
Banking System	44
Shipping Solutions	53
Storage Solutions	55
Tax System	56
Case Study.....	58
Field Research: Company Registration	70
Field Research: Banks.....	83
Field research: Shipping Solutions	88
Appendices.....	95
Appendix A: Glossary.....	95
Appendix B: Quick Comparison Table.....	99
Appendix C: Macro Economic Data	99
Appendix D: Doing Business Report 2013 (Economy Snapshots)	100
Appendix E: Starting a Business.....	101
Appendix F: Starting a Foreign Business.....	101
Appendix G: Economic Freedom Index	102
Appendix H: Doing Business report dataset from 2004-2011 (Survey)	103
Appendix I: Number of New Firms from 2004-2011	107
Resources.....	109

Table 1- Country Profile for Armenia (BBC).....	11
Table 2- Investing Across Borders for Armenia (World Bank)	11
Table 3- The Volume of Import to Armenia as of end of 2012	13
Table 4- Main Import Partners of Armenia (Source: CIA World Factbook. 2012)	13
Table 5- The Volume of Export from Armenia as of end of 2012	13
Table 6- Main Export Partners of Armenia (Source: CIA World Factbook. 2012).....	13
Table 7- Enterprise Incubator Foundation.....	16
Table 8- Foreign direct investment in Armenia (As of 2012).....	19
Table 9- Starting a Business in Armenia.....	24
Table 10- List of Banks in Armenia and number of branches	45
Table 11- Top 10 Banks in Armenia by the number of branches	46
Table 12- Top 10 Banks in Armenia by the number of ATMs	46
Table 13- Taxes in Armenia	56
Table 14- Armenia's Double Tax Treaty Partners	57
Table 15- Provided services by selected firms.....	71

EXECUTIVE SUMMARY

This report has been prepared to examine the market potential for foreign investors in some Central Asian and Eastern European countries.

One of the main goals of this research is to recommend one country as the best option for investment or establishing a business and doing further research in the candidate country by different means of field study.

The preliminary desk study concluded that Armenia deserves further researches, because:

- Business environment is friendlier towards foreign investors and businesses.
- Armenian law for establishing businesses is relatively transparent and readily available in English
- Establishing businesses in Armenia is a straightforward procedure and can be done through a one-stop shop system
- Contacting businesses and banks in Armenia proved that they are willing to collaborate.

Following the desk study of selected countries, a field research was conducted. This phase involved traveling to Yerevan, capital of Armenia, and meeting service provider executives, lawyers, accountants, bankers, and logistics solutions managers.

Based on findings of the field study the following points are recommended:

- The most favorable option for establishing a business in Armenia is LLC.
- Despite existence of an online system for registering a business, it is still more practical to register the business by attending the registry office.
- Registering a business in Armenia is straightforward, however, it is recommended that a foreign applicant gets a local representative to register the business. It requires a power of attorney.
- Physical presence of the director in Armenia is not mandatory for registering the business but the physical presence of the director is required for opening the bank account.
- A small local firm can register the business with a considerably lower price than what large international firms charge.
- Registering a business and opening a bank account would take less than one working week.
- In order to be able to do business activities in different fields, it is recommended that the charter of the LLC to be defined as broadly as possible.

- The sole shareholder and the director of an LLC can be the same person and this person can be a foreigner.
- The director of an LLC does not need a “Work Permit” but he or she needs a “Residence Permit”. This Residence Permit does not oblige the director to actually live in Armenia and it automatically grants its holder the right to work.
- An LLC needs a legal address for the purpose of registering the company and official correspondence. Requirement for having an address for doing business activities depends on factors such as volume of transactions and nature of business. In general, a nominal address for official correspondence is sufficient. This address, could be provided by a service provider or the accounting firm.
- Armenia has a strong banking system with a network of many local and international banks. The healthy banking system with strict controls and licensing codes allow customers to trust the local banks. Therefore, it is recommended that small or medium sized companies to use local banks in order to avoid heavy charges and bureaucracy of international banks such as HSBC.
- Armenia's ongoing conflict with Azerbaijan has led to closure of its borders with two of its neighbors: Azerbaijan and Turkey. Nevertheless, shipping companies are prepared to transport goods via alternative routes.
- Finding well-equipped warehouses in Armenia proved difficult as warehouse providers are not present online.
- Shipping companies can be used as mediators to find warehouses and storage spaces.

INTRODUCTION

Research Objectives and Methodology

The purpose of “Doing Business Report” is to determine the market potential of foreign businesses in some Central Asian and Eastern European countries.



This research was conducted in 3 phases:

Phase 1

This phase was a pilot study on following countries in order to establish top three candidates for further researches:



In this phase the following parameters were investigated:

- Economy overview and business outlook for foreign investors
- Business climate for foreign investment: Opportunities and Challenges
- Free Trade Zones
- Company establishment procedures including timetable, fees, and documentation needed for forming a business

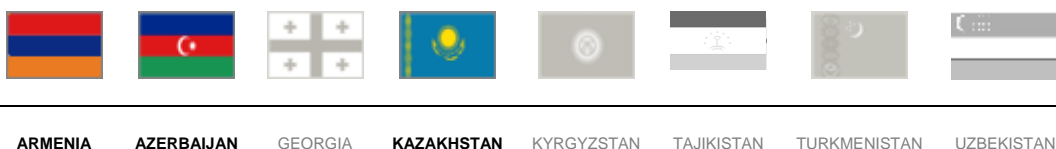
- Different types of companies and legal entities
- Banking system and requirements for opening bank accounts
- Tax system and different types of taxes
- Shipping and storage facilities
- Sea ports and cargo airports and possibility of freight forwarders in the country

Main sources of data and information for this phase included:

- Investing Across Borders (The World Bank)
- Doing Business (The World Bank)
- Doing Business: Country Commercial Guide for U.S. Companies (the U.S. Department of State)
- The traders' manual for landlocked countries: Tajikistan (The United Nations)
- Government Reports, available for public review
- Trusted websites including state news agencies and banks websites
- Trade Associations, Directories and Publication

Phase 2

Based on findings of the first phase, three countries were shortlisted for further researches in phase 2.



The objectives of this phase are:

- Identifying professional services providers, corporation law firms, and local accountants in shortlisted countries for the purpose of further research
- Contacting the identified firms via e-mail and telephone in order to have a comprehensive understanding of how findings of phase 1 are in place in practice
- To get quotation and time table for professional services
- To contact local and international banks in shortlisted countries to get first-hand information about opening corporation bank accounts and procedures and requirements

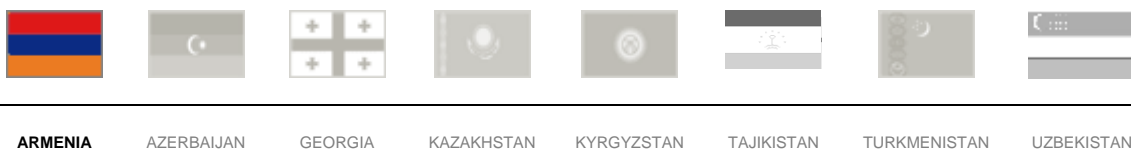
- Identifying shipping companies and storage solutions providers and contacting them in order to establish their services and charges

As well as sources mentioned in phase 1, main sources of data and information for phase 2 include:

- Information received directly from professional services providers, corporation law firms, accountancy and audit firms, banks, shipping firms, and storage solutions providers via email and telephone calls.
- Telephone interviews with professionals in shortlisted countries

Phase 3

From phase 1 and phase 2 of this study it was emerged that out of 6 countries originally selected for this research, Armenia has more potentials to be exploited for foreign investors. Hence, Armenia was selected for a further field research.



This field research phase includes:

- Identifying best practices for establishing a business via field research and meeting professional services providers in Armenia
- Identifying different options for opening bank accounts by meeting bankers in Armenia
- Identifying different shipping and storage solutions through meeting people involved in the sector in Armenia
- Making recommendations on the grounds of extensive desk research supported by a field research

As well as sources mentioned in phase 1 and phase 2, main sources of data and information for phase 3 include:

Information gathered from face to face meetings with professionals involved in the subject of this study in Yerevan, Armenia.

[This page has been intentionally left blank]

ARMENIA

Country Profile



Full name	Republic of Armenia
Capital	Yerevan
Population	3.2 million (134th)
Area	29,700 sq km (141st)
Major language	Armenian
Major religion	Christianity
Life expectancy (M/W)	71 / 77
Independence	1991
Monetary unit	1 dram = 100 lumas
Exchange Rate (1 USD = ? AMD)	410.27
Exchange Rate (1000 AMD = ? USD)	2.44
Main exports	Processed and unprocessed diamonds, machinery, metal products, foodstuffs
GNI per capita	US \$3,200
International dialling code	374

Table 1- Country Profile for Armenia (BBC)

Ranking in the study	Armenia
overall score in macro economic data	69.4
ranking for macro economic data	2
ranking for ease of doing business	2
ranking for ease of starting a foreign business	2
ranking for Index of Economic Freedom	2

Table 2- Investing Across Borders for Armenia (World Bank)

* Ranking among studied countries Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan

Business Environment

Overview

Armenia is a rather small, yet strategically important country situated at the crossroads of Europe and Asia. Armenia provides a positive and open attitude towards foreign investments. Foreign-owned companies are encouraged by the Armenian Government to open companies in the country.

Armenia achieved independence from the Soviet Union in 1991. A cease-fire in its 24-year dispute with Azerbaijan over the Nagorno-Karabakh region has been in effect since 1994, but minor hostilities continue, and Armenia's borders with Azerbaijan and Turkey remain closed.

Although Armenia performs relatively well in many categories of economic freedom, stronger foundations are needed in areas like judicial independence and government transparency.

Armenia offers low labor costs and a stable banking system as incentives for foreign affairs.

Considerable diversification of the economic base has increased economic dynamism in Armenia, and a decade of strong economic growth has reduced poverty and unemployment rates. Regulatory efficiency has been facilitated by a broad simplification of business procedures. Following expansionary fiscal policies in recent years, steps have been taken to limit the cost of government through more prudent public finance management.

Imports and Exports

The global economic crisis has had less impact on imports because imports sector is more diversified than exports.

The principal import commodities of Armenia are natural gas, petroleum, tobacco products, foodstuffs, diamonds, machinery and equipment.

Main export products of Armenia are pig iron, unwrought copper, nonferrous metals, diamonds, mineral products, foodstuffs, and energy.

Mining products	22%
Machinery and equipment	14%
Food products	8%
Chemical products	8%
Non-precious metals	7%
Herbal products	6%
Precious and semiprecious stones and metals	4%
Means of transportation	8%
Other	23%

Table 3- The Volume of Import to Armenia as of end of 2012

	Russia	24.8%
	China	9.4%
	Germany	6.2%
	Iran	5.2%
	Ukraine	5.1%
	Turkey	5%

Table 4- Main Import Partners of Armenia (Source: CIA World Factbook. 2012)

Mining products	28%
Non-precious metals	24%
Food products	18%
Precious and semiprecious stones and metals	12%
Means of transportation	4%
Other	14%

Table 5- The Volume of Export from Armenia as of end of 2012

	Russia	19.6%
	Germany	10.7%
	Bulgaria	9.1%
	Belgium	8.9%
	Iran	6.9%
	United States	6.1%
	Canada	6%
	Georgia	5.7%
	Netherlands	5.6%
	Switzerland	5%

Table 6- Main Export Partners of Armenia (Source: CIA World Factbook. 2012)