

Micro
Small
Medium



SMALL & MEDIUM BUSINESS IN ARMENIA



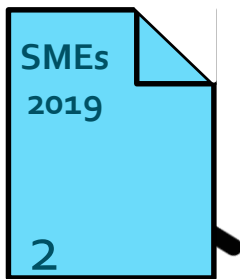
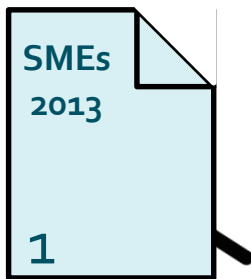
INTRODUCTION



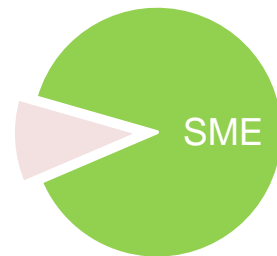
continues **THE SERIES OF RESEARCHES** in various industries of Armenian economy.



This paper covers **THE CURRENT STATE & FUTURE DEVELOPMENTS OF SME SECTOR** - one of the major sectors of Armenian economy.



It is the **SECOND** in series of comprehensive **SME sector** researches conducted by **AMERIA CJSC**.





SOURCES OF INFORMATION

- ✓ Analysis of available databases and reports (Armstat, State Revenue Committee (SRC), etc.)
- ✓ Survey among SMEs

❖ Field works of the survey were conducted in **MARCH-MAY 2019**.

❖ The survey was conducted in **5 MAJOR CITIES** of Armenia - Yerevan, Vanadzor, Gyumri, Armavir & Vagharshapat, & **COVERED 729 SMEs**.

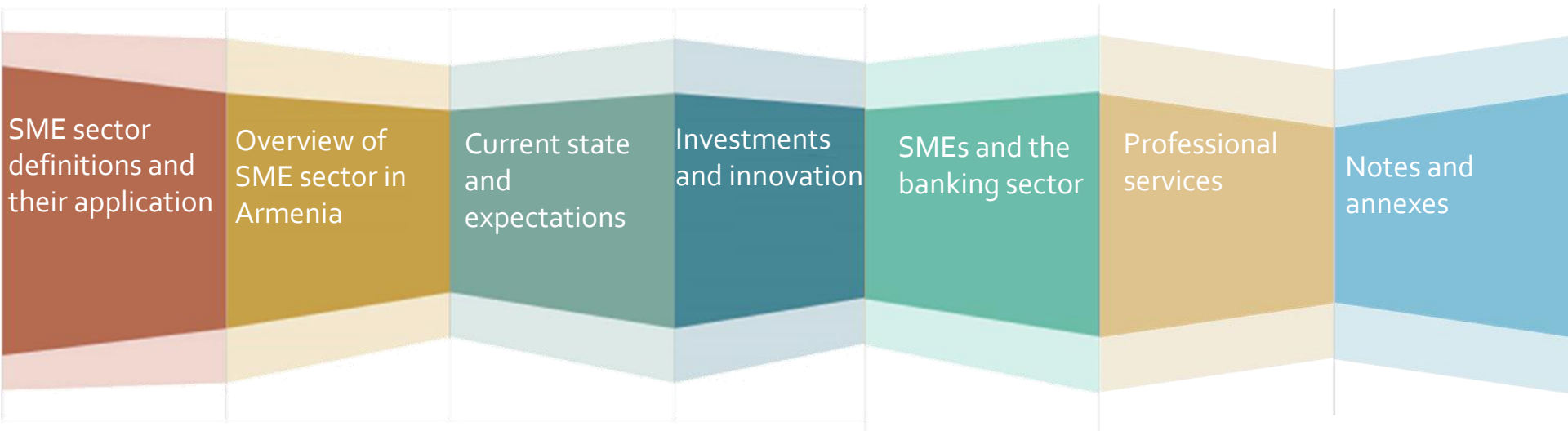
❖ Standard error for the data presented in the report is **3.6%** for 95% confidence interval.

❖ Survey **RESULTS** were **REWEIGHED**.





CONTENTS OF THE RESEARCH



- ❖ Differences in application of the definition
- ❖ Definitions used by banks
- ❖ Definitions used in regional countries

- ❖ Business environment
- ❖ Changes compared to 2013
- ❖ Foreign Trade
- ❖ Expectations
- ❖ Other

- ❖ Key factors for choosing a bank
- ❖ Use of banking products
- ❖ Other

- ❖ Quantitative assessment of SMEs
- ❖ Comprehensive overview of the sector

- ❖ Investments in 2018
- ❖ 2018 investments in innovation
- ❖ New projects and business expansion plans
- ❖ New project funding sources

- ❖ Companies using professional services
- ❖ Legal
- ❖ Management advisory
- ❖ Accounting, marketing, etc.



OVERVIEW OF SME SECTOR IN ARMENIA

LEGAL DEFINITION

Micro



Up to **10** employees

Up to **100 M**
revenue and assets

Small



Up to **50** employees

Up to **500 M**
revenue and assets

Medium



Up to **250** employees

Up to **1500 M** revenue
and **1000 M** assets

❖ **THIS DEFINITION IS NOT SO POPULAR**

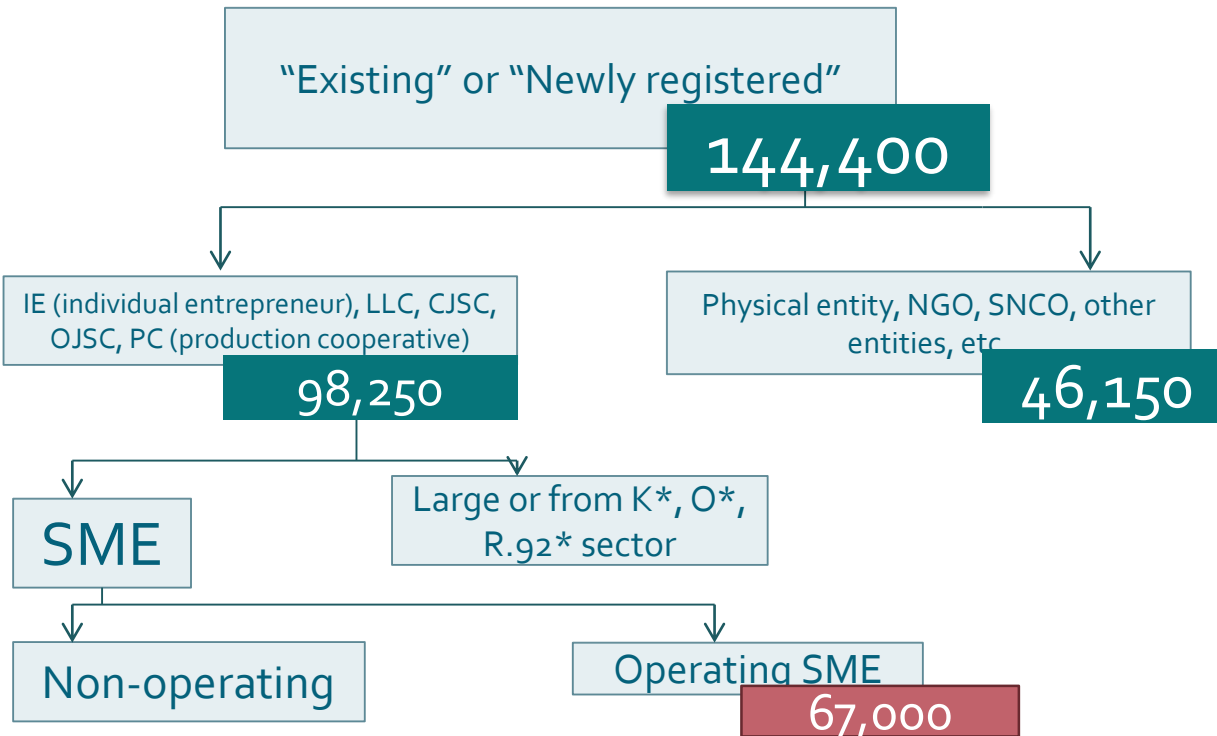
among various authorities,
INCLUDING STATE AUTHORITIES (for instance, SRC, Armstat).

❖ **MOST BANKS DO NOT USE THIS DEFINITION**

and give preference to their own classification which is based on broader definition of SME according to IFRS.

OVERVIEW OF SME SECTOR IN ARMENIA

NUMBER OF SMEs



❖ Share of **OPERATING SMEs** in the total number of taxpayers (including NPOs and individual taxpayers) is **46-47%**.

❖ At the beginning of 2018 there were **~67,000 OPERATING SMEs**.

❖ Compared to 2013, **THE NUMBER OF SMES GREW ALMOST BY 4 K.**

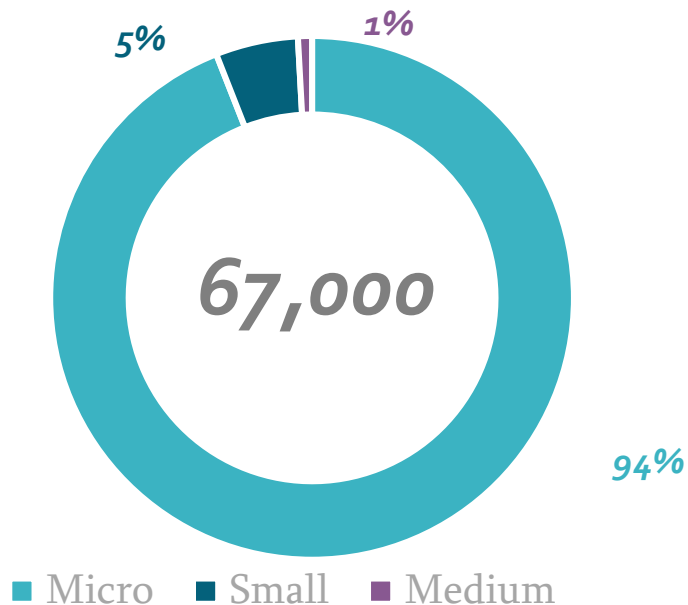
*NACE classification

Source: Armstat, SRC, Ameria CJSC

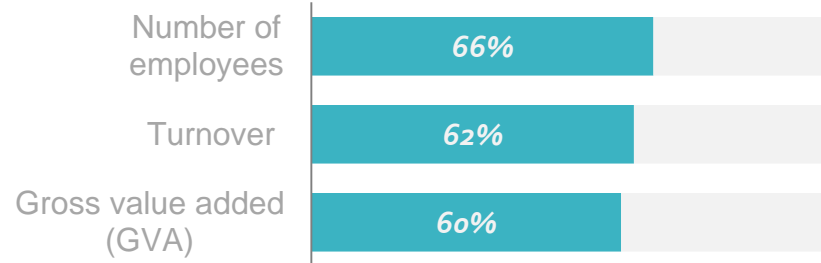
OVERVIEW OF SME SECTOR IN ARMENIA

Sector Structure

SME Sector Structure



Role of SMEs in independent economic entities of a commercial nature

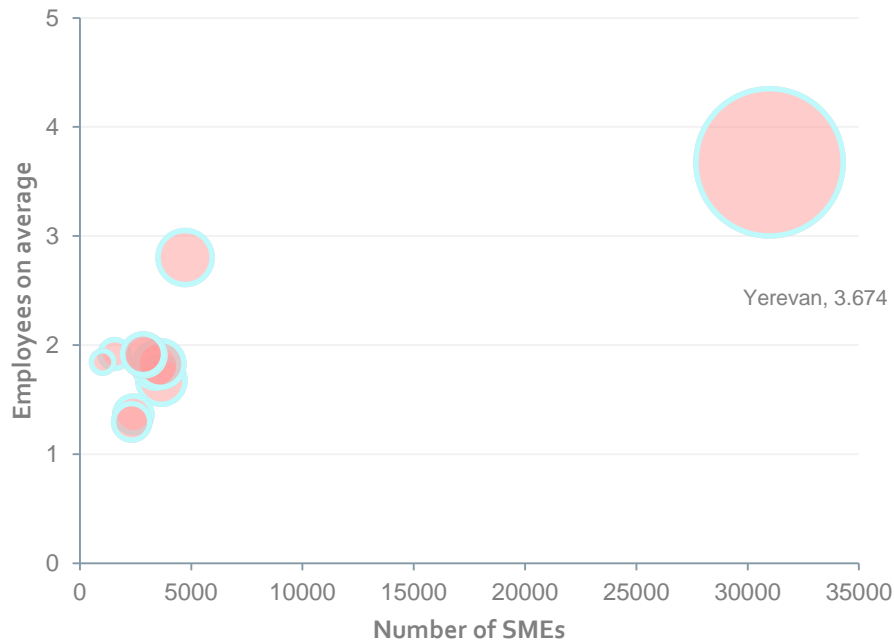


- ❖ If we finalize Armstat information by adding quantitative assessments of SMEs, we will have the following results:
 - ❖ 62,990 - micro (93.8%),
 - ❖ 3,447 - small (5.1%)
 - ❖ 693 - medium (~1.0%)

OVERVIEW OF SME SECTOR IN ARMENIA

Number of Employees

Average number of employees working in SME sector **per regions**

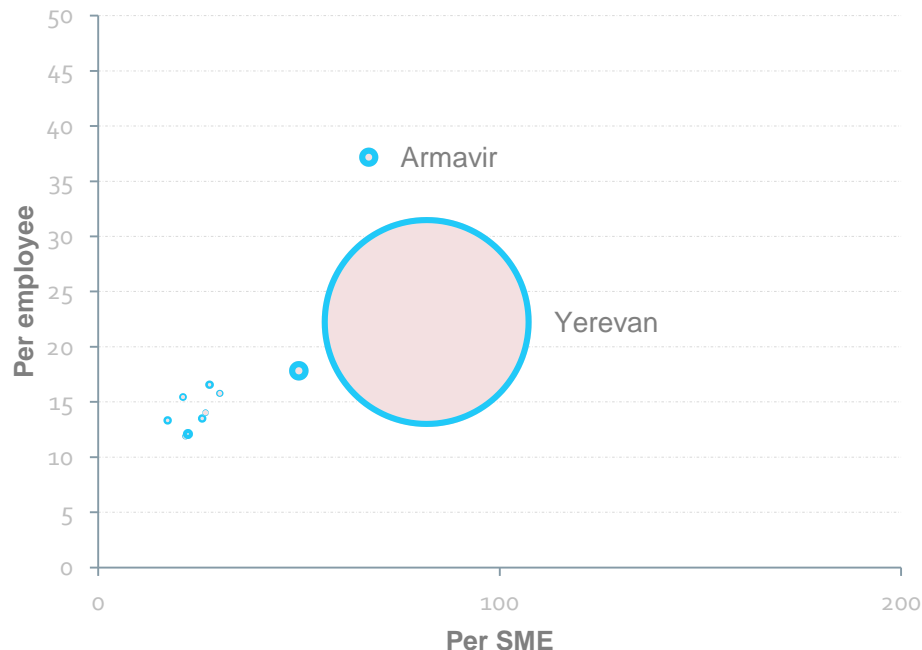


- ❖ Average number of employees per SME size
 - ❖ **MICRO - 1.1**
 - ❖ **SMALL - 19**
 - ❖ **MEDIUM - 97**
- ❖ Average number of employees **is 3.7 in YEREVAN-BASED SMEs** and **1-2 REGIONAL SMEs**.
- ❖ Though most of SMEs operate in **TRADE SECTOR, AVERAGE NUMBER OF EMPLOYEES IN THESE SMES IS THE LOWEST** (due to the number of micro organizations).

OVERVIEW OF SME SECTOR IN ARMENIA

Turnover per Regions

Turnover per business and per employee (per regions, million)



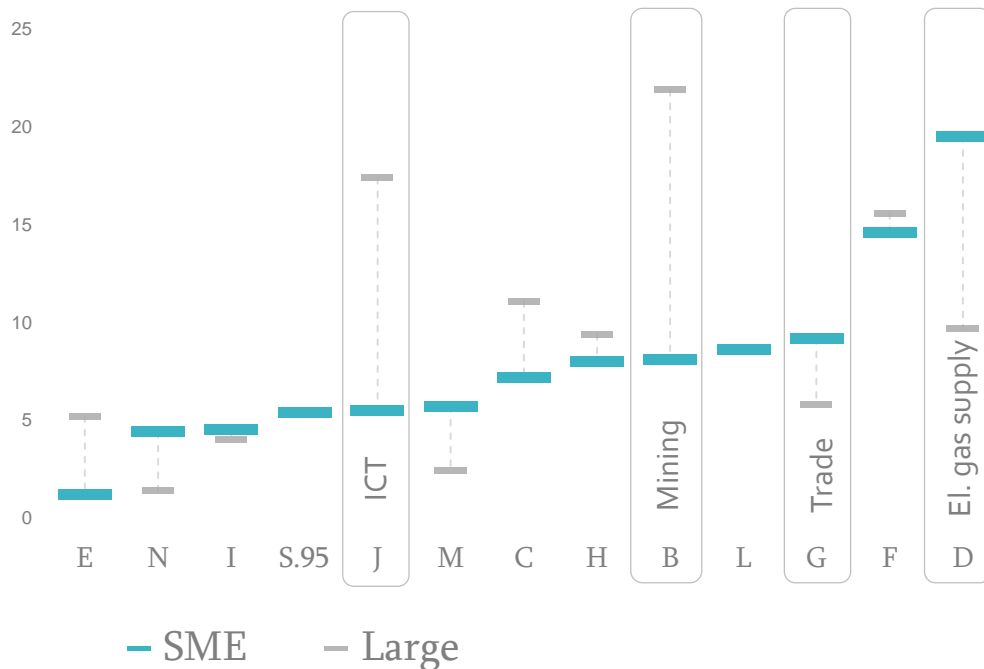
- ❖ In 2017 turnover amounted to **AMD 3.5 T (AMD 58.8 M PER SME or AMD 20.8 M PER EMPLOYEE** on average)
- ❖ Yerevan has a considerable share in total turnover, which is due to the number of enterprises.
- ❖ In 2017 GVA generated by considered SMEs **MADE 39.2% OF THE TURNOVER.**



OVERVIEW OF SME SECTOR IN ARMENIA

Labor Productivity

Labor productivity of SME groups and large enterprises per types of activity
(GVA/ number of employees, million AMD)



- ❖ GVA per employee was **AMD 8.2 MILLION** and that of **LARGE ENTERPRISES - AMD 10.7 MILLION**.
- ❖ SMEs of **TRADE SECTOR (G)** are more productive. The only reason for this are **NON-REGISTERED EMPLOYEES**, particularly in micro group.
- ❖ Productivity of large enterprises is much higher in **B.MINING** and **J.CIT SECTORS**, **where the number of NON-REGISTERED EMPLOYEES IS NOT SO GREAT**.



CURRENT STATE AND EXPECTATIONS



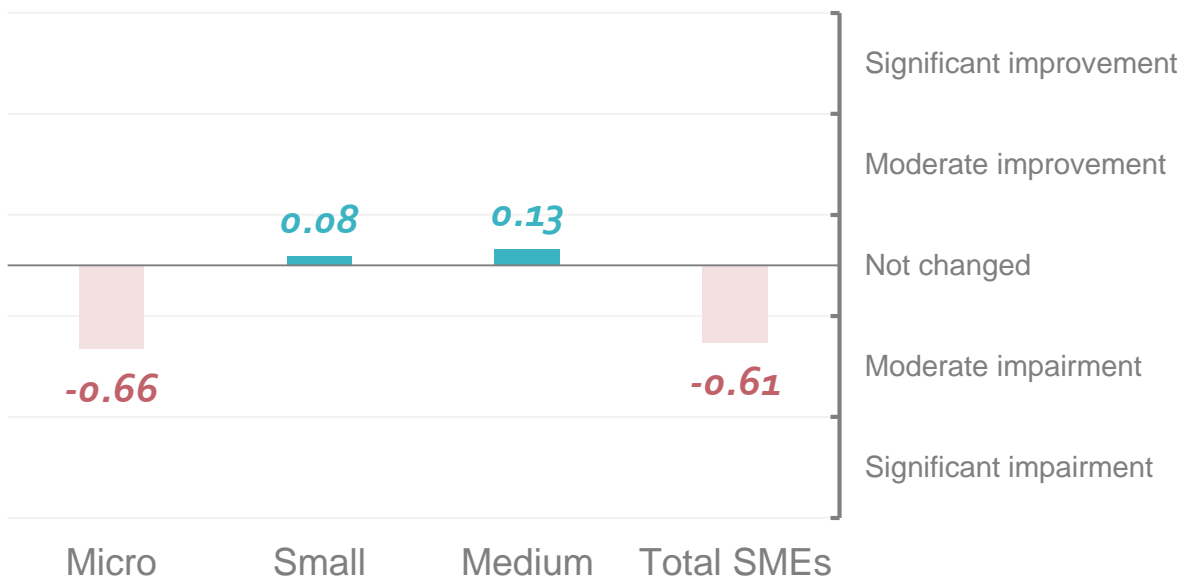


CURRENT STATE AND EXPECTATIONS

Changes in the Business Environment

YOY change in the business environment in 2019

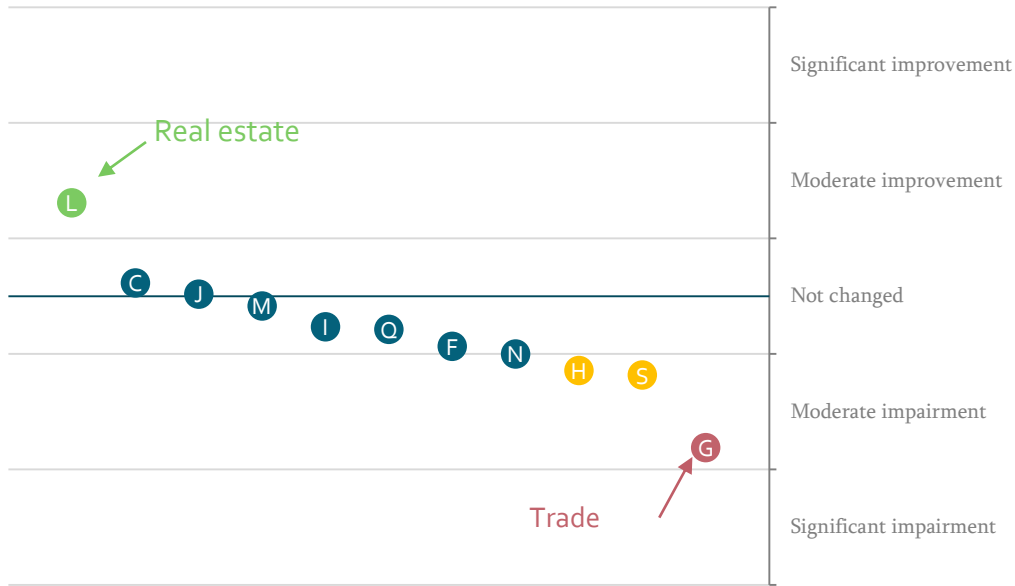
(based on -2/2 scale)



- ❖ **SMALL AND MEDIUM** enterprises reported **MODERATE IMPROVEMENT**.
- ❖ SMEs engaged in **IMPORT** complain, while SMEs engaged in **EXPORT** report slight improvement.

Changes in Business Environment

Changes in the business environment per types of activity



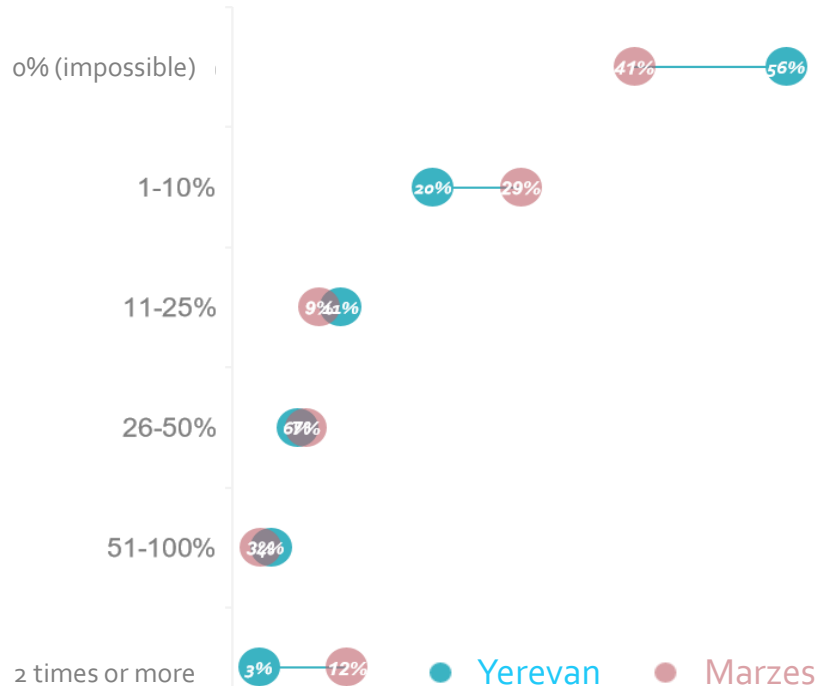
- ❖ **SMES ENGAGED IN TRADE SECTOR REPORTED SIGNIFICANT IMPAIRMENT.**
- ❖ According to type of activity, **COMPANIES ENGAGED IN "REAL ESTATE ACTIVITIES" (L) REPORTED SIGNIFICANT IMPROVEMENT**, which is probably due to increase in real estate prices. **MORTGAGE LOANS REPORTED 30.8% YOY GROWTH IN 2019.**

L Real estate activities
G Trade
S Other services

CURRENT STATE AND EXPECTATIONS

Possibilities to Increase Production Volumes

Possibility to scale up production volumes while retaining current level of capital and the staff



❖ **OVER HALF (53%)** of SMEs in Armenia **OPERATE AT MAXIMUM CAPACITY** and are not able to increase production volumes without additional investments.



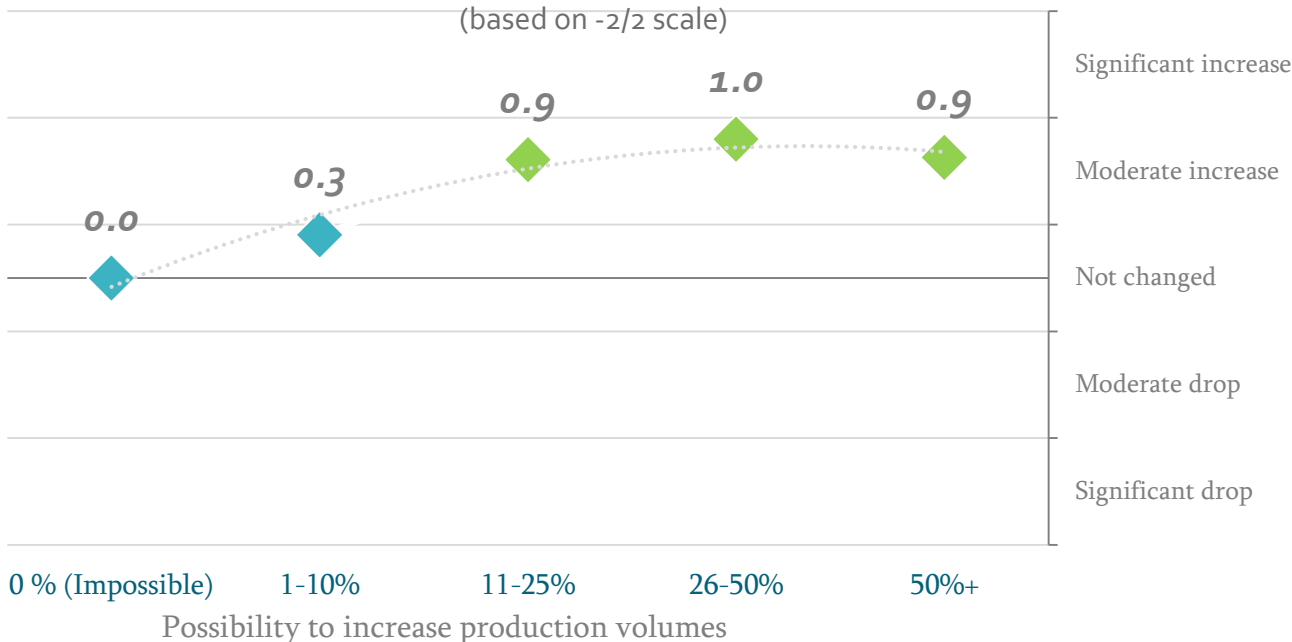


CURRENT STATE AND EXPECTATIONS

Output Growth Expectations

Expectations based on the possibility to scale up production volume

(based on -2/2 scale)



- ❖ SMEs have **LIMITED POSITIVE EXPECTATIONS** of output growth for the coming years.
- ❖ Expectations of SMEs **ARE DIRECTLY LINKED TO THEIR UNUSED CAPACITIES.**

THIS SECTION COVERS ALSO...

❖ SMES ENGAGED IN FOREIGN TRADE

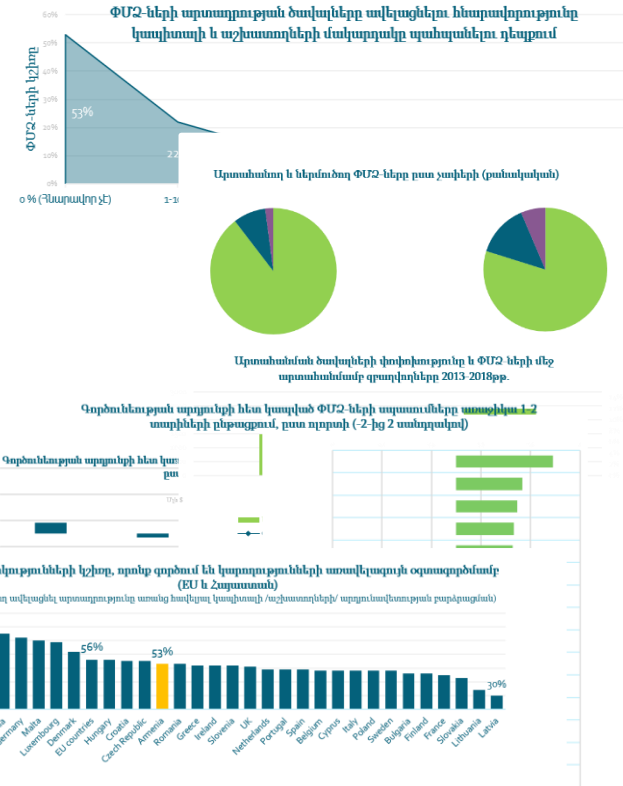
Share of SMEs engaged in import (**25.5%**) is **OVER 4 TIMES HIGHER** than that of SMEs engaged in export (6.1%).
The **INCREASE IN EXPORT VOLUMES** of the country during the recent 5 years was **DUE TO INCREASE IN EXPORT VOLUME PER EXPORTER ONLY**, and not due to growth of the number of exporters (it remained almost flat).

❖ Use of Revenue

Micro enterprises distribute their revenue among **OWNERS**, while medium enterprises invest it into **BUSINESS EXPANSION**.

❖ Currencies Used

The greater the SME revenue, the lower the share of AMD (up to 10M - 97%).



INVESTMENTS AND INNOVATION

❖ 2018 **investments**

- ☐ Per size
- ☐ Per type
- ☐ **Comparison with 2012**

❖ 2018 **investments in innovation**

- ☐ Per type
- ☐ **Comparison with 2012**

❖ **New projects** and **business expansion plans**

❖ New project **funding sources**

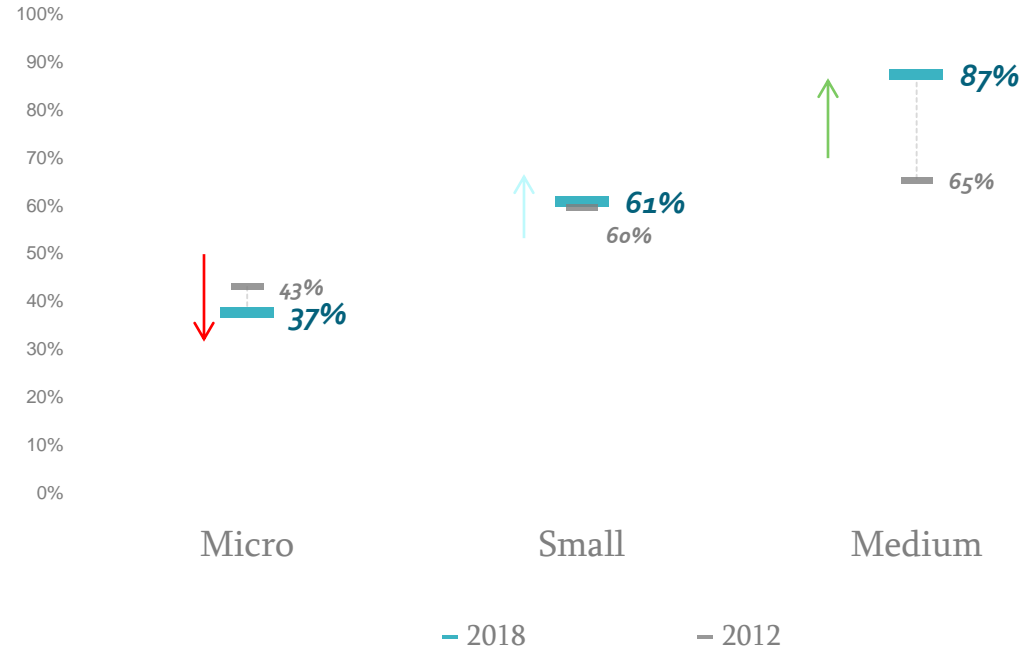


INVESTMENT



SMEs which Invested into Business Expansion

Share of SMEs which invested into business expansion,
2018 vs. 2012



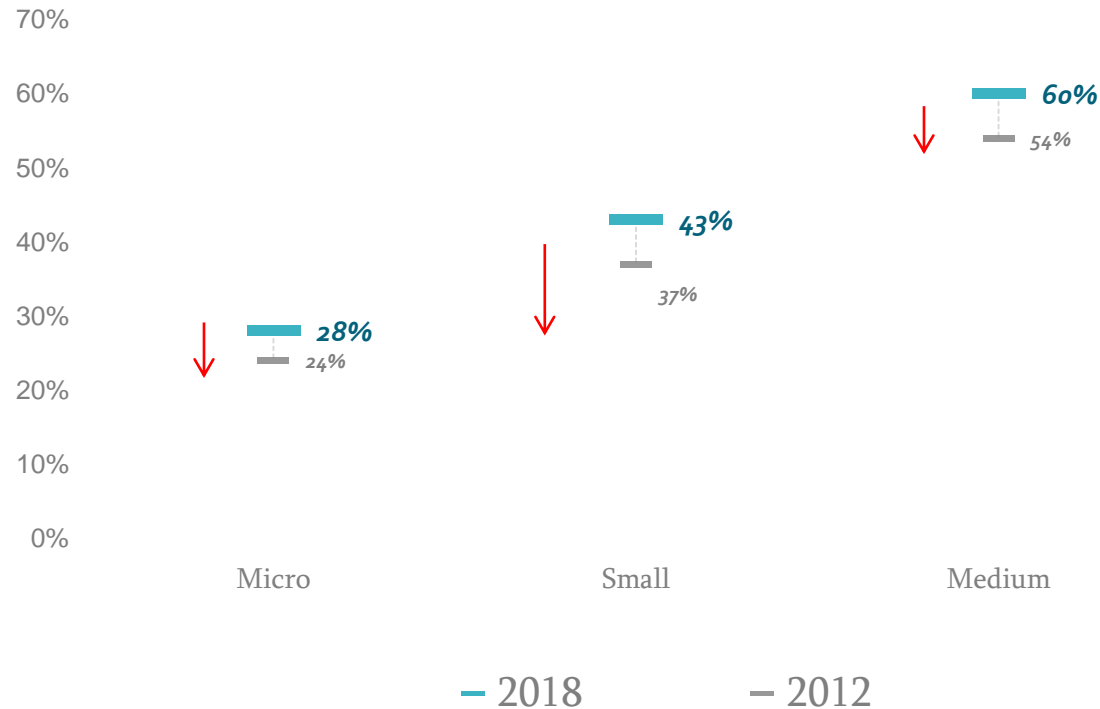
❖ In 2018 **39%** of SMEs **INVESTED INTO BUSINESS EXPANSION**.

❖ Share of SMEs which invested into business expansion **DECREASED COMPARED TO 2012**, due to the number of micro enterprises.

❖ Along with the share SMEs investing into business expansion the **QUALITY** (character) **OF INVESTMENTS** dropped either. **In 2013 - MACHINERY AND EQUIPMENT, NOW – WORKING CAPITAL.**



SMEs which Invested into Innovation



❖ The decline in this type of investments is perhaps due to **THE DECLINE IN FOREIGN DIRECT INVESTMENTS.**

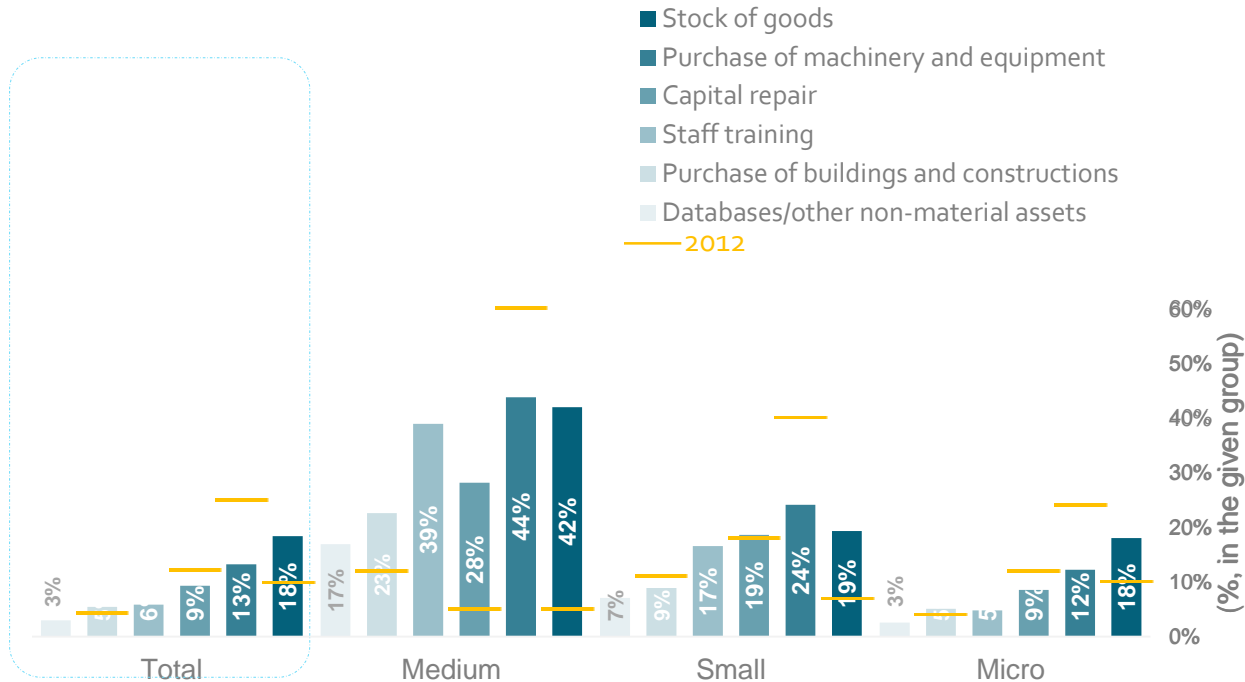
❖ Apart from creating financial possibilities, foreign direct investments are known to be a technology transfer tool and bring innovation to the economy.





INVESTMENT

Investments per Areas



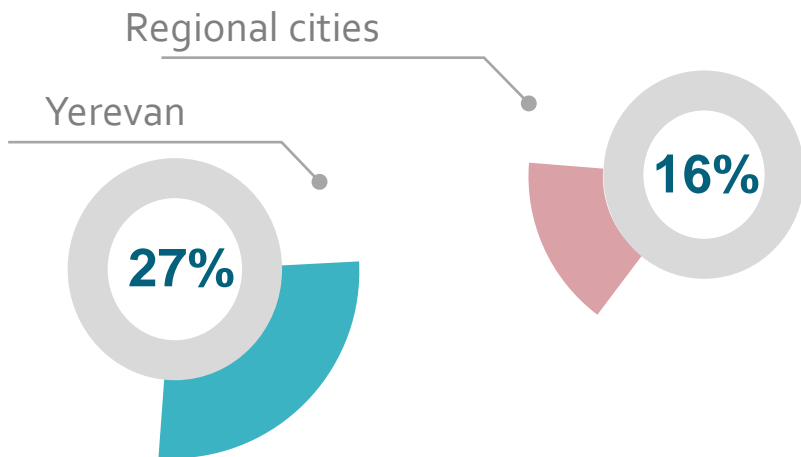
❖ SMEs in Armenia **MORE OFTEN** make **SHORT-TERM INVESTMENTS.**

❖ Compared to 2012, SMEs focus mainly on short-term investments (like **WORKING CAPITAL and REPAIR**) rather than long-term investments in **BUILDINGS AND CONSTRUCTIONS** and non-material assets.

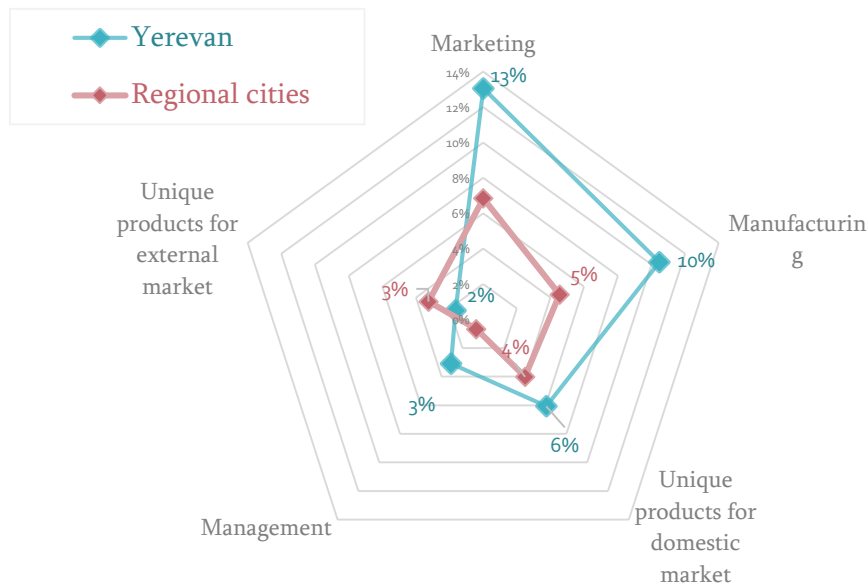
SMEs which Invested into Innovation



Share of SMEs which invested into business expansion
in 2018, per cities
(%, in the given group)



Investments in innovation per area



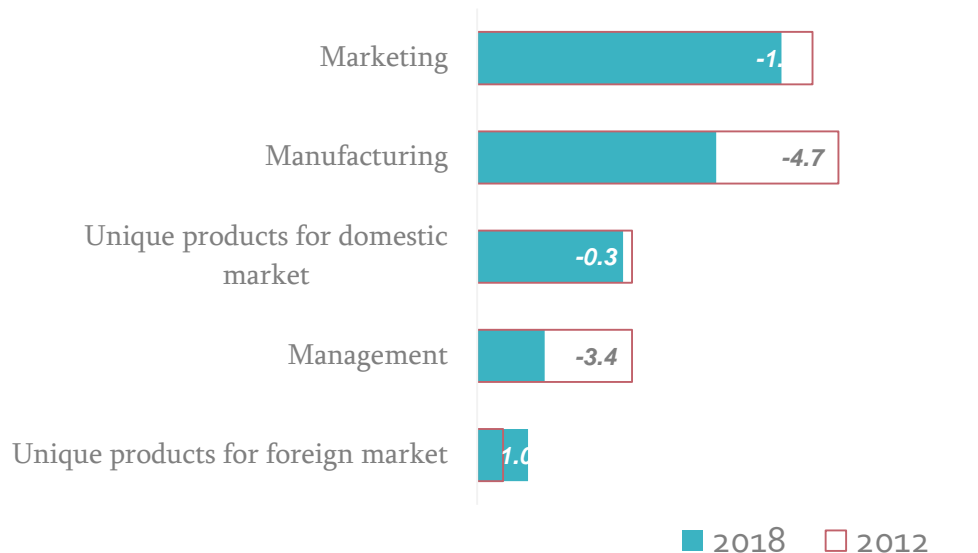
❖ Innovations in **production and marketing** areas are particularly low in the regions.



INVESTMENTS AND INNOVATION

Investments in Innovation per Areas

In 2018 share of SMEs investing in innovation decreased compared to 2012, pp



Source: SME Research in 2019, SME research in 2013, Ameria CJSC

❖ EQUITY INVESTMENTS

- ❖ Vast majority of SMEs **ENGAGED IN FOREIGN TRADE INVEST IN INNOVATION** which is perhaps triggered by the necessity to sustain competition on external market.



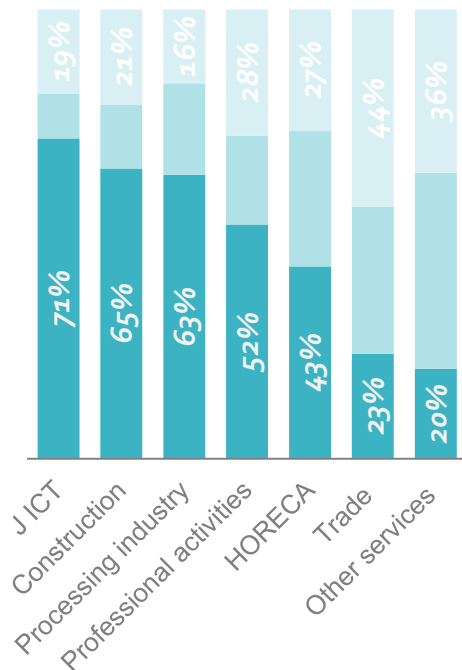


INVESTMENTS AND INNOVATION

New Projects and Business Expansion Plans for 1-3 years

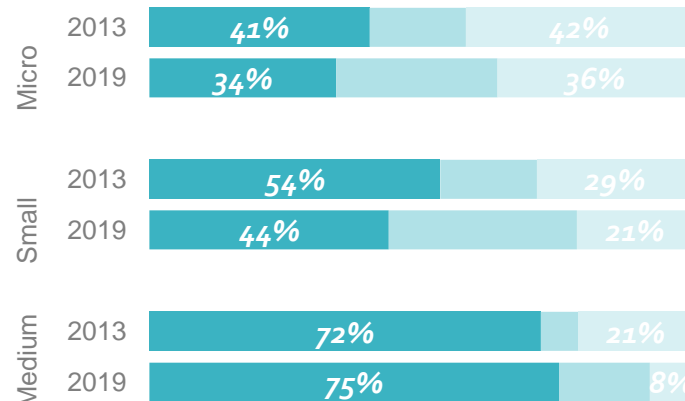


Per sectors



Per size, 2013 vs. 2019

- Are planning to cooperate
- Are likely to cooperate
- Are not planning to cooperate



❖ **35% of SMEs** have new projects and business expansion plans for the next 3 years.

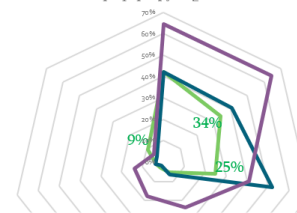
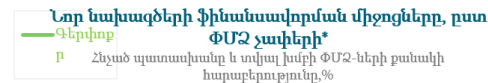
❖ **SHARE** of micro and small enterprises **WHICH HAVE BUSINESS EXPANSION PLANS HAS DECREASED** compared to 2013.



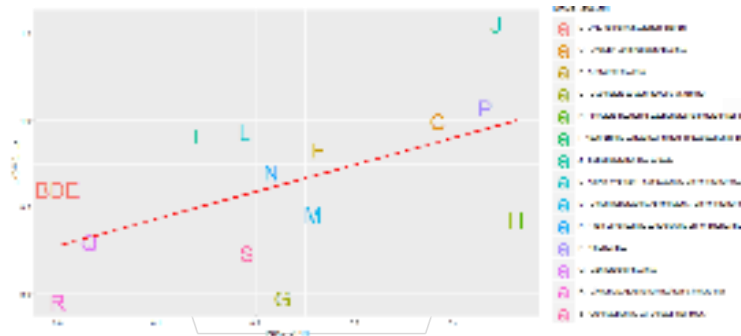
❖ Impact of investments in innovation

❖ New projects and business expansion plans

Estimation of their volume

 Other

INVESTMENT

2018 *investments in innovation* and *growth expectations* for the coming years



SMEs AND THE BANKING SECTOR

- ❖ Share of **SMEs USING** banking products
- ❖ Assessment of **COOPERATION WITH BANKS**
- ❖ Key **FACTORS FOR CHOOSING** a bank
 - ❖ Branch or distance banking
 - ❖ Bank selection criteria for getting a loan
 - ❖ 1st choice bank to apply for a loan
- ❖ **USE OF BANKING PRODUCTS**
 - ❖ *Term, interest rate, amount and currency*
- ❖ **LIKELIHOOD** of using **BANKING PRODUCTS** during the next 2 years
- ❖ Analysis of data about **SME LOANS** in Armenia per banks

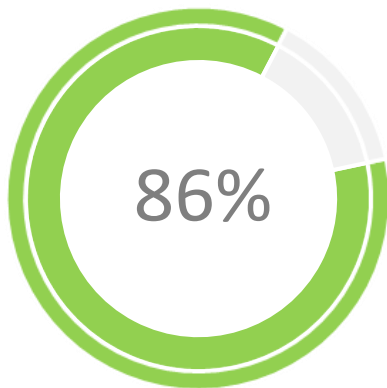




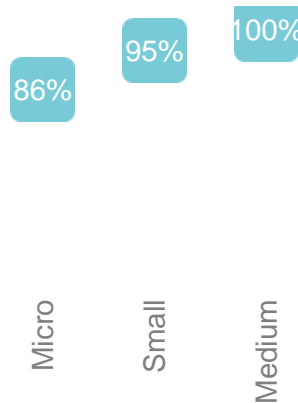
COOPERATION WITH BANKS

Assessment of Cooperation with Banks

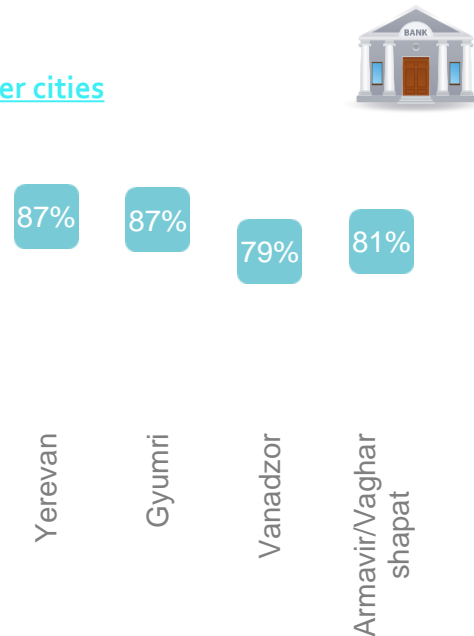
- ❖ **86%** of all SMEs mentioned about cooperation with banks (use of a certain a banking product) ***DURING THE RECENT 3 YEARS.***
- ❖ There is ***NO SIGNIFICANT CHANGE*** in the share of SMEs using banking products ***compared to 2013.***



Per size



Per cities



- ❖ The ***LARGER*** THE SME, the more it is likely to ***COOPERATE WITH BANKS.***



Assessment of Cooperation with Banks



Assessment of cooperation with banks, 2019 vs. 2013

Positive



Negative

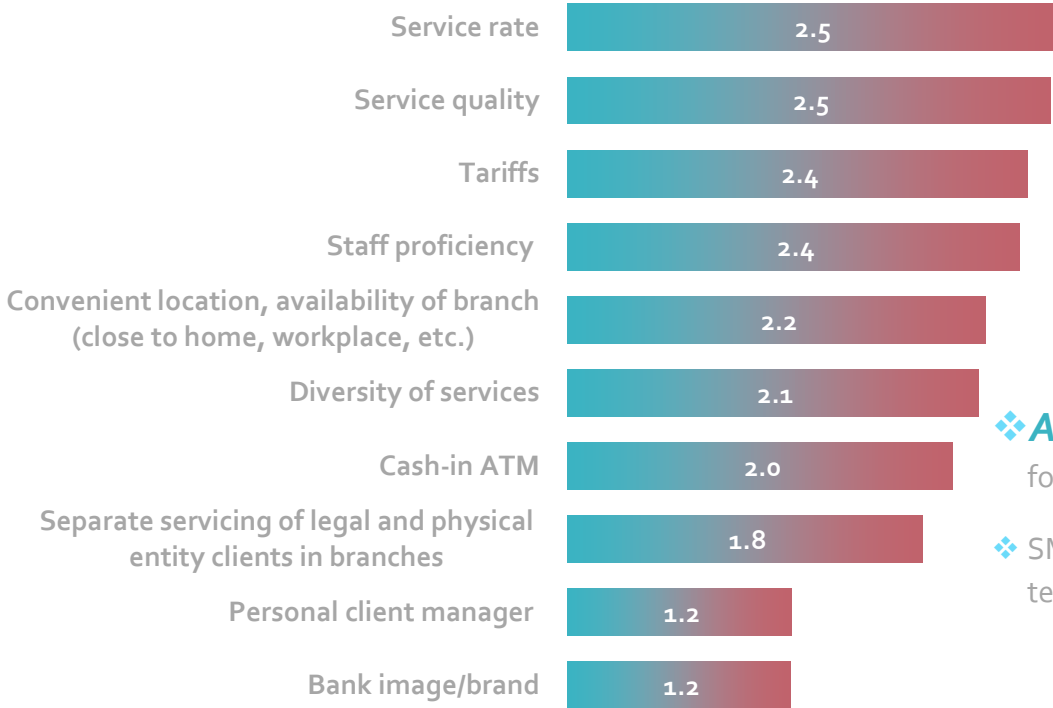
— 2019 — 2013

❖ SMEs **ASSESS** the cooperation with banks mostly **POSITIVE**.

❖ **Compared to 2013**, in 2019 companies are **MORE SATISFIED** with cooperation with the banks.



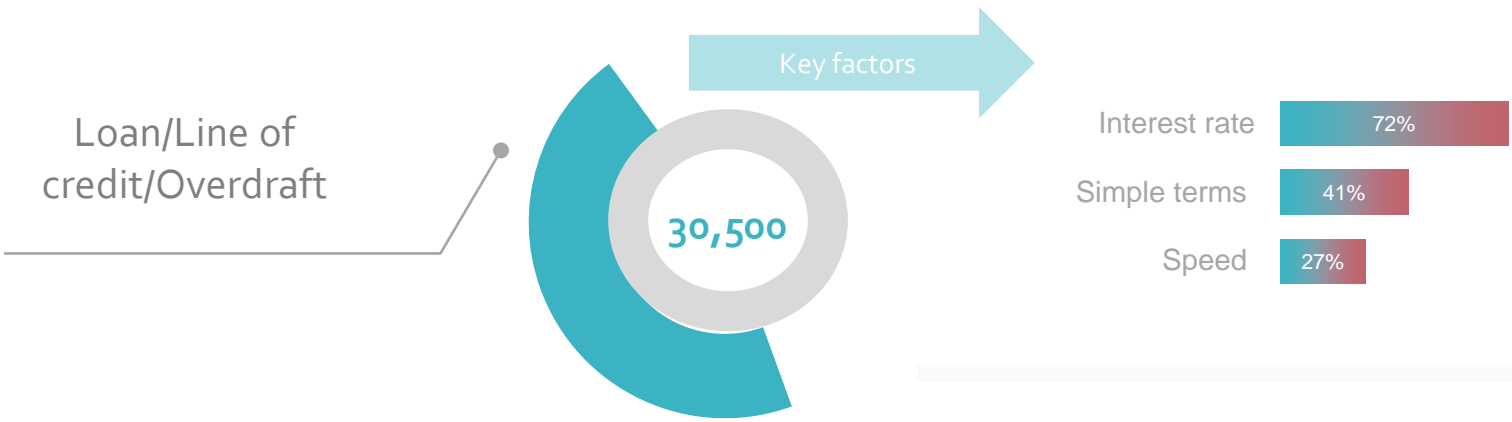
Key Factors for Choosing a Bank



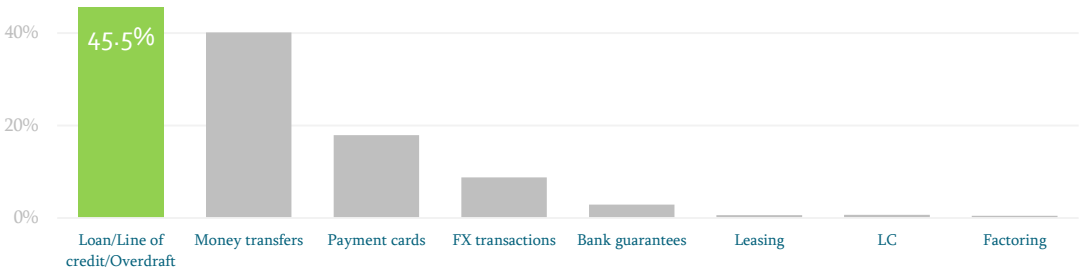
❖ *AS IN 2013, SERVICE RATE STILL RANKS FIRST* for SMEs among all other factors.

❖ SMEs in *GYUMRI* seem to be *THE PICKIEST*, especially in terms of tariffs and availability of cash-in ATMs.

Services Used



Need for banking services

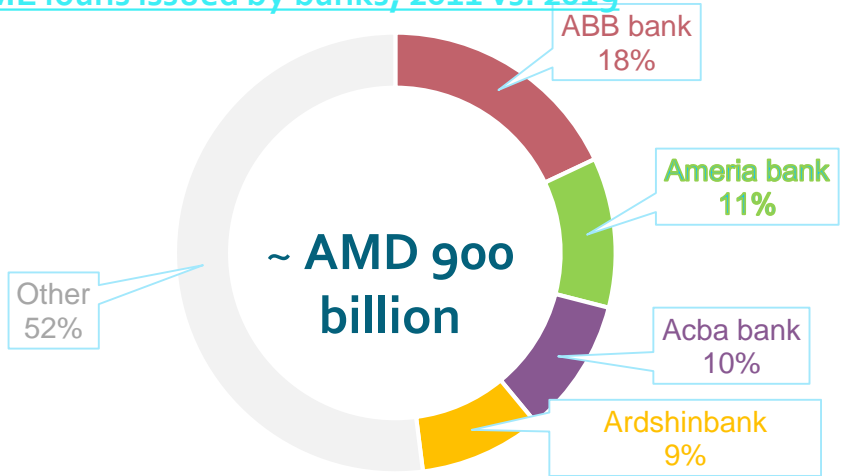


❖ **CREDIT FACILITIES** (loan, line of credit, overdraft) **ARE THE MOST POPULAR** banking products among SMEs. **INTEREST RATE** is the key factor for choosing a banking product for them.



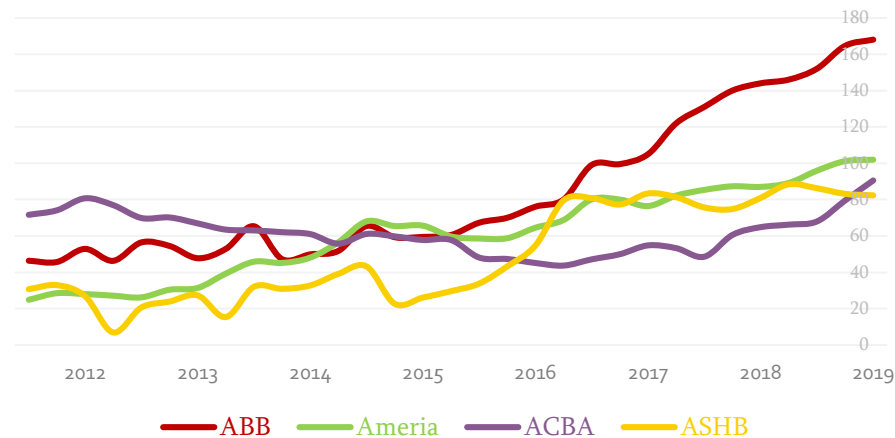
SME Loan Portfolio

SME loans issued by banks, 2011 vs. 2019



- ❖ SME portfolio amounts to ~ AMD 900 billion or **USD 1.87 billion**.
- ❖ As mentioned above, there **IS NO UNIFORM SME DEFINITION** in the banking system.

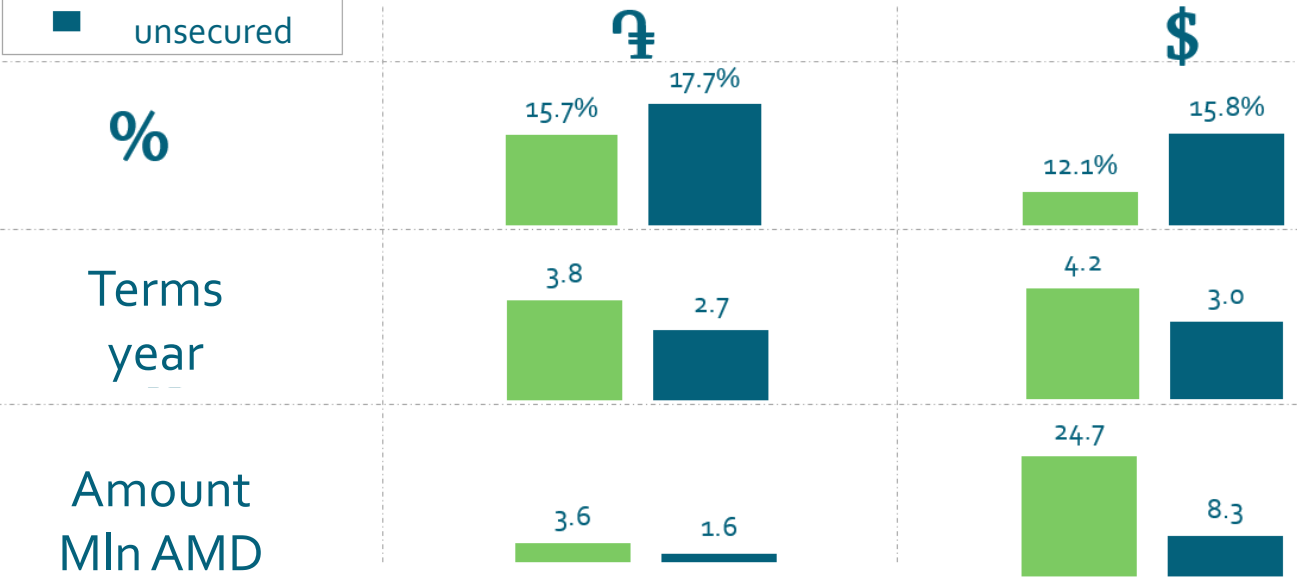
SME loans issued by banks, 2011 vs. 2019



- ❖ **ARMBUSINESSBANK'S SME LOAN PORTFOLIO IS THE LARGEST (AMD 165 BILLION)**. It has grown dramatically during the recent years.



Collateral Impact



- ❖ Majority of loans **(56-58%) ARE SECURED.**
- ❖ Volume of secured loans is **2.5-3 TIMES GREATER.**
- ❖ Term of secured loans is **LONGER (1.1-1.2 years** on average).
- ❖ Secured loans are subject to **LOWER INTEREST RATE.**

Branch Network vs. Distance Banking



■ Branch network

■ Distance banking platforms

Yerevan



Regions



❖ On average, 6 out of **10 SMEs** prefer a developed branch network while only **4** of them prefer **DISTANCE BANKING**.

❖ The **GREATER** the SMEs, the **HIGHER THEIR DEMAND IN DISTANCE BANKING**.



THIS SECTION COVERS ALSO...

◆ **KEY FACTORS** for choosing a bank to get a **LOAN**

◆ **FIRST CHOICE BANKS** to get a loan

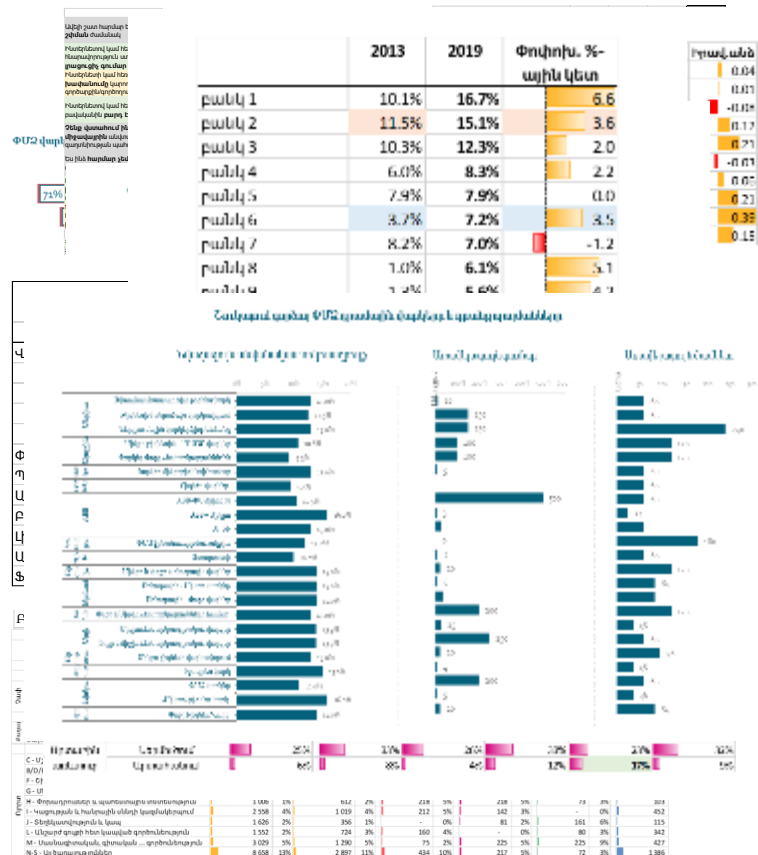
◆ **USE OF** banking **PRODUCTS**

◆ Term, interest rate, amount and currency

◆ **LIKELIHOOD** of **USING** banking products during the next 2 years

◆ Preferred term

◆ Analysis of **SME LOANS** available on the market





ADVISORY AND OTHER PROFESSIONAL SERVICES

❖ *SMEs USING PROFESSIONAL SERVICES*

❑ Compared to **2013**

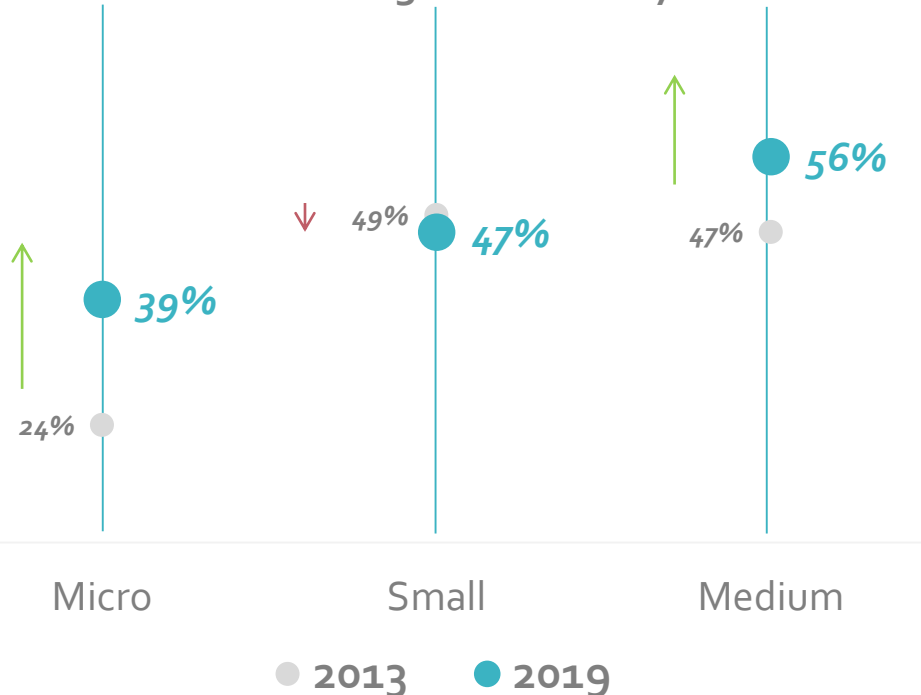
- ❖ **LEGAL** services
- ❖ **MANAGEMENT** advisory and research services
- ❖ **ACCOUNTING,** marketing, etc.
- ❖ Preference of getting such services from the main bank





Companies Using Advisory and Other Professional Services

SMEs which have resorted to any professional service during the recent 2 years



- ❖ 46% of SMEs have resorted to **OUTSOURCING** at least once during the recent 2 years,
- ❖ by paying **AMD 120 K** on average.
- ❖ About 13% of SMEs **HAVE OBTAINED** professional services **FOR FREE** (probably from **FRIENDS AND RELATIVES**)

Use of Professional Services, 2013 vs. 2019

SMEs Using Professional Services, 2013 vs. 2019



❖ There was a dramatic increase in the use of **ACCOUNTING SERVICES** by SME compared to 2013, which is perhaps due to the **DROP IN PRICES** of such services (**AMD 120K in 2013 vs. AMD 100K now**).





Demand of Professional Services in Yerevan and the regions

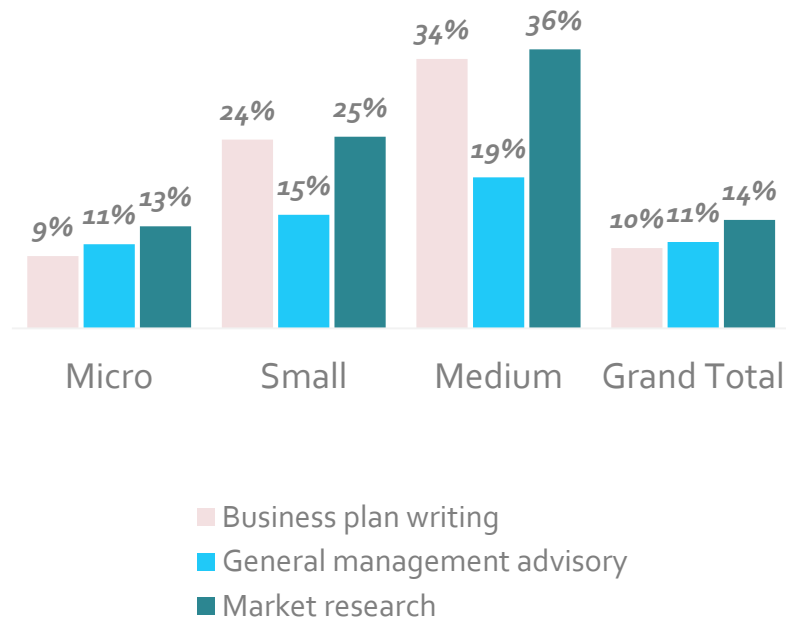


- ❖ SMEs expect the **DEMAND TO GROW** during the next 2 years.
- ❖ The demand in nearly all types of professional services is higher in **YEREVAN THAN IN THE REGIONS.**
- ❖ Besides accounting services, **BUSINESS PLAN WRITING ALSO HAS A HIGHER DEMAND** in the regions.



PROFESSIONAL SERVICES

Demand in Management and Research Services



Cost of services (thous. AMD)

vs. other services



❖ Management advisory services are **MORE EXPENSIVE** than other services.

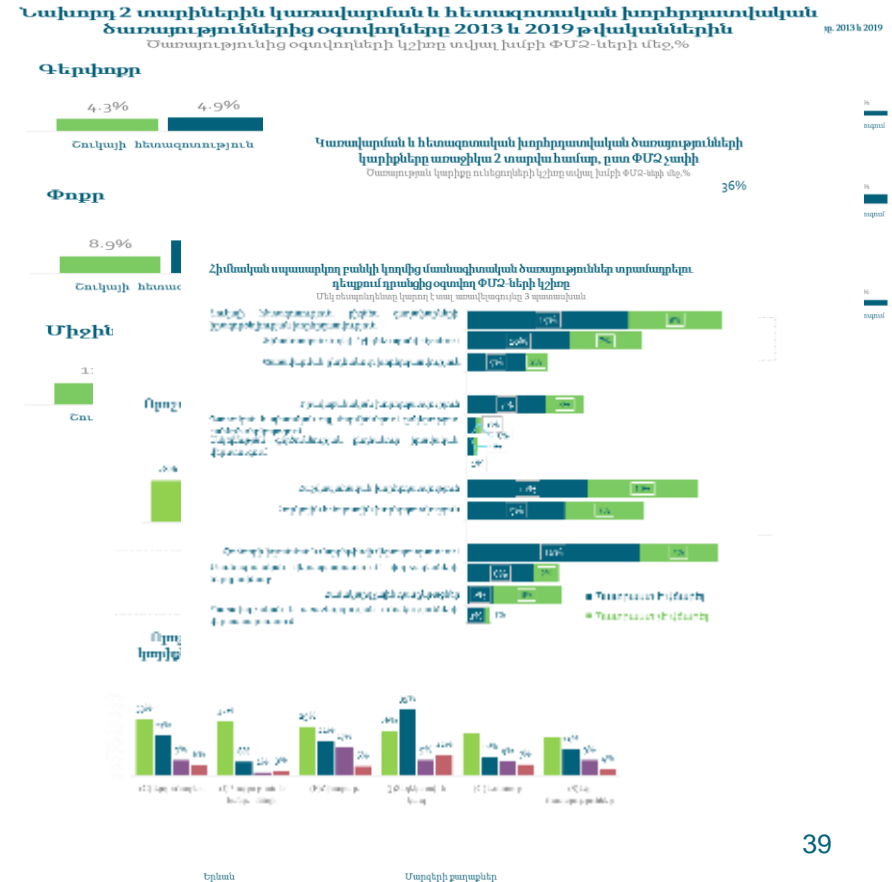
❖ The demand in **MARKET RESEARCH** is higher, besides it is the most **AFFORDABLE** among all other services.

❖ Demand in legal services

❖ Demand in accounting/audit services

❖ Demand in marketing and other services

- ❖ Preference of getting such services from the main bank



- ❖ At the beginning of 2008 the estimated number of SMEs according to the definition specified in the RA law was **67,000**.
- ❖ **THE ROLE OF SMEs IN THE ECONOMY IS SMALL** relative to their quantity.
- ❖ **LABOR PRODUCTIVITY OF SMEs IS LOWER.**
- ❖ **THERE IS A MODERATE IMPAIRMENT IN BUSINESS ENVIRONMENT AND OWN ECONOMIC CONDITION** compared to the previous year.
- ❖ SMEs have **LIMITED POSITIVE EXPECTATIONS** about increase in output volumes during the coming years.
- ❖ Number of **SMEs INVESTING IN INNOVATION** is lower than that of **SMEs MAKING TRADITIONAL INVESTMENTS.**
- ❖ Compared to 2013, in 2019 **SMEs ARE MORE SATISFIED WITH COOPERATION WITH THE BANKS.**





GEM- Global entrepreneurship monitor

The Global Entrepreneurship Monitor (GEM) systematically & measures **entrepreneurship rate** & its characteristics.

In numbers, GEM is:

- ❖ **20 years** of data
- ❖ **120,000+ interviews** a year
- ❖ **100+ economies**
- ❖ **500+ specialists** in entrepreneurship research

Adult Population Survey (APS)

- ❖ a unique instrument to **measure** the level & characteristics of **entrepreneurial activity**
- ❖ focuses on individuals, assessing attitudes & perceptions **towards entrepreneurship**
- ❖ also help to capture information on **the “informal” economy**

National Expert Survey (NES)

- ❖ **expert judgements** to evaluate specific national conditions
- ❖ assesses various **Entrepreneurial Framework Conditions** as well as some other topics related to entrepreneurship

Globally

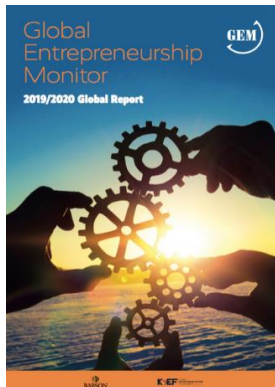
54 countries

129,345 adults

Adult Population Survey (APS)

2,315 experts

National Expert Survey (NES)



March 2020

First time in Armenia

America

2000 adults

Adult Population Survey (APS)

40 experts

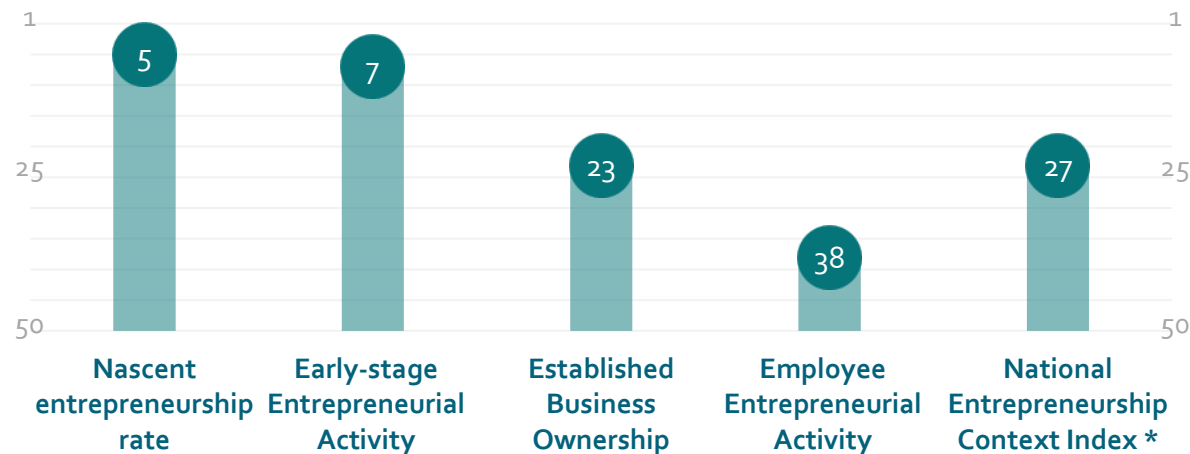
National Expert Survey (NES)

Data collection:
April- July 2019

National report:

April 2020

Rank of Armenia by some indicators among 50* countries



The study discusses also:

- ❖ The **SOCIAL** and **CULTURAL** Foundations of Entrepreneurship
- ❖ **MOTIVATIONS** and **ASPIRATIONS**: Why Do People Start or Run a Business?
- ❖ **INFORMAL INVESTMENT**
- ❖ **EXITING** a Business (positive and negative purposes)

INTERESTING FINDING in GEM Armenia national report:

- ❖ Armenia is **3rd** with % of adults agreeing that **other people think that they are highly innovative**.
- ❖ **7.9%** of population has recently **provided funds** for a **new business** started by someone else (**14th** out of 50).
- ❖ The share of positive reasons to exit a business in Armenia (**15%**) is among the lowest indicators for 50 GEM APS countries (**41th** out of 50).
- ❖ “make a difference in the world” was a motivation for only **18.4%** of those how started a business in Armenia. This indicator is lower for only 3 countries out of 50 (**Italy, Republic of Korea, Madagascar**).

*the number of NES survey is 54

Content of the national report

1. Introduction to GEM
2. The Social & Cultural Foundations of Entrepreneurship
3. The Entrepreneurial Activity In Armenia
4. Motivations & Aspirations: Why Do People Start or Run a Business?
5. Informal Investments
6. Exiting a Business
7. The Entrepreneurship Context

**GEM 2019 / 2020 Global Report
here:**



THANK YOU!

QUESTIONS?

