

In cooperation with:

Joint report

# Improving the Business Climate – Boosting Private Investment

Proposals from German and European business in Armenia

Berlin/ Yerevan,  
November 2020



## About the German Economic Team

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Financed by the Federal Ministry for Economics and Energy, the German Economic Team (GET) advises the governments of Moldova, Georgia, Ukraine, Belarus and Uzbekistan on economic policy matters. Furthermore, GET covers specific topics in other countries, such as Armenia. Berlin Economics has been commissioned with the implementation of the consultancy.

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## About the European Business Association

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The European Business Association (EBA) functions as a voice of EU businesses in Armenia to direct their needs toward Armenian authorities and advocates their interests for the elimination of corresponding obstacles. It promotes a fair, open and productive relationship between business and government. As a result, it enhances the competitiveness of the private sector by strengthening company capacities, increasing the transparency of governance and improving the business environment. At the same time, the EBA supports increased cooperation of Armenian and European companies. The EBA periodically organises conferences, seminars, business meetings and networking events for local and EU businesses operating in Armenia. Based on companies' needs assessment, EBA makes proposals to the government on legislation to improve the business climate in Armenia. EBA advocates the interests of EU and local organizations that face impediments and difficulties in legal, tax, customs or any other sphere of activity. EBA is a part of a global network (European Business Organization World Wide Network) – representing 45 markets outside the EU.

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## About the German Business Association

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Founded in 2016, the German Business Association (Deutscher Wirtschaftsverband – DWV) has about 110 member-companies from different business sectors both in Armenia and Germany. The objective of the organization is to foster German-Armenian economic relations. In pursuit of its objective, DWV supports its members in doing business both in Armenia and Germany by providing wide-scale (legal, tax, customs, etc.) consulting, processing different requests, linking the appropriate contacts among others. DWV enjoys the trust and support of GIZ Armenia as well as German Embassy in Yerevan, which are among the DWV Board. In terms of different local and international projects, the German Business Association also closely collaborates with Governmental Bodies of the Republic of Armenia, as well as the European Business Association and the EU Delegation to Armenia.

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## About the German Eastern Business Association

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The German Eastern Business Association (Ost-Ausschuss der Deutschen Wirtschaft) is the major regional initiative of the German economy for 29 countries in Central Europe, Eastern and Southeastern Europe, in the South Caucasus and in Central Asia. The Ost-Ausschuss der Deutschen Wirtschaft supports its members in their projects, arranges contacts and answers questions about market entry. In close cooperation with the federal government and the governments of the partner countries, we work to reduce trade barriers and improve economic conditions in the region. The Ost-Ausschuss der Deutschen Wirtschaft was founded in May 2018 through the merging of the Eastern Committee (founded in 1952) and the Eastern Europe Business Association of Germany (founded in 1989). It is supported by six central associations of German business and has around 350 member companies.

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## 1 Introduction

Before the COVID-19 pandemic, economic growth in Armenia had been quite high. Fuelled by remittances, particularly consumption contributed to this over the past years. However, both public and private domestic investment have not performed well.

Thus, increasing investment is key not only to counterbalance the effect of the pandemic, but also to secure sustainable growth in the long run.

The aim of this study is to support the Armenian government in improving the investment climate and business environment and enhancing its efforts in attracting FDI. While a comprehensive investment attraction strategy is being finalised, including advice on target group selection by the German Economic Team, this study provides recommendations and concrete proposals by the German and European business community already active in Armenia.

This joint report was prepared in close cooperation between the German Economic Team and the main associations representing German and European business in Armenia: the European Business Association (EBA), the German Business Association (DWV) and the German Eastern Business Association (OA). This made it possible to include proposals from a wide range of foreign firms active across different sectors of the economy.

The study is structured as follows: We describe the approach and methodology underlying this study in chapter 2. We then present two comprehensive reforms with high impact in chapter 3. More specific, but also easier-to-implement reform proposals are then presented in chapters 4-6. We begin with proposals on regulatory aspects in chapter 4. Proposals in the area of accounting and corporate taxation are presented in chapter 5. Proposals regarding the area of international trade in goods are presented in chapter 6. Finally, in chapter 7, we draw up a list of three “quick wins” from the proposals in chapters 4-6, characterised by a straightforward implementation and solid predicted impact. These proposals would be a suitable starting point for implementing the recommendations in this study by the government of the Republic of Armenia.

## 2 Methodology

This study contains reform proposals from German and EU-related businesses in Armenia. It pursues a bottom-up approach, based on a questionnaire prepared by the German Economic Team (GET). A large number of companies organised in the European Business Association (EBA), the German Business Association (DWV) Armenia and the German Eastern Business Association (OA) reported about problems and regulatory hindrances that they face in their operations in Armenia and made concrete proposals to resolve these issues. The proposals then underwent an extensive review and checking process by GET experts, our partner associations and our local partners, Schneider Group and Concern Dialog, who respectively provided specific expertise on tax/accounting and legal matters. The review process was centred on ensuring that the proposals are consistent with a general reform direction towards transparent, competitive markets, are consistent with pre-existing contractual obligations of Armenia and contribute to equitable, sustainable growth.

The main aim of the study was to generate proposals for reform that businesses themselves desire and consider important. We identified two types of proposed reforms: two comprehensive reforms that will address key deficiencies of the investment and business environment in Armenia, and a larger number of smaller reforms solving individual problems experienced by companies. Whilst two comprehensive reforms require some work and attention for implementation, they will also have a high impact on the investment and business climate in Armenia. The latter group of reforms are smaller but have the advantage of being easy to implement – usually by changing one law, abolishing an outdated or unnecessary requirement or a similarly easy step. Hence, both types of reform proposals are characterised by a favourable relation between costs and benefits and are highly complementary: While the government should initiate the comprehensive reforms with high impact as soon as possible, the more incremental reforms can be undertaken and completed in the meantime, already yielding benefits to the investment climate and proving the government's commitment to undertaking reforms to the business community. Out of the latter group, the top three “quick wins”, offering the most immediate potential for easy implementation and noticeable improvement of the investment climate, are singled out towards the end of the study and would constitute a good starting point for the implementation of this study's recommendations.

A restriction of our approach is that recommendations reflect the needs of incumbent companies and are reflecting the specific profile of German and EU-related companies in Armenia, as those are the companies organised in the partner organisations to this study. However, the advantage of the range of partners collaborating on this study is that we received reform proposals from small to large companies and from a wide variety of sectors. Although our reform proposals stem from investors already present in Armenia, they will often highlight the same issues that deter potential investors. Furthermore, implementation of the proposals will enable existing investors to invest more and expand their business activity in Armenia.



### 3 Comprehensive reforms with high impact

The two reform proposals in this chapter stand out from the other proposals in this study. They concern broader changes to entire bodies of law and implementation of each of these proposals would have a significant impact on investment climate. This implies that these proposals are not only more far-reaching, but also somewhat more demanding in implementation than the other proposals in this study. Still, these proposals remain concrete. They do not only outline what aim should be achieved, but also deliver clear guidance on how this should be done.

**Proposals for comprehensive reforms with high impact: Overview**

Code	Title
HIR-1	Strengthening the anti-monopoly authority
HIR-2	Reforming the Labour Code

**HIR-1 Strengthening the anti-monopoly authority**

**Responsible institutions:**  
State Commission for the Protection of Economic Competition (SCPEC), Ministry of Economy

**Problem for companies:**  
Despite the fact that Armenia has adjusted its competition laws (Law on Protection of Economic Competition) several times and the legal framework does meet international standards, companies continue to suffer from unfair competition. Most of the relatively small Armenian markets are dominated by few bigger companies. One reason for that is that the anti-monopoly authority, the State Commission for the Protection of Economic Competition (SCPEC) has only limited investigative powers. SCPEC in particular is not empowered to seize documents on site in case of reasonable suspicion in order to collect evidence for possible infringements. SCPEC is restricted by the rules for general state supervision and hence relies mostly on documents provided by other state organs. However, such powers are necessary for a competition authority to effectively conduct its task, e.g. combat cartels, or other abuses of market power. In result, fair competition on Armenian markets cannot be enforced as effectively as necessary.

**Affected businesses:**  
Most companies

**Suggested reform measures:**  
SCPEC should receive the power to launch investigations and carry out inspections for securing documents and seizing evidence in case of reasonable suspicion, subject to a judicial decree. Furthermore, SCPEC should be provided with the necessary financial and personal resources in combination with better training of employees in charge. Care must be taken to preserve and strengthen the integrity and independence of this crucial state commission.

**Effect on Armenia:**  
Major effect on investment climate especially for potential investors targeting the domestic Armenian market or depending on local inputs.

**Responsible institution:**

Ministry of Labour and Social Affairs

**Problem for companies:**

Armenian labour law is outdated and does not properly reflect the needs of companies and employees. The labour code creates a host of problems for companies and employees. The very short standard notification period of 1 month for cancelling an employment contract by the employer or employee can cause grave problems. An employee can quit his job and, using remaining vacation days, might not work a single day afterwards. Hence, no proper handover of information and knowledge to a successor can be ensured. Also, the lack of no-competition clauses means that companies are at risk from key employees passing sensitive information to competitors in case of a job change.

**Suggested reform measures:**

The Labour Code should be re-drafted based on international best practice. The reform should aim at properly balancing the interests of companies and employees in a contemporary business setting. Key elements of this labour code should be to:

- abolish the post-Soviet “formalistic” approach that requires e.g. written and signed orders for even minor instructions and hence hampers the efficient operation of companies
- stipulate reasonable and symmetric notice periods (usually 3 months) for regular contract terminations by employees or employers
- recognise different categories of employees, i.e. impose fewer restrictions on the contracts of managers/directors, such that companies and privileged employees can more freely agree on the specific details of such work contracts
- allow for transparent and easy calculations of working time and vacation
- ensure sufficient and flexible rights to require overtime work within reasonable limits
- permit no-competition clauses and other safeguards to prevent conflicts of interest and disclosure of sensitive information to competitors from former employees

**Affected businesses:**

All companies

**Effect on Armenia:**

This will lead to a significant improvement of the business environment in Armenia. A new labour code would permit a more efficient operation of companies, help companies foster cooperative and trust-based relationships with their workforce, and reduce business risks from disclosure of sensitive information. In sum, it is likely to strongly contribute to investment and job creation.



## 4 Reform proposals regarding regulatory issues

Four proposals concern issues of private sector regulation. Compared to the high-impact proposals in the previous chapter, these proposals here are more specific, focusing on individual aspects of regulation areas. However, they are also generally much easier and quicker to implement.

### Proposals regarding regulatory issues: Overview

Code	Title
Reg-1	Facilitating investments in Armenian companies
Reg-2	Strengthening post-tender contract conclusion
Reg-3	Reducing money guarantee requirements for public procurement
Reg-4	Simplifying amendments to rent contracts

#### Reg-1 Facilitating investments in Armenian companies

**Responsible institution:**

State Commission for the Protection of Economic Competition (SCPEC)

**Problem for companies:**

Companies require consent of the State Commission on Protection of Economic Competition (SCPEC) for acquiring shares of 20% or more of a company in Armenia, subject to some threshold value. Companies must then declare their market share in Armenia to SCPEC (declaration of concentration: declaring current turnover and production capacity). Sometimes, companies need to wait for up to three months before their acquisition of shares is permitted. While this is fine in general to safeguard competitive markets, it is unnecessary for investors with no prior direct or indirect presence on the Armenian market. Their acquisition of assets cannot change competitive dynamics in Armenia. For such companies, the declaration of concentration to SCPEC and the necessity to gain permission is an unnecessary complication that hinders attracting new investors to Armenia.

**Affected businesses:**

Armenian companies above the threshold values and potential investors interested in investing in such companies.

**Suggested reform measures:**

The key to solving the problem lies in increasing the speed at which SCPEC grants its approval of acquisitions. SCPEC should process such requests within one month. This requires strengthening SCPEC’s capacities accordingly. A potential complementary measure could be to exempt foreign companies with no prior direct or indirect presence on the Armenian market (including, but not restricted to, sales of intermediate products to Armenia) from the requirement to gain approval from SCPEC before being able to complete a purchase of 20% or more of an Armenian company altogether, provided the acquisition object’s annual turnover on the Armenian market does not exceed a volume of USD 50 m.

**Expected impact:**

Speeding up and reducing the bureaucracy on first investments in the Armenian market will contribute to attracting new investors to Armenia, also as risks of interference for political or personal reasons are mitigated.

**Responsible institutions:**

Public Services Regulatory Commission (PSRC), Ministry of Finance

**Problem for companies:**

Contracts with public buyers (after procurement procedures) are frequently not completely fulfilled by the public buyer, as the customer may currently cancel contracts without notice, e.g. after only purchasing a smaller share of a total contract volume. This harms companies who offered discount prices based on larger volumes and may have already purchased the goods or inputs for the full volume. In the longer run, it leads to companies having to plan for such eventualities and hence only offer higher prices, resulting in higher costs for public procurement or lower quality of goods and services provided to public buyers.

**Affected businesses:**

Companies bidding in government tenders

**Suggested reform measures:**

Public tenders should be reformed to result in contracts that give the seller of the respective goods or services the right to claim damages for non-performance (i.e. no or incomplete execution) of the contract from the buyer. Damages for non-performance imply that, unless the buyer can prove that the seller was able to reduce the damage (e.g. by selling goods elsewhere, not purchasing inputs), the buyer must restore the position that would exist if the circumstance obliging him to pay damages had not occurred.

**Effect on Armenia:**

The reform will make bidding for government contracts in Armenia more attractive to potential investors, increasing the attractiveness of Armenia as a country of operation for them. It will also lead to more bidders for government tenders and hence reduce the costs of government procurement.

**Responsible institutions:**

Public Services Regulatory Commission (PSRC), Ministry of Finance

**Problem for companies:**

Companies bidding for, and executing, government contracts tendered via e-procurement are required to set large volumes of money aside as “guarantees”. During the tendering stage, a smaller share of the total contract volume needs to be frozen as a security on an account. Upon winning a contract, the entire volume of the contract needs to be frozen by the company in a special or on a state account. While it is understandable that the government requires financial security against non-performing sellers, these guarantees severely constrain the liquidity, especially of SMEs when working for the state.

In many countries, such guarantees can be obtained as credit or guarantee for a contingent liability from banks or insurances. However, this route tends to be closed specially to SMEs in a transition country context where risks arising from lack of transparency of companies deter private banks from offering such financing.

**Affected businesses:**

SMEs participating in state procurement.

**Suggested reform measures:**

The government should set up a programme to support credit provision to SMEs by commercial banks for such guarantees in the context of state tenders. This could possibly be done, for instance, using the SME finance arm of the German-Armenia Fund (in which a guarantee instrument has been used in the past) or using other donor co-operations. The state support, perhaps in the form of a partial guarantee scheme (PGS) or fund, should be sufficient to incentivise banks to offer such guarantees at affordable interest rates, while banks should also bear some of the risk themselves in order to ensure that they conduct solid checks of companies’ ability to fulfil the contract in question.

**Effect on Armenia:**

New growth perspectives for local SMEs that could work on state contracts previously unfeasible due to liquidity issues arising from guarantee requirements. The state would also benefit, as more bidders for state contracts would reduce the costs of public procurement.

**Responsible institution:**

Cadastre Committee

**Problem for companies:**

All amendments to rental contracts for real estate must effectively be notarised and registered at the State Cadastre. The registration of basic elements of real estate rent contracts – who owns and who has the right to live in or use a piece of real estate – are useful to prevent fraud and legal uncertainties. However, the necessity to notarise and register each amendment is excessive.

This is due to a combination of clauses in the Civil Code, requiring the same procedures for contracts and their amendments as a standard practice, and communication of information from the Cadastre to the Tax Authority. However, this practice results in additional bureaucratic procedures for registration that cost companies time and money.

In addition, it also created problems in protecting companies during the lockdown period of the COVID-19 pandemic. As companies and landlords agreed on lowering rents, they could not register these changes during the lockdown, risking them to be legally null and void. Circumventing this problem was possible, but difficult.

**Affected businesses:**

All forms of businesses having rent agreements.

**Suggested reform measures:**

Re-draft respective provisions of the Civil Code (paragraphs 468, 610, 611) and the law “On state registration of the rights to the property” such that only the essential parts of rental agreements (who owns and who rents a property) require notarisation and state registration and hence only amendments of these essential parts need to undergo the same procedure. The Cadastre should not keep additional information on the rental contracts on record. Consequently, the Tax Authority may only receive information about owners and lessees of real estate from the Cadastre.

**Effect on Armenia:**

Reduction of bureaucratic burden for companies as well as legal insecurity when amendments cannot be notarised and registered in time. In effect, the business climate will be improved for all companies renting real estate. The taxation of rent income would still benefit from Cadastre information on owners and lessees, but would have to determine the amount of income as for all other contracts without privileged information.

## 5 Reform proposals on tax and accounting issues

Four proposals concern rules in the tax system and accounting issues. Several proposals recommend abolishing or simplifying unnecessarily complicated processes whilst others concern the modernisation of outdated aspects of tax legislation, ensuring that especially the corporate income tax (CIT) more accurately concerns the actual profits of companies.

### Proposals on tax and accounting issues: Overview

Code	Title
Tax-1	Abolishing the requirement to maintain “cash books”
Tax -2	Accepting invoices for customs clearance
Tax -3	Improving tax regulations on employee benefits
Tax -4	Recognising training costs as operating costs

#### Tax-1 Abolishing the requirement to maintain “cash books”

##### Responsible institutions:

State Revenue Committee, Ministry of Finance

##### Problem for companies:

Companies are required to keep and maintain physical “cash books” documenting all cash in the company and its transactions. However, most companies use electronic accounting systems connected to the tax authority that register all cash operations on a daily basis. Hence, cash books are completely unnecessary and a pure extra burden for companies using such connected accounting systems. Some companies actually prefer not to fill in the cash book and instead pay the administrative penalty of AMD 50,000 (approx. USD 100) instead of the additional paperwork.

##### Affected businesses:

All businesses with cash registers, especially in the retail sector.

##### Suggested reform measures:

We recommend revising Government Decree No. 1260 of October 5, 2017 to remove the requirement for maintaining a cash book for companies that register cash operations online on a daily basis.

##### Effect on Armenia:

Reduction of a large and unnecessary bureaucratic burden and costs savings for companies with large volumes of cash transactions.

**Responsible institutions:**

Customs Service, State Revenue Committee, Ministry of Finance

**Problem for companies:**

According to the EAEU Customs Code, “the customs value of imported goods should, as far as possible, be the value of a transaction with these goods”. However, customs only rarely accept the prices in invoices to establish the value of imports for customs clearance. Instead, a lengthy process to establish the customs value often requires companies to submit an entire file of documents including contracts, payment orders, cargo documents and receipts. While the intention to prevent fraud and customs evasion is understandable, the current practice is excessive as the procedures for questionable import shipments are being applied also to unsuspecting shipments. The lengthy procedures in Armenia give rise to long and costly procedures and disputes between companies and customs. Moreover, they often even result in penalties levied on importers/exporters for trucks stuck in customs during disputes.

**Affected businesses:**

All companies with activities related to trade in goods, especially logistics providers

**Suggested reform measures:**

The law “On customs regulations” should be revised, requiring the Customs Service to accept invoice prices for initial customs clearance unless good reasons exist to suspect fraud. Customs should be given strict performance targets (as e.g. in Belarus or Georgia) to ensure that the customs authority will properly balance the objectives of fraud prevention and speedy treatment of shipments. Further anti-fraud checks and mechanisms could work independently of the initial customs clearance, for example by requiring guarantee payments to release suspicious shipments, enabling customs to combine the objectives of speedy clearances and thorough fraud prevention.

**Effect on Armenia:**

Speeding up customs procedures will reduce transportation costs, especially for imports to Armenia. This will incentivise companies to increase investment into trade-related activities.

**Responsible institutions:**

State Revenue Committee, Ministry of Finance

**Problem for companies:**

Employee benefits such as free food at work or insurance benefits can be provided by companies, but only subject to a low threshold (AMD 10,000 per month for insurance, 0.25% of annual revenue for free food, social and cultural benefits). Beyond that, they will be subject to Personal Income Tax (PIT) as an in-kind wage. Also, such benefits cannot be deducted from revenue of companies as operating expenses for profit tax purposes. Both level (0.25%) and reference (gross revenues rather than wage bill or fixed allowances per employee) of this threshold are considered as inadequate. In result, this treatment of the issue unduly restricts the ability of companies to offer further incentives to their employees.

**Affected businesses:**

All businesses.

**Suggested reform measures:**

Revision of the respective regulations and provisions of Tax Code to permit a more reasonable level of employee benefits as operating expenses and not subject to employee PIT. In particular, the threshold should not be set as a percentage of gross revenues but rather in relation to the company's wage bill.

**Effect on Armenia:**

Improvement of the business climate by applying more internationally common standards in taxation as well as improving the relations between employees and company, hence increasing productivity.



**Responsible institutions:**

State Revenue Committee, Ministry of Finance

**Problem for companies:**

Costs for many usual training and teambuilding activities are currently not considered operating expenses of companies and hence cannot be deducted from the taxable income of companies. This results largely from an antiquated Soviet-legacy approach to taxation, with very narrow specifications and limits for as operating expenses. This approach increases the effective corporate tax rate and, in this area, provides a disincentive to investing in employee training.

**Affected businesses:**

All companies.

**Suggested reform measures:**

The Tax Code should be amended to recognise operating expenses based on their “operational necessity”. The operational necessity could be questioned by the tax authority and shown by companies during tax audits as is common international practice.

**Effect on Armenia:**

Improvement of the taxation environment: Abandoning typical post-Soviet tax practice of only recognising narrowly specified expenses in favour of a more modern approach centred on the actual use of expenses and reasonable assessment.

## 6 Reform proposals on foreign trade issues

Three proposals concern problems faced by companies in the conduct of foreign trade and goods transportation. Whilst these primarily affect logistics companies, they at least indirectly affect most companies requiring international goods shipment through transport costs. Facilitating trade and keeping transport costs as low as possible is of great importance to Armenia given its small and landlocked situation, with long transport routes to many important trade partners.

### Proposals on foreign trade issues: Overview

Code	Title
Tra-1	Reviewing the list of dual-use goods
Tra -2	Simplifying the VAT treatment of international air freight
Tra -3	Facilitating the return of cargo shipments

#### Tra-1 Reviewing the list of dual-use goods

**Responsible institution:**

Ministry of Economy

**Problem for companies:**

The list of civilian-military “dual-use goods” in Armenia is too extensive and contains goods without a specific military use such as electric shavers. Importing such goods requires specific documentation and certification from a licensed company. Due to the exceedingly wide definition and list of dual-use goods, expensive and lengthy procedures are required for many goods which shouldn’t be treated as dual-use goods.

**Affected businesses:**

Importers of goods improperly classified as “dual-use” and logistics companies

**Suggested reform measures:**

The list of dual-use goods should be reviewed and restricted to goods with an actual and specific military application in line with normal international practice.

**Effect on Armenia:**

Facilitated import procedures will reduce the costs and increase the availability of goods that previously were improperly classified as “dual use”.

**Responsible institutions:**

State Revenue Committee, Ministry of Finance

**Problem for companies:**

Incoming international air freight is usually not considered a service subject to VAT. Normally, VAT is due on the value of the imported good, which includes the transport costs. Until 2018, this practice was followed in Armenia and the airport was considered as the Armenian border for incoming air freight. However, according to Tax Code art. 107-2G, since 2018 it is now required to specify the “Armenian component” of the air freight service, after crossing the border of Armenia by air. This Armenian component is taxable under Armenian VAT. Companies are supposed to be guided by a government body on how to split the service into the foreign and Armenian components, but this body has not been created. Companies now face the risk of having to determine and pass on VAT liability for an unclear component of freight services without any clarity on how to determine this cost share.

**Affected businesses:**

Logistics companies.

**Suggested reform measures:**

Tax treatment of incoming international air freight services should return to the old practice of considering the airport as the border of Armenia. Hence, the transport service would be considered to have been rendered outside Armenia and would not be subject to Armenian VAT. However, as the goods will be subject to import VAT at their total import costs, the transport service would be taxed at that stage.

**Effect on Armenia:**

Facilitation of international transport services and removing risks from such transactions. There will be no fiscal effect as the imported goods are subject to import VAT anyway. The suggested return to the previous practice simply makes the tax treatment easier for all sides.

**Responsible institutions:**

Customs Service, Ministry of Economy

**Problem for companies:**

No clear regulation exists for the return of cargo mistakenly arrived in Armenia (e.g. the wrong goods were sent or there was a confusion of recipients by the sender with the intended recipient being in another country, e.g. sending the good to the Armenian rather than the Georgian branch of a company). This leads to such shipments being treated as regular imports, requiring permissions, certificates and customs clearance; causing costs and requiring time by the logistics companies or recipients.

**Affected businesses:**

Logistics companies and all companies receiving international shipments.

**Suggested reform measures:**

Increasing the role of “customs warehouses” where goods are stored, under the rules of the Eurasian Economic Union, without importing them to Armenia. Recipients should be informed when goods enter the customs warehouse and allowed to reject mistaken shipments to be returned to their senders without first undergoing the procedures and costs for imports.

**Effect on Armenia:**

Reduction of unnecessary bureaucratic burden and costs caused by returning international cargo shipments that were sent by mistake.

## 7 Top three “quick wins”

All proposals in chapters 4-6 are unified by being specific, concrete and hence easy to implement. In this chapter, we single out three proposals from that, in our view stand out by promising the best combination between ease of implementation, quickness and magnitude of results. These “quick win” proposals should be prioritised in the implementation of this study’s recommendations.

### Three “quick wins” for priority implementation

Code	Title
Tax-1	Abolishing the requirement to maintain “cash books”
Tax-2	Accepting invoices for customs clearance
Tax-4	Recognising training costs as operating costs

Implementation of these proposals would focus on a key deficiency of the Armenian investment climate. Similar to other transition countries, Armenian companies are burdened with high bureaucratic requirements, often still characterised by a Soviet spirit of “trust is good, control is better”. Coupled with existing inefficiencies, these requirements severely hamper business operations. Executing these procedures requires working time of staff and the incompatibility and inconsistency of some of these procedures with normal business practices creates legal risks.

While it is beyond doubt that the state must be able to enforce the law and companies must abide by it, the international state of the art is to do this in a manner that does not overburden companies with bureaucratic requirements. Hence, a larger degree of trust (and hence less bureaucratic requirements for documentation and permissions) is employed by most advanced economies in the interaction between government and companies. Investigation actions by authorities are targeted on cases exhibiting suspicious behaviour. This ensures that burdens for all are low, while government institutional capacities for enforcement are focused on the cases where actual infringements are likely.

The first two “quick wins” highlighted here imply reducing broad or badly targeted bureaucratic requirements. Implementation is very simple as it only requires abolishing or reducing these requirements. Both in the case of “cash books” and investments by new investors, no further action needs to be taken. The data in the cash books is already available to public authorities through electronic systems while new investors without prior involvement in the Armenian economy cannot create distortions of competition that did not exist before. In the case of accepting invoices for customs clearance, a new approach to avoiding customs fraud requires the customs authority to start distinguishing more sharply between risky and unsuspecting shipments when considering where to investigate.

The final quick win, the recognition of all genuine training costs as operating costs of companies is another example of overcoming the post-Soviet legacy: replacing a narrowly defined list of costs for staff training deemed acceptable as operational costs of companies is an inflexible approach, which leads to some training costs not accepted as operational costs by tax authorities. Our recommendation of requiring the tax office to evaluate “operational necessity” would remove this inflexibility and implement one element of a modern, common-sense-driven approach to corporate taxation.