

5.5. Recommendations on the Implementation Program

In relation to the Private Sector Development Plan Study, we recommend an implementation program outlined below.

(1) Creation of the Ministry for Economic Development and Planning

The Study Team, considering the importance of implementation of the Private Sector Development Plan, propose that the existing Ministry of Economy be reorganized and form, de novo, the **Ministry for Economic Development and Planning** for the implementation of the functions described in section 5.4.(1).

(2) Establishment of the Armenian Development Bank

- Create the Armenian Development Bank as proposed in section 5.4.(2).

The creation of the Armenian Development Bank and the management of the created institution require specialized knowledge and expertise that is deficient in Armenia and assistance from abroad will be sought as an independent project. For a specific period after the creation, foreign specialists will be invited to provide technical transfer of knowledge and skills in all areas from the selection of loan projects through execution-recovery of loans.

(3) Establishment of SME Financial Supporting system, including SME Support Fund

- Prepare detailed planning document for the creation of the SME Supporting Fund, SME Loan Guarantee Association and SME Loan Insurance Institution including the mechanisms, preparations for the establishment and conditions of operations. If required, request for technical assistance will be sought overseas.

(4) Project Formation on Development of Export Industry

- In parallel with the implementation of (2) and (3) above, a request will be made for TWO STEP Loans and specific project formation for the promotion of export industry promotion, including the promotion of import substitution industries to the World Bank, EBRD, GTZ, OECF in Japan (as of October 1, 1999 it will be merged with Japan Export Import Bank to form Japan Bank for International Cooperation) in order to raise funds.

(5) Creation of the Industrial Zone

- Push forward with the creation of an industrial zone that is being planned in Yerevan at the initiative of the Ministry of Industry and Trade. The initial funding required for the project will be appropriated from the privatization funds but the management will be turned over to a third sector and shall be managed as a self supporting unit. (The person in charge will be responsible for researching similar facilities abroad, law, systems and operating formats)

(6) Pre-Feasibility Study on the Development and Value-added Utilization of Nonferrous ores including Copper and Molybdenum

- Request foreign assistance agencies for a comprehensive Pre-feasibility study of the feasibility of development, reopening of production and project development from smelting to secondary processing. The study will include examination of possibilities of the use of Aragak Copper Mine that is currently shut down, a new development of the Shaumiana copper mine, the reopening of Kadjaran Copper Mine and ore transport facility and the Alaverdi Smelting Plant.

(7) Implementation of the Census

- A request will be made to the foreign assistance agencies for the implementation of the Census planned for in 2001. The assistance sought will include assistance in the implementation methodology, technical assistance relating to software development, implementation expenses and grant of necessary equipment such as computer equipment.

(8) Creation of SME Venture Activities Support Center

- A center will be created to provide management and technical support for the SME as proposed in section 5.4.(6). They will provide counseling to SME, especially venture capital enterprises on management and technical issues and it will provide a forum for exchange of views and experiences relating to the common issues.

- It will be structured such that it will also be able to provide some financial assistance.

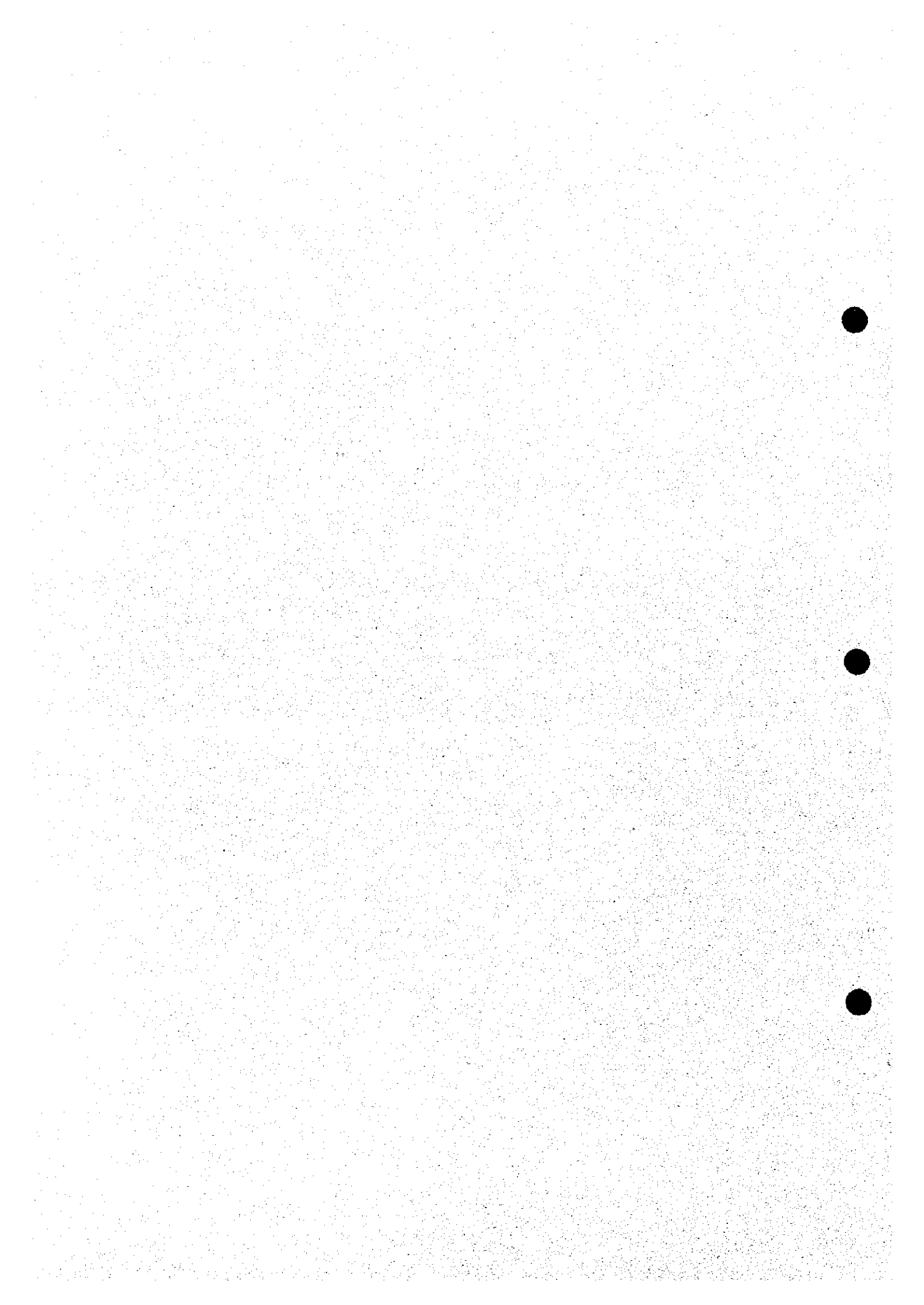
(9) Creation of the Tourism Development Center

- As it has been stated in section 5.3.3., tourism, for Armenia, is an industry that is of relatively high value added content and an important industry that should be promoted. The Center should be established with the objectives of practical development and promotion of tourism industry. The funding should be requested as a grant from the Kerkorian Fund and investments by Armenian tourism related enterprises. Principle operations of the Center are:

- 1) Development of tourism resources (repair and maintenance starting with what is at hand).
- 2) Overseas public relations activities, creation of pamphlets in various languages, making and distributing videos and films.
- 3) Education and training of tourism related enterprise management and staff.
- 4) Purchase of 5 medium sized and 5 large tour buses (to be leased to tourism enterprises)

ANNEXES

- ANNEX 1** Persons and Offices Visited
- ANNEX 2** Evaluation Sheet of Enterprise
- ANNEX 3** Enterprise Evaluation Table (Summary)
- ANNEX 4** Questionnaire to Enterprises
- ANNEX 5** Voice of Enterprises
- ANNEX 6** Profile of Model Enterprise (SIRIUS)
- ANNEX 7** Profile of Model Enterprise (HI TEAM)
- ANNEX 8** Reference Documents



Persons and Offices Visited

<i>Names</i>	<i>Offices(as of the dates of visit)</i>
<i>Government officials</i>	
Mr. Darbinian Armen	Vice Prime Minister, Minister of Economy
Mr. Martirosyan Gagik	Vice Prime Minister
Mr. Baibourtian Armen	Deputy Minister of Foreign Affairs
Mr. Martirosian Armen	Deputy Minister of Foreign Affairs
Mr. Barkhudarian Levon	Minister of Finance
Mr. Ghaltakhchyan Pavel	Minister of Privatization
Mr. Markosian Ashot	Deputy Minister of Privatization
Mr. Zadoyan David	Minister of Regional Administration and Operative Issues
Mr. Avanesian Vahram	Minister of Economic & Structural Reforms
Mr. Khachatryan Armen	First Deputy Minister of Ministry of Agriculture
Mr. Dumikian Khachgik	Deputy Minister of Agriculture
Mr. Mnatsakanian Stepan	Minister of Statistics, State register and Analysis
Mr. Mkrtchyan Levon	Minister of Education and science
Mr. Stakyan Mihran	Vice-Minister of Education and science
Mr. Avetissian Ashot	Acting Chairman of the Central Bank, Dr.
Mr. Nercissiants Vahram	Dr., Advisor to President
Mr. Mikaelian M.	Deputy Minister of Finance and Economy
Mr. Mouradian E.	Deputy Minister of Finance and Economy
Mr. Akopian Arthur	Head of Management of State Property, MoFE
Mr. Mkrtchian Hratch	Head of International Cooperation Coordination Div., MoFE
Mr. Karapetian Tigran	Head of Securities & Exchange Inspectorate MoFE
Mr. Khachatryan Khachik	Head of Licensing of Participants Markets of Securities, MoFE
Mr. Sargisian Sisak	Head of Central Dep't of Economic Policy Develop't, MoFE
Mr. Petrossian Hovhannes	Head of Accounting & auditing dep't, MoFE
Ms. Kirakosian Carine	Director of Economic Dep't, Prime Minister's Administration
Mr. Akopian D.Gukasovich	First Deputy Minister, Ministry of Social Security
Mr. Vartanian Rouben	First Deputy Minister, Ministry of Health, Dr.
Mr. Ter-Kazaryan Igor B.	Head of External relations Dep't, Ministry of Energy
Mr. Alaverdyan Armen	Deputy Chief of Tax Inspectorate
Mr. Tamazian Armen	Head of Methodology & Analysis Dep't of Tax Inspectorate
Mr. Petrossian Andranik M.	Head of Dep't of Foreign Relations, Ministry of Agriculture
Mr. Nersesyan Hrachya	Head of Transportation Dep't of Ministry of Transport
Mr. Margarian Samvel	Deputy Head of General Directorate Civil Aviation, MOT
Mr. Gishian Barsegh	Marketing Manager of General Directorate Civil Aviation MOT
Mr. Vardanian Michael	Head of North-East Asia Div of MoFA
<i>Ministry of Industry and Trade (MIT)</i>	
Mr. Gevorgian Haik	Minister
Mr. Dzavarian Movses	First deputy Minister
Mr. Petrosyan Armen	Deputy Minister
Mr. Gasparian Yurii	Deputy Minister
Mr. Petrosyan Ara	Deputy Minister
Ms. Ter-Nikoghosyan Viktoria	Head of Investment & Export Policy Directorate, Ph.D.
Mr. Hakobyan Ara	Ex. Director, WTO Proj. Implementation Unit, (TACIS, GTZ)
Mr. Chalabyan Avetik	WTO Project Implementation Unit

Mr. Grigoryan Derenik R.	Head of Dep't of Industry Policy
Mr. Kirakossian Vache	Investment & Export Policy Directorate
Mr. Nazarian Alexander	Chief of Industrial Policy
Mr. Ovsepiyan Vanik	Head of Radioelectronics Dep't
Mr. Gevorgian Gagik	Chief Specialist of Radioelectronics Dep't
Mr. Eganian Sambel	Head of Machine-building Dep't
Mr. Gevorgian Artashes	Chief Specialist of chemical Dep't
Mr. Khloyan Robert	Machine-building Dep't
Mr. Shaginyan Ruben	Head of Chemicals
Mr. Babajanian Vahan	Investment Promotion Officer
Mr. Obcepiyan Barnik	Head of Electric and Electronics
Mr. Gevorkyan artashes	Department of Chemicals
Ms. Shahoyan Armineh	Advisor on Industrial Policy
Mr. Harutyunian Varujan	Acting Head of Regional Development Policy

Armenian Development Agency (ADA)

Mr. Yeghiazarian Gagik	Chief Executive Officer
Ms. Magoyan Nune	Deputy CEO
Mr. Ghazaryan Grigor	Deputy CEO, ESF Manager, Investment Promotion
Mr. Galstyan Levon	Investment and Export Programs Coordinator
Mr. Mehrabian, Boris V.	ADA Advisor (Member of Academy of Science)
Mr. Zargaryan Armen	Coordinator of Export Department Program (ITC)
Mr. Hakobyan Vahram	Executive Director of Trade Point Armenia

Non-Governmental Organizations

Mr. Gevorkian Miran Aramovich	Dr., Director of Institute of Economy, Professor
Mr. Vardanian Aram	Ph.D., President of Union of Industrialists & Entrepreneurs
Mr. Baghdasaryan Sahak	Executive Director, Union of Industrialists & Entrepreneurs
Mr. Sedrakyan Sedrak	Dr., President of Yerevan Stock Exchange
Mr. Don Fuller	Dr., Associate Director of American University of Armenia
Mr. Hambarian Artak R.	Dr., Associate Director of American University of Armenia
Mr. Aggashyan Rouben V.	Dr., Dean of Computer Science Faculty of SEUA
Mr. Hakobyan Vahram	Executive Director of Trade Point Armenia
Mr. Afrikian Evrik	Dr., Member of the National Academy of Sciences

International Organization

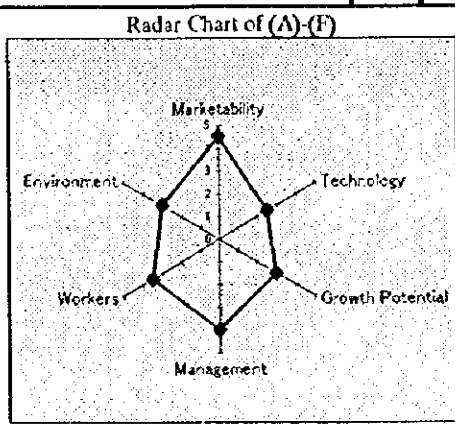
Mr. Anayiotos George	Resident Representative of the IMF in RA
Mr. Saadat Owaise	Resident Representative of WB in RA
Ms. K. Chekalovich	UN coordinator, Resident Representative of UNDP in RA
Mr. Yannis Tzen	Chairman, Hellenic Foreign Trade Board (HEPO)
Mr. Avetyan Mher	Commercial Specialist – US Embassy in RA
Mr. Wayne West	Silbey International (USAID)
Mr. Timberg Thomas	Senior Economist of IRIS (USAID)
Mr. Kutchukian Alan	Managing Director of KPMG
Mr. Mahdessian Kevork	Head of Vocational Training, Cyprus Productivity Centre

Name of enterprise (Location) : ()			
Field of business:			
Paid-up capital:	million Dram	Established in _____(year)	Privatized in _____(year)
Main shareholders: ①		②	③

	1990	1993	1995	1997	1998(plan)
Number of employee					
Main products					
1.	Quantity				
	Million Dram				
2.	Quantity				
	Million Dram				
3.	Quantity				
	Million Dram				
Profit before Tax					
Profit after Tax					

Appraisal items			Points					Sub Total
(A)	Marketability (20)	1 Demand & Market for the Products	5	4	3	2	1	
		2 Procurement of Raw Materials	5	4	3	2	1	
		3 Quality Competitiveness	5	4	3	2	1	
		4 Price Competitiveness	5	4	3	2	1	
(B)	Technology (20)	5 Technology	5	4	3	2	1	
		6 Equipment	5	4	3	2	1	
		7 Quality control/Sanitary/Safety	5	4	3	2	1	
		8 Development of New Products	5	4	3	2	1	
(C)	Growth Potential (10)	9 Current Profit	5	4	3	2	1	
		10 Potentiality of Growth	5	4	3	2	1	
(D)	Management (20)	11 Vision on Development-Strategy	5	4	3	2	1	
		12 Leadership	5	4	3	2	1	
		13 Execution Ability	5	4	3	2	1	
		14 Comprehension of Management Duties	5	4	3	2	1	
(E)	Workers (10)	15 Worker's Skill	5	4	3	2	1	
		16 Attitude & Willingness to work	5	4	3	2	1	
(F)	Environment(5)	17 Environmental Due Diligence	5	4	3	2	1	
(G)	Global Evaluation(15)	18 Global & Integrated Evaluation	15	12	9	6	3	

Classification:	A	B	C	D	E	Total Evaluation (100/100)
-----------------	---	---	---	---	---	----------------------------



Remarks:

Evaluated by _____

1998/11/14

ANNEX-3

Enterprise Evaluation Table (Summary)

(Electric and Electronics)

	Maketability (20)	Technology (20)	Growth Potential (10)	Management (20)	Workers (10)	Environment (5)	Grobal Evaluation (15)	Total Evaluation (100)
Sirius	12	10	7	19	7	3	12	70
SRI Electromash	13	13	7	17	6	3	11	70
Mars	13	13	6	8	6	3	12	61
Andron	11	12	7	13	4	2	6	55
Martin	8	10	5	19	2	2	6	52
Armenmotor	11	12	5	8	4	2	6	48
Electron Enterprise	10	8	4	8	2	2	6	40
Transistor (2)	7	7	4	7	2	2	3	32
Luis	7	6	2	8	2	1	3	29
Armelectromash	4	8	2	6	2	3	3	28
Impuls	5	7	2	6	2	3	3	28
Armrelay	4	7	2	5	2	2	3	25
Transistor (1)	4	4	2	4	2	1	3	20

Transistor (1) : Yerevan
 Transistor (2) : Ashtarak

Enterprise Evaluation Table (Summary)

(Machinery)

	Makatability (Points)	Technology (20)	Growth Potential (10)	Management (20)	Workers (10)	Environment (5)	Global Evaluation (15)	Total Evaluation (100)
Hi Team	16	12	8	15	7	3	12	73
Mshak	15	10	8	17	7	3	10	70
Autogenmash	13	10	5	14	6	3	9	60
Hrazdanmash	11	8	4	10	4	3	8	48
Yerfrez	10	8	4	10	5	2	6	45
Charentsavan Tool Plant	9	8	4	8	3	2	6	40
Electron	8	7	3	9	3	2	6	38
Charentsavan Machinery Building	8	7	3	6	3	2	3	32
Chapich 1& 2	4	4	2	4	2	1	3	20

Enterprise Evaluation Table (Summary)

(Chemical and Pharmacy)

(Points)	Maketability (20)	Technology (20)	Growth Potential (10)	Management (20)	Workers (10)	Environment (5)	Grobal Evaluation (15)	Total Evaluation (100)
CHEMICAL								
Plyvinyl Acetat	9	11	4	13	6	1	6	50
Doghagorts	9	9	3	9	4	3	6	43
Chimreaktive	9	9	3	10	4	2	6	43
Vanadzor Chemical	9	9	4	8	5	1	6	42
NAIRIT	9	10	3	6	4	1	3	36
Chemical Fiber Factory	7	6	2	6	4	1	3	29
PHARMACY								
Yerevan Chemical Pharmarceutical	11	8	4	10	6	3	6	48
Lizin	11	10	3	7	4	3	6	44
Vitamin	9	9	4	9	4	2	6	43

Ref. No. _____

АНКЕТА

Исследование для разработки генерального плана развития
частного промышленного сектора в Армении

Японское гос. агентство по международному сотрудничеству (JICA)

Уважаемые дамы и господа,

Японское правительство по просьбе Правительства Армении приняло решение оказать техническое содействие Вашей стране в форме выработки в сотрудничестве с Вашими соответствующими организациями плана развития частного производственного сектора промышленности Армении.

Целью настоящей анкеты является непосредственный сбор информации по нынешнему состоянию промышленных предприятий, внутренним и внешним проблемам, с которыми в настоящее время сталкивается промышленное производство Армении, а также получение Вашего мнения в отношении возможных путей их решения и мер по развитию частного сектора.

Ваши ответы будут использованы в качестве исходных данных для анализа реального потенциала промышленного сектора, проблем и препятствий, а также для определения основных направлений развития сектора при выработке генерального плана развития.

Убедительная просьба как можно более подробно и откровенно ответить на сформулированные в анкете вопросы (если заполнение точных ответов на отдельные вопросы требует долгой подготовки, просьба сделать приблизительную оценку).

Благодарим Вас за сотрудничество!

Исследовательская группа JICA.

Дата ответа: " " 1998 г.	
Фамилия и имя:	Возраст ____ лет
Должность:	
Адрес электрон. почты:	
Тел:	Факс:
Название Вашего предприятия:	
Адрес:	
Сфера деятельности предприятия:	
Учреждено в ____ году	Приватизировано в ____ году
Форма собственности:	
<input type="checkbox"/> ① АО <input type="checkbox"/> ② Государственная <input type="checkbox"/> ③ Др.(Указать)	
Оплаченный капитал:	
Основные акционеры: ①	(%) ② (%)
③	(%) ④ (%)

1. Укажите следующие основные данные о состоянии Вашего предприятия.

1.1. Количество сотрудников, сумма выручки от сбыта основной продукции и прибыль.

год		1990	1993	1995	1997	1998(plan)
Количество сотрудников						
Сбыт основной продукции (количество единиц и/или сумма)						
1.	Количество					
	Миллион драмов					
2.	Количество					
	Миллион драмов					
3.	Количество					
	Миллион драмов					
Прибыль до налога						
Прибыль после налога						

1.2. Балансовые отчеты в 1996 и 1997 гг.

(Единицы: миллион драмов)

Актив	1996	1997	Пассив	1996	1997
Наличные			Кредиторы		
Дебиторы			Краткосрочные займы		
Инвентарные запасы			Др. текущие долги		
Др. текущие активы			Долгосрочные займы		
Установленные активы			Капитал		
			Остаток		
Итого			Итого		

1.3. Укажите 3 самые серьезные проблемы в эксплуатации Вашего предприятия (например: отсутствие рабочего капитала, отсталая технология...)

(1)

(2)

(3)

2. Укажите основных покупателей Вашей продукции и Вашу оценку деятельности по сбыту.

2.1. Куда продаете продукцию (за период 1996-1997 гг.):

Внутри страны: %	→ (Страна)	①	②	③
Экспорт: %		%	%	%

2.2. Как оцениваете конкурентоспособность своей продукции (отметьте соответствующую оценку).

Цена	на внутреннем рынке	5	4	3	2	1
	на зарубежных рынках	5	4	3	2	1
Качество	на внутреннем рынке	5	4	3	2	1
	на зарубежных рынках	5	4	3	2	1
Точность выполнения заказа (по сроку поставки, тех. параметрам и др.)	на внутреннем рынке	5	4	3	2	1
	на зарубежных рынках	5	4	3	2	1

5-очень конкурентоспособные, 4-могут конкурировать, 3-средние, 2-слабые, 1-неконкурентоспособные

2.3. Что считаете необходимым для улучшения (в отношении параметров, оцененных от 1 до 3 в п.2.2.)

Цена	
Качество	
Точность выполнения заказа (по сроку поставки, тех. параметрам и др.)	

2.4. Основные желаемые рынки в будущем для Вашего предприятия и их приблизительная пропорция.

Внутренний рынок	Зарубежные рынки		
	①(страна)	②(страна)	③(страна)
%	%	%	%

3. О сырье и других приобретаемых со стороны материалах.

3.1. Откуда получаете сырье (вспомогательные материалы, комплектующие детали)

Внутри страны	%	→ (Страна)	①	②	③
Импорт	%		%	%	%

3.2. Укажите Вашу оценку приобретаемого сырья и материалов (отметьте соответствующую оценку)

Цена	Внутренние поставщики	5	4	3	2	1
	Зарубежные поставщики	5	4	3	2	1
Качество	Внутренние поставщики	5	4	3	2	1
	Зарубежные поставщики	5	4	3	2	1
Выполнение заказа (срок поставки и др.)	Внутренние поставщики	5	4	3	2	1
	Зарубежные поставщики	5	4	3	2	1

5-Отличная, 4-Удовлетворительная, 3-Средняя, 2-Не совсем удовлетворительная, 1-Неудовлетворительная

3.3. Укажите Ваше мнение о том, как должны быть улучшены параметры, оцененные Вами от 1 до 3 в предыдущем вопросе.

Цена	
Качество	
Точность выполнения заказа (по сроку поставки, тех. параметрам и др.)	

4. О парке оборудования на Вашем предприятии.

4-1. Возраст оборудования

0-5 лет	6-10 лет	11-15 лет	16-20 лет	21-25 лет	26 лет и более
%	%	%	%	%	%

(% был выбран -① по количеству оборудования -② по стоимости оборудования)

4.2 Об изготовителях оборудования

Отечественное	%	}	① (страна)
Изготовлено в бывшем СССР	%		② (страна)
Изготовлено в восточной европы	%	}	
Изготовлено в высокоразвитой стране	%		① (страна)
Изготовлено в других странах	%		① (страна)

4.3. О загрузженности работы оборудования

1997 г.	%	1996 г.	%	Год максимальной загрузки: _____ год (_____ %)
---------	---	---------	---	---

4.4. Укажите проблемы, касающиеся оборудования, с которыми в настоящее время сталкиваетесь.

.....

.....

.....

5. О возрасте и заработной плате сотрудников.

5.1. Возрастной состав сотрудников.

Количество сотрудников	Средний стаж	Средний возраст	в том числе				
			до 29 лет	30~39 лет	40~49 лет	50~59 лет	более 60 лет
чел.	лет	лет	чел.	чел.	чел.	чел.	чел.

5.2. Средняя зарплата (месяц) _____ драмов

Максимальная _____ драмов Минимальная _____ драмов

6. Что считаете необходимым для развития частного промышленного сектора в Армении ?

6.1. Ваши пожелания о роли правительства и принимаемых им мерах.

- (1)
- (2)
- (3)

6.2. Ваше мнение о необходимых мерах, принимаемых самими предприятиями.

- (1)
- (2)
- (3)

7. О проблемах, связанных с загрязнением окружающей среды.

7.1. Имеются ли на Вашем предприятии какие-либо экологические проблемы или возможные источники загрязнения окружающей среды ?

.....
.....

7.2. Какие меры по Вашему мнению необходимы для устранения проблем или улучшения ситуации ?

.....
.....

8. Ваше мнение о результатах ранее проведенных иностранными специалистами исследований.

8.1. Были ли случаи исследований Вашего предприятия экспертами-консультантами международных организаций или стран-доноров ?

① Да

② Не было

Исследование для Вас оказалось полезным ?

① Да

② Нет

Укажите причины :
.....
.....

9. Что вы ожидаете от JICA по содержанию и результатам проводимого им исследования ?

9.1. Ваши общие пожелания в отношении исследования и разрабатываемого ген. плана развития.

(1)

(2)

(3)

9.2. Желаете ли Вы проведения подробного обследования Вашего предприятия специалистами JICA ?

① Да

② Нет

Желаете ли консультации специалистов по вопросам менеджмента и технологии Вашего предприятия?

① Да

② Нет

Укажите конкретно желаемые темы консультации.
.....
.....



Voice of the Enterprises - Results of a Questionnaire

A questionnaire survey was conducted in order to assess the actual condition of the enterprises in the target sub-sector of Armenia, sample the problems, and select the model enterprises. The written inquiry was conducted in 34 companies (except research institutes in the field of chemicals and pharmaceuticals) selected in the previous survey, and answers were received from 27 of them.

In order to draw up a development plan of the private sector, it is important to grasp the problems of the enterprises belonging to that sector. For this purpose the answers to the questions: "1. What problems do they have? 2. What government measures do they desire? 3. What do they think is an important problem they must solve themselves?" were assessed and the collection and analysis of the responses by these enterprises is discussed hereunder.

Most of the enterprises fully understood the significance of the survey on the development plan for the private sector and cooperated with this questionnaire. Furthermore, a tendency for relatively smooth operations to be more sensitive to the present conditions and improvement measures was observed.

(1) Identified problems of surveyed enterprises

The probe into current managerial problems of the sector concerned was conducted through questioning each enterprise, and answers (plural answers were acceptable) from 26 companies were obtained. The result is shown in Figure 1.

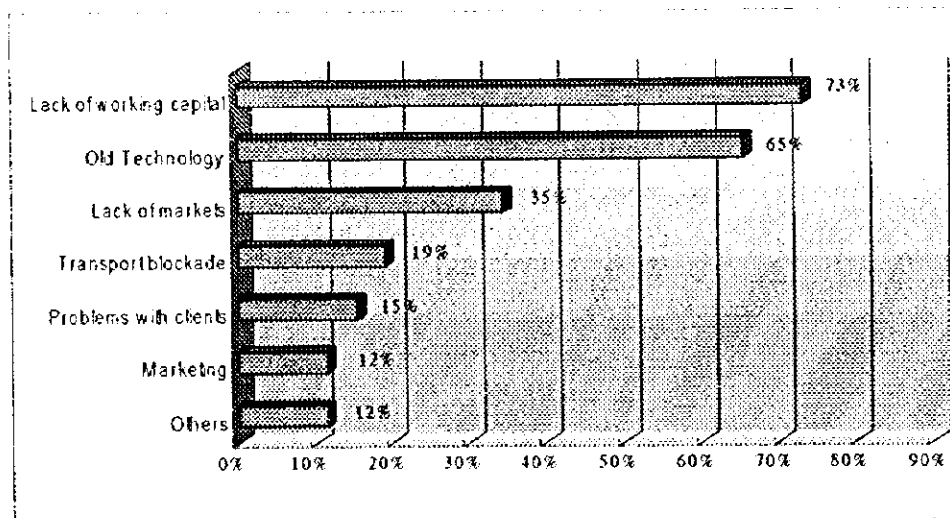


Fig. 1 Most Serious Problems for Enterprises

As Figure 1 shows, 60~70% of enterprises that responded consider shortage of working capital and old technology to be the two severest problems.

1) Shortage of working capital

The problem of shortage of funds not only makes daily operations difficult, but also causes other problems including lack of investment initiatives that lead to eventual positive developments such as renewal of equipment, implementation of OA, introduction of new technology, and implementation of marketing.

2) Old technology

As the analysis of the results of the questionnaire in the appendix of Chapter 2 shows, the average age of equipment exceeds 20 years; due to shortage of funds renewal of equipment can not occur; and there is no alternative but to use the existing equipment. There are two aspects to the problem of old technology. While the first one could be automatically solved with a renewal of equipment, the second one, which is associated with managerial skills and includes aspects such as interest in implementing the newest technology, having a positive attitude towards its introduction, and the establishment of an in-house system for utilizing the technology, represents the quality of available human resources. The enterprises acknowledge clearly that the technology in use at present cannot respond to the market needs, and innovation is necessary. On the other hand, among the enterprises visited some executives supported the following opinion: "The engineers of our company have good skills. What we lack is only new equipment." What these executives have in common is their incapability to realize that the skills of the engineers of their own companies are also becoming obsolete with time. At the same time, however, the world technologies are making remarkable progress and the skills of engineers in command of these technologies are also of high quality.

3) Loss of sales market

Most of the responses indicate that the result of the above-mentioned two big problems is the loss of the sales market.

The market is supposed to be cultivated by enterprise managements' own efforts but most of the responses enterprises provided attributed the loss of market to the exterior factor that "The market disappeared" following the collapse of the Soviet Union. Nevertheless, eight years has already passed since the collapse of FSU. The enterprises are supposed to have at least had "the time" to find a way out of the stalemate and try to use it.

In addition, there was also one company (electric/electronics) that believes the market did not expand due to the high specialty of its own products.

4) Other problems

In addition to the above-mentioned 3 answers, 5 companies cited the blockade of railways and roads against Turkey and Azerbaijan as a problem. They pointed out that this blockade caused

much restriction to transportation of products to the market and to procurement of raw materials, as well as high transportation fees.

Moreover, some companies cited problems with their customers, which included chronic delays in collection of account receivables, inability to settle payments with the main customers and suspension of transaction with traditional customers. Decline in ability to settle payments with customers in CIS countries is also affecting the Armenian enterprises.

In addition to these problems, 2 companies recognized the lack of competitive power of their own products, and 1 company expected improvement of the taxation system.

There were no responses that indicated problems related to raw materials (procurement route, price, quality, time of delivery) - a fact presumed to result from the present situation where enterprises manage to avoid this problem by chance thanks to fairly low rates of operating costs and the procurement of unnecessarily large volumes of raw materials.

(2) Expectation to the government

The enterprises were questioned about their expectations on government contribution (plural answers were acceptable), and responds from 22 companies were obtained. The result is shown in Figure 2.

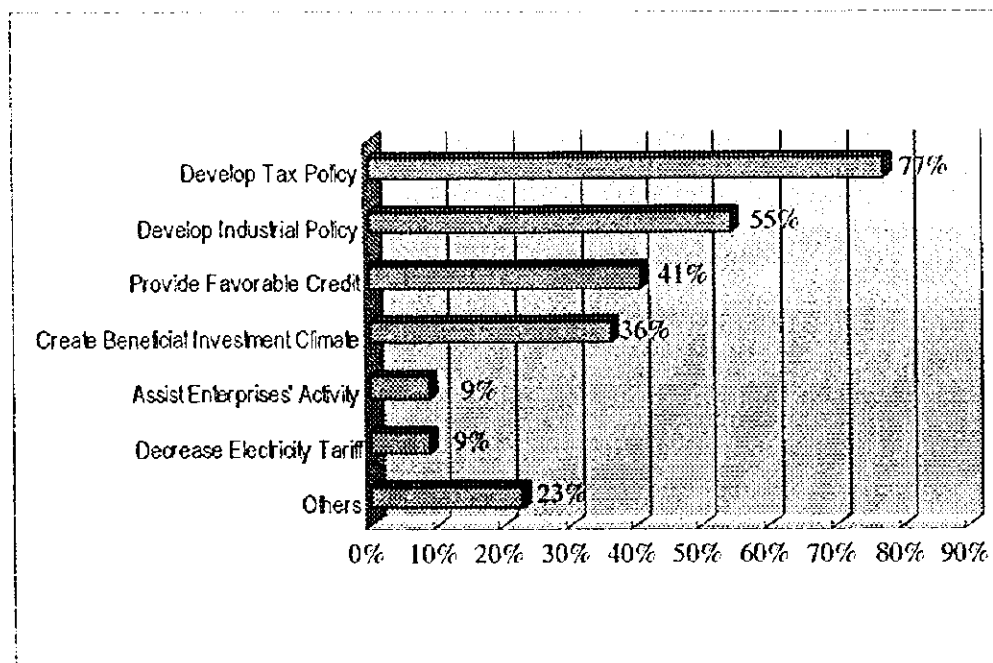


Fig. 2 Expectation to the Government

1) Reform of the taxation system

Improvement of the taxation system was the respond 17 enterprises gave as their expectations on government contribution. The answers are roughly classified into:

- Reduction of and exemption from taxes (including penalties);
- Application of a favorably treated taxation system as an incentive to the manufacturing industry and enterprises converted to market demand.

Many manufacturing enterprises are producing on order with unstable management under low rate of operation. In the meantime, enterprises that import raw materials cannot receive them unless they pay the value-added tax (VAT) upon arrival of the materials, which is a significant hurdle towards securing the working capital in manufacturing businesses with their long period from buying of raw materials to production and sales.

Further, though the import value-added tax levied on the raw materials of the export commodities is supposed to be refunded at the time of the export of products, actually it is often executed in an inappropriate manner. (there is information that some of the enterprises did not receive refunds.) The enterprises main demands include reduction of and exemption from the value-added tax, as well as application of favorable taxation for the manufacturing industry.

Though the taxation system of Armenia became considerably simple, some enterprises asked for its further simplification, a fact presumed to indicate rather the unfairness in the taxation law implementation and practices encountered by these enterprises.

2) Drawing up the industrial policy

The expectation to the government for execution of industrial policy is manifold, and above all there were the following representative demands for concrete programs and favorable measures for the development of the private sector.

- Drawing up a strategic plan for industrial development
- Enacting a development law for the private sector
- Drawing up an effective program for export expansion and investment promotion
- Enacting a law and government ordinance stipulating favorable measures for the private sector
- Introducing an export promotion and trade policy

Each item mentioned above reflects dissatisfaction with inconsistency or nonexistence of government policy for development of the private sector.

3) Creation of investment environment

Among the enterprises troubled by shortage of funds and low rate of operation, there are also many that put their hopes on direct investment from abroad as a way out of the situation including

the establishment of joint-venture companies. The concrete measures for creation of investment environment that they expect the government should do include:

- Introduction of favorable for foreign investors conditions
- Activities for attracting investors
- Appointment of priority fields

Furthermore, there were also some companies among the enterprises which attached importance to direct investment from abroad as a method of introducing effective management, and nurturing of human resources required for manufacturing of products at international standards.

4) Provision of favorable credit

As pointed out in Clause 2.3.1, it is not frequent for funds of high interest rate of city banks to be provided as working capital of the manufacturing enterprises. The responds of the questionnaire also mentioned that the enterprises demand a long-term credit of low interest rate. The responds also include proposals on the financial system such as the following:

- Establishment of departments in the Ministry of Industry and Trade for credit upon received orders for materials and services
- Nurture of small and medium-sized businesses, and establishment of effective funds provision system

5) Other measures expected the government should secure

There were also opinions among the responds, though minority, demanding that the government provided direct support to business activities. Concretely they were such as:

- Participation of the government in renovation program and activities of enterprises

Besides, there was also dissatisfaction such as :

- Nonexistence of government support for the sales of products

As minority answers except the above, there were the energy issues such as reduction of the electricity charge and guarantees for energy supply, and the transportation issues such as removal of the railway blockade. There was also an expectation for revival of state orders based on an old type practice.

(3) Important issues of the enterprises themselves

Responds to the question of what the enterprises must put emphasis on as their own issues (plural answers were acceptable) were obtained from 21 enterprises. The result is shown in Figure 3.

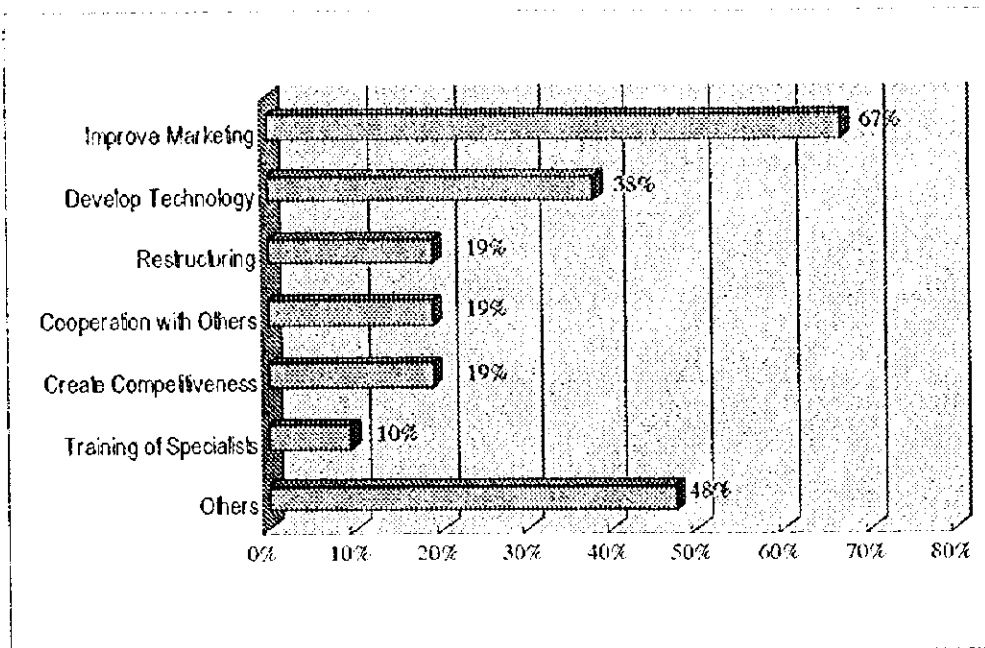


Fig. 3 Tasks for Enterprises

1) Marketing

Today many enterprises cite as an issue of highest priority the marketing business the enterprises did not need to think about in the era of the centrally planned economy. The president of Sirius, which was selected as model enterprise in the electric/electronics sector, also holds the post of a general manager of the marketing department. Some enterprises briefly mastered the basic theory of marketing, and conducted a search for concrete marketing business of immediate effect that resulted in receiving orders. Therefore, one of the reasons why the enterprises attached importance to marketing was the easiness of establishing a system to cope with it requiring less expenses than renewal of the equipment, etc. and also the development of information and telecommunication nets such as the Internet

As the representative opinion the following items can be cited.

- New cultivation of overseas partners
- Establishment of the practical organization for marketing and expansion of businesses
- Establishment of a system for acquisition of new markets

Besides, there were also among the responds some enterprises that claimed the necessity of lobbying activity by state based enterprises. This indicated that the individual enterprise has neither the experience of promoting sales of its own products nor the name value of the product mostly owed to the traces of FSU era, and that the domestic market of Armenia is small.

2) Improvement of technology

As described in (1) Problems that the enterprises have, each industry acknowledged the necessity of renewal of current technology and equipment with such that match with the needs of the age.

- Introduction of the newest technology

was a general respond, but because of limited possibility for its realization due to shortage of funds, some enterprises mentioned a realistic way such as

- Maintenance of technology and
- Revival of technological potential

In addition, there was also one company that searched for concepts of a new manufacturing industry, including improving of employees' consciousness, enhancing of production culture and technological back-up.

3) Restructuring

Some enterprises referred to restructuring as an issue to cope with, but no enterprise described a concrete way of doing it.

4) Cooperation with other enterprises

There were various partners the enterprises regarded for cooperation and the cooperation purposes also varied;

- Revival of the links with research institutes and industries of CIS countries for the purpose of expansion of the market in Armenia;
- Cooperation with businesses of same profession
- Cooperation with overseas leading companies for introduction of the newest technology

5) Reinforcement of competitive power

The enterprises' responds mentioned development of new products with competitive power as a way to reinforce the competitiveness. In addition, there was an answer referring to cultivation of new markets as a means to reinforce the competitiveness.

6) Nurture of human resources

It was observed that enterprises that answered the questionnaire valued foreign relationship as a way to nurture human resources.

This point of view includes:

- Nurture of human resources which can operate in the new industrial and economic environment of the market economy
- Nurture of human resources of manager class capable of cooperation with overseas makers

7) Others

Besides the above-mentioned opinions, there were also opinions citing the matters such as:

- Increase of product varieties
- Reduction of fixed costs
- Preparation of attractive conditions for foreign investors

In the meantime, there were pessimistic responds on improvement of present conditions such as:

- Improvement of the situation solely by individual enterprise is impossible
- All methods are ineffective due to requiring a long process of adaptation to various problems (financial affairs, personnel affairs) and market economy
- The enterprises have no opportunity to take concrete measures under the present situation

Profile of Model Enterprise (SIRIUS)

Item	Particulars
(1) Full name of interviewee	Haik Meglumian, President
(2) Name of President	Haik Meglumian
(3) Business line	Electronics
(4) History of enterprise Established:	In 1963
Privatized:	In 1997
(5) Ownership of enterprise	Joint stock company (Open type)
(6) Paid-up capital	AMD 172.34 mln. (US\$ 344.7 thou.)
(7) Number of employees	1641
(8) Main shareholders	Employees 66% Government 34%
(9) Financial condition Actual period	Jan.-Dec., 1998
Sales-Net	AMD 62.5 mln. (US\$ 125 thou.)
Profit before Tax	AMD -67.9mln. (US\$ -135.8thou.) o/w Gross Sales Loss ADM-36.5mln.
(10) Principal buyers of product (yearly average 1996-1997)	
Domestic	20%
Export	80%, o/w Russia 80% Georgia 20%
(11) Source of procurement	
Domestic	30%
Import	70%, o/w Russia 70% Ukraine 20% Germany 10%

Profile of Model Enterprise (Hi Team)

Item	ALCON	Yerevan Factory of Technological Equipment (YFTE)	TECHNOIMPEX
(1) Full name of interviewee	Avetisyan Gagik Director	Babajanyan Arman Director	
(2) Name of President	A.Mnatsakanian	A.Mnatsakanian	A.Mnatsakanian
(3) Business line	Aluminum windows/ doors/shop window, Kiosk	Mould, die, metal furniture	Rolling shutters
(4) History of enterprise Established: Privatized:	In 1997 In 1997	In 1949 In 1996	
(5) Ownership of enterprise	Joint stock company (Open type)	Joint stock company (Open type)	Partnership
(6) Paid-up capital	—	AMD 129.38 mln. (US\$ 258.8 thous.)	
(7) Number of employees	45 (1998)	94 (1998 plan)	
(8) Main shareholders	A.Mnatsakanian 80% G.Mnatsakanian 20%	A.Mnatsakanian 73.44% G.Mnatsakanian 15.47% Others 11.09%	A.Mnatsakanian 85% YFTE 15%
(9) Financial condition Actual period Sales-Net Profit before Tax	May-Dec., 1998 AMD 121.4 mln. AMD 259.7 mln.	Jan.-Dec., 1998 AMD 55.8. mln. AMD -30.6 mln.	Jan.-Sept., 1998 AMD 39.7 mln. AMD 0.2 mln.
Total Sales-Net Profit before Tax	AMD 216.9 mln. (US\$ 433.8 thou.) AMD 229.3 mln. (US\$ 458.6 thou.) o/w Gross Sales Profit ADM 22.9 mln.		
(10) Principal buyers of product (yearly average 1996-1997) Domestic Export	100%	52 % 48%, o/w Russia 38% Kazakhstan 62%	100%
(11) Source of procurement Domestic Import	— 100%, o.w Italy 50% Greece 50%	95% 5% (Greece)	

Reference Documents

- 1 Annual Report –Central Bank – 1997
- 2 Armenia letter of Intent, December 8, 1998 - IMF
- 3 Armenia will sell 10 of its large plants to foreign investors- USEmb. -10/96
- 4 Armenia: Industry Sector and Industrial Policy – USAID -9/1995
- 5 Armenia Investment/Tax/Customs Guide – ADA
- 6 Armenian Commercial Law – Carl Ulbricht– 1995
- 7 Banking Guide – Central Bank -1997
- 8 The Bankruptcy Law of RA – 12/96
- 9 Briefing Paper on the Armenian Economy – IRIS – August 1, 1998
- 10 Comments on Transport Needs – R. Beilock- 11/1997
- 11 The CONSTITUTION of the Republic of Armenia.
- 12 Country Commercial Guide ARMENIA FY 1999 – US Emb.
- 13 Development Co-operation, Armenia – UNDP, 1997
- 14 Data & Forecast on Tourism until 2001
- 15 Development Plans of Civil Aviation (in Armenian)
- 16 Economic Trends – monthly issues in 1998– TACIS
- 17 Economic Trends – Quarterly Issue April-June1998– TACIS
- 18 Economic Trends– August 1998– Article on Privatization –TACIS
- 19 Economy: qualitative and quantitative profile. – 6/98 – UNDP
- 20 Enterprise Survey (96-97)– WB
- 21 The Environment of SME in Armenia – ABSC– 3/97
- 22 Financial Sector Reforms – 1998 – CBA/UNDP
- 23 Guidelines for an Export Development Strategy – David Tunik – ITC – 10/98
- 24 Highlights: The Program of Activities of the GoA – Translated 3/98
- 25 Industrial Policy Advice to GA – UNIDO -8/98
- 26 Law on Education
- 27 Law on Investment Activities in RA – 9/97
- 28 Law on Privatization – Aug 27, 1992
- 29 Legislation on Foreign Economic Relations – MIT – 7/97
- 30 List of Credits/Grants Made to the Republic of Armenia by The World Bank–February, 1998
- 31 List of Laws available in English at A.U.
- 32 Loan Summary at October 10,1998 –WB
- 33 Macro-Economic Indicators – MFE
- 34 Mass Privatization of Enterprises in Armenia – CEPRA –11/97
- 35 The Mortgage Law of RA – 7/95
- 36 Plan of Socio-economic development of RA, 1999-2001 (Exhibits only)
- 37 Private Sector Development – David Phillips – 12/95
- 38 Problems of the Armenian Information Technology: Sen. McConnell 3/98
- 39 Program on Socio-Economics Reforms in Agriculture and food sector in 1997-2000
- 40 Reference on Educational Institutions

- 41 Report on Impediments to Doing Business in RA . TARA-ARMENIA – 4/97
- 42 Republic of Armenia – Policy Framework Paper –IMF– 1996-1998
- 43 Republic of Armenia – Policy Framework Paper –IMF–1998-2001
- 44 School Improvement Program 1/1998
- 45 Shipping to and from Armenia – US Emb. 12/95
- 46 The State of Armenian SME – TARA,Inc. –9/97
- 47 Socio-Economic Situation in RA, 1998, 1999 (in Russian) – Ministry of Statistics
- 48 Strategy for Reform of General Education System.
- 49 Summary of 8 enterprises study – WB –12/95
- 50 Summary of Demand Study of Enterprises – WB– Nov 95
- 51 Tax Guide of Armenia – Tax Inspectorate – 7/98
- 52 Tourism Planning – UNDP – 1997
- 53 Toward a System of Social Indicators for Armenia – IRIS – Nov. 1997
- 54 Transport Intermediary Survey – IRIS – Draft 10/1998
- 55 Transport Needs and Possible USAID Financed Projects in Armenia – IRIS –12/1998

The Study Team wishes to thank the respective ministries and agencies of the Armenian government, international institutions, the agencies of donor countries and other related parties that provided with the above stated reference data and information available for the successful consummation of this study project.



D

D

D

.



JICA