

ARMENIAN BRITISH BUSINESS CHAMBER

CONCEPT PAPER

**(DEVELOPED BY ARMENIAN BRITISH CONNECT)
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Introduction

The concept of this paper is to outline main tasks that are identified for the establishment of Armenian British Business Chamber (ABBC). ABBC, among many other educational, development and humanitarian projects, is one of the initiatives designed and carried out by Armenian British Connect (ABC) NGO, which is a membership based organisation representing a group of young educated Armenian professionals with experience of education abroad primarily but not exclusively in the UK. ABC's mission is to help young Armenians gain both knowledge and experience in the leading educational and professional institutions but always with a view to assisting the Republic of Armenia in becoming an economically and socially successful member of the world community. To accomplish this ABC serves as an umbrella for different projects, one of which is to establish and institutionalise Armenian British Chamber of Commerce.

Overview

This paper sets out conceptual arrangements that the project entails and describes overall strategy of their implementation. It covers not only main objectives, mission and vision of ABCC, but also general principles, overall goals and certain legal and marketing arrangements necessary for the start up and well functioning of the chamber. Overall action plan shall follow the above-mentioned, setting out main actions and a sequence of their practical implementation.

Armenia economic overview since 2000 and the current state

Armenia's independence was established in 1991, after the collapse of Soviet Union. The transition to a market economy was marred by a conflict with Azerbaijan over Nagorno Karabagh. Following considerable economic deterioration and a 65 percent decline in real output during 1991-93, the economy rebounded and grew by 5.4 percent on average per year between 1994-2000 due to the successful implementation of economic reforms. The government liberalised trade and prices and established the initial phase of the required legal framework for a market economy. It privatised most small and medium-sized state-owned enterprises and substantially curtailed its intervention in the economy. Furthermore, the government successfully maintained macroeconomic stability, kept inflation low, and led the economy to recovery. Ambitious economic reforms have accelerated after 2000, with a shift towards improving the business environment and public utilities management, strengthening financial intermediation as well as promoting better quality in public service delivery.

Annual average growth rates of 12.6 percent were achieved over 2001-08. Such high rates of sustained growth have led to a notable reduction in poverty from over half of the population in 1999 to less than 25 percent in 2007, and an even sharper fall in extreme poverty.¹ The impressive macroeconomic performance was supported by large-scale foreign exchange inflows and a favourable external environment.²

According to the IMF country report of 2008 economic growth was driven mainly by an improved performance in the construction and services sectors, while increased consumer spending was supported by higher incomes and growing remittances. Foreign direct investment, which increased significantly in recent years (and reached around USD 582 million), also contributed to productivity increases. These developments ensured a stable decrease of unemployment rate, which from 2000 to 2008 reached 6.6%.

Current economic policy outlook³

Policy trends

The repercussions of the global economic recession will continue to present challenges to the government throughout the forecast period. Although the financial services sector is not greatly exposed to international capital markets, Armenia relies heavily on inflows of remittances and official transfers, and much of its export revenue is generated by commodity exports—in particular, of metals. After contracting sharply throughout the year, the outlook for domestic demand and external trade began to improve in the final quarter of 2009. Measures introduced by the authorities to stimulate small and medium-sized enterprises (SMEs) and to support the mining sector, partly with the help of large-scale anti-crisis assistance from multilateral and bilateral lenders, will be supportive of economic activity, particularly in the initial part of the forecast period. With a respected former governor of the Central Bank heading the cabinet, the government is likely to make further progress in tackling corruption within the tax and customs administrations, strengthening the rule of law, and ensuring fair business competition. However, given the close links between political and business circles in Armenia—and the fact that the president relies on these circles for support—vested interests will still present a significant obstacle to more open and transparent policies.

Fiscal policy

The Economist Intelligence Unit estimates that the consolidated budget deficit increased from 1.2% of GDP in 2008 to 6.5% of GDP in 2009. The deficit is forecast to begin to narrow in 2010, declining to 4.9% of GDP in 2011. Future budget deficits will be larger than the historical average of 1.9% of GDP recorded in 2001-08, mainly as revenue inflows take time to recover. As economic activity strengthens, revenue from value-added tax (VAT), customs duties and corporate profit tax will pick up. The government will also benefit from continued improvements to the tax and customs administration, including a clampdown on tax evasion. In 2009 the government has maintained spending on social programmes, but has had to postpone the disbursement of some funds for non-essential projects, such as improvements to infrastructure. The government has used some of the financing received from multilateral institutions to support fiscal expenditure. As economic activity improves, the need for such a policy will diminish.

Monetary policy

After raising the refinancing rate to 7.75% in March 2009, when it devalued the currency, the Central Bank adopted a policy of monetary loosening, lowering the rate by a cumulative 275 basis points to 5% in September, where it stood for the remainder of the year. The bank's policy was designed to stimulate economic activity and to protect domestic businesses, which faced wide interest rate spreads, owing to perceptions of high business risk. The Central Bank raised the refinancing rate to 5.5% at its monetary policy meeting on January 21st 2010, citing the recent increase in inflationary pressures (in December consumer prices rose by 6.5% year on year) as influencing its decision. However, movements in the refinancing rate have only a limited

impact, as the domestic debt market is underdeveloped. Further tightening of monetary policy is likely as the economic recovery continues and inflationary pressures resume. The Central Bank will attempt to broaden its policy tools gradually over the forecast period by increasing the use of instruments such as repo operations. It will also work with the fiscal authorities to deepen the domestic debt market. Nevertheless, the development of the banking sector is likely to be much slower than previously expected, owing to the difficult external environment.

Investment opportunities

Different international sources⁴ offer the following sectors with a likely potential for private sector investment:

Financial sector — Armenia has accelerated the pace of legal and regulatory reform in order to restructure its financial sector. Banking accounts for over 90 percent of total financial sector assets. Other financial intermediations such as capital markets and insurance are not fully developed. Nevertheless, latest regulatory and institutional reforms⁵ in the field of insurance and capital markets accelerate investment impetus for local and foreign investors.

Agribusiness — this sector is of particular importance to the Armenian economy. Opportunities in packaging, bottling, beverages, frozen and dried fruit, dairy, and baked goods, as well as in food retailing may be of a particular interests for investors.

Textile and apparel — Armenian textile and apparel manufacturers appear reasonably well-positioned to take advantage of the growing demand in Russia and the CIS, as well as in the niche markets in the west, which will require investment in product line upgrades, packaging, marketing and distribution.

Metals — The sector has exhibited steady growth, and is one of the primary exporting sectors of the Armenian economy.

Construction — The sector has demonstrated strong and consistent growth with its dominant position in the GDP structure.

High-tech — Armenia has some potential for developing a credible high-technology industry, partially leveraging off the research and development capacity inherited from the USSR.

Energy — There is an immense capacity for development of wind, solar and hydro energy sector.

Tourism — Tourism is one of the leading and more dynamically developing industries of the economy of Armenia. As a basic principle of the state policy it has been declared a priority sphere of economy by the law of the Republic of Armenia “On Tourism and Tourist Activities adopted on December 17 2003.

Due to this prioritization the average annual growth in the number of the tourist visits to the country comprises some 25%. In 2008 the number of these visits made 558,443. The prominence of the source markets is unsurprising given to the countries with a large number of Armenian Diaspora citizens; they are Russia, USA, Georgia, Iran, Germany,France. The share of the tourism in the GDP being about 5%, as for its import dimensions this sphere remains one of the key branches of the economy.

The attractiveness of the Armenian markets is supported by the growing investment portfolios if international financial actors, such as EBRD, IFC and BSTDB.⁶

Main ideas about business chambers

A business chamber (also referred to in some circles as a board of trade) is a form of business network, e.g., a local organisation of businesses whose goal is to further the business interests of the community. Business owners in towns and cities form these local societies to advocate on behalf of the business community. Local businesses are members, and they elect a board of directors or executive council to set policy for the chamber. The board or council then hires a President, CEO or Executive Director, plus staffing appropriate to size, to run the organisation.

- Generally, business chambers serve the following purposes;
- Creating a strong local economy;
- Promoting the community;
- Providing networking opportunities;
- Speaking with government on behalf of business.

In some areas, Chambers may serve other purposes, such as arbitrating disputes between businesses or serving as a “Better Business Bureau,” but this is not generally the case.

Membership in an individual chamber in an area can range from a few dozen to well over 300,000 (as is the case with the Paris Chamber of Commerce and Industry). Some chamber organisations in China report even larger membership numbers. Chambers of commerce can range in size from a single city or town chamber, to a county chamber, to a regional chamber, up to an international chamber of commerce.

Chambers of commerce also can include economic development corporations or groups (though the latter can sometimes be a formal branch of a local government, the groups work together and may in some cases share office facilities) as well as tourism and visitors bureaus.

Some chambers have joined state, national, and even international bodies (such as Euro-chambers, the International Chamber of Commerce (ICC), World-chambers or the American Chamber of Commerce Executives). In the majority of countries as well as in Armenia, the use of the term “chamber of commerce” is regulated by law.⁷

Chamber Models

There are basically three chamber business membership models worldwide, “compulsory / public law”, “continental / private law” or “bilateral”.

Compulsory/Public law chambers

Under the compulsory or public law model, companies of a certain areas are obliged to become members of the chamber. This model is common in European Union countries (France, Germany, Italy, and Spain). The main tasks of the chamber are foreign trade promotion, training, and general services to companies. The chambers also have a consultancy function, which means the chambers must be consulted whenever a new law related to industry or commerce is proposed.

Continental/Private law chambers

Under the private model, which exists in common law jurisdictions, companies are not obligated to become chamber members. However, companies often become members to develop their business contacts and, regarding the local chambers (the most common level of organisation), to demonstrate a commitment to the local economy. Though governments are not required to consult chambers on proposed laws, the chambers are often contacted given their local influence and membership numbers.

Bilateral Chambers

A bilateral chamber of commerce is an organisation formed of individuals and companies who share a common interest in trade and commerce between two countries. The role of the chamber is to represent and further the interests of each of its member countries. This is achieved through the promotion and encouragement of bilateral trade and investment. The bilateral chambers achieve their goals through a programme of networking events and by making available a number of very useful services for both their members and mirror organisation. Through different programmes bilateral chambers advocate their trade between two countries (regions) they aim to connect.

Bilateral chambers of commerce exist as independent entities yet maintain a close relationship with the embassy and/or consulate of the target country — playing an integral role in strengthening bilateral relations and economic interactions. Members of a bilateral chamber benefit from a useful range of business services, support and advice aiming to help fulfil each member's professional goals.

Bilateral chambers form a key component in the creation, growth and development process of a company or individual seeking to operate in a foreign business environment. The opportunities and advantages which membership confers should be considered essential in light of the chamber's culturally sensitive insight and in depth knowledge of the respective countries political and economic structure.

To facilitate achievement of their goals the bilateral chambers often establish two organisations (mirror organisations) located in both jurisdictions.

Armenian-British Business Chamber

ABBC should be a vibrant and reactive organisation responsible for providing excellent connectivity network and reach for its Corporate Membership and Partners.

ABBC should serve as a platform for a powerful and influential business network of successful businesses in Armenia and the United Kingdom, as well as Armenian-British business elsewhere. ABBC should provide a network that directly serves its member businesses, and the wider business community. The network shall provide representation, services, information and guidance to its members.

ABBC should aim at supporting the businesses of its associates throughout their lifecycle from start-up, development, growth and beyond.

ABBC should seek to work with the Government in Armenia to shape policy affecting businesses with a focus on key areas of activity of the Armenian-British businesses.

Where the ABBC can be useful?

- i. The ABBC should be an "original" community expert — long before the Internet, the Chambers of Commerce were and shall always be the "original" community experts;
- ii. Local business finder — the ABBC should be the best source for finding a local business in the community. One should simply go the ABBC web-site and access their members;
- iii. Moving with the winners — an exceptional way to associate with successful professionals. The ABBC should be the "centre" for a community's more successful, progressive, and innovative business minds and leaders;

- iv. Learning about a community — whether a businessmen is a long-time resident, newcomer to the area, or simply taking a tour, ABBC should provide with a wealth of information about the community, city or region;
- v. Feeling the “pulse” of business activity — the best way to access current information about trends, demographics, construction, growth, employment, or community events and activities, then consulting the ABBC regarding particular area of interest. The ABBC should be a hub of all past, present and future business activity;
- vi. Where to go — What to do? — The ABBC should serve as a local guide to area happenings, upcoming events, and popular local attractions and interests based on literate and strong PR strategy and information campaigns targeting larger audience, as well as interested business owners, etc.;
- vii. Marketing to the marketplace — The ABBC should represent the marketplace of the community. So whatever the member is a retailer, manufacturer, supplier, wholesaler, non-governmental organisation or professional ABBC should provide you valuable information about the marketplace and businesses of a particular interests;
- viii. Open the door — the members can use facilities offered by the ABBC to open the door to selected community. ABBC directories, mailing lists, maps and promotional literature should make a quest much easier;
- ix. New contacts — the ABBC should be one of the best ways to build strong relationship with successful professional using superior business practices who are committed to building economic prosperity within the community. ABBC sponsored events should foster positive interaction between business professionals and a chance to share and profit from winning business ideas;
- x. Deal with friendly local experts — Rather than dealing with a remote call centre thousands of miles from a business or travel destination, why not talk directly with someone whose job and passion is to be your official guide to the local community.

What shall be the objectives of ABBC?

The core activities of ABBC should include:

- i. Serving as a linkage between investors and local businesses, government, companies, consultancies;
- ii. Business consultation and a variety of services to its members;
- iii. Events and Networking opportunities;
- iv. Business courses and seminars;
- v. Monitoring of new legislation proposals which might affect member’s interests;
- vi. Attracting British investments to the most promising sectors of the Armenian economy.

ABBC objectives include but are not limited to:

- a. protection & promotion of Member’s interest, including the furthering of all types of products, service, technology exchange between UK and Armenia,
- b. providing forum for a dialogue between the businesses and public authorities,
- c. monitoring of proposed legislation which might affect Member’s interests and the making of representations on their behalf to appropriate authorities,
- d. encouragement of consultation by government authorities and industry associations on matters affecting the interests of Members;

- e. provision of a forum for business persons of all nationalities, who use English as a business language, for expressing their views on topics affecting their business and social environment;
- f. presenting a positive image to the local community; wherever possible, using the ABBC activities to add value to the economic life of Armenia, and to demonstrate a strong spirit of integration and co-operation within that community;
- g. maximisation the benefits of the ABBC extensive Armenian-based network of contacts, in order to continually enhance the ABBC's profile and credibility;
- h. promotion of the objectives of the Chamber by contact with other bodies in Armenia, opening similar or complementary fields, including other Chambers of Commerce;
- i. creation of a platform for communicating to prospective and existing Members and, as a result, to expand the membership of the ABBC;
- j. presentation of a varied programme of events which will both strengthen the financial base of ABBC and create a general awareness of Armenia's business issues.

What shall be a membership policy of ABBC?

The core members of ABBC are Armenian, British and foreign businesses interested in the activity of the chamber. Both commercial and non-commercial⁸ entities may become a member of ABBC. For the non-commercial entities a special platform (observer's status scheme) is offered.

The following membership levels are offered:

1. A Member
2. B Member
3. C Member,

The membership fees are established based on calculations of expenses necessary to cover the chamber's operation. These assumptions include different criterions e.g. the salary of ABBC staff, office, web-page maintenance, communication expenses, meetings, conferences, socials, fees necessary for a PR campaign etc.

What shall be the deontology regulation of ABBC?

It is possible that the members of the ABBC are from the same business sector and as a result it is extremely important to take into consideration competition element existing between them. It is critical to define where the positive input of the ABBC can become negative. Therefore, it is important to have inter alia a detailed deontology regulation and to insure the implementation thereof.

- ¹ See: World Bank country assistance strategy for the Republic of Armenia. Available at: www.worldbank.org.
- ² See: Republic of Armenia: 2008 Article IV Consultation and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; Staff Supplement; Staff Statement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for the Republic of Armenia. Available at: www.imf.org
- ³ Section contains data from The Economist Intelligence Unit “Armenia Country Report”. February 2010
- ⁴ See: BSTDB Armenia country strategy for 2007-2010. Available at: http://www.bstdb.org/pdf/Country_Strategy_20072010_Armenia.pdf ; EBRD strategy for Armenia. Available at: <http://www.ebrd.com/about/strategy/country/armenia/strategy.pdf> , IFC country assistance strategy for 2004-2007. Available at: [http://www.ifc.org/ifcext/eca.nsf/AttachmentsByTitle/Armenia_CAS/\\$FILE/Armenia+CAS+2004.pdf](http://www.ifc.org/ifcext/eca.nsf/AttachmentsByTitle/Armenia_CAS/$FILE/Armenia+CAS+2004.pdf).
- ⁵ In the insurance sector, the National Assembly and the CBA adopted legislation fully compliant with the standards of the International Association of Insurance Supervisors. By-laws and regulations to improve accounting, auditing, and financial reporting; solvency and reserves; reinsurance; oversight of insurance companies; and procedures for the liquidation of insurance companies have been adopted by Armenian regulatory authorities. An insurance registry at the CBA was established and is now operational. Progress has been achieved in money and capital market development with the adoption of a new securities market law corresponding to the standards of the International Organization of Securities Commissions, the conversion of the Armenian stock exchange (Armex) from a self-regulatory body into a joint stock company, and the takeover of Armex and the central depository by Nasdaq-OMX.
- ⁶ BSTDB, EBRD and IFC court strategies, *supra* note 5.
- ⁷ Note: In Armenia the creation and operation of the chamber of commerce (including the use of name of “chamber of commerce” or “chamber of commerce and industry” are regulated by a special Law on Chambers of Commerce and Industry).
- ⁸ NGO's, schools, colleges, universities, foundations etc.